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Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE

UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

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SUMMARY: IMPACT OF CONGRESSIONAL BUDGET ACT ON FINANCE COMMITTEE

The Congressional Budget Act of 1974 (titles I–IX of Public Law 93–344), provides the mechanisms and procedures for Congress to establish its own annual Federal budget and to consider spending, revenue, and debt limit legislation in the context of that budget. The provisions of the Act have a number of effects on the consideration of legislation handled by the Committee on Finance.

The major provisions affecting the Finance Committee are the following:

1. By March 15 of each year, the Finance Committee must submit a report to the Budget Committee estimating the effect that Finance Committee legislation will have on expenditures, revenues, and the debt limit during the next fiscal year, and presenting the Committee's views and estimates with respect to revenues and the debt limit. (Last year's report appears in Appendix A of this pamphlet.)

2. Certain kinds of legislation have to be handled before specific dates. Revenue and debt limit legislation for the upcoming fiscal year, and legislation increasing expenditures in such areas as social security and welfare, cannot be considered by the Senate before May 15. However, procedures are provided for waiving these restrictions, ordinarily by obtaining Budget Committee approval of a resolution permitting immediate Senate consideration.

3. If the Finance Committee reports legislation affecting welfare, medicaid, social services, and other non-trust-fund entitlement programs, and it exceeds the amount budgeted in the most recent concurrent budget resolution, the legislation is to be referred to the Appropriations Committee for 15 days.

4. By May 15, Congress completes action on a first concurrent budget resolution for the coming fiscal year setting appropriate revenue, spending, and deficit levels. While the amounts shown in this first resolution are not binding in the sense that they can subject a bill to point of order, they are intended to serve as overall guidelines in the consideration of revenue and spending legislation.

5. In September of each year, the Congress debates and adopts a concurrent resolution setting appropriate spending, revenue, and debt limit levels for the coming fiscal year. The resolution can direct the Finance Committee to report legislation raising taxes or cutting back on spending programs within the Committee's jurisdiction. The overall spending and revenue totals in the second resolution are binding.

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 (PUBLIC LAW 93-344)

1. Overall View

OUTLINE OF CONGRESSIONAL BUDGET PROCESS UNDER PUBLIC LAW 93-344

On April 15 of each year, the Budget Committees of the House and Senate report to their respective Houses a concurrent resolution which is, in effect, a Congressional budget document setting forth appropriate levels for spending, revenues and public debt for the coming fiscal year. The spending levels are broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee are subject to debate and amendment. When agreed to by House and Senate (by May 15), the resolution represents Congressional judgment of the appropriate fiscal situation for the coming year, although the amounts set forth in it are not otherwise binding.

After the May 15 adoption of the concurrent resolution, action on spending and revenue bills proceeds through early September. In the first half of September, a second concurrent resolution on the budget is considered by the Congress, which revises or reaffirms the earlier resolution and which can direct the appropriate Committees to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, Committees directed to do so are to report the legislation called for by the resolution, and this legislation is then debated by Congress as part of a "reconciliation bill." Public Law 93-344 calls for action on this reconciliation bill to be completed by September 25, 5 days before the start of the new Federal fiscal year which will run from October 1 to September 30.

WAIVER OF RULES REGARDING BUDGET PROCEDURE

All the rules applicable to Senate procedures under the Congressional Budget Act can be suspended by a majority vote of the Senate. In addition, the Act includes a special waiver procedure in connection with the provisions requiring that authorization bills not be acted on after May 15 and that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before May 15. If a Committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for waiver of the rule. This resolution would be referred to the Budget Committee which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is approved by the Budget Committee (or after 10 days in any case), the resolution of waiver would be voted upon by the Senate, and, if it is approved, the Senate could proceed to consider the legislation.

2. Impact of Public Law 93-344 on Finance Committee

LEGISLATION WHICH RESULTS IN ADDITIONAL FEDERAL SPENDING

Annual report to Budget Committee.—Each year, prior to the consideration of the first concurrent resolution on the budget, each Committee is required to make a report to the Budget Committee estimating the amount of additional Federal spending during the coming fiscal year which will result from legislation under the Committee's jurisdiction. This report is due no later than March 15.

Report after adoption of concurrent budget resolution.—The conference report on each budget resolution allocates the outlay and budget authority totals among the various committees. Each committee is then required, after consultation with the appropriate counterpart committee in the House of Representatives, to subdivide its allocation of new budget authority and outlays among the programs under its jurisdiction (or among its subcommittees). These allocations subsequently serve as the basis for scorekeeping reports and for judging whether particular legislative proposals are consistent with the budget resolution.

Limitation on consideration of spending bills.—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare or medicaid) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the Senate prior to the May 15 adoption of the first concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the Senate to suspend this rule. The Act also requires that action on legislation of this type be completed by the seventh day after Labor Day. In addition, entitlement legislation reported after January 1 of any year may not have an effective date prior to October 1 of that year.

Deadline for reporting authorizing legislation.—Legislation which authorizes appropriations (but does not necessarily require them) has to be reported by May 15 preceding the fiscal year for which the appropriations are authorized. (The Act includes a procedure under which this deadline may be waived by Senate resolution; the rule may also be suspended by a majority vote of the

Senate.) The Committee on Finance has jurisdiction over some programs which fall in this category, such as grants to States for child welfare services and for maternal and child health. However, if such authorizations are included in entitlement or trust fund bills (which may not be reported prior to May 15) this provision does not apply.

Impact of concurrent budget resolutions on legislation.—The first concurrent resolution, which is to be passed about May 15, sets targets for spending in various areas, but is not mandatory. A second concurrent resolution, however, is to be passed in mid-September, and this resolution not only sets appropriate spending levels but may direct the Committees having jurisdiction over spending legislation to report measures to rescind previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Finance, this may include a requirement that the Committee report legislation to defer or reduce benefits under entitlement programs including both trust fund programs (such as unemployment insurance or social security) and non-trust-fund programs (such as welfare, social services or medicaid).

After the beginning of a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution passed just before the beginning of that year to be exceeded. In the case of the Committee on Finance, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new concurrent resolution could, however, be passed to authorize such additional spending, or the rule could be suspended by a majority vote of the Senate.)

Appropriations Committee review of entitlement bills.—Legislation in such areas as supplemental security income, welfare, social services, or medicaid creates an entitlement to payments on the part of individuals or State or local Governments even though these programs are funded through appropriation acts. The Congressional Budget Act requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the first budget resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such amendment is approved by the Senate, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

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The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues. It would also not apply to legislation amending the general revenue sharing program to the extent that such legislation included an exemption from that requirement.

Report on spending legislation.—The Congressional Budget Act requires the Committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent concurrent budget resolution and showing the extent to which the legislation provides financial aid to States and localities. In addition, the report is required, to the extent practicable, to provide a projection for five fiscal years of the spending which will result from the legislation.

LEGISLATION RELATING TO REVENUES AND DEBT LIMIT

Annual report to the Budget Committee.—The March 15 annual report to the Budget Committee which is described above also must, in the case of the Finance Committee, present views and estimates of the Committee with regard to revenues and the debt limit.

No revenue legislation prior to May 15.—Under the Budget Act, debt limit or revenue legislation for the upcoming fiscal year is not in order for consideration by the Senate (or House) prior to the adoption of the first concurrent resolution on the budget (about May 15). This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the Senate.

Impact of budget resolution.—As with spending measures, the first concurrent resolution adopted in mid-May sets targets with respect to revenue and debt limit legislation, and the second concurrent resolution in September may direct the Committee on Finance to report legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determines to be appropriate. Such legislation would have to be reported in time to be included in the reconciliation bill which would be acted upon before the October 1 start of the fiscal year. Once a second resolution on the budget is adopted by the Congress, any legislation which would cause the total revenues to be reduced below the level specified in the budget resolution would be subject to a point of order. If the second budget resolution sets a revenue target which exactly matches the projected revenues under existing law (or any expected modifications to existing law), even minor bills having nearly negligible revenue impacts can be rejected on a point of order.

Required report on tax expenditures.—The Congressional Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the Committee report accompanying legislation to provide new or increased tax expenditures include information as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to the extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years.

CHARTS AND DESCRIPTION

Chart 1

March 15 Report to Budget Committee

- **Views and estimates of Finance Committee on:**
  - Expenditures
  - Revenues
  - Tax expenditures
  - Public debt
- **Relating both to existing law and proposals to change existing law**

Chart 1

March 15 Report to Budget Committee

Under the Congressional Budget Act of 1974, the Committee on the Budget is required by April 15 of each year to report to the Senate a concurrent resolution on the budget which is, in effect, a proposed Congressional budget document setting forth appropriate levels of Federal expenditure and revenue, surplus or deficit, and related matters. To assist the Budget Committee in making the judgments necessary to develop such a Congressional budget the Act also mandates that each Committee send to the Budget Committee its views and estimates on those aspects of the budget which fall within its jurisdiction. This report is due by March 15 of each year.

In the case of the Committee on Finance, the March 15 report to the Budget Committee must cover the expenditure programs under Finance Committee jurisdiction which are listed on chart 3, Federal revenues, tax expenditures, and the public debt. With respect to each of these matters, the Committee is required to provide its views and estimates as to the levels anticipated under existing law or under any changes to existing law which the Committee expects. The period to be covered by the report to the Budget Committee is fiscal year 1978 (October 1977 to September 1978).

The text of that part of the Congressional Budget Act which deals with the March 15 report to the Budget Committee is reprinted at the end of this pamphlet as Appendix B.

Chart 2

Economic Assumptions
(dollars in billions)

	1976 Actual	1977 Ford budget	1977 Carter budget	1978 Ford budget	1978 Carter budget
GNP	$1,692	$1,880	$1,884	$2,092	$2,105
Increase over 1976 in the inflation rate	---	5.1%	5.1%	10.8%	10.8%
Personal income	$1,375	$1,521	$1,528	$1,684	$1,698
Wages, salaries	890	996	992	1,102	1,108
Corporate profits	149	172	173	194	197
Unemployment rate	7.7%	7.3%	7.1%	6.6%	6.3%

Chart 2

Economic Assumptions

The March 15 report to the Budget Committee which is required by the Congressional Budget Act of 1974 represents the Finance Committee's views as to revenues, expenditures and other budgetary matters for the coming fiscal year both under existing law and under any anticipated changes. The level of these items, however, is affected not only by legislation but also by various economic factors about which there can reasonably be differences of opinion. These differences can reflect divergent viewpoints as to how the economy will operate and also divergent viewpoints as to the type of legislation which may be enacted to affect the operations of the economy. Different programs are particularly sensitive to different aspects of the economy. For example, expenditures under social security are sensitive to the consumer price index since that program includes an automatic cost-of-living increase provision. The unemployment insurance program does not incorporate such a provision but is, of course, particularly sensitive to the unemployment rate. Revenues, similarly, are heavily affected by personal income and by corporate profits and, in the case of payroll tax revenues, by wages and salaries.

This chart presents a selection of the most significant economic indicators as estimated in the budget submitted in January by President Ford together with the comparable assumptions underlying the budget revisions recently proposed by President Carter.

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Chart 3

Major Expenditure Programs under Finance Committee Jurisdiction

- Social security cash benefits
- Supplemental security income for the aged, blind, and disabled
- Welfare programs for families:
  - Aid to families with dependent children
  - Work incentive program
  - Child support
- Social services
- Unemployment compensation
- Health programs:
  - Medicare
  - Medicaid
  - Maternal and child health
- Revenue sharing
- Sugar Act
- Interest on the public debt

Chart 3

Major Expenditure Programs Under Finance Committee Jurisdiction

This chart lists the major programs involving an expenditure of Federal funds which come within the legislative jurisdiction of the Committee on Finance. Each of these programs is covered in more detail in the following charts. Interest on the public debt is included as an expenditure program since it does constitute a significant part of the Federal expenditures budget even though the level of expenditure in this category is not subject to legislative control by the Committee in the same sense as expenditures under the other programs listed.

Chart 4

Social Security Cash Benefits: Existing Law

(dollars in billions)

	Ford budget	Carter budget
F.Y. 1977		
Income	$81.0	$80.8
Outgo	84.7	84.7
Decrease	-3.7	-3.9
End-of-year assets	39.8	39.6
F.Y. 1978		
Income	88.8	88.9
Outgo	93.4	93.4
Decrease	-4.6	-4.5
End-of-year assets	35.2	35.1

Chart 4

Social Security Cash Benefits: Existing Law

President Carter's budget estimates that the outflow in benefits and related expenditures from the old-age, survivors, and disability insurance trust funds will be $84.7 billion in fiscal 1977 rising to $93.4 billion in 1978. These estimates reflect projected benefit increases, under the automatic cost-of-living provisions, of 4.9 percent effective with the July 1977 checks and 5.5 percent effective with the July 1978 checks.

Expenditures under social security are highly sensitive to inflation since benefits are automatically increased as the Consumer Price Index rises. Thus, the upswing in prices resulting from the recent severe weather appears likely to make the President's budget estimates incorrect since the July 1977 cost-of-living increase will almost certainly exceed the projected 4.9 percent.

The differing economic assumptions of the present and prior Administrations have a slight impact on the estimates of the social security cash benefits trust fund.

Chart 5

Social Security Cash Benefit Trust Funds
(dollars in billions)

	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Present Law:					
Income	88.9	98.1	108.4	117.0	125.1
Outgo	93.4	102.9	112.9	123.3	133.5
Increase or decrease	-4.5	-4.8	-4.5	-6.2	-8.4
Start-of-year assets as a percent of outgo	42%	34%	27%	21%	15%
Impact of proposed tax changes in Ford budget	+1.3	+6.6	+12.0	+14.9	+17.0

Chart 5

Social Security Cash Benefit Trust Funds

FISCAL YEARS 1978–82

For each of the next 5 fiscal years, the combined cash benefit trust funds (old-age and survivors insurance trust fund and disability insurance trust fund) are projected to show a deficit. At the start of fiscal year 1978, trust fund assets cover more than 40 percent of anticipated outgo for the year. By the start of fiscal 1982, assets are down to 15 percent of outgo for the year. Since most social security tax receipts fall in the first nine months of the year, fund balances as a percentage of outgo will fall below the percentages shown here by the beginning of each calendar year.

The chart does not show separately the situation in the disability insurance trust fund, which is now projected to become exhausted during 1979. Legislation would be required to shift funds from the old-age and survivors fund to cover that shortfall in the disability fund.

Ford financing proposal.—To meet the short-term deficit situation in the social security trust funds, the budget submitted in January by President Ford proposed increases in the social security payroll tax rate. The proposed increases were (over the rates scheduled in present law): 0.2 percent in 1978; an additional 0.6 percent in 1979; and an additional 0.3 percent in 1980. This combined 1.1 percent increase in the tax rate would generate approximately $17 billion per year in added revenue by fiscal year 1982 although for fiscal 1978 it would improve fund balances by only $1.3 billion. This tax rate increase proposal was eliminated from the revised budget submitted by President Carter.

Chart 6

Social Security Administration Cash Benefit Programs -- Federal Funds
(dollars in billions)

	FY 1977	FY 1978
Present Law:		
Federal fund payment to trust funds	$0.7	$0.7
Supplemental security income (SSI)	5.3	5.6

Chart 6

Social Security Administration Cash Benefit Programs—Federal Funds

Present law.—The social security programs of old-age, survivors, and disability insurance are supported almost entirely by payroll deductions applicable to employers, employees, and self-employed persons. Certain transitional provisions enacted in 1966, however, provide relatively small benefits to persons over age 72 who did not have the opportunity to become insured for regular benefits. The cost of these benefits is reimbursed to the trust fund from general revenues. Similarly, a general fund payment is made into the trust funds to cover the cost of certain additional credits granted to military personnel.

Since January 1974, the Social Security Administration has been responsible for administering a basic income support program for needy aged, blind, and disabled persons called Supplemental Security Income (SSI). This program is funded entirely from general funds.

The amount of general revenue funds administered by the Social Security Administration in connection with the old-age, survivors and disability insurance (OASDI) and supplemental security income (SSI) programs are shown in more detail below:

[In millions]

	Fiscal 1977	Fiscal 1978
OASDI		
Military wage credits	$481	$513
Benefits for uninsured aged	236	228
SSI: Total [1]	5,352	5,675
Benefits	4,760	5,045
Administration [2]	592	630

[1] Amounts spent for certain rehabilitative services to SSI recipients are not included in these totals but are shown under chart 9.

[2] Includes $62,000,000 for fiscal 1977 and $87,000,000 for fiscal 1978 of payments to the States based on errors made in administering State-funded benefits.

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Chart 7

Social Security Cash Benefit Programs: Proposed Legislation (dollars in billions)

	FY 1978	FY1982
In both Ford and Carter budgets:		
Bar certain retroactive payments	-$0.4	-$0.6
Apply earnings limit on annual basis only	-0.2	-0.3
Lower automatic increase amounts for persons with reduced benefits	-0.2	-1.0
Phase out student benefits (Ford budget)	-0.4	-1.6
Reduce student benefits (Carter budget)	-0.1	-0.4
Other benefit changes	+0.1	+0.1
Employer tax on tips	0.1	0.1
Other proposals:		
For persons entitled to both social security and civil service:		
Limit dependents' benefits	-0.3	-0.5
Reduce highly weighted benefits	-0.4	-1.2
3-month retroactivity limit	-0.4	-0.9
End mother's benefits when all children are over 15	-0.3	-0.6
Benefits based on average earnings up to age 65	---	-0.3

Chart 7

Social Security Cash Benefit Programs: Proposed Legislation

Administration proposals.—The budget submitted by President Ford in January and the revised budget submitted by President Carter each contain a number of proposed changes in social security benefit provisions, mostly involving a reduction in the cost of these programs. President Ford proposed to repeal a provision enacted in 1965 which allows children over age 18 and up to age 22 to continue to qualify for dependent's or survivor's benefits under social security if they are full-time students. This proposal would have been phased in over a period of years, saving $309 million in fiscal 1978 and more in subsequent years. President Carter's budget revision dropped this proposal and substituted a proposal to place a maximum limit on the benefits payable to child-student beneficiaries. (The maximum monthly benefit would be $117 per month in fiscal 1978.)

A number of other proposals were included in both budgets. One proposal would end the practice of allowing social security applicants to elect to get benefits for up to a year prior to the date of application if these benefits would be reduced because they are taken before age 65. This proposal, which assumes a September 1, 1977 effective date, would reduce outgo by $396 million in fiscal year 1978. The Administration also recommends legislation to eliminate a provision under which an individual who has less than $300 a month in income now gets his full benefit for the month even if his annual income substantially exceeds the $3,000 annual earnings test amount. This proposal, assuming a September 1, 1977 effective date, would reduce outgo in fiscal 1978 by $173 million. Another Administration proposal concerns the way in which benefits are increased automatically. Through a technicality, persons who retire before age 65 with reduced benefits receive a benefit increase which is slightly more than the CPI percentage increase. Modifying the law to provide only the cost of living percentage in such cases would reduce outgo by $187 million in fiscal 1978. By fiscal 1982, this change would reduce benefit payments by $1.0 billion. The Administration has also suggested certain "simplification" changes which would increase benefit costs by $67 million in fiscal 1978 and by $123 million by fiscal 1982. The Administration has also proposed to require the payment of an employer tax on amounts received as tips. Under present law, only the employee share is paid. The additional taxes collected would amount to $52 million for fiscal 1978 and $102 million by fiscal 1982.

Other proposals.—The chart also shows the savings which could be generated by certain other possible changes in the social security benefits structure. Except as noted, proposals are assumed to become effective in January 1978.

Social security benefits for wives and widows are payable without proof of dependency on the assumption that most women who do not have a social security benefit of their own were, in fact, dependent upon their husbands. The same assumption is not made by the law in the case of husband's and widower's benefits, for which proof of dependency is required. A Federal district court in New York has held this dependency test for men invalid. If this ruling is upheld by the Supreme Court, program costs will be increased by $0.5 billion in the first year.

The impact of such a court decision could be offset by legislation requiring proof of dependency from both men and women although this would significantly complicate program administration. Alternatively, since most beneficiaries of the decision would be men who are also eligible for retirement benefits under State or Federal civil service systems, legislation could be adopted providing certain offsets for persons entitled under both programs. With respect to dependents' benefits, one proposal would reduce dependents' benefits under social security by the amount of any governmental pension also payable to the dependent (in the same way that dependents' social security benefits are now reduced if the dependent is also entitled to his own social security benefit). This proposal would reduce fiscal year 1978 outgo by $0.3 billion if made fully effective as of January 1978.

A related proposal would eliminate some of the windfall which occurs when persons whose main lifetime employment is under State or Federal civil service retirement systems also obtain social security coverage on the basis of minimal earnings in covered employment. Such individuals and their dependents qualify for benefits which return much more than the individual actually paid in in taxes since social security benefits are weighted in order to provide more adequately for those with low earnings levels. Under the proposal, social security benefits would be reduced by one dollar for every two dollars in civil service benefits but not below a point where the basic benefit equals 100 percent of the average monthly wages on which it is based. This proposal would reduce outgo in fiscal 1978 by $0.4 billion; by fiscal 1982 the annual savings would be $1.2 billion.

Social security benefits are available for up to 12 months prior to the month in which an individual files a claim for benefits if he was eligible in all of those prior months. If this period of retroactivity were reduced to three months, the cost of the program would be reduced by $0.4 billion in fiscal 1978.

Benefits for children of deceased, disabled, or retired workers under social security are provided until the child reaches age 18 or age 22 if he is in school. Benefits are also provided for the mothers of such children until the youngest child reaches age 18 so that the mother can remain home to care for the child. Consideration could be given to amendment of the law to provide that these benefits for the mothers of young children would be available only until the youngest child reaches age 15. Such a change would reduce outgo by $0.3 billion in fiscal 1978. By fiscal 1982 the cost reduction on an annual basis would be $0.6 billion.

In theory, social security benefits are based on an individual's average earnings over his lifetime of employment in work covered by social security. Until 1972, the number of years used to average earnings was three more for men than it was for women, and legislation was enacted to phase out this difference by reducing the number of years over which earnings of men are averaged. Consideration could be given to a proposal which would make the treatment of men and women comparable by increasing the number of years used for women instead of reducing the number of years used by men. Such a proposal, if phased in over a three-year period, would have no savings in fiscal 1978; by fiscal 1982, however, it would reduce outgo by $0.3 billion.

Chart 8

Welfare Programs for Families

(dollars in billions)

	FY 1977	FY 1978
Present law:		
Aid to families with dependent children	$5.7	$6.0
Child support:		
Total collections	-0.4	-0.6
Federal share of collections	-0.2	-0.3
Federal share of administrative costs	0.2	0.2
Work Incentive Program	0.4	0.4
Administration	0.6	0.7
Proposed legislation:		
Limit work expense deduction	*	-0.1
Other proposals in Ford budget	*	*

* less than $0.05 billion

Chart 8

Welfare Programs for Families

AFDC.—The budget submitted by President Ford in January estimates that the costs of benefits and administration under the aid to families with dependent children (AFDC) and certain other related programs will be $6.3 billion in fiscal 1977 and $6.7 billion in fiscal 1978. These amounts are offset in fiscal 1978 by a net savings of $0.1 billion as a result of child support enforcement. Included in the total shown for AFDC are expenditures for adult assistance in Guam, Puerto Rico, and the Virgin islands, emergency assistance for families, and aid for certain repatriated American nationals.

[In millions of dollars]

	Fiscal year—	
	1977	1978
Federal costs:		
AFDC benefits	5,664	5,964
Adult assistance in U.S. territories	4	4
Emergency assistance	34	38
Aid to repatriated nationals	1	1
Total benefits	5,703	6,007
State and local administration	590	650

Child support.—Closely related to the AFDC program is the new child support enforcement program (title IV–D of the Social Security Act) which is aimed at helping children in securing their rights to obtain support from their parents and to have their paternity ascertained in a fair and efficient manner. Collections under this program are as follows:

CHILD SUPPORT ENFORCEMENT COLLECTIONS AND COSTS

[In millions of dollars]

	1976	July–Sept. 1976	1977	1978
Child support collections:				
Total collections	205	91	441	633
Federal share	66	28	164	251
State and local administration:				
Total costs	130	48	236	267
Federal share	96	36	177	200

These figures do not show the savings which results from families having been completely removed from dependency on AFDC as a result of the child support program. The net Federal impact of this program is a cost of $13 million in fiscal 1977 (savings of $164 million and administrative costs of $177) and a savings of $51 million in 1978 (savings of $251 million and administrative costs of $200 million).

WIN.—Also closely related to the AFDC program is the work incentive (WIN) program which is aimed at enabling AFDC families to become self-supporting through employment. The budget submitted in January recommends funding for this program at a level of $365 million in both fiscal 1977 and fiscal 1978.

AFDC Work Expenses Disregard.—The fiscal 1978 budgets submitted by both President Ford and President Carter include a proposal to revise the rules for disregard of itemized work expenses in the determination of AFDC eligibility and computation of benefits. Instead, the States would be authorized to (a) choose a percentage standard deduction for non-child care work expenses which percentage could be no less than 15%, no greater than 25%; and (b) implement a flat dollar standard deduction schedule for child care work expenses (no Federal minimum or maximum). Both the percentage and flat dollar deductions would be subtracted from only wage and salary income before the so-called "30 and one-third" earnings disregard is applied. The Administration estimated a savings of $50 million.

Other proposals.—The Ford budget proposed to reduce the cost of the work incentive program by $21 million in fiscal 1978 and of the child support program by $13 million. The WIN proposal would have limited services to the first 30 days of employment and would have made certain other changes. The child support proposal would have reduced Federal matching for State child support administrative costs from 75% to 70% in fiscal 1978 with further reductions thereafter. Neither of these changes is included in the revised budget of President Carter.

There are a number of other proposals with respect to the aid to families with dependent children program which might be considered and which could result in significant cost reductions. However, changes in this program in some States must be implemented through the enactment of State legislation. Ordinarily, Federal legislation requiring such changes leaves a substantial period for State legislatures to meet. Thus, it is doubtful that much impact on fiscal year 1978 could result from any such legislation. Last year, the Committee recommended and the Senate passed legislation amending the child support program (relating to the issuance of regulations and other matters). This legislation was not acted on by the House of Representatives by the end of the Congress, however. If similar legislation is enacted, it could reduce Federal costs under the child support enforcement program by an estimated $20 million.

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Chart 9

Social Services

(dollars in billions)

	FY 1977	FY 1978
Present law:		
Basic grant program (title XX)	$2.4	$2.4
Additional child care funds	0.2	...
Child welfare services	0.1	0.1
Rehabilitative services for recipients of Supplemental Security Income	0.1	0.1
Training and research	0.1	0.1
Proposed legislation:		
Carter budget:		
Extend additional child care funding	...	0.2
Other proposals:		
Consolidate social services funding	...	0.2

Chart 9

Social Services

In addition to cash benefit programs and medical assistance, the Social Security Act includes several provisions which make Federal funding available for social services programs. The largest such program is the title XX social services programs, but funding is also provided under a separate child welfare services program, and rehabilitative services for disabled SSI recipients (both children and adults) are funded through that program. Also closely related to the social services programs is funding authority for the training of social workers and other State and local welfare personnel and for certain research programs.

Under title XX of the Social Security Act, States providing social services such as child care, family planning, and homemaker services to welfare recipients and other low-income persons are entitled to claim Federal matching grants for such expenditures. For most services $3 in Federal funding under this program is available to match each $1 of non-Federal funding; however, Federal funding is subject to an overall annual limit of $2.5 billion allocated on a population basis. (An additional $200 million in Federal funding, without a matching requirement, is available for child care costs in fiscal 1977.) Under present law, States are expected to use $2.6 billion of this funding in fiscal year 1977 and $2.4 billion in fiscal year 1978.

Under title IV-B of the Social Security Act, grants to the States are authorized for the purposes of providing child welfare services. Again a wide variety of services come under this general heading but a major activity involves services related to adoption and foster care. The child welfare services authorization is $350 million but the appropriation has always been well below that level. The Administration budget (both Ford and Carter) recommends Federal spending under this program of $56 million for fiscal 1978, the same level as in fiscal 1977:

[In millions]

	Fiscal 1977	Fiscal 1978
Total program costs	$810	$870
Federal share	56	56

The supplemental security income program (SSI) provides income support to needy aged, blind, and disabled persons. The program also includes provision for vocational rehabilitation services to appropriate adult disability recipients and, under legislation enacted last year, for other types of rehabilitative services to child-beneficiaries primarily those under age 7. The program for children enacted last year provides a $30 million annual entitlement for fiscal years 1977, 1978, and 1979. Total spending for services to both children and adults for fiscal 1978 is estimated at $75 million.

Proposed legislative changes.—The additional $200 million made available to the States for child care programs in fiscal 1977 was enacted on a temporary basis. The revised budget submitted by President Carter proposes a further one-year extension of this $200 million increment. If the Committee intends to consider permanent legislation in the social services area, consideration might be given to recommending that the budget resolution leave room for a somewhat larger increase. For example, the committee might want to consider consolidating the child welfare services program which has up to now been funded at only a fraction of its authorization into the title XX program. Ultimately, the new services program for children under title XVI also might be consolidated into title XX.

Chart 10

Unemployment Compensation

(dollars in billions)

PRESENT LAW	1977 Ford Budget	1977 Carter Budget	1978 Ford Budget	1978 Carter Budget
Unemployment trust fund:				
Income	$15.5	$14.1	$17.0	$15.0
Outgo	15.2	14.5	13.1	12.1
Net change	+0.3	-0.4	+3.9	+2.8
End-of-year assets	5.9	5.3	9.8	8.1
Federal funds:				
Advances to trust funds	3.8	3.1	1.8	0.7
Trade adjustment assistance	0.2	0.2	0.2	0.2
Federal employee benefits	0.6	0.9	0.6	0.8
Transitional payments to States for newly covered workers	---	---	0.3	0.4

PROPOSED LEGISLATION	1977	1978
Extend emergency benefits program (Carter budget)	0.5	0.4
Alternative extension of emergency benefits	0.3	0.1

Chart 10

Unemployment Compensation

The unemployment insurance trust fund covers regular State unemployment insurance benefits (paid for through taxes collected by States but deposited into the Federal trust fund), the extended benefits program, which provides an additional 13 weeks of benefits which are 50 percent federally funded, and the emergency unemployment compensation program, which (depending on State insured unemployment rates) can provide up to 26 further weeks of benefits with 100 percent Federal funding. Federal funds in the trust fund come partially from the Federal share of the unemployment payroll tax and partially from repayable general revenue advances to cover any inadequacies in the payroll tax. The unemployment trust fund also covers State and Federal administrative costs.

The chart displays the expected status of the trust fund under the Ford budget and the Carter revisions. The Carter revisions reflect not only differences in economic assumptions but also program reestimates and a lesser use of general revenue advances.

When Federal and State tax collections are insufficient to meet benefit costs in the short run, the Federal unemployment trust fund is authorized to borrow from the general fund of the Treasury with the advances being subject to later repayment. Because of heavy levels of unemployment recently, substantial advances to the trust fund from the general revenues have been required. However, it is expected that with economic improvement and certain unemployment tax increases enacted last year, the need for borrowing will be eliminated in the near future. Under the Carter budget for fiscal 1978, advances of $0.7 billion are projected as compared with $3.1 billion for fiscal 1977.

There are also certain unemployment programs funded from general revenues outside the trust fund. One such program provides special additional assistance to workers who become unemployed because their employers' businesses decline in the face of increased imports. Unemployment benefits are also provided at Federal general revenue expense for former Federal employees and ex-servicemen.

The Unemployment Compensation Amendments of 1976 extended coverage under the unemployment program to certain previously excluded types of employment (certain farm and domestic employment and State and local Government employment). This coverage is effective as of January 1978, but benefits would ordinarily not be payable until some time later. If States elect to make benefits payable starting at the beginning of 1978, the 1976 amendments provide for Federal funding of those new benefits for a transition period (generally 1978).

Proposed legislation.—The Emergency Unemployment Compensation Act which was enacted in December 1974 provides up to 26 weeks of federally funded benefits for workers who have exhausted their regular and extended benefits which generally provide for a maximum of 39 weeks of benefits. The emergency benefits program was originally to have expired at the end of 1975. However, it was extended through March 31, 1977, with provision for reducing or eliminating its benefits in States with lower levels of unemployment. The Carter budget revision proposes a nine-month extension of this program through December 31, 1977, with certain phase-out benefits payable until March 31, 1978. This is estimated to cost $0.5 billion in fiscal 1977 and $0.4 billion in fiscal 1978. A study of the recipient population mandated in the 1975 legislation which extended the program indicates that most beneficiaries have substantial other sources of income. On the average recipients' 1975 household income without unemployment benefits was $8,190. All unemployment benefits including emergency benefits increased the average household income to $10,420. A significant proportion of beneficiaries were unemployed wives. In the average case of this type, the husband's earnings during the year amounted to $8,590. If the Committee wishes to recommend extension of this program it might want to consider modifications which would limit the cost by providing benefits only to lower income households. Such a proposal could reduce program cost by as much as $0.2 billion for fiscal 1977 and $0.3 billion for fiscal 1978.

Chart 11

Health Programs: Existing Law
(dollars in billions)

	FY 1977	FY 1978
Medicare trust funds:		
Hospital insurance:		
Income	$15.6	$19.7
Outgo	15.5	18.2
Net increase	0.1	1.6
Supp. medical insurance:		
Income	7.3	8.9
Outgo	6.5	7.9
Net increase	0.8	1.0
Federal fund payment to Medicare trust funds	6.0	7.2
Medicaid	10.2	11.8
Maternal and child health	0.3	0.3

Chart 11

Health Programs: Existing Law

MEDICARE

Benefit and administrative outlays under medicare are estimated for fiscal year 1978 at $26.1 billion. Of this amount, benefit payments account for $25.2 billion. This represents an increase of more than 15 percent over the fiscal year 1977 benefit payments. The primary factor accounting for the increase is inflation in medical care costs.

Hospital insurance expenditures generally account for about 70 percent of the medicare benefit payments. In fiscal year 1978, $17.8 billion in benefit outlays are estimated under part A (hospital insurance). Part B, the supplemental medical insurance program will account for $7.4 billion.

Income to the trust funds in fiscal year 1978 is estimated at $28.6 billion, an excess over outlays of $2.6 billion. Federal fund payments to the trust funds for fiscal year 1978 are $7.2 billion.

MEDICAID

Total Federal-State medicaid costs for fiscal year 1978 are projected under present law to be $20.7 billion, of which the Federal share is $11.8 billion. Of the Federal amount, $11.2 billion represents payments for benefits, with the remaining $0.6 billion going for administrative costs. This represents a total increase over the current fiscal year 1977 Federal cost estimate of over 15 percent.[1]

States match Federal expenditures under the medicaid program, with total State expenditures accounting for approximately 45 percent of total program costs. In fiscal year 1978, State medicaid costs are estimated to be $8.9 billion up from $7.7 billion in fiscal year 1977.

MATERNAL AND CHILD HEALTH

The budget includes $345.4 million for the maternal and child health program for fiscal year 1978. Of this amount, $315 million is for formula grants to the States, with the remainder supporting sudden infant death programs and research and training related to maternal and child health. This formula grant request represents a $2 million reduction from the fiscal year 1977 appropriated amount of $317 million.

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[1] The fiscal 1977 cost estimate includes a supplemental increase of $900 million over the 1977 budget submission. In terms of budget submissions, fiscal 1978 represents a $2.5 billion increase in Federal spending over the fiscal 1977 request.

Chart 12

Medicare Trust Funds Under Present Law

(dollars in billions)

	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Hospital Insurance:					
Income	$19.7	$22.9	$25.4	$31.6	$35.8
Outgo	18.2	21.2	24.6	28.2	32.0
Net increase	1.6	1.7	0.8	3.4	3.7
End-of-year assets	12.6	14.3	15.1	18.6	22.3
Supplementary Medical Insurance:					
Income	8.9	9.8	11.2	12.7	14.3
Outgo	7.9	9.3	10.7	12.3	13.9
Net increase	1.0	0.5	0.5	0.4	0.4
End-of-year assets	3.2	3.6	4.0	4.5	4.9

Chart 12

Medicare Trust Funds—Under Present Law

This chart shows the status of the two medicare trust funds in each of the next 5 fiscal years. The data in this chart are based on current law.

Chart 13

Health Programs: Proposed Changes

(dollars in billions)

	1977 Ford budget	1977 Carter budget	1978 Ford budget	1978 Carter budget
Medicare:				
Limitation on reimbursement rates	-$0.1	---	-$1.8	-$0.7
Increase in beneficiary cost-sharing	-0.1	---	-0.6	---
Limitation on beneficiary cost-sharing	---	---	+0.6	---
Permit reimbursement of certain clinics now excluded	---	*	---	*
Freeze Supplementary Medical Insurance premium	---	*	---	+0.2
Medicaid and maternal and child health:				
Medicaid cost control	---	---	-0.1	-0.1
Child health assessment	---	---	---	+0.2

* less than $0.05 billion

Chart 13

Health Programs: Proposed Changes

FORD BUDGET

Medicare.—The Ford Administration submitted three legislative proposals which would on an overall basis reduce medicare outlays. One of the proposals would modify medicare's cost-sharing structure by requiring the beneficiary to pay coinsurance equal to 10 percent of hospital charges above the deductible amount, and an increase in the supplementary medical insurance (part B) deductible—to $80 in 1978; thereafter, the deductible would be increased by the same percentage as social security cash benefit increases. A maximum cost-sharing liability of $500 per calendar year under hospital insurance and $250 per calendar year under supplementary medical insurance would also be instituted.

The second legislative proposal would limit the yearly increases in hospital per diem costs and practitioner's charges recognized as reasonable by the medicare program.

The limits for fiscal year 1978 would be 7 percent; the limits on increases in future years would be set by regulation. Any costs or charges in excess of the limits would not be reimbursed. This proposal was estimated to reduce outlays by $1.3 billion in fiscal 1978. A third proposal would withhold depreciation payments to facilities not required for loan repayments in provider escrow accounts to be released upon State approval. Estimated outlay savings from this proposal were $440 million in fiscal year 1978.

These proposals were previously recommended in the fiscal 1977 budget. They were not accepted by the committee in its budgetary assumptions nor otherwise acted upon by the Congress.

Medicaid and maternal and child health.—The Ford Administration proposed to further limit Federal expenditures by consolidating 19 categorical health service and planning programs, including medicaid and maternal and child health, into a $13.2 billion block grant to the States. An increase of 5% in the authorization level is proposed for each of the three subsequent years, 1979–81.

The block grant funds would be distributed among the States according to a formula based primarily on the size of the State's low-income population with consideration also given to its per capita income and fiscal effort.

CARTER BUDGET

Medicare—The Carter Administration, in its proposed budget, deleted the Ford proposals for catastrophic health care protection which consisted of maximums in beneficiary payments of $500 per year for hospital and institutional services and $250 for physician and outpatient services, and 10% beneficiary cost sharing amount of charges for all inpatient hospital, nursing home care, home health and hospital based physician services. In addition, the Ford proposal for the establishment of escrow accounts for facility capital reimbursement amounts was also deleted.

The Carter Administration will propose legislation designed to limit increases in hospital revenues per admission to not more than a total of 10 percent in fiscal 1978. The containment would apply to all hospitals, with an estimated $700 million reduction in medicare payments. Until specific details of that proposal are determined and submitted, the staff would not recommend assuming enactment. However, there are other ways—under existing law—that savings of this magnitude may be achieved.

The Carter Administration has also proposed a freeze on the Medicare Part B premium at the current level of $7.20 per month through FY 1978. This premium was scheduled to increase to $7.70 a month in July 1977. This proposal would reduce income to the trust funds by $182 million in FY 1978 which would be offset by increased payments to the trust funds from general revenues.

The Congress may want to defer action on this recommendation until such time as it considers national health insurance proposals. At that time the committee may wish to develop an approach which differentiates between those elderly capable of paying a premium and those elderly who cannot.

The Carter budget proposes Medicare reimbursement for clinic services rendered by paraprofessionals in areas of physician shortages. This proposal is estimated to increase FY 1978 outlays by $25 million.

Medicaid and Maternal and Child Health.—The Carter budget proposes a program called Comprehensive Health Assessments and Primary Care for Children (CHAP) to replace the existing EPSDT program in Medicaid for health screening and treatment for Medicaid-eligible children; 13.8 million children are estimated to be reached by the program, at an estimated increased cost to the Federal Government of $180 million in FY 1978.

The Carter budget deletes the Ford administration health block grant proposal, which would have included the Maternal and Child Health Program.

Chart 14

(dollars in billions)

	FY 1977	FY 1978
Revenue Sharing		
General revenue sharing	$6.8	$6.8
Countercyclical revenue sharing:		
Present law	1.2	--
Carter proposal	+0.9	+1.6
Sugar Act		
Present law	---	---
Changes for Committee consideration: payments	---	+0.1
revenues	(---)	(+0.1)
Interest		
Ford budget	38.0	39.7
Carter budget	38.2	41.8
(Committee decisions on deficit and debt limit determine estimate)		

Chart 14

Revenue Sharing; Sugar Act; Interest on the Public Debt

GENERAL AND COUNTERCYCLICAL REVENUE SHARING

The general revenue sharing program provides for outlays in each of the fiscal years 1977 and 1978 of $6.8 billion. One-third of these amounts is distributed to State governments, and two-thirds to local governments. Under this program, through December 31, 1976, payments totaling $30.2 billion were distributed to these governments. Through fiscal year 1980 an additional $25.6 billion will be similarly distributed. (This chart assumes the full effect of a $200 million inflation adjustment.)

Countercyclical revenue sharing, approved in July of 1976, provides for outlays in fiscal year 1977 of $1.2 billion. Under this program funds are distributed to State and local governments with high unemployment (exceeding 4.5 percent) when the national unemployment rate for the two preceding quarters exceeds 6 percent. The Carter Administration has proposed, as part of the economic stimulus package, that the amounts made available to areas of high unemployment be increased. The proposed legislation would provide for quarterly payments equal to $125 million plus $30 million for each one-tenth of a percentage point that the national unemployment rate two quarters earlier exceeded 6 percent. The proposed effective date for this increased funding is April 1977. This would increase outlays by an estimated $0.9 billion for fiscal year 1977 and $1.6 billion for fiscal year 1978.

SUGAR ACT

The Sugar Act expired on December 31, 1974. In fiscal year 1975, the last fiscal year the program was in effect, $86 million was appropriated to cover Sugar Act program payments for the 1974 crop year. For the fiscal year ending June 30, 1975, at which time the excise tax on sugar was terminated, $103.8 million in sugar excise taxes were collected. If the sugar program were to be reinstated, the excise tax on sugar would yield sufficient revenues to offset any program payments. If the committee expects to act on the sugar program this year, an estimate of the necessary appropriation, however, should be included in the committee's budget recommendation.

INTEREST ON THE PUBLIC DEBT

Budget outlays for interest on public debt are estimated in President Carter's budget to rise from $38.2 billion in fiscal year 1977 to a level of $41.8 billion in fiscal year 1978. These projected increases result from the financing of budget deficits for each of these years. When the committee has completed its decisions on revenues, expenditures, and the budget deficit, the appropriate interest figures can be calculated.

Chart 15

Revenues: Present Law

(dollars in billions)

	FY 1977		FY 1978	
	Ford budget	Carter budget	Ford budget	Carter budget
Individual income tax	$158.0	$157.7	$189.3	$191.0
Corporation income tax	57.7	57.9	63.6	64.5
Social insurance taxes	108.9	108.0	124.7	123.9
Excise taxes	17.9	17.9	18.5	18.6
Estate and gift taxes	5.9	5.9	5.8	5.8
Customs duties	4.7	4.7	5.3	5.3
Other revenues	6.7	6.7	7.1	7.1
TOTAL	359.8	358.9	414.3	416.3

Chart 15

Revenues: Present Law

Federal revenues are in large part composed of receipts from income and payroll taxes. The Ford budget estimates that in fiscal year 1977, these revenues will yield a total of $359.8 billion under present law. The Carter budget estimates these revenues for the same period at $358.9 billion. For fiscal year 1978, the Ford budget projects a revenue yield of $414.3 billion under present law. The Carter budget is slightly more optimistic and estimates revenues of $416.3 billion.

Income taxes paid by individuals are estimated to amount to $191.0 billion. Revenues from this source, which account for the largest single source of Federal revenues, will amount to 45.9 percent of total Federal revenues. This estimate of individual income taxes has been reduced by $1.1 billion, representing the refundable portion of the earned income credit, as compared with the Carter budget revision document for fiscal year 1978, to reflect this item as a reduction in revenues rather than as an outlay.

Income taxes paid by corporations are estimated at $64.5 billion.

Social insurance taxes and contributions, composed of social security and other payroll taxes, unemployment insurance taxes and deposits, Federal employee retirement contributions, and premium payments for supplementary medical insurance are expected to total $123.9 billion. Receipts from these sources will account for approximately 29.8 percent of total Federal revenues.

Excise taxes imposed on selected commodities, services, and activities are expected to provide $18.6 billion during fiscal year 1978.

Estate and gift taxes imposed on the value of property held at death and inter vivos transfers of property are projected to produce $5.8 billion.

Customs duties, levied on imports are anticipated to raise $5.3 billion.

Other taxes and miscellaneous receipts are expected to total $7.1 billion.

Chart 16

Tax Stimulus and Other Revenue Proposals

(dollars in billions)

	1977		1978	
	Carter budget	Ways and Means	Carter budget	Ways and Means
Tax refunds	-$9.6	-$8.6	---	---
Payments to social security beneficiaries, etc.	(1.8)	(1.5)	---	---
Increase standard deduction	-1.5	-1.8	-5.6	-6.7
Extend $35 credit to aged and blind	---	---	-0.1	-0.1
Business tax credits	-0.9	-0.7	-2.4	-2.4
Extension of 1975-1976 tax cuts:				
General tax credit	---	---	-6.8	-6.8
Earned income credit	---	---	*	*
Corporate tax reductions	---	---	-1.0	-1.0
TOTAL TAX REDUCTIONS	-12.0	-11.2	-15.9	-16.9
RELATED PAYMENTS	1.8	1.5	---	---

Suggested allowance for minor tax and tariff bills		-0.1

*No budgetary impact until FY 1979

Chart 16

Tax Stimulus and Other Revenue Proposals

The Tax Reduction and Simplification Act of 1977, ordered favorably reported by the House Ways and Means Committee on February 17, 1977, represents initial House action on the tax and special payments provisions of the Administration's economic stimulus program.

The Administration proposed a one-time refund of 1976 individual income taxes equal to $50 for each taxpayer and dependent. The Ways and Means Committee has voted to phase out this refund for taxpayers with adjusted gross incomes (AGI) between $25,000 and $30,000. Taxpayers with AGI of $30,000 or more would receive no refund.

The Administration also proposed a $50 payment to each Social Security, SSI and Railroad Retirement beneficiary. The Ways and Means Committee has expanded this group to include AFDC recipients, black lung benefit recipients, and persons receiving veterans pensions and compensation. At the same time, the Ways and Means Committee directed that no double payments of tax refunds and/or special payments be made to these designated recipients.

An increase in the standard deduction as well as a revision of the tax tables, rate schedules and the definition of taxable income have been proposed by the Administration. The Ways and Means Committee agreed to set the standard deduction at $2,400 for single persons and $3,000 for married couples filing joint returns. Under the Administration's revised proposal, the standard deduction would have been set at $2,200 for single persons.

The $2,400 and $3,000 standard deductions, under the Ways and Means Committee bill, will be built into the rate schedules and tax tables as a zero rate bracket so that the initial 14 percent bracket will begin at $2,401 for single returns and $3,001 for joint returns. Also, this change will serve as a floor for itemized deductions. Taxpayers will only be able to deduct those itemized deductions in excess of the "zero bracket" amount (i.e., $2,400/$3,000). The reductions resulting from these changes in the standard deduction are to be reflected in a change in withholding rates as of May 1, 1977.

The $35 per person tax credit or 2 percent of the first $9,000 of taxable income credit (whichever is greater) and the earned income credit would also be extended for one year. These credits would otherwise expire at the end of 1977. The earned income credit would also be extended for an additional year.

A stimulus for business taxpayers has been provided by the Ways and Means Committee in the form of a new jobs tax credit. The Administration has proposed that businesses be permitted to elect either an increased investment tax credit (12 percent) or a credit of 4 percent of the social security tax paid by employers. This election would be effective through 1980.

The jobs credit provides a credit to employers equal to 40 percent of the first $4,200 of wages paid to new employees. This credit would be computed by taking 40 percent of wages covered under the Federal Unemployment Tax Act (FUTA), which is a maximum of $4,200 per employee, over the previous year's FUTA wages, increased by 3 percent to account for normal employment growth. The amount of the credit allowed under this provision would be limited to $40,000 per year.

An additional credit of 10 percent of the first $4,200 of wages paid to new employees who are handicapped would also be provided. These credits could be used to offset up to 100 percent of tax liability and could be carried back 3 years and forward 7 years.

The Administration recommendation to include an extension of the corporate tax reduction through 1978 has been incorporated in the Ways and Means bill. This will continue the $50,000 corporate surtax exemption and the corporate rate reduction—20 percent of the first $25,000 and 22 percent of the next $25,000—for an additional year.

Allowance for minor tax and tariff bills.—After the second budget resolution for a year is adopted, the revenue levels in that resolution are binding subject to a point of order. If those levels are set at precisely the expected level of revenues, any legislation may be blocked on a point of order even if it involves only negligible revenue losses. The committee may wish to suggest to the Budget Committee that each budget resolution include a nominal $0.1 billion allowance below the otherwise anticipated revenue levels to accommodate minor tax and tariff bills. Even such an allowance, however, would not protect such bills against points of order if subsequent revenue reestimates by the Congressional Budget Office lower the projected present-law revenues. The committee may wish to include in its report to the Budget Committee a recommendation that each budget resolution include a provision waiving compliance with the revenue totals in the case of bills having negligible revenue impact.

Chart 17

Tax Expenditures: Present Law
(dollars in billions)

	FY 1977	FY 1978
Personal investment	$20.6	$22.2
Business investment	14.6	16.0
Income security	22.8	24.8
Revenue sharing and general purpose fiscal assistance	13.2	14.6
Health	7.8	8.7
Commerce and transportation	6.5	6.3
Natural resources, environment and energy	3.5	3.7
Other tax expenditures	15.7	17.3

Chart 17

Tax Expenditures: Present Law

The concept of tax expenditures was developed in order to compare the Federal Government's total contribution to various activities, through direct expenditures and indirectly through deductions, deferrals, and credits in the tax structure. With this information, consideration of the budget will ultimately involve examination of both direct and tax expenditures as alternate means of providing incentives.

The chart presents a summary of tax expenditures by budget functional category and estimates of their revenue effects. The table containing the estimates presented by the Administration as a special analysis in the 1977 budget is reproduced in Appendix C.

The administration's analysis omits four provisions which the staff believes should be included. These four items, and their revenue estimates are:

[In millions of dollars]

	Fiscal year 1977	Fiscal year 1978
Earned income credit[1]	1,145	1,141
Deferred income of controlled foreign corporations	410	410
Taxation of capital gains at death	7,280	8,120
Asset depreciation range	1,805	2,020

[1] The amounts shown here represent the refundable portion of the earned income credit. The nonrefundable portion is included in the administration's analysis.

The definition of a tax expenditure is imprecise. The objective generally, however, is to include as tax expenditures those tax provisions that are not ordinary deductions taken for the purpose of determining net income of a business, whether incorporated or not. Deductions for individuals that are not business-related then clearly should be treated as tax expenditures. The imprecision that exists with respect to dovetailing concept and practice has generated substantial controversy. Because of the difficulty of achieving precision, the staff approach is to be as comprehensive as is reasonable when deciding what is to be included. The staff also believes that the term tax expenditure and a listing of a provision carry no implication of approval or disapproval, or judgment about the effectiveness of any one provision. A listing simply reflects present law and, therefore, present public policy.

If the various tax expenditure figures in the two columns were added, they would total $104.7 billion in fiscal year 1977, and $113.6 billion in fiscal year 1978. However, the separate items, even in functional categories, should not be added in strict logic because the revenue estimates are made with the assumption that no other changes would be made by the taxpayer if the one item were to be repealed. Many taxpayers have the choice of using other tax expenditures, if they are interested in tax shelters. For some, repeal of a provision could foreclose that source of economic income, and they might permanently suffer a significantly reduced income. For all taxpayers, repeal of a tax expenditure provision could affect their tax liabilities through movement into higher tax brackets or shifts to the standard deduction.

Chart 18

Debt Limit

(dollars in billions)

	Ford budget	Carter budget
Debt subject to limit September 30, 1977	$707.8	$717.9
Plus:		
Federal funds deficit for FY 1978	60.4	68.0
Off-budget agency spending financed by Treasury and other financing	9.3	8.8
Equals debt subject to limit September 30, 1978	777.5	794.7

Chart 18

Debt Limit

Under existing law the debt limit is $682 billion until March 31, 1977 when it will increase to $700 billion. The temporary debt limit expires September 30, 1977. In the absence of further legislation, the debt ceiling would decline on that date to its permanent level of $400 billion.

For fiscal year 1978 the Carter Administration assumes that the debt subject to limit would reach $717.9 billion on September 30, 1978. Underlying these estimates are the legislative proposals which the President submitted to Congress, or indicated he will submit, in the budget for fiscal year 1978. In addition, the fiscal year 1978 needs include issue of debt by the Federal Financing Bank under the debt limit on behalf of various agency programs and several agencies whose activities are not included within budget totals.

APPENDIX A

Committee on Finance 1976 Report to the Budget Committee With Respect to Fiscal Year 1977

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., March 4, 1976.

Hon. EDMUND S. MUSKIE,
Chairman, Budget Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The Committee on Finance met in executive session throughout the week of February 23d to give thorough consideration to those aspects of the Federal budget which fall within the Committee's jurisdiction. This letter transmits the views and estimates of the Committee on Finance as is required by section 301(c) of the Congressional Budget Act of 1974.

Economic assumptions.—Many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions. The economic assumptions underlying the President's budget are presented on page 25 of the President's budget. For purposes of the first concurrent resolution on the budget, the Finance Committee has accepted these assumptions.

While the President's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are other alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in some of the revenue and outlay estimates under present law.

Expenditure programs.—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures approaching one-half of the entire Federal budget. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include Medicare, Medicaid, and maternal and child health, as well as national health insurance proposals. Other programs within the Committee's jurisdiction which involve expenditure of Federal funds include social services, revenue sharing, and payments under the Sugar Act. Interest on the public debt, which on a net basis will account for some $37 billion in Federal outlays during the current fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in Table 1 should be allowed in the concurrent budget resolution for these programs.

The Finance Committee estimates involve outlays for fiscal year 1977 which are $6.0 billion higher than the outlays estimated in the President's budget as printed. The major element of difference reflects the Committee's judgment that most of the legislation proposed by the President to cut back existing benefits will not be enacted as assumed in the budget. Comments on specific functional categories are shown below.

TABLE 1.—BUDGET AUTHORITY AND OUTLAYS FOR PROGRAMS UNDER FINANCE COMMITTEE JURISDICTION

[In billions of dollars]

Functional category	1976 Budget authority	1976 Outlays	July-September 1976 Budget authority	July-September 1976 Outlays	1977 Budget authority	1977 Outlays
350 Agriculture	0	(1)	0	0	0	0
(New legislation)					(+$.1)	(+$.1)
500 Education, manpower, and social services	$3.7	$3.2	$.8	$.8	3.3	3.3
(New legislation)	(+.1)	(+.1)	(+.1)	(+.1)	(+.4)	(+.4)
550 Health	27.1	26.2	7.3	7.3	32.6	31.5
(New legislation)					(+.4)	(+.4)
600 Income security	94.8	102.8	24.1	26.5	108.2	112.6
(New legislation)	(1)	(1)	(1)	(1)	(−.1)	(−.2)
850 Revenue sharing	6.4	6.3	1.7	1.7	1.7	3.4
(New legislation)					(+6.9)	(+5.1)
900 Interest	37.7	37.7	10.4	10.4	44.9	44.9
Interest paid to trust funds	−8.0	−8.0	−2.1	−2.1	−8.2	−8.2

1 Less than $50,000,000.

Agriculture.—The only program within the Finance Committee's jurisdiction in this functional category is the Sugar Act. That Act expired at the end of December 1974 and no payments to sugar growers were made for crop years after 1974. The amount shown for new legislation will permit renewal of the Sugar Act. In the past, the excise tax on sugar (which has also expired) has produced revenues which exceed the cost of the payments to sugar growers. The Finance Committee revenue estimates also allow for renewal of the sugar excise taxes, so that taken together, renewal of the payments and the excise tax will reduce the budget deficit slightly.

Education, Manpower and Social Services.—The $0.4 billion shown for new legislation makes allowance for the child care staffing legislation currently pending in conference with the House of Representatives. Legislation to modify the Work Incentive Program has already been reported by the Committee on Finance and is pending on the

Senate calendar. It should be noted that the amendments to the Work Incentive Program, which result in increased expenditures in the manpower training category, will be substantially more than offset by savings in the income security category.

Health.—The estimate for new legislation for health assumes that the Congress will not act favorably on the President's proposals to cut back on Medicare benefits. However, the additional $0.5 billion for this category does include allowance for the start-up costs associated with a major expansion of the Federal health role even though the new legislation would not become fully effective until fiscal year 1978.

Income security.—The Committee estimate for new legislation under the income security category represents a net figure of both savings and additional benefits in the programs of Aid to Families with Dependent Children and Supplemental Security Income for the aged, blind, and disabled. The Finance Committee estimates do not assume the enactment of the President's proposals to cut back social security cash benefits by $0.8 billion. In addition, since action on the unemployment insurance bill has been delayed in the House, it is assumed that there will be no increased benefits under new legislation before fiscal year 1978.

Revenue sharing and general purpose fiscal assistance.—The revenue sharing program expires at the end of December 1976. The amount included in the Finance Committee estimates provides sufficient funds to extend the program, to provide for annual automatic increases to reflect general inflationary trends, and to permit legislative action on a counter-cyclical increment to the revenue sharing funds.

Interest on the public debt.—The Committee estimates that gross interest on the public debt for fiscal year 1977 will be $44.9 billion using as a base the President's budget as modified by the Committee's recommendations for outlays in other categories and for revenues. The gross interest on the public debt is offset by $8.2 billion in estimated interest paid to Federal trust funds.

TABLE 2.—FINANCE COMMITTEE REVENUE ESTIMATES

[In billions]

	1976	July-September 1976	1977
Present law	$297.5	$87.4	$374.6
Allowance for legislation (net)		−5.0	−19.6
Present law and legislation	297.5	82.4	355.1

Revenues.—Virtually all revenues of the Federal Government fall within the jurisdiction of the Committee on Finance. The different types of revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

Tax reductions first enacted in the Tax Reduction Act of 1975 and extended in the Revenue Adjustment Act of 1975 expire at the end of June 1976 (at the end of December 1976 in the case of the higher investment tax credit). It is estimated that continuation of the expiring provisions at the present levels will reduce revenues by $17.3 billion in fiscal year 1977. The Committee net revenue loss estimate of $19.6 billion under new legislation in fiscal year 1977, together with certain expected revenue increases, would permit a net revenue loss of about $3 billion beyond the revenue loss associated with straight extension of expiring provisions.

The President's budget as printed assumed revenues of $351.3 billion and outlays of $394.2 billion, with a deficit of $43.0 billion. Since the President's budget was submitted, the President has increased the cost of his health proposal by $0.9 billion, and it is now clear that the effective date of the unemployment compensation tax and benefit increase proposals of the President will have to be delayed for one year because of the delay in House consideration of the unemployment bill. Adjusting for these two modifications, the President's budget assumes revenues of $349.7 billion and outlays of $394.8 billion, with a deficit of $45.2 billion. In order to preserve a deficit no higher than the $45.2 billion in the adjusted President's budget, the revenue estimate must be $5.4 billion higher than the adjusted President's budget just as the expenditure estimates as proposed by the Committee on Finance are $5.4 billion higher than the adjusted President's budget. This results in the net amount available for new revenue legislation being $19.6 billion rather than the $25.0 billion proposed by the President. (These figures are shown in Table 3 below. This table includes a correction to the data shown in Table 12 of the President's budget increasing proposed revenue reductions by $0.6 billion with an offsetting increase of the same amount in present law revenues.)

The Finance Committee revenue estimates for new legislation are thus consistent with the policy incorporated in section 1A of the Revenue Adjustment Act of 1975.

TABLE 3.—COMPARISON OF PRESIDENT'S BUDGET FOR FISCAL YEAR 1977 AND FINANCE COMMITTEE ESTIMATES

[In billions]

	Revenues	Outlays	Deficit
President's budget as printed	$351.3	$394.2	−$43.0
Adjustment for higher cost of health proposal, delay in enacting unemployment proposals	−1.6	+.6	−2.2
Adjusted President's budget	349.7	394.8	−45.2
Finance Committee estimate	355.1	400.2	−45.2

The Committee budget estimates assume no action on the President's proposal to increase social security taxes by 0.3 percent each on employers and employees. However, should the Committee subsequently decide to enact some or all of this proposal, the income tax reductions could be increased by an equivalent amount to fit within the overall revenue target. As mentioned above, the revenue estimate makes allowance for renewal of the sugar excise tax which more than offsets payments to growers under the Sugar Act (shown under the functional category for agriculture).

Public Debt Limit.—The permanent debt limit under existing law is $400 billion. H.R. 11893, which has passed the House of Representatives, would provide an additional temporary debt limit of $227 billion which will expire June 30, 1976. In estimating the amount by which this combined limit of $627 billion will have to be increased to cover the additional Federal fund budget deficits for the July to September 1976 quarter and fiscal year 1977, the Finance Committee has taken into account its expenditure estimates as discussed above. In other respects, the Committee accepts the President's budget as the basis for its computation of debt limit requirements. The Budget Committee may, therefore, find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the President's budget for programs not within the jurisdiction of the Committee on Finance.

TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES

[In billions]

Debt subject to limit, June 30, 1976 (under H.R. 11893)	$624
Plus:	
Deficit for July-September 1976 (Federal funds)	15
Offbudget agency spending financed by Treasury	4
Debt subject to limit, Sept. 30, 1976	643
Plus:	
Deficit for fiscal year 1977 (Federal funds)	50
Offbudget agency spending financed by Treasury	12
Debt subject to limit, Sept. 30, 1977	705

Tax expenditures.—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee accepts at face value the tax expenditure listing included in Special Analysis F of the President's budget. However, the Committee notes that certain additional items are considered by some persons to be tax expenditures and should therefore be added to the list shown in the President's budget. These additional items are shown in Table 5 below.

TABLE 5.—ADDITIONAL TAX EXPENDITURE ITEMS

[In millions]

	Fiscal year 1976	Transition quarter	Fiscal year 1977
Asset depreciation range	$1,590	$450	$1,805
Deferred income of controlled foreign corporations	525	100	365
Taxation of capital gains at death	6,720	1,820	7,280
Cooperatives—Deduction for noncash dividends	410	100	455

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

RUSSELL B. LONG,
Chairman.

APPENDIX B

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

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TITLE III—CONGRESSIONAL BUDGET PROCESS

Timetable

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
November 10	President submits current services budget.
15th day after Congress meets.	President submits his budget.
March 15	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 15	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15	Congress completes action on second required concurrent resolution on the budget.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

Adoption of First Concurrent Resolution

SEC. 301. (a) ACTION TO BE COMPLETED BY MAY 15.—On or before May 15 of each year, the Congress shall complete action on the first concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth—

(1) the appropriate level of total budget outlays and of total new budget authority;

(2) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intragovernmental transactions, based on allocations of the appropriate level of total budget outlays and of total new budget authority;

(3) the amount, if any, of the surplus or the deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;

(4) the recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(5) the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased by bills and resolutions to be reported by the appropriate committees; and

(6) such other matters relating to the budget as may be appropriate to carry out the purposes of this Act.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The first concurrent resolution on the budget may also require—

(1) a procedure under which all or certain bills and resolutions providing new budget authority or providir new spending authority described in section 401(c)(2)(C) for such fiscal year shall not be enrolled until the concurrent resolution required to be reported under section 310(a) has been agreed to, and, if a reconciliation bill or reconciliation resolution, or both, are required to be reported under section 310(c), until Congress has completed action on that bill or resolution, or both; and

(2) any other procedure which is considered appropriate to carry out the purposes of this Act.

Not later than the close of the Ninety-fifth Congress, the Committee on the Budget of each House shall report to its House on the implementation of procedures described in this subsection.

(c) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before March 15 of each year, each standing committee of the House of Representatives shall submit to the Committee on the Budget of the House, each standing committee of the Senate shall submit to the Committee on the Budget of the Senate, and the Joint Economic Committee and Joint Committee on Internal Revenue Taxation shall submit to the Committees on the Budget of both Houses—

(1) its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within the respective jurisdiction or functions of such committee or joint committee; and

(2) except in the case of such joint committees, the estimate of the total amounts of new budget authority, and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within the jurisdiction of such committee which such committee intends to be effective during the fiscal year beginning on October 1 of such year.

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APPENDIX C

Tax Expenditures by Function

(Excerpt From the Special Analyses of the Budget of the United States, pages 128–130)

Table F-1. TAX EXPENDITURE ESTIMATES BY FUNCTION[1]

(In millions of dollars)

Description	Corporations			Individuals		
	1976	1977	1978	1976	1977	1978
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel	-----	-----	-----	1,020	1,095	1,260
Exclusion of military disability pensions	-----	-----	-----	90	105	115
International affairs:						
Exclusion of gross-up on dividends of LDC corporations	40	-----	-----	-----	-----	-----
Exclusion of income earned abroad by U.S. citizens	-----	-----	-----	145	120	135
Deferral of income of domestic international sales corporations (DISC)	1,220	1,030	1,190	-----	-----	-----
Special rate for Western Hemisphere trade corporations	50	35	25	-----	-----	-----
Agriculture:						
Expensing of certain capital outlays	85	80	70	455	370	440
Capital gain treatment of certain income	10	10	15	315	330	350
Natural resources, environment, and energy:						
Exclusion of interest on State and local government pollution control bonds	110	170	220	50	75	100
Exclusion of payments in aid of construction: Water and sewage utilities	-----	15	10	-----	-----	-----
Expensing of exploration and development costs	640	610	600	160	105	150
Excess of percentage over cost depletion	1,010	1,035	1,060	285	275	300
Pollution control: 5-year amortization	10	−80	−130	-----	-----	-----
Capital gain treatment of royalties on coal and iron ore	15	20	20	40	45	50
Capital gain treatment of certain timber income	290	300	325	95	95	100
Commerce and transportation:						
Exemption of credit unions	145	165	185	-----	-----	-----
Exclusion of certain income of cooperatives	410	455	490	−155	−165	−170
Corporate surtax exemption	4,170	4,650	4,250	-----	-----	-----
Deferral of tax on shipping companies	110	90	70	-----	-----	-----
Railroad rolling stock: 5-year amortization	−25	−35	−40	-----	-----	-----
Financial institutions: Excess bad debt reserves	485	560	645	-----	-----	-----
Deductibility of nonbusiness State gasoline taxes	-----	-----	-----	710	795	880
Community and regional development:						
Housing rehabilitation: 5-year amortization	15	10	5	25	20	10
Education, training, employment, and social services:						
Exclusion of scholarships and fellowships	-----	-----	-----	195	250	285
Parental personal exemptions for students, ages 19 and over	-----	-----	-----	720	750	770
Deductibility of contributions to educational institutions	190	215	240	510	540	565
Deductibility of and credit for child and dependent care expenses	-----	-----	-----	290	840	870
Credit for employing AFDC and public assistance recipients	10	15	15	-----	-----	-----
Health:						
Exclusion of employer contributions to medical insurance premiums and medical care	-----	-----	-----	4,490	5,195	5,840
Expensing of removal of architectural barriers to the handicapped	-----	5	10	-----	-----	-----
Deductibility of medical expenses	-----	-----	-----	2,315	2,585	2,870
Income security:						
Exclusion of social security benefits:						
Disability insurance benefits	-----	-----	-----	330	380	430
OASI benefits for aged	-----	-----	-----	2,725	3,125	3,460
Benefits for dependents and survivors	-----	-----	-----	645	730	795

See footnote at end of table.

Table F-1. TAX EXPENDITURE ESTIMATES BY FUNCTION [1]—Continued

(In millions of dollars)

Description	Corporations			Individuals		
	1976	1977	1978	1976	1977	1978
Income security—Continued						
Exclusion of railroad retirement system benefits	-----	-----	-----	190	200	205
Exclusion of sick pay	-----	-----	-----	195	50	55
Exclusion of unemployment benefits	-----	-----	-----	3,335	2,745	2,445
Exclusion of workmen's compensation benefits	-----	-----	-----	590	705	810
Exclusion of public assistance benefits	-----	-----	-----	95	100	105
Exclusion of special benefits for disabled coal miners	-----	-----	-----	50	50	50
Net exclusion of pension contributions and earnings:						
Employer plans	-----	-----	-----	7,290	8,715	9,940
Plans for self-employed and others	-----	-----	-----	1,060	1,305	1,535
Exclusion of other employee benefits:						
Premiums on group-term life insurance	-----	-----	-----	765	800	835
Premiums of accident and accidental death insurance	-----	-----	-----	65	70	75
Income of trusts to finance supplementary unemployment benefits	-----	-----	-----	10	10	10
Meals and lodging (other than military)	-----	-----	-----	310	330	350
Employer contributions to prepaid legal expense plans	-----	-----	-----	-----	5	10
Employee stock ownership plans (ESOP) funded through investment tax credits	25	245	255	-----	-----	-----
Exclusion of capital gain on home sales if over 65	-----	-----	-----	40	40	70
Excess of percentage standard deduction over low-income allowance	-----	-----	-----	1,140	1,285	1,410
Additional exemption for the blind	-----	-----	-----	20	20	20
Additional exemption for over 65	-----	-----	-----	1,145	1,220	1,280
Retirement income credit and credit for the elderly	-----	-----	-----	110	495	440
Earned income credit	-----	-----	-----	220	215	205
Veterans benefits and services:						
Exclusion of veterans disability compensation	-----	-----	-----	595	655	690
Exclusion of veterans pensions	-----	-----	-----	30	30	35
Exclusion of GI bill benefits	-----	-----	-----	305	255	200
General government: Credits and deductions for political contributions	-----	-----	-----	35	40	35
Revenue sharing and general purpose fiscal assistance:						
Exclusion of interest on general purpose State and local debt	2,845	3,105	3,470	1,520	1,680	1,880
Credit for corporations in U.S. possessions	240	285	310	-----	-----	-----
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)	-----	-----	-----	7,255	8,095	8,990
Interest: Deferral of interest on savings bonds	-----	-----	-----	550	565	625
Business investment:						
Exclusion of interest on State and local industrial development bonds	150	195	235	75	90	110
Excess first-year depreciation	40	45	45	140	135	145
Depreciation on buildings in excess of straight line:						
Rental housing	100	100	100	405	405	425
Other	225	210	200	200	180	175
Expensing of research and development expenditures	1,325	1,395	1,450	25	30	30
Expensing of construction period interest and taxes	415	475	500	215	150	140
Capital gain: Corporate (other than farming and timber)	545	555	550	-----	-----	-----
Investment credit	7,685	8,640	9,670	1,810	1,970	2,205

See footnote at end of table.

Table F-1 TAX EXPENDITURE ESTIMATES BY FUNCTION—Continued
(In millions of dollars)

Description	Corporations 1976	Corporations 1977	Corporations 1978	Individuals 1976	Individuals 1977	Individuals 1978
Personal investment:						
Dividend exclusion	-----	-----	-----	430	455	480
Capital gain: Individual (other than farming and timber)	-----	-----	-----	7,320	7,030	7,360
Exclusion of interest on life insurance savings	-----	-----	-----	1,655	1,815	1,995
Deferral of capital gain on home sales	-----	-----	-----	845	890	935
Deductibility of mortgage interest on owner-occupied homes	-----	-----	-----	4,870	5,435	6,030
Deductibility of property taxes on owner-occupied homes	-----	-----	-----	4,030	4,500	4,995
Deductibility of casualty losses	-----	-----	-----	310	345	380
Credit for purchase of new home	-----	-----	-----	650	100	-----
Other tax expenditures:						
Deductibility of charitable contributions (other than education)	350	400	445	4,360	4,900	5,475
Deductibility of interest on consumer credit	-----	-----	-----	2,105	2,310	2,565
Maximum tax on earned income	-----	-----	-----	605	730	855
MEMORANDUM						
Combined effect of provisions disaggregated above:						
Capital gains	865	885	905	7,770	7,500	7,860
Exclusion of Interest on State and local debt	3,110	3,475	3,925	1,645	1,850	2,090
Deductibility of State and local nonbusiness taxes	-----	-----	-----	10,865	12,125	13,460
Deductibility of charitable contributions	540	620	685	4,870	5,440	6,040

[1] All estimates are based on the tax code as of Dec. 31, 1976.

APPENDIX D

Revenue Impact of Prior Tax Reform Bills

Revenue Impact of Prior Tax Reform Bills

Historically, when the Senate passes a revenue bill it loses more revenue than the House bill. Usually the Senate cuts down on the tax increase provisions in House bills while adding to the tax reduction provisions, as shown below.

[In billions of dollars]

	House	Senate	Difference
1964 Revenue Act (calendar year 1965 liabilities):			
Revenue raising provisions	1.1	0.7	−0.4
Revenue reducing provisions (other than across-the-board rate reductions)	−0.5	−0.8	−0.3
1969 Tax Reform Act (calendar year 1970 liability):			
Revenue raising provisions (other than across-the-board surtax extension)	4.2	2.6	−1.6
Revenue reducing provisions	−1.9	−4.0	−2.1
1971 Revenue Act (calendar year 1972 liability):			
Revenue reducing provisions	−7.8	−13.4	−5.6
1975 Tax Reduction Act (calendar year 1975 liability):			
Revenue reducing provisions	−19.8	−34.3	−14.5
Revenue raising provisions	2.2	3.7	+1.5
Net effect, 1975 act	−17.6	−30.6	−13.0
1976 Tax Reform Act (fiscal year 1977 revenues): [1]			
Revenue raising provisions	2.7	2.5	−0.2
Revenue reducing provisions	−2.0	−1.6	−0.4

[1] Tax reform provisions only.

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