

DISAPPROVAL OF WITHHOLDING ON INTEREST AND DIVIDENDS

JULY 23 (legislative day, JUNE 12), 1980.—Ordered to be printed

Mr. LONG, from the Committee on Finance,
submitted the following

REPORT

[To accompany S. Con. Res. 92]

The Committee on Finance, to which was referred the resolution (S. Con. Res. 92) with respect to declaring that the Congress does not favor the withholding of income tax on interest and dividend payments, having considered the same, reports favorably thereon without amendment and recommends that the resolution be agreed to.

I. Summary

Under present law, there is no withholding on interest and dividends paid to U.S. investors. Earlier this year, the administration recently proposed that these types of payments be subject to withholding. This resolution would express that it is the sense of the Congress not to favor the withholding of income tax on interest and dividend payments.

II. General Discussion of the Resolution

PRESENT LAW

Under present law, there is no withholding on the interest and dividends of U.S. investors. While not subject to withholding, most interest and dividend payments must be reported by the payor to the recipient and to the Internal Revenue Service.

ADMINISTRATION PROPOSAL

The Administration has proposed a broad-based program of withholding on interest and dividend payments at a rate of 15 percent. Generally, the proposal would require withholding on payments by commercial, industrial, and financial institutions (and similar organizations) to individuals, partnerships, and certain trusts. Individuals who reasonably expect to be wholly free from tax liability would be exempt from withholding. (These individuals would file an exemption certificate with the interest and/or dividend payor.) The proposal also contemplates that the Secretary of the Treasury would have authority to prescribe regulations implementing additional individual exemptions from withholding, taking into account both the burden on withholding agents and the needs of individuals subject to withholding.

ESTIMATED REVENUE EFFECT OF THE ADMINISTRATION PROPOSAL

The Administration proposal would increase receipts by \$3.4 billion in fiscal year 1981. Of this, \$2.4 billion would be attributable to a speedup of collections which would otherwise occur in fiscal year 1982. (These estimates, however, do not take account of exemptions which have been proposed by the Administration subsequent to its original proposal.)

COMMITTEE RESOLUTION

Since the current system of withholding on wages and salaries was initiated, there have been several proposals for extending withholding to interest and dividend payments. The Committee has never approved such proposals in the past and it is the judgment of the Committee that it will not approve any such proposal now. The Committee is concerned that the proposal to withhold income tax on interest and dividend payments could work hardships on those individuals least able to afford them, such as retirees who depend on social security and dividend and interest income. In addition, the Committee believes that the proposed exemptions from withholding, which are designed to make the system more equitable, would make the withholding system unacceptably cumbersome and costly to administer. Because of these concerns, the Committee has reported this resolution which affirmatively states that it is the sense of the Congress that the enactment of a withholding tax on interest and dividend payments would be detrimental to the economic well-being of the United States.

III. Vote of the Committee in Reporting the Resolution

In compliance with paragraph 7(c) of Rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the vote by the Committee to report the resolution.

The resolution (S. Con. Res. 92) was ordered favorably reported by voice vote.

