97th Congress, 1st Session Senate Report No. 97-1

LEGISLATIVE REVIEW ACTIVITY

REPORT

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

FOR THE

96TH CONGRESS

PURSUANT TO

PARAGRAPH 8 OF RULE XXVI OF THE STANDING RULES OF THE SENATE

JANUARY 19 (legislative day, JANUARY 5), 1981.—Ordered to be printed

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97TH CONGRESS
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Mr. DOLE, from the Committee on Finance,
submitted the following

REPORT

[Pursuant to paragraph 8 of rule XXVI of the Standing Rules of the Senate]

FOREWORD

This report by the Committee on Finance on its legislative review activity during the 96th Congress is submitted pursuant to paragraph 8 of rule XXVI of the Standing Rules of the Senate. The rule requires standing committees of the Senate to "review and study, on a continuing basis the application, administration, and execution" of laws within their jurisdiction and to submit biennial reports to the Senate. The full text of paragraph 8 follows:

PAR. 8. (a) In order to assist the Senate in—

(1) its analysis, appraisal, and evaluation of the application, administration, and execution of the laws enacted by the Congress, and

(2) its formulation, consideration, and enactment of such modifications of or changes in those laws, and of such additional legislation, as may be necessary or appropriate,

each standing committee (except the Committees on Appropriations and the Budget), shall review and study, on a continuing basis the application, administration, and execution of those laws, or parts of laws, the subject matter of which is within the legislative jurisdiction of that committee. Such committees may carry out the required analysis, appraisal, and evaluation themselves, or by contract, or may require a Government agency to do so and furnish a report thereon to the Senate. Such committees may rely on such techniques as pilot testing, analysis of costs in comparison with benefits, or provision for evaluation after a defined period of time.

(b) In each odd-numbered year, each such committee shall submit, not later than March 31, to the Senate, a report on the activities of that committee under this paragraph during the Congress ending at noon on January 3 of such year.

The Committee on Finance, in the course of its work, publishes additional committee prints reporting on various aspects of legislation within its jurisdiction. Copies of those committee prints, as well as additional copies of the instant report, can be obtained from the office of the committee, room 2227, Dirksen Senate Office Building, Washington, D.C. 20510. Written requests should be accompanied by a return address label.

Report of Legislative Review Activity of the Committee on Finance During the 96th Congress

Rule XXV of the Standing Rules of the U.S. Senate provides that at the commencement of each Congress there shall be appointed a—

"Committee on Finance, to which committee shall be referred all proposed legislation, messages, petitions, memorials, and other matters relating to the following subjects:

"1. Bonded debt of the United States, except as provided in the Congressional Budget Act of 1974.

"2. Customs, collection districts, and ports of entry and delivery.

"3. Deposit of public moneys.

"4. General revenue sharing.

"5. Health programs under the Social Security Act and health programs financed by a specific tax or trust fund.

"6. National social security.

"7. Reciprocal trade agreements.

"8. Revenue measures generally, except as provided in the Congressional Budget Act of 1974.

"9. Revenue measures relating to the insular possessions.

"10. Tariffs and import quotas, and matters related thereto.

"11. Transportation of dutiable goods."

Legislation before the Committee on Finance commonly falls into three major categories: amendments to the internal revenue laws, to the Social Security Act (which includes old-age, survivors and disability insurance, medicare, medicaid, public assistance, and unemployment compensation programs) and legislation affecting foreign trade and tariffs. Legislation relating to the bonded debt of the United States is also within the committee's jurisdiction.

Following is the report of the Committee on Finance on its legislative review activities during the 96th Congress.

Legislative Review Activities Pursuant to the Congressional Budget Act

The Congressional Budget Act of 1974 requires committees at the start of each year to review the budgetary impact of matters under their jurisdiction and to transmit their views and estimates thereon to the Committee on the Budget no later than March 15 with a view to assisting that committee in its development of a recommended first Congressional Budget Resolution for the upcoming year. Upon the

adoption of each Budget Resolution, each committee is required by the Budget Act to file an allocation report. The allocation report indicates how the committee proposes to subdivide its overall budgetary allocations under the Budget Resolution among the programs under its jurisdiction (or among its subcommittees).

In compliance with these requirements, the Committee on Finance held executive sessions at the start of 1979 and 1980 to review the budgetary implications of the spending programs under its jurisdiction and of revenues. The committee considered the estimates of budgetary impact under existing law, changes proposed in the President's budget, and other possible legislative changes. The committee's general budgetary recommendations and estimates developed in these meeting were transmitted to the Committee on the Budget by letters of March 6, 1979 and March 4, 1980. On June 19, 1979, the Committee on Finance filed a budget allocation report related to the budgetary totals for fiscal years 1979 and 1980 included in H. Con. Res. 107, the first Congressional Budget Resolution for fiscal year 1980. The adoption of the second Congressional Budget Resolution for fiscal year 1980 was delayed beyond the usual October 1 deadline. Because of changes in the budgetary outlook, the Committee on Finance on October 30, 1979 reported to the Senate a revised allocation of budget totals under the first Budget Resolution. Additional allocation reports were also made by the committee after the adoption of the second Budget Resolution for fiscal 1980 and after the adoption of the first Budget Resolution for fiscal 1981.

The second Budget Resolution for fiscal year 1980, as passed by the Senate on September 18, 1979, included a budget reconciliation instruction directing the Committee on Finance to achieve savings of $1.4 billion in programs under its jurisdiction. Although the Budget Resolution finally adopted by the Congress deleted this formal reconciliation instruction, it contained a sense of the Congress statement calling upon the committees named in the Senate-passed version of the resolution to report legislation to achieve the savings necessary to meet the budget totals. On the basis of this directive, the Finance Committee recommended modifications in previously reported health legislation and in the general revenue sharing program and reported out several proposed savings in unemployment programs.

Before congressional action was completed on these proposals, the Congress adopted the first Budget Resolution for fiscal year 1981 which included formal reconciliation directives to the various committees of the Congress. These directives required that the named committees develop legislative recommendations to achieve specific levels of budgetary change. In the case of the Committee on Finance, the Budget Resolution directed the committee to recommend changes in spending programs which would reduce fiscal year 1981 outlays by $2.2 billion and changes in revenue legislation which would increase revenues by $4.2 billion. A part of the reconciliation requirements for the Committee on Finance could be met by legislation already acted upon by the committee to reduce costs in the social security disability and welfare programs. However, substantial additional budgetary changes were necessary. The committee reviewed the various programs under its jurisdiction and recommended savings in several aspects of the un-

employment, welfare, and social security programs as well as modifications in several revenue provisions so as to comply with the reconciliation mandate. The recommendations of the committee, which were sufficient to fully meet the required levels of budgetary improvement, were transmitted to the Committee on the Budget in June and July of 1980 and were subsequently incorporated into H.R. 7765, the Omnibus Budget Reconciliation Act of 1980. Many of the Finance Committee recommendations were ultimately enacted into law on that measure, which, as enacted, included changes in spending programs under Finance Committee jurisdiction and changes in revenues sufficient to reduce the fiscal year 1981 deficit by an estimated $5.1 billion.

Publications of the Committee on Finance during the 96th Congress related to the Congressional Budget Process include:

Data and Materials for the Fiscal Year 1980 Finance Committee Report under the Congressional Budget Act (February 1979);

Data and Materials for the Fiscal Year 1981 Finance Committee Report under the Congressional Budget Act (February 1980);

Spending Reductions: Recommendations of the Committee on Finance Required by the Reconciliation Process in Section 3(a)(15) of H. Con. Res. 307, the First Budget Resolution for Fiscal Year 1981 (June 1980);

Revenue Increases: Recommendations of the Committee on Finance Required by the Reconciliation Process in Section 3(a)(16) of H. Con. Res. 307, the First Budget Resolution for Fiscal Year 1981 (July 1980);

H.R. 7765 Budget Reconciliation Bill: Provisions Relating to Unemployment Compensation, Social Security, Supplemental Security Income, Public Assistance, and Social Services—Comparison of House and Senate Bills With Existing Law (September 1980); and

H.R. 7765 Budget Reconciliation Bill: Provisions Relating to Health—Comparison of House and Senate Bills with Existing Law (September 1980).

Legislative Review of Programs Under the Social Security Act

OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE

Title II of the Social Security Act provides monthly benefit payments to retired and disabled workers who have sufficient credit from employment and self-employment in work subject to social security taxes. Benefits are also provided for the dependents of such workers and for the survivors of deceased workers. Over the years, benefit levels under this program have been periodically reviewed and adjusted to keep pace with changing economic conditions. Legislation providing for specific benefit increases was enacted in each of the 89th through 93d Congresses. Starting with the 94th Congress, however, specific legislation to increase benefits has not been required since automatic increase provisions were incorporated into the permanent structure of the program in 1972. Under these automatic increase provisions, benefit levels were adjusted in June 1979 by 9.9 percent and again in June 1980 by an additional 14.3 percent.

Although the automatic benefit increase provisions eliminated the need for specific legislation in that area, the Committee on Finance continued the careful oversight over the status of the social security program which had always accompanied such legislation in the past.

In the 95th Congress, action was taken to provide significant additional funding for the social security programs in order to assure the continuing ability of those programs to meet their benefit liabilities. In acting on the 1977 amendments, the Committee on Finance determined that among the several contributing factors to the financial problems then facing these programs were much higher than anticipated costs for the disability insurance program.

On this basis, the committee undertook in the 96th Congress to review the structure and administration of the social security disability program. Two days of hearings on this subject were held by the full committee in October of 1979 at which testimony was presented by the Commissioner of Social Security on behalf of the Administration and by a number of other witnesses. Subsequent to these hearings, the committee undertook to develop legislation providing for a major restructuring of the disability insurance program. The legislation developed by the committee was later enacted into law as the Social Security Disability Amendments of 1980.

As enacted, the 1980 disability amendments corrected several deficiencies in the program identified by the committee. In particular, the committee had determined that many features of the program as it existed in the past worked contrary to the goal of encouraging the rehabilitation of disabled individuals. For example, the committee found that for a significant proportion of beneficiaries the program provided benefit levels which were quite large in relation to predisability earnings. This would make it unlikely that an individual could better his financial condition by returning to employment. In addition, the program allowed for only a 9-month trial work period at the end of which beneficiaries faced complete termination of eligibility coupled with a loss of medicare benefits. This sharp loss of benefit status and medical coverage contributed to the disincentives for a disabled person to attempt a return to work.

To address these problems, the legislation placed limits on selected benefit levels so as to assure that there would not be an unduly high replacement of predisability earnings. In addition, the 1980 amendments provided for an extended period of trial work so that a disabled individual could easily return to the rolls within 2 full years of his return to work if the work effort proved unsuccessful. Also, the amendments provided for a continuation of medicare coverage for a period of 3 years from the point of returning to employment and an elimination of any waiting period for medicare benefits if a previously eligible individual became reentitled within 5 years.

The committee also reviewed the administrative processes involved in the social security disability program and recommended several changes. Among the administrative changes required by the 1980 disability amendments are improved levels of claims review, new statutory guidelines for the relationship between the Federal Government and the State disability determination agencies, and provision for periodic reexamination of all approved disability claims.

The 1980 disability amendments were estimated to result in significant budgetary savings. In the disability insurance program, the Congressional Budget Office estimated that the bill, as enacted, would reduce outlays by over $3 billion in the first 5 years of operation. However, as indicated earlier in this document, the committee was required as part of the congressional budget reconciliation process to recommend ways to achieve additional budgetary savings by identifying inappropriate or low-priority features which could be eliminated. In the process of this review, the committee determined that substantial savings could be achieved by limiting the retroactive effect of a social security benefit application. As enacted into law, this change applies to nondisability applications and reduces the period of retroactivity from 12 months to 6 months. The committee also recommended limitations on the payment of social security benefits to criminals. As enacted, these limitations prohibit the payment of disability benefits on the basis of disabilities which occur in the commission of a felony and also greatly restrict the payment of any disability benefits to individuals who are in prison.

During the 96th Congress, the committee also reviewed the impact of regulatory changes relative to the deposit by State and local governments of social security contributions for their employees. Hearings on this matter were held in January 1979 by the Subcommittee on Social Security, and a provision resolving the issue in a manner acceptable to both the States and the Administration was included in the 1980 disability amendments. The Social Security Subcommittee also held hearings, in April 1980, on the social security retirement test. (The retirement test is the provision of law under which benefits for persons under age 72 are reduced if they have annual earnings above certain limits.) On the basis of information developed in these hearings, the committee subsequently reported legislation correcting certain anomalies arising from the 1977 amendments which generally eliminated the former monthly exception to the annual retirement test. This legislation was enacted as Public Law 96–473. In addition to these legislative issues, the Subcommittee on Social Security reviewed the administrative integrity of the program, conducting a hearing on that matter in April 1979.

A major continuing concern of the Committee on Finance has been the adequacy of the financing of the social security program. For a variety of reasons, including the unfavorable disability experience referred to above, changing economic conditions, and long-range shifts in mortality and fertility projections, a serious financial imbalance developed in the social security program in the mid-1970's. The Finance Committee, after commissioning expert actuarial and economic analyses of the situation, acted in the 95th Congress to begin the process of restoring the soundness of the program both by providing additional funding and by restructuring the program to moderate somewhat the rate of long-range growth. Although significant improvements in the financial situation were accomplished through the 1977 legislation and also through the disability and other amendments enacted in the 96th Congress, further action will be necessary to address both the short-range and long-range financing of the program. During the 96th Congress, hearings on the financing of the program were held

by the Subcommittee on Social Security in February of 1980. The committee reported legislation, enacted as Public Law 96–403, modifying the 1980 and 1981 allocation of the social security cash benefit tax between the Disability Insurance Trust Fund and the Old-age and Survivors Insurance Trust Fund. The committee determined that this action was necessary in order to assure that both funds could continue to meet their benefit obligations during 1981 while the committee and the Congress determine what future action will be taken to address the financing situation of the social security programs.

SUPPLEMENTAL SECURITY INCOME

The supplemental security income program (SSI), administered by the Social Security Administration, provides income assurance for needy, aged, blind, and disabled persons. This program was enacted in 1972 and commenced operations in January of 1974. The program currently provides benefits sufficient to bring the income of an aged, blind, or disabled person up to $238 per month ($357 for an eligible couple). (These amounts are automatically increased each July to reflect cost-of-living changes.) In determining benefits, $20 of monthly income from any source is not counted and additional amounts of income from employment may also be disregarded. In many States these Federal benefit levels are further increased by State-funded supplementary payments.

During the 96th Congress, a major concern of the Committee on Finance in reviewing the SSI program was the disability segment of that program. The full committee hearings in October of 1979 on social security disability programs focused not only on the disability insurance program but also on SSI. The committee found that the SSI program also contained elements which seemed contrary to the goal of encouraging rehabilitation. On the basis of this finding, the committee recommended legislation, which was enacted in the 1980 disability amendments, establishing a 3-year demonstration project to test out an approach to enhancing work incentives under SSI. Under this approach, an individual who has once qualified for SSI disability payments would continue to receive a special cash benefit (subject to the SSI income tests) if he returns to work. In addition, such an individual would retain medicaid and social services eligibility even if his earnings reach a level above the cash benefit eligibility level.

In separate legislation, the committee recommended and Congress enacted a 3-year extension of a special rehabilitation program aimed specifically at disabled children on the SSI rolls. Under this program, up to $30 million per year is made available for the operation of State programs serving disabled SSI children who are under age 7 (or who are above that age but have never been in school).

One major problem identified by the committee relates to the disposal of assets by individuals for the purpose of establishing eligibility for public assistance. In general, public assistance programs are designed to provide income assistance and medical care to those needy individuals who are unable to meet these basic needs from their own resources. The committee found that this objective was being abused in a number of cases. Instead of applying their resources to meeting

their own support needs, certain individuals were giving away substantial assets—generally to close relatives—in order to qualify for cash assistance and medicaid eligibility. As part of its reconciliation recommendations, the committee proposed to modify the eligibility rules so as to end this abuse. As enacted into law, the new rule requires that any asset continue to be counted for a period of two years in determining eligibility for SSI to the extent that it was given away or sold for less than its value. States are authorized to use the same or generally similar rules for medicaid except that disqualification can be longer than two years when very substantial amounts of assets are given away.

During the 96th Congress, the committee also recommended a number of other modifications in the SSI program. One change proposed by the committee and enacted by the Congress is designed to eliminate an abusive situation of prior law under which many aliens immigrated to the United States with expectation of being supported by the SSI program. Under the change in the law, as enacted, such aliens would have to look for support to the individuals who sponsored their entry into the country rather than to the SSI program.

AID TO FAMILIES WITH DEPENDENT CHILDREN

Since 1937, the aid to families with dependent children (AFDC) program has provided public assistance to needy families with children who are deprived of parental support or care by reason of death, incapacity or continued absence from the home of a parent. In addition, beginning in 1961, States were given the option to extend the AFDC program to needy families with children whose fathers were unemployed. The AFDC program is administered by States or by counties under State supervision. The Federal Government matches AFDC costs at rates ranging from 50 to 83 percent. Families who are eligible for AFDC are also eligible for medicaid. States set standards of eligibility and payment subject to broad Federal guidelines.

The 96th Congress approved a number of amendments recommended by the Committee on Finance with a view to improving the operations of the AFDC program. The committee found that the existing rules concerning the determination of grant levels by the States included elements which were contrary to good administrative practice. Under the amendments proposed by the committee, States will be permitted to determine grant levels in a manner which assumes that ineligible members of an AFDC household contribute a reasonable share to the cost of rent and utilities. In addition, the amendments proposed by the committee will eliminate the practice of giving individuals an earned income disregard on the basis of earnings which they improperly failed to report to the welfare agency. During the 96th Congress, the Committee on Finance also proposed (as it had in prior Congresses) a major revision of the general rules concerning the disregarding of earned income; this committee proposal was agreed to by the Senate but did not reach final enactment.

The committee also made recommendations during the 96th Congress directed at improving the administration of the AFDC program. Concern over this issue was reflected in hearings held in November 1979 by the Subcommittee on Public Assistance on the topic of Waste

and Abuse in the Social Security Act Programs and in legislation reported by the committee to encourage the establishment of computerized management information systems for State AFDC programs. This legislation was enacted in June of 1980.

Under existing law, there is a dollar ceiling on Federal matching for costs of cash assistance, administration and social services provided under the programs of aid to families with dependent children and aid to the aged, blind and disabled in the jurisdictions of Puerto Rico, Guam, and the Virgin Islands. Until fiscal 1979, the annual ceiling was $24 million for Puerto Rico, $1.1 million for Guam, and $0.8 million for the Virgin Islands. These limits were in effect since 1972. In addition, these jurisdictions were limited to 50 percent Federal matching, whereas the States may receive from 50 to 83 percent Federal matching, depending on State per capita income.

In the 95th Congress, the committee had recommended a change in the law designed to enable the territories to raise their payment levels for recipients and to improve their services programs. Under this amendment, the Federal matching rate would be raised from 50 to 75 percent and the specific dollar limitations for each jurisdiction would be tripled. While the committee had recommended this as a permanent change in the law, the House of Representatives was willing to accept it only for the one fiscal year 1979. In the 96th Congress, the committee again recommended making this provision permanent and this recommendation became law.

Also during the 96th Congress, the committee continued its general review of the welfare programs and the various options for making structural changes in these programs. In February of 1980, the Subcommittee on Public Assistance received testimony from a number of witnesses on the topic of "How to Think About Welfare Reform in the 1980's."

WORK INCENTIVE PROGRAM

The work incentive (WIN) program was enacted by the Congress in 1967 with the purpose of reducing welfare dependency through the provision of manpower training, job placement and other services. In 1971 the Congress adopted amendments aimed at strengthening the administrative framework of the program and at placing greater emphasis on employment instead of institutional training. Under the 1971 provisions Federal funds pay 90 percent of the costs of the program.

The 1971 amendments also provided for a tax credit to employers who hire WIN participants. This tax credit was expanded in 1976 and 1978.

Under these provisions, employers who hire AFDC recipients who are placed in employment under the WIN program, or who have received AFDC for at least 90 days, are entitled to a credit equal to 50 percent of up to $6,000 of wages per employee for the first year of trade or business employment and 25 percent of such wages for the second year of trade or business employment. An employer's deduction for wages is reduced by the amount of the credit.

Despite an essentially static level of funding, the WIN program has proven remarkably effective in placing welfare recipients in productive employment. The committee determined, however, that its

effectiveness could be enhanced considerably by providing explicit authority for the program to require participants to participate in employment search activities. In addition, the committee was informed that certain individuals were evading the work requirements of the program by repeatedly invoking the 60 day counselling period provisions. The committee recommended, and Congress enacted, legislation dealing with these matters. Under the amendments, the WIN agencies are authorized to require participants, in addition to accepting appropriate training and employment, to engage in other employment related activities, such as job search, subject to certain safeguards. In addition, the Departments of Labor and of Health and Human Services are authorized to establish periods of disqualification for refusal to participate in the WIN program and the former mandatory counselling period is eliminated.

THE CHILD SUPPORT ENFORCEMENT PROGRAM

The child support enforcement program, enacted near the close of the 94th Congress as title IV–D of the Social Security Act, mandates an aggressively administered program at both the Federal and State levels. The program provides for child support services, including support collection and establishment of paternity, for both AFDC and non-AFDC families. It leaves basic responsibility for these activities with the States, but provides for an active role on the part of the Federal Government in monitoring and evaluating State programs, in providing technical assistance and, in certain instances, in undertaking to give direct assistance to the States in locating absent parents and obtaining support payments from them. There is also provision for financial penalties to be imposed on States which, as a result of a Federal audit, are shown not to have an effective child support program.

To assist and oversee the operation of the State program, the Department of Health and Human Services is required to have a separate organizational unit under the direct control of an individual who has been designated by, and reports directly to, the Secretary. In a recent reorganization of the Department, this responsibility was placed with the Commissioner of Social Security. The Office of Child Support Enforcement reviews and approves State plans, evaluates and audits implementation in each State, and provides technical assistance to the States. There is also a legislatively mandated parent locator service within the child support office.

The implementation of the child support program since 1975 has been highly successful in many States. Overall, in fiscal year 1979 States reported collecting a total of $1.3 billion in child support payments, with $600 million being collected in support of AFDC families, and more than $700 million for non-AFDC families. The cost of collecting these payments was $366 million, 75 percent of which was paid by the Federal Government. Between 1978 and 1979 child support collections for both AFDC and non-AFDC families increased by 27 percent. In 1979 the program collected $3.65 for every $1 spent on administration.

The number of AFDC families being served by the child support program has been increasing steadily. This increase is anticipated to

continue. A total of 529,000 families had collections made in their behalf in 1979. It is estimated that the number will increase to 639,000 families in 1981.

Although the child support program was generally recognized as highly successful in achieving its objectives, the Finance Committee in the 96th Congress continued to monitor the program closely and to seek improvements in it. Of particular concern to the committee was the need to assure that the program would continue and improve its services to nonwelfare families inasmuch as a major objective of this program is to prevent welfare dependency by underscoring the principle that primary responsibility for the support of children rests with their own parents and not with the welfare system. The committee sought unsuccessfully during the 95th Congress to obtain House agreement to make permanent a provision of law under which States qualify for Federal matching for the costs of child support enforcement services for nonwelfare families. The committee's recommendations were again approved by the Senate at the start of the 96th Congress but again accepted by the House only on a temporary basis. The committee persisted, however, and finally obtained House agreement to making these provisions permanent as a part of the social and child welfare services legislation which was enacted in June 1980. The committee also recommended (and Congress enacted) legislation giving States the ability to use the facilities of the Internal Revenue Service in enforcing child support for nonwelfare families on the same basis as has been the case for welfare families. This assistance from IRS is available only when States have exhausted all other methods and only subject to several statutory safeguards to assure that this authority is not misused.

The 96th Congress also enacted a number of Finance Committee recommendations designed to strengthen the administration of the child support program generally. As in the case of AFDC, the committee recommended increased Federal matching to encourage the adoption by the States of computerized management information systems. In addition, the committee had determined that a major obstacle to increased child support collections was the inability of the courts to process the necessary judicial actions. To help overcome this problem, the committee recommended an amendment under which Federal matching may now be provided to help meet increased court costs associated with child support enforcement (not including the costs of compensation for judges or other persons making judicial decisions). In addition, legislation proposed by the committee and enacted in the 96th Congress, allows for wage information under the control of the Social Security Administration or under the control of State unemployment compensation agencies to be made available, subject to appropriate safeguards, to child support enforcement agencies to assist them in carrying out their duties.

The original child support legislation provided for annual audits of State child support programs to evaluate their effectiveness and their compliance with the requirements of Federal law. Specific penalties are provided for in the statute in cases where audit deficiencies are discovered. During the 96th Congress, work on these audits for the first years of the program were in the process of being completed. Because of questions which were raised about the appropriateness of

imposing penalties on the basis of these audits, legislation was agreed to postponing the imposition of any penalties until the committee has had an opportunity to review the issue in the 97th Congress.

SOCIAL SERVICES

Under the social services program, Federal matching funds are available on an entitlement basis to assist States in providing a variety of services to welfare recipients and other appropriate individuals. Examples of the types of services available under this program include child care, homemaker services, family planning, information and referral, protective services, and others. In 1972 an overall $2.5 billion annual limit on Federal funding for the social services program was established with each State having a ceiling within this overall limit reflecting its relative share of the total national population.

The social services program was restructured during the 93d Congress under a new title XX of the Social Security Act. The title XX program became effective on October 1, 1975.

The $2.5 billion annual ceiling on Federal funding for social services remained in effect until fiscal year 1977 when it was temporarily increased to $2.7 billion in order to provide additional funding for child care programs. Under subsequent legislation, this temporary additional amount of $200 million for child care services was continued in fiscal year 1978 with a further increase to $2.9 billion for fiscal year 1979. The permanent ceiling level, however, remained at $2.5 billion, and the program would have reverted to this level in fiscal 1980 in the absence of further action. Hearings on this and related matters were held by the Subcommittee on Public Assistance in September 1979 and, in the following month, the Committee on Finance reported legislation providing for a staged increase in the ceiling over a period of years. This legislation was ultimately enacted in June 1980, and, as enacted, provided for a $2.7 billion title XX ceiling in fiscal 1980, increasing to $2.9 billion in 1981, $3.0 billion in 1982, $3.1 billion in 1983, $3.2 billion in 1984, and $3.3 billion in 1985 and thereafter.

The June 1980 legislation also made a number of additional changes in the title XX program including a specific limitation on the previously open-ended authority for Federal matching of training costs, an increase in State flexibility as to the choice of planning periods for the title XX program, and authority to use title XX funds to provide shelter on an emergency basis to adults in danger of neglect or abuse.

A matter of particular concern to the committee was the lapsing at the end of the 95th Congress of authority to use title XX funds in conjunction with the WIN tax credit to encourage child care facilities to employ welfare recipients. This authority was originally enacted in the 94th Congress and a number of States had utilized it to expand the availability of child care while at the same time improving employment opportunities for welfare families. Legislation recommended by the Finance Committee in the 95th Congress to extend and make permanent this provision did not reach enactment. A temporary

extension was enacted under legislation approved by the Senate at the start of the 96th Congress and the provision was made a permanent part of the title XX program in the June 1980 amendments.

Another issue of continuing concern to the committee was the issue of Federal standards for child day care funded under the title XX program. The original title XX legislation had incorporated a modified version of the Federal Interagency Day Care Requirements of 1968, compliance with which had not previously been carefully monitored by the Department of Health and Human Services. Many States believed that compliance with even the modified standards incorporated in the title XX statute would substantially increase the cost of providing child care and require a reduction in the amount of services provided. Consequently, those statutory requirements were suspended on a number of occasions in prior Congresses. At the start of the 96th Congress, no further suspension was in effect inasmuch as the Department was expected to issue a revised set of standards by regulation. The process of issuing these regulations became delayed, however, with the result that the new standards were not promulgated until March 19, 1980. Analyses by the Department itself and by the States indicated that the new regulations could significantly increase the cost of providing child care. In view of concerns that these increased costs could result in reducing the available supply of child care, particularly for low-income families, the committee recommended that a deferral of these standards be included in the budget reconciliation legislation in order to allow some time for congressional review of the implications of the regulations. As enacted, the budget reconciliation legislation includes a deferral of the new child care regulations until July 1, 1981. During the interim, the Department is directed to assist the States in undertaking an assessment of their current-law child care practices.

CHILD WELFARE SERVICES, FOSTER CARE, AND ADOPTIONS

The fundamental purpose of the program of aid to families with dependent children was to encourage the care of dependent children in their own homes or in the homes of relatives. In 1961, however, the program was broadened to permit federally matched assistance payments also for children who had been removed from their homes and placed in foster care in order to give the States an alternative to leaving children in unsuitable homes or caring for them elsewhere without Federal participation in the cost. As of March 1980, about 100,000 children were benefiting from this provision.

The foster care element of the AFDC program was applicable only to children who would have been AFDC recipients if they remained in their own homes, and who had been removed from those homes by court order. Apart from this provision, financial responsibility for foster care and for other services directed at children not in their own homes has remained primarily with State and local governments. Although the original Social Security Act of 1935 provided for some assistance to the States in this area through the program of grants for child welfare services, the level of funding for that program has always been quite small relative to total State and local costs. In fiscal year 1979, for example, States reported total child welfare

service costs of approximately $800 million (of which nearly $600 million was for non-AFDC foster care); the Federal funding provided for that year was $56.5 million.

In the 96th Congress, the Finance Committee completed a review begun in the previous Congress of the incentive structure of these programs. Hearings on proposals related to these programs were held in September 1979 by the Subcommittee on Public Assistance. While the committee found that the programs continued to serve an important purpose, the committee also determined that they were structured in a manner which provided certain undesirable financial incentives. Under the law as it had existed since the 1960's States were entitled on an open-ended basis to Federal matching assistance for any children who could be placed and maintained in AFDC foster care. By contrast, State efforts to provide services to prevent the need for foster care or to place children in adoptive homes would have to be met with State or local funds in view of the size and relationship of Federal and non-Federal funding for these purposes through the child welfare services program.

The Finance Committee recommended legislation enacted in 1980 to modify these incentives in such a way as to encourage, wherever possible, the permanent placement of children either by keeping them in their families or by adoption. The 1980 amendments authorize open-ended Federal matching for adoption assistance payments where States are able, by providing such assistance, to find adoptive homes for hard-to-place children who would otherwise have remained in AFDC foster care. At the same time, the amendments end the open-ended nature of Federal funding for AFDC foster care, establishing an overall limit for Federal funding of this program in fiscal years 1981–84. The amendments also reorganized the child welfare services program with a view towards increased funding of that program; States were encouraged to review the appropriateness of foster care placements, and to facilitate either the return of children to their own home or their adoption.

UNEMPLOYMENT COMPENSATION

Most employment in the United States is covered under the Federal-State unemployment compensation program. Covered workers who become unemployed qualify for benefits under conditions specified by State laws which meet certain general requirements of the Federal statute. Regular State benefits funded from State unemployment taxes are paid usually for a maximum of 26 weeks. In times of high unemployment, up to 13 additional weeks of benefits are available under the Federal-State extended unemployment compensation program. These extended benefits are funded half from State unemployment tax funds and half from the Federal unemployment payroll tax.

The recession of the early 1970's found many State unemployment systems with inadequate reserves to cover the increased cost of unemployment benefits. Under permanent law provisions, these States qualified for substantial interest-free loans from the Federal unemployment trust fund accounts (which, in turn, borrowed from Federal

general revenues). The enactment of legislation easing requirements for Federal-State extended benefits and providing for a special Emergency Unemployment Compensation program further strained the financing of the unemployment compensation program. At the end of the 94th Congress, the Committee on Finance considered and approved legislation aimed at strengthening the financial structure of this program by increasing the applicable Federal tax rate and tax base and by eliminating certain inappropriate practices such as the payment of benefits to illegal aliens and the simultaneous payment of unemployment and retirement benefits. The committee recognized, however, that substantial additional action would be necessary to restore the soundness of the program, and the 1976 legislation provided for the establishment of a National Commission on Unemployment Compensation to examine the program and make recommendations. The final report of this Commission was to be made by the end of the 95th Congress.

During the 95th Congress, it became clear that the National Commission would be unable to meet its January 1, 1979 reporting date, and legislation was enacted extending the deadline for its final report to July 1, 1979. Legislation was also enacted in the 95th Congress allowing those States with outstanding loans additional time for repayment.

At the start of the 96th Congress, it was again clear that the National Commission would be unable to meet its revised reporting date of July 1, 1979. Legislation was passed by the House of Representatives to extend this date and hearings on this legislation were held by the Subcommittee on Unemployment and Related Problems in September 1979. The committee subsequently approved legislation which extended the final reporting date for the Commission to July 1, 1979.

Although the Commission appointed under the 1976 amendments was unable to provide its recommendations by the start of the 96th Congress, the committee felt that action on the program could not wait on that report in view of the need to reduce the Federal budget by eliminating wasteful or unnecessary expenditures and in view of the need to strengthen the financial condition of the unemployment program. In October of 1979, the Subcommittee on Unemployment and Related Problems held a hearing on proposals for reducing the cost of Federal/State unemployment compensation programs.

On the basis of these hearings, a number of changes were identified which would improve the unemployment compensation program by eliminating low priority or inappropriate benefits. Some of these changes were recommended by the committee in legislation responding to the reconciliation mandate in the second Congressional Budget Resolution for 1980 as described earlier in this document. However, although the Senate approved the committee's recommendations, the House was unwilling to consider them in that context. In 1980, however, a formal budget reconciliation process was adopted by the Congress and, in that process, the committee again recommended a number of cost-saving changes to the unemployment program.

The changes recommended by the committee which were enacted by the 96th Congress include elimination of Federal matching for the

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first week of extended benefits in the case of any State which pays regular benefits for the first week of unemployment (unlike most States which require claimants to satisfy a waiting week period before benefits begin). Another provision limits the payment of extended benefits to a 2-week period after an individual moves from a State where the extended benefit program is in effect to another State where, because of lower levels of unemployment, the program is not in effect. The amendments enacted in the 96th Congress would also deny Federal matching for extended benefits to individuals who refuse to seek out and accept any reasonable job opportunities or who have been previously disqualified by the State because their unemployment results from voluntary quitting, discharge for misconduct, or refusal of suitable work. The committee also recommended that Federal agencies assume individual budgetary responsibility for the costs of unemployment benefits to their former employees and that the minimum period of service required to qualify for unemployment benefits on the basis of military service be increased from 90 days to one year. These recommendations were also enacted into law.

The Committee on Finance identified three additional areas in which significant cost savings could be achieved in the Federal-State extended unemployment benefits program. Under one of these proposals, benefits in that program could not be paid with Federal matching to an individual unless he had substantial covered employment, generally 20 weeks of work in his unemployment base period. A second proposal would allow States greater flexibility as to the optional State trigger for commencing the program on the basis of State insured unemployment rates. The third proposal would have eliminated the national trigger; in other words, benefits for persons who had exhausted their regular State benefit duration would have been payable only in those States where the need for such benefits was demonstrated by a high level of insured unemployment within the State. These three additional items were approved by the Senate, but agreement on them could not be obtained in the House-Senate conference.

During the 96th Congress, the Committee on Finance also reviewed the impact of a proposal adopted in the 94th Congress providing for a reduction in unemployment benefits in any case where an individual concurrently received a public or private pension payment. The committee recommended, and Congress adopted, modifications to this provision which would permit States to impose a less than dollar-for-dollar reduction to take into account employee contributions to the pension and to impose no reduction in cases where the pension was based entirely on prior employment having no relationship to the recent employment on which the unemployment benefits were computed.

During the 96th Congress, the committee also reviewed the status of outstanding loans from the Federal loan account in the Unemployment Trust Fund to the accounts of several States. As of October 1980, outstanding loans totalled $4.8 billion and employers in many of those States faced automatic increases in the Federal Unemployment Tax rate to begin recouping those loans. Under existing law, these tax rates escalate by at least 0.3 percent each year until the loan has been recouped or the maximum rate of 3.4 percent is reached (compared with the generally applicable Federal Unemployment Tax rate of 0.7 percent). In April 1980 the Subcommittee on Unemployment and Related

Problems held hearings on this situation and, on the basis of the information developed at that hearing, the committee reported to the Senate legislation to deal with the problem. Under the committee's recommendations, States with outstanding loans would be able to qualify for a cap on the increased Federal tax rate at a maximum of 0.6 percent above the standard rate of 0.7 percent (or, if larger, the rate in effect for the prior year). To qualify for this cap, States would have to fully fund any new benefit changes and would have to maintain at least their existing State unemployment tax effort. Except in years where the State experiences a severe recessionary economy, the cap would be available only if the State also avoided any net increase in its borrowing. The proposal recommended by the committee was approved by the Senate as an amendment to another bill. However, final action on this legislation was not completed prior to the adjournment of the 96th Congress.

MEDICARE AND MEDICAID

During the 96th Congress, the Committee on Finance continued its active involvement in health care financing legislation and program oversight activities. The Subcommittee on Health held hearings on a wide range of issues including health cost containment, home health care, health assistance for low-income children, uniform hospital reporting, professional standards review, health care competition, and fraud and abuse. A field hearing on health services to older Americans was also held by the subcommittee. In addition, the full committee held 5 days of hearings on national health insurance proposals.

In preparation for consideration of health care financing matters, the committee prepared and published numerous documents including background materials and data relating to health care cost containment, medicare and medicaid reform, health care programs for mothers and children, and health insurance.

Activities relating to the consideration of catastrophic health insurance and medical assistance reform proposals dominated much of the committee's time in the health area during the 96th Congress. Meeting 25 times in markup sessions, the committee approved elements of an employer based catastrophic health insurance program for workers and their dependents, along with changes in the Medicare program that would provide the aged with catastrophic coverage.

Under the general concept and approach of the committee-approved plan, employers would be required to provide workers and their families with qualified catastrophic health insurance coverage. The plan would also assist others, including the self-employed, in the purchase of qualified catastrophic coverage. With respect to Medicare, the committee plan would establish a catastrophic expense limit for covered services and cover the costs of certain prescription drugs for beneficiaries who reach the catastrophic expense limit.

Due to the consideration of other legislative matters, the committee did not complete action on the health insurance plan.

In support of efforts to reduce spending as required by the reconciliations process in the congressional budget resolution, the committee included 17 health savings provisions touching nearly every aspect of the medicare and medicaid programs. While some of these reductions were not agreed to by the House, significant reductions were included in the

final measure, the Omnibus Reconciliation Act of 1980, signed into law on December 5, 1980. This legislation included health savings totaling $2¼ billion over fiscal years 1981 through 1985.

Many of the cost savings items in the reconciliation act were gleaned from H.R. 934, the Medicare-Medicaid Administrative and Reimbursement Reform Act of 1980, which had previously been reported by the committee on December 10, 1979.

In other committee legislative action, S. 1204, the Child Health Care Assessment Act of 1979 and Medicaid funding for the Territories was reported on July 30, 1979. Neither H.R. 934 nor S. 1204 was acted on by the Senate prior to the end of the 96th Congress.

Committee Publications Related to Social Security Act Programs

Staff Data and Materials on State Social Security Deposits (January 1979);

Background Materials Relating to S. 505 and Other Health Care Cost Containment Proposals (March 1979);

Staff Data and Materials on Child Support (March 1979);

Materials Relating to Health Care Cost Containment and Other Proposals (March 1979);

Proposals for Medicare-Medicaid Reform and Overall Hospital Revenues Limitation (April 1979);

Existing Federal Programs Providing or Financing Health Care for Mothers and Children (June 1979);

Health Insurance: Description in Bills Pending in Committee and the Administration Proposal (June 1979);

Summary and Comparison of Principal Features of Health Insurance Proposals (June 1979);

Health Insurance Proposals (June 1979);

Summary of Senate Finance Committee Action on Health Legislation as of June 29, 1979 (July 1979);

Staff Data and Materials Relating to Trade Adjustment Assistance Program (July 1979);

Issues Related to Social Security Act Disability Programs (July 1979);

Staff Data and Materials Relating to the Unemployment Compensation Program (August 1979);

Staff Data and Materials Relating to Social and Child Welfare Services (September 1979);

Statistical Data Related to Public Assistance Programs (February 1980);

Staff Data and Materials Related to Social Security Financing (February 1980);

Staff Data and Materials Related to Social Security Retirement Test (April 1980); and

The Social Security Act and Related Laws (November 1980).

Legislative Review of International Trade

During the 96th Congress, the committee acted on the Trade Agreements Act of 1979, legislation to approve and implement the results of the Multilateral Trade Negotiations (MTN) in Geneva, Switzer-

land. The President notified the Congress of his intention to enter into trade agreements resulting from the MTN on January 4, 1979. This began a period of formal consultations with congressional committees on the proposed agreements and on the domestic implementation of those agreements under sections 102 and 151 of the Trade Act of 1974. In carrying out the consultations, the Subcommittee on International Trade held hearings on implementation of the MTN agreements on February 21 and 22, 1979. Following these hearings, the committee met with appropriate representatives of the Administration on March 6, 7, 8, 15, and 26, 1979; April 4 and 5, 1979; and May 2 and 3, 1979. These meetings resulted in recommendations by the committee to the President on the implementation of the MTN agreements. On May 21, 22, and 23, 1979, the committee met with the House Ways and Means Committee to resolve differences between their respective MTN implementing recommendations. A bill (H.R. 4537), which was consistent with the committee's recommendations and which was to become the Trade Agreements Act of 1979, was submitted to Congress in June 1979. Following hearings by the Subcommittee on International Trade on July 10 and 11, 1979, the committee favorably reported the legislation on July 17, 1979. Following passage by the House of Representatives, the Senate passed the Trade Agreements Act on July 26, 1979, by a vote of 90 to 4, and it became Public Law 96–39.

Legislatively, the principal activities of the committee on international trade matters during the 96th Congress, other than considerations of the Trade Agreements Act of 1979, including the following:

(1) H. Con. Res. 204, to extend most-favored-nation (MFN) trade treatment to the products of the People's Republic of China (PRC). This resolution was adopted by the Congress, and effective February 1, 1980, the PRC received MFN treatment.

(2) H.R. 1147, to extend temporarily the authority of the Secretary of the Treasury to waive the imposition of countervailing duties. The Secretary of the Treasury previously had waiver authority under the terms of the Trade Act of 1974, but it expired in 1978 so an extension was necessary in order to permit the successful conclusion of the Multilateral Trade Negotiations, and specifically the negotiation of a countervailing duty agreement. This act became Public Law 96–6.

(3) H.R. 2727, an act to modify the method of establishing quotas on the importation of certain meat, including beef. This act, known as the Meat Import Act of 1979, changed the existing meat import quota system to a countercyclical approach which would result in increased imports during periods of short supply and decreased imports during periods of over supply of beef. The act became Public Law 96–177.

(4) H.R. 6029, an act to implement the International Sugar Agreement of 1977. The act authorized the President to undertake actions necessary to carry out the obligations of the United States under the International Sugar Agreement of 1977. The act became Public Law 96–236.

(5) H.R. 3637, an act to implement for the United States the International Coffee Agreement of 1977. The act authorized the President to take actions necessary to carry out the obligations of the United States under the agreement. The act became Public Law 96–599.

(6) H.R. 7942, an act to implement for the United States the Protocol to the MTN Customs Valuation Agreement. The Protocol provided incentives for less developed countries to sign the agreement. The act made necessary changes to the U.S. Customs Valuation law to carry out U.S. obligations under the Protocol. The act became Public Law 96–460.

Another significant action of the committee during the 96th Congress was the favorable reporting of S.J. Res. 159, a resolution disapproving the imposition by the President of fees on the importation of crude oil and gasoline. The President had imposed a fee on imports of crude oil and gasoline which would have been passed through by a regulation as an increase in the price of gasoline of about 10 cents per gallon. Although S.J. Res. 159 was not finally acted upon by the Senate, the substance of it was added as an amendment to an act providing for an increase in the public debt limit (H.R. 7428), which was enacted when the President's veto of this act was overridden by the Congress.

The committee also reported favorably H.J. Res. 598, a resolution authorizing the President to negotiate restraints on imports of automobiles into the United States. The resolution was not passed by the Congress.

The committee considered the nominations of various officials with direct responsibilities in the area of international trade. The individuals whose nominations were considered are shown in the list of committee hearings on pages 35 and 36.

Subcommittee on International Trade

The Subcommittee on International Trade had the primary responsibility for vigorous oversight of trade negotiations and trade agreements to which the United States is a party. In addition, the subcommittee held hearings on numerous trade matters during the 96th Congress. The hearings included the following:

(1) On March 19, 1979, the subcommittee held a hearing on the extension of the countervailing duty waiver authority (H.R. 1147). As previously described, this act became Public Law 96–6.

(2) On April 23, 1979, the subcommittee held hearings on the authorization of appropriations for the U.S. International Trade Commission and the U.S. Customs Service for fiscal year 1980 (S. 1132). This act was favorably reported by the committee, but no action was taken on it during the 96th Congress. On March 13, 1980, the subcommittee held hearings on the authorization of appropriations for the U.S. International Trade Commission, U.S. Customs Service, and U.S. Trade Representative for fiscal year 1981 (S. 2697). This bill was favorably reported by the committee and passed the Senate, but was not acted on by the House.

(3) On February 21 and 22, 1979, and July 10 and 11, 1979, hearings were held on the implementation of the Multilateral Trade Negotiations and the Trade Agreements Act of 1979 (H.R. 4537). The Trade Agreements Act of 1979 was signed into law on July 26, 1979, as Public Law 96–39.

(4) On June 6 and October 1, 1979, the subcommittee held hearings on North American Economic Interdependence. The purpose of

these hearings was to examine ways of increasing economic cooperation between the interdependent countries of North America (including the United States, Canada, and Mexico).

(5) On July 9, 1979, the subcommittee held hearings on amendments to the trade adjustment assistance program of the Trade Act of 1974. Subsequent to these hearings, the committee approved an act (H.R. 1543) which would have broadened the coverage of workers in firms eligible for adjustment assistance benefits, liberalized benefits for workers and firms, and accelerated the certification process for eligible benefits. The Senate did not act on this bill.

(6) On July 19, 1979, and July 21, 1980, the subcommittee held hearings on continuing the President's authority to waive the Trade Act freedom of emigration provisions. Subsequent to each of these hearings, the committee agreed to permit the continuation of the President's waiver authority for an additional year, thereby continuing MFN treatment for both Hungary and Romania for the period July 3, 1979, through July 2, 1980, and continuing MFN treatment for Hungary, Romania, and the People's Republic of China for the period July 3, 1980, through July 2, 1981.

(7) On September 26, 1979, the subcommittee held hearings on proposed amendments to the Meat Import Quota Act. As indicated above, H.R. 2727, the Meat Import Act of 1979, became Public Law 96–177.

(8) On November 15, 1979, the subcommittee held hearings on the agreement on trade relations between the United States and the People's Republic of China, which would extend most-favored-nation treatment to the People's Republic of China (S. Con. Res. 47; H. Con. Res. 204). As indicated above, H. Con. Res. 204 was passed by the Senate, enabling the People's Republic of China to receive most-favored-nation trade treatment.

(9) On February 5, and September 9, 1980, the subcommittee held hearings on miscellaneous tariff bills. Those bills approved by the committee were combined into two bills, H.R. 3122 and H.R. 5047. and were reported favorably by the committee. Both these bills were enacted into law in the 96th Congress (Public Laws 96–46 and 96–609, respectively).

(10) On March 11, 1980, the subcommittee held hearings on possible amendments (title V of S. 223) to the so-called 1916 Antidumping Act. No further action was taken on this matter.

(11) On April 2, 1980, the subcommittee held hearings on the Protocol to the MTN Customs Valuation Agreement. As indicated above, this Protocol was approved and implemented in U.S. law as Public Law 96–460.

(12) On April 25 and 26, 1980, the Subcommittee on International Trade cosponsored a conference at Harvard University on U.S. competitiveness. The conference brought together business, government, labor, and academic leaders to discuss the causes and solutions to problems in U.S. competitiveness. The consensus of the conference and the proceedings of the conference are contained in Committee Print 96–38.

(13) On July 28, August 1, September 10, December 5, and December 9, 1980, the subcommittee held a series of hearings directed

at developing information on international economic and trade challenges facing the United States. The series of hearings is intended to serve as a basis for Congress developing an international trade strategy for the United States.

(14) On August 19, 1980, the subcommittee held a hearing on S. Con. Res. 108, a resolution to disapprove the President's decision not to provide import relief to the domestic industry producing certain leather coats and jackets. Enactment of such a resolution would have required the President to impose restraints on imports of leather wearing apparel. The committee favorably reported the resolution, and it passed the Senate, but it failed to pass the House.

(15) On September 9, 1980, the subcommittee held a hearing on the unpaid claims of U.S. citizens against the Government of Czechoslovakia. Several bills involving this matter had been introduced (S. 2721, H.R. 7338) which would have seized gold allocated to Czechoslovakia by the Tripartite Commission for the Restitution of Monetary Gold under the Paris Reparations Agreement of 1946, sold it, invested it, and used the proceeds to pay the certified claims of U.S. citizens against Czechoslovakia. No additional action was taken on this matter by the committee.

(16) On November 25, 1980, the subcommittee held a hearing on the President's Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences and on proposals to modify the program. Several bills (S. 3165 and S. 3201) were introduced to amend the Generalized System of Preferences. No additional action was taken on this matter by the committee.

Legislative Review of Internal Revenue Laws

During the 96th Congress the Committee on Finance was extensively involved in examining and revising the Federal tax laws. Five subcommittees with legislative review responsibilities involving tax matters examined a number of different areas of the Federal tax laws. Those subcommittees were the Subcommittee on Taxation and Debt Management Generally, the Subcommittee on Energy and Foundations, the Subcommittee on Private Pension Plans and Employee Fringe Benefits, the Subcommittee on Tourism and Sugar, and the Subcommittee on Oversight of the Internal Revenue Service.

CRUDE OIL WINDFALL PROFIT TAX ACT OF 1980

During the 96th Congress, the Committee on Finance spent a great amount of time working on the Crude Oil Windfall Profit Tax Act of 1980. It imposed a tax on domestically produced crude oil, provided tax incentives to encourage energy conservation and production of alternative energy sources, and provided energy assistance to low-income persons. The Act was signed into law on April 2, 1980.

Windfall Profit Tax

The windfall profit tax is a temporary excise, or severance, tax applying to taxable crude oil produced in the United States according to its classification in one of three tiers. Essentially, the tax structure is the same for the three tiers except that each tier has a different base

price above which price increases are subject to tax and a different rate. The tax equals the tax rate times the windfall profit. The windfall profit is defined as the difference between the actual selling price of the oil and its base price (with a deduction for severance taxes on the windfall profit).

Certain kinds of producers and certain kinds of oil are exempt from tax entirely. Up to 1,000 barrels per day of flowing oil produced by independent producers are eligible for a reduced tax rate.

For oil in tier one, the tax is 70 percent of the difference between the actual selling price of the oil and its May 1979 upper tier ceiling price (which averaged $13.02 per barrel) less $0.21, adjusted for inflation.

The tier one tax applies to all oil that would have been controlled as lower or upper tier oil if the pre-June 1979 price controls had remained in effect (generally, oil discovered prior to 1979), including production from the Sadlerochit reservoir on the Alaskan North Slope. This tier does not include (1) oil from stripper well properties, (2) oil in which the U.S. has an economic interest and which is produced from a National Petroleum Reserve, (3) most oil deregulated as front-end financing for tertiary recovery projects, (4) newly discovered oil, (5) certain heavy oil, or (6) incremental tertiary oil. Generally, these categories of oil are taxed in another tier.

The tier two tax is 60 percent of the difference between the actual selling price of the oil and $15.20, adjusted for inflation and for differences in quality and location. Tier two oil includes production from stripper well properties and oil produced from a National Petroleum Reserve in which the U.S. has an economic interest. Oil produced from the Sadlerochit reservoir on Prudhoe Bay is taxed like other upper tier oil, i.e., at a 70-percent rate on price increases above the May 1979 upper tier ceiling price, less $0.21, adjusted for inflation. The base price for Sadlerochit oil, however, is adjusted upward to reflect, decreases in the Trans-Alaska Pipeline System (TAPS) tariff below $6.26.

Other oil produced north of the Arctic Circle is exempt from the tax, as is any oil produced from a well located north of the Alaskan-Aleutian mountain range and more than 75 miles from the Alaska pipeline. Oil that DOE releases from price controls, under its August 1979 regulations, to finance investments in tertiary recovery projects is exempt from the windfall profit tax if the project is controlled by producers who are not integrated oil companies. Also, tax refunds are available for the tax paid on front-end tertiary oil for projects controlled by integrated oil companies to the extent the producers of the front-end tertiary oil incur qualifying expenditures in excess of the amount recouped under the front-end program.

This tax treatment of front-end tertiary oil applies only with respect to oil which could not have been released from price controls under any other provision, and it terminates on September 30, 1981.

Tier three oil consists of taxable production which is (1) newly discovered oil, (2) certain heavy oil, or (3) incremental tertiary oil. Under the conference agreement, oil in this tier is subject to a 30 percent tax on the difference between the actual selling price of the oil and $16.55, adjusted for inflation plus 2 percent and for differences in quality and location.

Independent producers are allowed reduced tax rates on so much of their combined production of tier one and tier two oil as does not exceed 1,000 barrels a day. If an independent producer's daily production of tier one and tier two oil exceeds 1,000 barrels, the reduced rates apply ratably to each of these categories of oil (but not in excess of a total of 1,000 barrels a day). For tier one oil the special rate is 50, rather than 70, percent; for tier two oil the rate is 30, rather than 60, percent. These reduced rates apply only with respect to working interests which were held on January 1, 1980, and do not apply to integrated oil companies, or to owners of royalty or similar interests. The reduced rates are not available for production from properties transferred after 1979 if the transferor is an integrated oil company, a royalty owner, or a producer whose production at any time between 1979 and the date of the transfer exceeded 1,000 barrels a day.

A producer and a controlled corporation must share one 1,000-barrel quantity. Owners of overriding royalties may qualify for reduced rates only from the time that such interests convert into working interests pursuant to contracts in existence on February 20, 1980. In the case of partnerships, the reduced rates are computed on the partner level.

Oil produced for the benefit of Indian tribes, State and local governments and medical and educational charities is exempt from the tax.

The tax will phase out over a 33-month period starting in January 1988 or 1 month after the month for which Secretary of the Treasury estimates that $227.3 billion has been raised by the tax, whichever occurs later. However, even if $227.3 billion has not been raised, the phaseout will begin on January 1, 1991.

Residential Energy Tax Credits

Prior to the Crude Oil Windfall Profit Tax Act of 1980, a 15-percent home insulation credit was available on the first $2,000 of qualifying expenditures, for a maximum credit of $300. It was available for installations made after April 19, 1977, and before January 1, 1986, with respect to a taxpayer's principal residence, if the residence was substantially completed before April 20, 1977. The credit was allowed on expenditures to install insulation and several other specific kinds of energy conserving property.

A residential solar energy credit was allowed for 30 percent of the first $2,000 and 20 percent of the next $8,000 of expenditures, for a maximum credit of $2,200, for installations of solar, wind or geothermal energy property in connection with a principal residence. This credit applied to expenditures made after April 19, 1977, and before January 1, 1986, for both existing and new residences. Eligible property included solar and geothermal property to heat, cool or provide hot water to a dwelling or to use wind energy for residential purposes.

In addition, the Secretary of Treasury could add specific items to the lists of qualified property for both of the residential credits.

The act increased the tax credit for expenditures made for residential solar, wind and geothermal property to 40 percent of the first $10,000 of expenditures. It also reduced qualified expenditures and the limits on qualifying expenditures per dwelling for the residential credits to the extent that the property is financed with grants or sub-

sidized energy loans. That act also clarified that, in cases of joint ownership of qualifying property, the credits are available separately for the expenditures made by each taxpayer.

The list of equipment eligible for the residential solar tax credit was expanded to include equipment to generate electricity from solar or geothermal energy, costs of drilling an onsite geothermal well, and a limited category of structural components of a dwelling.

Business Energy Tax Incentives

The Crude Oil Windfall Profit Tax Act of 1980 provided for a number of business energy tax incentives, the principal ones of which were:

(1) An increase to 15 percent and extension through 1985 for the energy investment credit for solar, wind and geothermal equipment, as well as extension of the solar credit to equipment used to provide process heat.

(2) A 15-percent energy credit for certain ocean thermal equipment.

(3) An 11-percent energy credit for small-scale hydroelectric equipment.

(4) A 10-percent energy credit for cogeneration equipment not fueled by oil or gas.

(5) Specific standards which the Secretary of the Treasury will use in exercising the existing authority to add items to the list of property eligible for the business energy credits.

(6) Restoration of the regular investment credit and accelerated depreciation to boilers using petroleum coke and pitch.

(7) A 10-percent energy credit for coke ovens.

(8) Extension through 1985 of the energy credit for certain biomass and gasohol equipment.

(9) A 10-percent energy credit for certain intercity buses.

(10) A transition rule for energy credits expiring in 1982 to allow those credits through 1990 where affirmative commitments have been made.

(11) A $3 per barrel credit for the production of various alternative energy sources.

(12) Extension through 1992 of the excise tax exemption for gasohol, along with various other tax incentives for gasohol.

(13) Tax exemption for industrial development bonds used to finance small-scale hydroelectric equipment, certain solid waste disposal facilities, and certain renewable energy programs.

(14) Expensing of injectants used in tertiary oil recovery.

Low-Income Energy Assistance

The act authorized $3.115 billion for fiscal year 1981 for a program of block grants to the States to provide assistance to lower-income families for heating and cooling costs.

For fiscal year 1982 and subsequent years 25-percent of the windfall profit tax revenues will be allocated for low income assistance. This amount will be divided equally between a program to assist AFDC and SSI recipients under the Social Security Act and a program of emergency energy assistance.

Repeal of Carryover Basis, Interest and Dividend Exclusion and Other Miscellaneous Provisions

The Crude Oil Windfall Profit Tax Act of 1980 also made four changes to the tax laws which were unrelated to windfall profits. Prior to the Tax Reform Act of 1976, the basis of property acquired from a decedent was the fair market value of the property on the date of the decedent's death. The Tax Reform Act of 1976 provided that the basis of property acquired from a decedent was to be it's basis in the hands of the decedent with certain adjustments. The Crude Oil Windfall Profit Tax Act of 1980 repealed this change made by the 1976 Reform Act.

The act also increased the amount of the existing exclusion for dividends from $100 to $200 (from $200 to $400 for joint returns) and broadened the exclusion to apply to certain types of interest received by individuals from domestic sources. Eligible interest includes (1) interest received from a bank; (2) interest paid by a thrift institution on deposits or other amounts which are insured under Federal or State law or protected or guaranteed under State law; (3) interest on certain types of corporate debt; (4) interest paid by the United States or by a State or local government which is not already excluded from gross income; and (5) interest attributable to a participation share in a trust established and maintained by a corporation established pursuant to Federal law.

The act also made two changes relating to LIFO Accounting rules.

COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION AND LIABILITY ACT OF 1980

During the 96th Congress, the Finance Committee, as well as other committees of Congress, turned its attention to the growing problem of chemical spills and inactive waste site releases. Often when a spill or release occurs, the responsible party is either not available, or is financially unable, to immediately deal with the problem of containing the damage.

The act established a Hazardous Substance Response Trust Fund, financed from appropriations (one-eighth) and from excise taxes on oil, petrochemical feedstocks and specified inorganic substances (seven-eighths). The rates of the excise taxes were established so as to provide $1.38 billion to be raised over 5 years. Financing the Fund primarily from taxes paid by industry was considered the most equitable and rational method of broadly spreading the costs of past, present and future releases of hazardous substances among all those industrial sectors and consumers who benefit from such substances. The concept of a fund financed largely by appropriations was not adopted.

The tax system was adopted after extensive investigation of alternatives. This tax system provides the best balance of equity, rapid implementation, legal defensibility, administrative simplicity, and a minimum of any adverse economic and environmental impacts. The taxes are imposed at the beginning of the commercial chain of production, distribution, consumption, and disposal of hazardous substances. The tax is assessed on substances which are either hazardous themselves or are the basic building blocks (primary petrochemicals, inorganic

raw materials and petroleum oil) used to make almost all major hazardous substances. Exemptions from the tax were provided for certain substances used in the production of fertilizers as well as for methane and butane unless they are used other than as a fuel.

Eighty-five percent of the excise taxes and appropriations paid into the Trust Fund are to be reserved for response costs, related costs, and repayment of any borrowed monies. The remaining 15 percent is to be available for payment of claims for damages to natural resources. If such claims against the Fund exceed the balance available for payment of those claims, then claims shall be paid in full in the order in which they were received. Unpaid claims would be deferred until funds become available.

The act also established a separate Post-Closure Liability Trust Fund. The fund could assume completely the liability of owners and operators of hazardous waste disposal facilities granted permits and properly closed. The fund could pay for monitoring and maintaining such closed sites and assume liability for all damages and response costs of such sites only if certain requirements were met. The Post-Closure Liability Fund would be financed primarily by a tax of $2.13 per dry weight ton of hazardous waste which will remain at the hazardous waste disposal facility after closure.

INSTALLMENT SALES REVISION ACT OF 1980

One of the major areas of concern to the Finance Committee during the 96th Congress was the problem of the growing complexity of the tax law. The committee took an important step in the direction of simplification when it considered, and took action on the installment sales provisions of the law. The act simplified the law by making a number of changes including the following:

(1) It made structural improvements such as putting the basic rules for nondealer transactions in one section and the rules for dealer transactions in another section.

(2) It eliminated the requirement that no more than 30 percent of the selling price be received in the taxable year of sale to qualify for installment sale reporting for gains from sales of realty and nondealer personal property.

(3) It eliminated the requirement that a deferred payment sale be for two or more payments. Thus, a sale will be eligible for installment reporting even if the purchase price is to be paid in a single lump-sum amount in a year subsequent to the taxable year in which the sale is made.

(4) It eliminated the requirement that the selling price for casual sales of personal property must exceed $1,000 to qualify for installment sale reporting.

(5) It eliminated the present law requirement that the installment method must be elected for reporting gains from sales of realty and nondealer personal property. Instead, the provision will automatically apply to a qualified sale unless the taxpayer elects not to have the provision apply with respect to a deferred payment sale.

(6) It provided special rules for situations involving installment sales of depreciable property between a taxpayer and his spouse or certain 80-percent owned corporations or partnerships.

BANKRUPTCY TAX ACT OF 1980

In 1978, the 95th Congress enacted legislation (Public Law 95–598) which significantly revised and modernized the substantive law of bankruptcy as well as bankruptcy court procedures. Public Law 95–598 repealed the Bankruptcy Act and substituted a new title 11 in the U.S. Code, completely replacing the former provisions. It therefore became important to complete the process by revising and updating the tax aspects of bankruptcy and related tax issues. In the 96th Congress, the Finance Committee did consider and make these revisions in the Bankruptcy Tax Act of 1980.

The act provided that no amount would be included in income for Federal income tax purposes by reason of a discharge of indebtedness in a bankruptcy case, or outside bankruptcy if the debtor is insolvent. Instead, the amount of discharged debt which would be excluded from gross income by virtue of the bill's provisions (the "debt discharge amount") would be applied to reduce certain tax attributes.

It also modified the existing Federal income tax election under which a solvent taxpayer outside bankruptcy may elect to reduce basis of assets instead of recognizing current income from debt cancellation. It provided that the election to reduce basis allowed to the solvent debtor outside bankruptcy would require reduction in basis of depreciable assets.

The act also provided rules relating to discharge of indebtedness of corporate debtors (whether or not in a bankruptcy case) in order to better coordinate the treatment of discharged debt at the corporate level with treatment at the creditor level.

RECONCILIATION TAX PROVISIONS

The First Concurrent Resolution on the Budget for fiscal year 1981 directed the tax writing committees of Congress to recommend ways to increase Federal revenues by 4.2 billion dollars. In compliance with this mandate, the Finance Committee recommended a number of amendments which were included in the Omnibus Reconciliation Act of 1980, as enacted.

Under prior law, corporations generally were required to pay 80 percent of their current year's tax liability in quarterly estimated tax payments during the taxable year. However, corporations were exempt from the penalty for underpayment of estimated tax if their estimated tax payments equaled 100 percent of their prior year's tax liability.

The Reconciliation Act provided in general that corporations whose taxable income exceeded $1 million in any of the three preceding taxable years would be required to pay estimated tax of at least 60 percent of current year's tax liability regardless of their prior year's tax liability.

The act also contained provisions which would subject nonresident aliens and foreign corporations to tax on the disposition of U.S. real property. This corrected what was considered to be an inequity in the law.

The act also contained provisions relating to the telephone excise tax and to the inclusion in wages for social security and unemploy-

ment tax purposes of amounts paid by employers to satisfy their employees' social security tax liability.

As enacted, the reconciliation legislation also included a provision designed to direct the use of tax exempt bonds for owner occupied housing to those individuals who have the greatest need for the subsidy. It set forth a number of requirements which must be met before the interest on such bonds can be tax exempt.

The Senate Finance Committee was also concerned about the effect of the windfall profit tax on small royalty owners. As a result, the act provided royalty owners with a credit or refund of up to $1,000 against the windfall profit tax imposed on the removal of their royalty oil during calendar year 1980. The credit is available only to individuals, estates, and family farm corporations and not to other corporations or to trusts. In the case of a family, the husband and wife and their minor children are treated as one taxpayer for purposes of the $1,000 limit on the credit. A qualified family farm corporation that is eligible for the credit is one which (1) was in existence on June 25, 1980, (2) all of the outstanding stock of which was held by members of the same family at all times between July 24, 1980 and January 1, 1981, and (3) 80 percent of the assets of which was used for farming purposes.

TAX REDUCTION ACT OF 1980 (NOT ENACTED)

On June 26, 1980, the Senate referred to the Finance Committee S. Res. 481 which was cosponsored by 48 Senators. That resolution provided that the Finance Committee should study and report on a tax reduction program. The committee held 7 days of hearings in late July to take testimony from the administration and other interested persons. In August, the committee met for several days to develop a tax bill that was in conformity with the provisions of S. Res. 481. The bill the committee reported out on September 15, 1980 (H.R. 5829) would have reduced individual income taxes by 11 billion dollars in FY 1981, and would have provided capital formation and productivity tax reductions of 7.2 billion dollars for the same period. However, H.R. 5829 was not considered by the Senate prior to the conclusion of the 96th Congress.

The principal provisions of the bill included:

1. A reduction in individual income tax rates of between one and three percentage points, including a reduction in the bottom rate from 14 to 12 percent and a reduction in the top rate from 70 to 67 percent.
2. An increase in the personal exemption from $1,000 to $1,100.
3. An increase in the zero bracket amount (which replaced the standard deduction in 1977) by $100 for single persons and $200 for married couples.
4. An increase in the earned income tax credit.
5. Relief from the marriage tax penalty through a new deduction for two-earner married couples equal to 10 percent of the earnings of the spouse with the lower amount of earnings.
6. A revision of depreciation rules, which both simplified and liberalized depreciation.
7. A reduction in the top corporate income tax rate from 46 percent to 44 percent.

8. Cuts in corporate income tax rates in lower tax brackets, which would primarily help small businesses.

9. A series of tax changes designed to simplify and reduce taxes on small businesses.

10. A 25-percent tax credit for expenditures on research and experimental expenditures in excess of base period levels.

11. A wage-based tax credit for employer contributions to employee stock ownership plans as an alternative to the present extra investment credit.

12. Introduction of limited employee retirement accounts for persons participating in qualified pension plans and increases in the limits on deductions for contributions to individual retirement accounts.

13. An increase in the percentage of long-term capital gains excluded from taxable income from 60 percent to 70 percent, which will reduce the maximum capital gains rate from 28 to 20.1 percent, and a cut in the corporate capital gains tax rate from 28 to 20 percent.

14. Liberalization of the exclusion for income earned abroad.

TECHNICAL CORRECTIONS ACT OF 1979

The Revenue Act of 1978 was one of the most comprehensive revisions of the tax laws since 1954. That act contained 8 titles and over 100 provisions touching on almost every area of tax policy. It is not surprising therefore that as time permitted a thorough review of this major act, the need for numerous technical, clerical and clarifying changes became evident.

Several changes were made in the area of employee stock ownership plans. These changes represented a fine tuning of the amendments enacted in the Revenue Act of 1978.

The at risk rules were clarified to deal with equipment leasing by closely held corporations.

The Technical Corrections Act of 1979 also made amendments to the Foreign Earned Income Act of 1978. For instance, it amended the law to permit taxpayers electing the foreign earned income exclusion to use the tax tables.

OTHER TAX PROVISIONS

In addition to the major tax policy areas that the committee must study, there are minor miscellaneous tax law problems which must be resolved.

For example, in the private foundation area, foundation managers are required to file an annual report as well as an annual information return each of which provides substantially similar information. The committee determined that only one form would have to be filed and took action on such a change. The committee also took action to cure a technical flaw in the law by providing that the second-tier excise tax on private foundations be imposed before litigation begins, thereby giving the Tax Court jurisdiction.

The committee also looked into the problem of the tax treatment of employees of charities working abroad. Prior to 1978, certain U.S. citizens working abroad generally could exclude up to $20,000 of

earned income a year if they were present or a resident in a foreign country for a specified period of time. The Foreign Earned Income Act of 1978 generally replaced the earned income exclusion with a new system of itemized deductions for the excess costs of working overseas, including an extra $5,000 deduction for employees working in hardship areas. As an exception to these new rules, the 1978 act permitted employees who reside in camps in hardship areas to elect to claim a $20,000 earned income exclusion in lieu of the new excess living cost and hardship area deductions.

The committee agreed to allow individuals meeting the foreign residence or presence tests who perform "qualified charitable services" in less developed countries to elect, in lieu of the deduction for excess foreign living costs, an exclusion of $20,000 from gross income on the same basis as employees residing in camps in hardship areas.

MISCELLANEOUS TAX BILLS

It is not surprising that in our very complicated and diverse society, general rules on taxation may sometimes have results neither foreseen nor intended by the Congress. The committee investigated and approved a number of miscellaneous tax bills aimed at relieving inequities or simplifying compliance with the Tax Code.

For example, a taxpayer who sells his or her principal residence, has 18 months to purchase another one in order to take advantage of certain provisions relating to the nonrecognition of gain. A woman was not able to fall within the 18-month period because of a dispute she had with the builder. In order to preserve the evidence, she did not meet the 18-month requirement. A committee bill was enacted to relax the 18-month requirement in this instance.

In another instance, the committee took action to permit authors, artists and certain other persons to be considered employees thereby entitling them to certain retirement and other benefits that they would not be otherwise entitled to.

CONFIRMATION HEARINGS

In addition to its work on remedial legislation and hearings on legislation, the committee has found that its legislative review of the internal revenue laws can be pursued effectively through the confirmation hearings held to consider appointments to the positions of Secretary of the Treasury, Under Secretary of the Treasury, Assistant Secretary for Tax Policy, Commissioner of Internal Revenue, and Chief Counsel of Internal Revenue. In such hearings the committee is able to bring up matters concerning the administration and execution of the internal revenue laws which have come to the committee's attention from constituents, hearings on proposed tax legislation and through its own initiative. The committee seeks the cooperation of the prospective appointee as to tax policies and procedures designed to remedy the administrative actions the committee believes inconsistent with established congressional intent.

The effectiveness of legislative review through confirmation hearings on proposed Treasury appointees has been proven many times

through the subsequent actions of the confirmed appointees with respect to specific problems and general approaches relevant to the implementation of laws in areas under the jurisdiction of the committee.

COMMITTEE INQUIRIES

From time to time, the committee also directs specific complaints concerning administration of the internal revenue laws to the Commissioner of Internal Revenue with a request for him to investigate and report back to the committee. Generally, these complaints raise questions concerning a lack of efficiency or impartiality by the Internal Revenue Service in the administration of the tax laws. The Commissioner of Internal Revenue invariably shows considerable diligence and attention to such inquiries from the committee.

PUBLIC INQUIRIES

Finally, because of the broad impact of the internal revenue laws, the public, including individuals and associated groups, is relied on to bring to the committee's attention inequities in the execution of substantive tax laws and inefficiencies in the procedural administration of such laws.

Legislative Review of Taxation and Debt Management

The Subcommittee on Taxation and Debt Management held more than 30 days of hearings during 1979 and 1980 and analyzed a wide range of tax topics. In addition to holding hearings on specific pieces of legislation, the subcommittee hearings also explored broad questions of tax policy. One such area was an examination of various tax proposals to assist small business. In 3 days of hearings, March 24 and 28, and April 1, 1980, the subcommittee took testimony numerous income estate and gift tax proposals which would have the effect of reducing the tax burdens on small businesses. In another series of broad policy hearings, the subcommittee on 3 days heard testimony on the best way to combat the United States' vulnerability during an oil disruption. The subcommittee also held a series of three field hearings in Oklahoma, Kansas, and Texas, in order to hear witnesses describe the impact of the windfall profits tax on small royalty owners.

The subcommittee also held hearings during the 96th Congress on more than 50 miscellaneous tax bills.

The subcommittee held a hearing November 7, 1979 on the Technical Corrections Act. Other subcommittee hearings concerned such issues as the marriage tax penalty, taxation of U.S. citizens working abroad, installment sales, and the taxation of interstate commerce.

One of the most important responsibilities of the subcommittee is the oversight of the national debt. The Federal debt represents the accumulated budget deficits of the United States.

The subcommittee held hearings on five different occasions during the 96th Congress to consider the debt limit. The subcommittee believes that it is only through such continued oversight proceedings that the Congress can attempt to focus attention on efforts to slow the growth of the national debt.

The subcommittee also monitors the status of foreign debts owed to the United States. The subcommittee conducted a hearing on February 5, 1979 specifically for that purpose.

Legislative Review of Tax Rules Affecting Foreign Conventions

The Subcommitee on Tourism and Sugar held a hearing July 20, 1979, on the tax rules affecting foreign conventions. As a result of the subcommittee's work in this area, the full committee agreed to a new provision which provides that no deduction is to be allowed for expenses allowable to a convention, seminar, or similar meeting held outside the United States, its possessions and the Trust Territory of the Pacific, Canada, and Mexico unless, taking certain factors into account, it is "as reasonable" for the meeting to be held outside these areas as within it.

Legislative Review of Private Pensions

The Subcommittee on Private Pension Plans and Employee Fringe Benefits held public hearings on numerous bills in the pension area, including the Pension Benefit Guaranty Corporation coverage of multiemployer pension plans, employee contributions to Individual Retirement Accounts and other pension plans, and legislation otherwise amending ERISA. The full committee subsequently approved the Multiemployer Pension Plan Amendments Act of 1980. This measure was designed to improve retirement income security under private multiemployer pension plans by strengthening the funding requirements for those plans, authorizing plan preservation measures for financially troubled multiemployer pension plans, and revising the manner in which the pension plan termination insurance provisions apply to multiemployer plans.

Legislative Review of Energy Taxes

The Subcommittee on Energy and Foundations held five hearings during 1979 on May 7 and 11, and June 11 and 25, and July 2, 1979. These hearings preceded the full committee's consideration of the Crude Oil Windfall Profit Tax bill.

Legislative Review of Administration of the Internal Revenue Code

In addition to its oversight functions, the Subcommittee on Oversight of the Internal Revenue Service concentrated on two legislative problems during the 96th Congress. On July 19, 1979, the subcommittee held hearings on the question of reimbursement of attorneys' fees in certain tax cases. Testimony was taken on S. 1444, the Taxpayer Protection and Reimbursement Act, which was eventually acted on favorably by the full committee.

On June 20, 1980, the subcommittee held a hearing on the disclosure of tax information to authorities charged with the duty of enforcing criminal laws other than tax violations.

Legislative Review of General Revenue Sharing and Countercyclical Fiscal Assistance

The Subcommittee on Revenue Sharing, Intergovernmental Revenue Impact and Economic Problems held hearings on March 12, 1979, on the subject of countercyclical and targeted fiscal assistance programs. Testimony was received from Federal, State, and local officials on the need for Federal aid during national economic downturns and to assist those areas which had not recovered from the 1974–75 recession. The full committee subsequently approved S. 566 which would have provided both types of Federal assistance utilizing a distribution formula based in part on the General Revenue Sharing formula allocations. S. 566 was approved by the Senate in August 1979; H.R. 5980, which contained a substantially different distribution formula, was approved by the House of Representatives in January 1980. No Conference Committee was convened to resolve the differences between these two bills.

The subcommittee also held hearings on March 6 and May 21, 1980, on the subject of general revenue sharing and countercyclical fiscal assistance. The subcommittee received testimony from the Secretary of the Treasury on an administration proposal to revise and extend the State and Local Fiscal Assistance Act of 1972. The subcommittee also received testimony from State and local officials urging extension of the general revenue sharing program. Included in the testimony was some critical analysis of the existing program. Subsequent to the hearings the full Committee on Finance met and approved an extension and modification of the existing program, and authorized a countercyclical fiscal assistance program similar to one approved by the Senate in 1979 as S. 566. As approved by the committee, S. 2574 would have extended the local entitlement portion of the program for 5 years, authorized an appropriation for a state share in fiscal years 1982 through 1985, and authorized an appropriation of $1 billion per year for 5 years as a standby program of antirecession assistance to State and local governments most severely hit by a national economic downturn. In addition, several minor formula changes were approved.

In the last days of the 96th Congress, the Senate considered and approved with amendments H.R. 7112, an extension of the General Revenue Sharing program earlier approved by the House of Representatives. H.R. 7112 extended the local entitlement portion of the revenue sharing program for 3 years at $4.6 billion per year; it authorized an appropriation of $2.3 billion per year for fiscal years 1982 and 1983 for a State share, but also provided that a State could receive general revenue sharing funds only insofar as it declined to receive, or returned to the Federal Government, an equal dollar amount of categorical grants funds. No provision for a countercyclical fiscal assistance program was included in the bill sent to the President.

List of Hearings Held by the Committee on Finance—Full Committee

LEGISLATIVE HEARINGS

S. 350, S. 351, S. 748, S. 760—Catastrophic Health Insurance and Medical Assistance Reform (March 27, 28, and 29, 1979).

Presentation of Major Health Insurance Proposals (June 19 and 21, 1979).

H.R. 3919—Crude Oil Tax (July 10–12, 18, 19, and 31, 1979).

S. 1800—Proposed Residential Energy Efficiency Plan (September 26, 1979).

H.R. 3236, H.R. 3464—Social Security Act Disability Program Amendments (October 9 and 10, 1979).

Tax Cut Proposals (July 23, 24, 25, 28, 29, 30, and 31, 1980).

S. 1480—Environmental Emergency Response Act (September 11 and 12, 1980).

NOMINATIONS

Milton S. Gwirtzman, to be a member of the National Commission on Social Security (January 29, 1979).

James J. Dillman, to be a member of the National Commission on Social Security (January 29, 1979).

Elizabeth T. Duskin, to be a member of the National Commission on Social Security (January 29, 1979).

Donald S. MacNaughton, to be a member of the National Commission on Social Security (January 29, 1979).

David Rodgers, to be a member of the National Commission on Social Security (January 29, 1979).

Benjamin W. Heineman, Jr., to be an Assistant Secretary of Health, Education, and Welfare (April 10, 1979).

Arthur L. Nims, to be a Judge of the U.S. Tax Court (June 13, 1979).

Richard Lowe, to be Deputy Inspector General, Department of Health, Education, and Welfare (June 13, 1979).

Walter J. McDonald, to be an Assistant Secretary of the Treasury (June 20, 1979).

Richard Beattie, to be General Counsel of the Department of Health, Education, and Welfare (June 20, 1979).

Patricia R. Harris, to be Secretary of Health, Education, and Welfare (July 25 and 26, 1979).

G. William Miller, to be Secretary of the Treasury (July 27, 1979).

Reubin O'D. Askew, to be Special Representative for Trade Negotiations (September 18, 1979).

Nathan J. Stark, to be Under Secretary of Health, Education, and Welfare (October 30, 1979).

William B. Welsh to be an Assistant Secretary of Health, Education, and Welfare (October 30, 1979).

Bill M. Wise to be an Assistant Secretary of Health, Education, and Welfare (October 30, 1979).

Joan Zeldes Bernstein to be General Counsel of the Department of Health, Education, and Welfare (November 6, 1979).

N. Jerold Cohen to be an Assistant General Counsel, Department of the Treasury (Chief Counsel for the Internal Revenue Service) (November 6, 1979).

Robert D. Hormats to be a Deputy Special Representative for Trade Negotiations (November 29 and December 6, 1979).

Michael B. Smith to be a Deputy Special Representative for Trade Negotiations (December 6, 1979).

Michael J. Calhoun to be a member of the International Trade Commission (January 24, 1980).

John A. Calhoun III to be Chief of the Children's Bureau, Department of Health, Education, and Welfare (January 24, 1980).

Abraham Katz to be an Assistant Secretary of Commerce (March 19, 1980).

William J. Driver to be Commissioner of Social Security (March 19, 1980).

John L. Palmer to be an Assistant Secretary of Health, Education, and Welfare (March 19, 1980).

Cesar A. Perales to be an Assistant Secretary of Health, Education, and Welfare (March 26, 1980).

Curtis A. Hessler to be an Assistant Secretary of the Treasury (March 26, 1980).

Robert E. Herzstine to be Under Secretary of Commerce for International Trade (April 29, May 12 and 14, 1980).

C. Moxley Featherston to be a Judge of the U.S. Tax Court (April 29, May 12 and 14, 1980).

William M. Fay to be a Judge of the U.S. Tax Court (April 29, May 12 and 14, 1980).

Charles R. Simpson to be a Judge of the U.S. Tax Court (April 29, May 12 and 14, 1980).

Edna Parker to be a Judge of the U.S. Tax Court (April 29, May 12 and 14, 1980).

Sheldon V. Ekman to be a Judge of the U.S. Tax Court (April 29, May 12 and 14, 1980).

List of Hearings Held by Subcommittees of the Committee on Finance

Subcommittee on Taxation and Debt Management Generally

Foreign Indebtedness to the United States (February 5, 1979).

Public Debt Limit: 1979 (February 6, 1979).

Carryover Basis (March 12, 1979).

S. 103, S. 449, S. 990, S. 995—Tax Exempt Status of Private Schools (April 27, 1979).

S. 100, S. 394—Miscellaneous Tax Bills (May 18, 1979).

S. 231, S. 700, S. 1003, S. 1065—Tax Incentives for Exports (June 18, 1979).

S. 192, S. 208—Taxation of Foreign Investment in the United States (June 25, 1979).

S. 1062, S. 1063—Tax Simplification (June 22, 1979).
Expiring $830 Billion Public Debt Limit (September 11, 1979).
S. 224, S. 401, S. 616, S. 687, S. 736, S. 945, S. 1514—Miscellaneous Tax Bills II (September 17, 1979).
S. 1021, S. 1078, S. 1435, S. 1467—Miscellaneous Tax Bills III (October 22, 1979).
S. 246, S. 541, S. 555, S. 999, S. 1488, S. 1542, S. 1543, S. 1638, S. 1703, S. 1846—Miscellaneous Tax Bills IV (October 31, 1979).
S. 1691—Tax Court Improvement Act (November 2, 1979).
H.R. 2797, S. 873, S. 1549—Technical Corrections Act of 1979 (November 7, 1979).
S. 1913—Excise tax treatment for Wine and Distilled Spirits (December 19, 1979).
S. 219—Charitable Contribution Deductions (January 30 and 31, 1980).
S. 464, S. 485, S. 650, S. 1194, S. 1831, S. 1859, S. 1900, S. 1901, S. 2089, S. 2167, S. 2180, S. 2201, S. 2275, H.R. 4746, H.R. 5505, H.R. 5973—Miscellaneous Tax Bills V (February 29 and March 4, 1980).
S. 110, S. 487, S. 653, S. 1435, S. 1481, S. 1825, S. 1967, S. 1984, S. 2136, S. 2168, S. 2171, S. 2220, S. 2239—Various Tax Proposals (March 24, 28, and April 1, 1980).
Extension of the Temporary Limit on the Public Debt (April 2 and 16, 1980).
S. 753, S. 1384, S. 1826, S. 1854, S. 1867, S. 2179, S. 2239, S. 2367, S. 2396, S. 2415, H.R. 5973—Miscellaneous Tax Bills VI (April 25, 1980).
S. 2521—Small Royalty Owners Exemption From the Windfall Profit Tax (May 23 and July 17, 1980).
S. 2484, S. 2486, S. 2500, S. 2503, S. 2548, H.R. 5043—Miscellaneous Tax Bills VII (May 30, 1980).
S. 983, S. 1688—State Taxation of Interstate Commerce and Worldwide Corporate Income (June 24, 1980).
S. 1614, S. 2075, S. 2493, S. 2547, S. 2646, S. 2660, S. 2757, S. 2766, S. 2783, S. 2784, H.R. 5391—Miscellaneous Tax Bills VIII (June 24, 1980).
S. 2283, S. 2321, S. 2418—Taxation of Foreign Earned Income (June 26, 1980).
Tax Cut Proposals (July 23–25, 28, and 29, 1980).
S. 2775, S. 2805, S. 2818, S. 2904, S. 2967, H.R. 7171—Family Enterprise Estate and Gift Tax Equity Act and Miscellaneous Tax Bills (August 4, 1980).
S. 336, S. 1247, S. 1877—Marriage Penalty Tax (August 5, 1980).
S. 1649, S. 2075, H.R. 6721—Airport and Airways Trust Fund (September 8, 1980).
S. 2512, S. 2900, S. 2915, S. 2916, S. 3070, S. 3076, S. 3080, H.R. 6883—Miscellaneous Tax Bills IX (September 10, 1980).
S. 3006—Industrial Energy Efficiency and Fuel Conversion Tax Incentive Act (September 29, 1980).
Special Tax on Oil (November 11 and December 1 and 12, 1980).
S. 3082, S. 3094, H.R. 6806—Taxation of Certain Annuity Contracts (November 19, 1980).
Public Debt Limit (December 2, 1980).

SUBCOMMITTEE ON INTERNATIONAL TRADE

H.R. 1147—Extension of the Countervailing Duty Waiver Authority (March 19, 1979).

Authorization of Appropriations for the U.S. International Trade Commission and U.S. Customs Service for Fiscal Year 1980 (April 23, 1979).

Implementation of the Multilateral Trade Negotiations (February 21, and 22, 1979).

North American Economic Interdependence (June 6, 1979).

S. 227, H.R. 1543—Trade Adjustment Assistance Act (July 9, 1979).

S. 1376—Trade Agreements Act of 1979 (Part One: July 10, 1979. Part Two: July 11, 1979).

Reduction in Import Duties on Apparel (July 13, 1979).

Continuing the President's Authority To Waive the Trade Act Freedom of Emigration Provisions (July 19, 1979).

S. 55—Proposed Amendments to the Meat Import Quota Act (September 26, 1979).

North American Economic Interdependence II (October 1, 1979).

S. Con. Res. 47—Agreement on Trade Relations Between the United States and the People's Republic of China (November 15, 1979).

H.R. 2492 (S. 1258), H.R. 2535, H.R. 2537, H.R. 3046, (S. 1004), H.R. 3317, H.R. 3591, H.R. 3755, H.R. 4309, (S. 1275), H.R. 4738, H.R. 6089, S. 1851, S. 1852—Miscellaneous Tariff Bills (February 5, 1980).

Possible Amendments to the "1916 Antidumping Act (March 11, 1980).

Authorization of Appropriations for the U.S. Customs Service, U.S. International Trade Commission, and Office of the U.S. Trade Representative for Fiscal Year 1981 (March 13, 1980).

Protocol to the MTN Customs Valuation Agreement (April 2, 1980).

Extension of the President's Authority To Waive Section 402 (Freedom of Emigration Requirements) of the Trade Act of 1974 (July 21, 1980).

U.S. International Trade Strategy (July 28, August 1, September 10, December 5 and 9, 1980).

S. Con. Res. 108—Import Relief to the Domestic Industry Producing Certain Leather Coats and Jackets (August 19, 1980).

S. 2721—Unpaid Claims of U.S. Citizens Against Czechoslovakia (September 9, 1980).

H.R. 3122, H.R. 5047, H.R. 7139—Miscellaneous Tariff Bills (September 9, 1980).

Generalized System of Preferences (GSP) (November 25, 1980).

SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS

Targeted Fiscal Assistance to State and Local Governments (March 12, 13, and 26, 1979).

S. 2414, S. 2574, S. 2678, S. 2681—Proposed General Revenue Sharing Extension (March 6 and May 21, 1980).

SUBCOMMITTE ON HEALTH

Health Cost Containment (March 13, and 14, 1979).
S. 489, S. 421—Medicare and Medicaid Home Health Benefits (May 21 and 22, 1979).
S. 1204—Health Assistance for Low-Income Children (June 25, 1979).
System for Hospital Uniform Reporting (SHUR) (July 26, 1979).
Review of Professional Standards Review Program (September 18 and 19, 1979).
S. 1968—Proposals To Stimulate Health Care Competition (March 18 and 19, 1980).
Health Services to Older Americans (April 11, 1980).
Medicare and Medicaid Fraud (July 22, 1980).
S. 2809—Comprehensive Community Based Noninstitutional Long-Term Care for the Elderly and Disabled (August 27, 1980).

SUBCOMMITTEE ON TOURISM AND SUGAR

S. 463—International Sugar Stabilization Act of 1979 (March 21, 1979).
S. 589, S. 749, S. 940—Tax Rules Affecting Foreign Conventions (July 20, 1979).

SUBCOMMITTEE ON PRIVATE PENSION PLANS AND EMPLOYEE FRINGE BENEFITS

S. 75, S. 94, S. 209, S. 557—Employee Contributions to IRA's and Other Pension Plans (April 3, 1979).
S. 209, S. 511, S. 989, S. 1089, S. 1090, S. 1091, S. 1092, S. 1240, S. 1958—Miscellaneous Pension Bills (December 4 and 5, 1979).
S. 1076—Pension Plan Termination Insurance for Multiemployer Pension Plans (March 18, 1980).

SUBCOMMITTEE ON ENERGY AND FOUNDATIONS

Crude Oil Severance Tax (May 7, 11, and June 11 and 25, 1979).
Proposed Energy Tax Legislation (July 2, 1979).

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