MISCELLANEOUS ENERGY TAX BILLS II

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 329, S. 569, S. 1252 and S. 1561

OCTOBER 23, 1981

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

88-134 O WASHINGTON : 1982 HG 97-84

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COMMUNICATIONS

MISCELLANEOUS ENERGY TAX BILLS II

FRIDAY, OCTOBER 23, 1981

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m. in room 2221, Dirksen Senate Office Building, the Honorable Malcolm Wallop (chairman of the subcommittee) presiding.

Present: Senators Wallop, Symms, Durenberger, Bradley, Mitchell, Grassley, and Bentsen.

[The committee press release announcing this hearing; the bills S. 329, S. 569, S. 1252 and S. 1561; the description of these bills by the Joint Committee on Taxation and Senator Mitchell's opening statement follow:]

Press Release No. 81-167

P R E S S R E L E A S E

FOR IMMEDIATE RELEASE
October 2, 1981

COMMITTEE ON FINANCE
UNITED STATES SENATE
Subcommittee on Energy
and Agricultural Taxation
2227 Dirksen Senate
Office Building

FINANCE SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION SETS HEARING ON MISCELLANEOUS TAX BILLS

Senator Malcolm Wallop, Chairman of the Subcommittee on Energy and Agricultural Taxation of the Senate Committee on Finance, announced today that the Subcommittee will hold a hearing on miscellaneous tax bills on Friday, October 23, 1981.

The hearing will begin at 9:30 a.m. on October 23, 1981, in Room 2221 of the Dirksen Senate Office Building.

The bills that will be considered at the hearing are:

S. 329 (Senator Pell) - would provide a tax credit of up to $300 against home heating costs.

S. 569 (Senator Jepsen) - would provide a 10-percent investment tax credit for certain soil and water conservation expenditures.

S. 1252 (Senator Heinz, et al) - would provide for 3-year amortization of coal conversion and replacement property, for 1-year amortization of pollution control equipment, for a 10-percent energy tax credit for utilities switching to coal, for industrial development bond financing for coal utilization property and for certain changes to the Clean Air Act.

S. 1561 (Senator Grassley) - would provide a 20-percent investment tax credit for qualified land conservation expenditures.

Requests to Testify.--Witnesses who desire to testify at the hearing on October 23, 1981, must submit a written request to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, to be received no later than noon on Friday, October 16, 1981. Witnesses will be notified as soon as practicable thereafter whether it has been possible to schedule them to present oral testimony. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance. In such case a witness should notify the Committee on his inability to appear as soon as possible.

Consolidated Testimony.--Senator Wallop urges all witnesses who have a common position or who have the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. Senator Wallop urges very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.--Senator Wallop stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify should comply with the following rules:

(1) A copy of the statement must be filed not later than noon on the last business day before the witness is scheduled to appear.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be submitted by noon on Thursday, October 22, 1981.

(4) Witnesses should not read their written statements to the Subcommittee, but ought instead to confine their oral presentation to a summary of the points included in the statement.

(5) Not more than five minutes will be allowed for the oral summary.

Written Statements.--Witnesses who are not scheduled to make oral presentations, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearings. These written statements should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, November 6, 1981.

P.R. # 81-167

97TH CONGRESS
1ST SESSION

S. 329

To amend the Internal Revenue Code of 1954 to provide a credit against tax for certain home heating costs.

IN THE SENATE OF THE UNITED STATES

JANUARY 29 (legislative day, JANUARY 5), 1981

Mr. PELL introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1954 to provide a credit against tax for certain home heating costs.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. HOME HEATING CREDIT.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits allowed) is amended by inserting immediately before section 45 the following new section:

"SEC. 44F. CREDIT FOR RESIDENTIAL USERS OF ENERGY.

"(a) GENERAL RULE.—In the case of an individual, there is allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

"(1) the sum of the products of—

"(A) the amount paid or incurred during such taxable year for any qualified home heating energy source, multiplied by

"(B) 0.126, or Consumer Price Index for taxable year,

"(2) an amount equal to the degree day factor for the State in which the principal residence of the taxpayer is located during such taxable year.

"(b) LIMITATIONS.—

"(1) MAXIMUM DOLLAR AMOUNT.—The amount of the credit allowed to a taxpayer under subsection (a) for any taxable year shall not exceed the excess (if any) of—

"(A) $300, over

"(B) 10 percent of so much of the adjusted gross income of the taxpayer for the taxable year as exceeds $30,000.

"(2) REDUCTION FOR GRANTS.—The amount of the credit allowed to a taxpayer under subsection (a) (after application of paragraph (1)) shall be reduced by any amount received by the taxpayer for any qualified

home heating energy source under any Federal, State or local program.

"(3) ONE INDIVIDUAL ELIGIBLE PER HOUSEHOLD.—

"(A) IN GENERAL.—In the case of any household, the credit under subsection (a) shall be allowed only to the individual residing in such household who furnishes the largest portion (whether or not more than one-half) of the cost of maintaining such household.

"(B) DETERMINATION OF AMOUNT.—In the case of an individual described in subparagraph (A), such individual shall, for purposes of determining the amount of the credit allowed under subsection (a), be treated as having paid or incurred during such taxable year for qualified home heating energy sources an amount equal to the sum of the amounts paid or incurred for such sources by all individuals residing in such household (including any amount allocable to any such individual under subsection (d)).

"(4) MARRIED INDIVIDUALS FILING SEPARATELY.—In the case of a married individual filing a separate return of tax, the provisions of subsection (b) of this section shall be applied—

"(A) by substituting '$150' for '$300', and

"(B) by substituting '$15,000' for '$30,000'.

"(5) APPLICATION WITH OTHER CREDITS.—The credit allowed by subsection (a) for a taxable year shall not exceed the tax imposed by this chapter for such taxable year, reduced by the sum of the credits allowable under a section of this subpart having a lower number or letter designation than this section, other than the credits allowable by sections 31, 39, and 43.

"(c) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) DEGREE DAY FACTOR.—The term 'degree day factor' with respect to any taxable year means the excess (if any) of—

"(A) the number of degree days during the 12-month period ending on August 31 of the calendar year preceding the calendar year in which the taxable year begins, over

"(B) the number of degree days during the 12-month period ending August 31 of the second calendar year preceding the calendar year in which the taxable year begins.

The number of degree days for any period shall be made on the basis of data provided by the National Weather Service.

"(2) QUALIFIED HOME HEATING ENERGY SOURCE.—The term 'qualified home heating energy source' means any energy source used for a qualified use, including wood.

"(3) QUALIFIED USE.—The term 'qualified use' means use in connection with any principal residence of the taxpayer located in the United States for purposes of heating such residence.

"(4) PRINCIPAL RESIDENCE.—The term 'principal residence' has the same meaning as in section 1034, except that—

"(A) no ownership requirement shall be imposed, and

"(B) the principal residence must be used by the taxpayer as his residence during the taxable year.

"(5) PRINCIPAL RESIDENCE IN MORE THAN 1 STATE.—If—

"(A) a taxpayer has more than 1 principal residence during any taxable year, and

"(B) such residences are located in more than 1 State,

the degree day factor shall be prorated between such States in such manner as the Secretary may prescribe.

"(d) ALLOCATIONS.—

"(1) TENANTS.—

"(A) IN GENERAL.—In the case of a tenant (other than a tenant-stockholder in a cooperative housing association) residing in a dwelling unit which is heated by a qualified home heating energy source and with respect to which the amount paid for such source is not separately stated, the amount determined under subsection (a)(1) for any taxable year for any qualified home heating energy source used for a qualified use shall be equal to 0.126 multiplied by an amount equal to that portion of rent paid by the taxpayer during such taxable year as is equal to the qualified rental portion.

"(B) QUALIFIED RENTAL PORTION.—For purposes of this paragraph, the term 'qualified rental portion' means that percentage of rental amounts paid for principal residences during a calendar year which the Secretary determines, after consultation with the Secretary of Housing and Urban Development or his delegate and after taking into account regional differences in climate and heating costs, to be the average percentage of rental amounts paid in a region of the United States attributable to the payment of the costs of

the qualified home heating energy source so used for a qualified use in connection with the principal residence.

"(2) CONDOMINIUMS AND COOPERATIVES.—The Secretary shall provide by regulation for the application of this section to condominium management associations (as defined in section 528(c)(1)) or members of such associations, and tenant-stockholders in cooperative housing corporations (as defined in section 216), in such a fashion that the amount allowed by subsection (a) is allowed, whether by allocation, apportionment, or otherwise, to the individuals paying, directly or indirectly, for the qualified home heating fuel so used.".

(b) CLERICAL AMENDMENTS.—

(1) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting immediately after the item relating to section 44E the following new item:

"Sec. 44F. Credit for residential users of energy.".

(2) Section 6096(b) (relating to designation of income tax payments to Presidential Election Campaign Fund) is amended by striking out "and 44D" and inserting "44D, and 44F".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1980, and before January 1, 1985.

97TH CONGRESS
1ST SESSION

S. 569

To amend the Internal Revenue Code of 1954 to provide an investment tax credit for certain soil and water conservation expenditures.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 26 (legislative day, FEBRUARY 16), 1981

Mr. JEPSEN introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1954 to provide an investment tax credit for certain soil and water conservation expenditures.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Soil and Water Conservation Incentives Act of 1981".

SEC. 2. FINDINGS; DECLARATION OF POLICY.

(a) FINDINGS.—The Congress finds and declares that—

(1) in order to meet national needs for food and fiber, and to maintain a favorable balance of trade, it is essential that the productive land and water resources of the Nation be used and treated in a manner which provides for sustained production and environmental stability;

(2) the management and use of the Nation's productive soils and waters are in the hands of private landowners and operators, and the actions of such persons with respect to such management and use determine the long-term quality and productivity of the Nation's land; and

(3) the cost of conservation measures cannot be readily recovered in the market place, which places an unfair burden on private producers for providing a public benefit and which often makes the production of food and fiber economically unsound for the producer.

(b) POLICY.—It is the policy of Congress that the Federal Government should provide financial incentives, in the form of investment tax credits, to encourage private landowners and operators to conserve and manage land and water within their capabilities and to treat such land and water in a manner which provides for sustained production and the prevention of environmental deterioration.

SEC. 3. INVESTMENT CREDIT FOR SOIL AND WATER CONSERVATION EXPENDITURES.

(a) IN GENERAL.—Paragraph (1) of section 48(a) of the Internal Revenue Code of 1954 (defining section 38 property) is amended—

(1) by striking out the period at the end of subparagraph (F) and inserting ", or"; and

(2) by inserting after subparagraph (F) the following new subparagraph:

"(G) in the case of soil and water conservation expenditures (within the meaning of section 175(c)), that portion of such expenditures for the taxable year (other than that portion attributable to property which otherwise qualifies as section 38 property) which the taxpayer does not elect under section 175 to treat as expenses which are not chargeable to capital account.".

(b) CONFORMING AMENDMENT.—The last sentence of paragraph (1) of section 48(a) of such Code is amended—

(1) by inserting "or (G)" after "subparagraph (F)"; and

(2) by inserting ", or 7 years, respectively" after "growing period".

SEC. 4. EFFECTIVE DATE.

The amendments made by this Act shall apply to taxable years beginning after December 31, 1980.

97TH CONGRESS
1ST SESSION

S. 1252

To amend the Internal Revenue Code of 1954 to provide incentives for the use of coal in lieu of imported energy, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 21 (legislative day, APRIL 27), 1981

Mr. HEINZ (for himself, Mr. FORD, Mr. WARNER, Mr. DIXON, Mr. SPECTER, Mr. HUDDLESTON, and Mr. HEFLIN) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1954 to provide incentives for the use of coal in lieu of imported energy, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Coal Utilization Incentives Act of 1981".

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds that the protection of public health and welfare, the preservation of national se-

curity, and the regulation of interstate commerce require the establishment of a program, to be carried out in compliance with applicable environmental requirements—

(1) for the increased use of coal as a primary energy source for electric powerplants and other major fuel-burning installations, and

(2) for encouraging conservation of petroleum and natural gas by powerplants and other major fuel-burning installations through the most cost-effective means for the Nation.

(b) PURPOSES.—The purposes of this Act, which shall be carried out in compliance with applicable environmental requirements, are—

(1) to reduce the domestic use of petroleum and natural gas and increase the Nation's capability to use indigenous energy resources, particularly coal, to the extent such reduction and use further the goal of national energy self-sufficiency and otherwise are in the best interests of the United States;

(2) to achieve significant savings for electric utility ratepayers and other consumers;

(3) to conserve petroleum and natural gas for uses, other than use by electric utilities and other major fuel-burning installations, for which there are no feasible alternative fuels or raw material substitutes;

(4) to encourage the conversion or replacement of existing powerplants and other major fuel-burning installations that now use petroleum and natural gas to the use of coal as a primary energy source; and

(5) to reduce the vulnerability of the United States to energy supply interruptions.

TITLE I—AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1954

SEC. 101. AMORTIZATION OF COAL UTILIZATION PROPERTY.

(a) GENERAL RULE.—Part VI of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to itemized deductions for individuals and corporations) is amended by adding at the end thereof the following new section:

"SEC. 196. AMORTIZATION OF COAL UTILIZATION PROPERTY.

"(a) ALLOWANCE OF DEDUCTION.—Every person, at his election, shall be entitled to a deduction with respect to the amortization of the amortizable basis of any coal utilization property (as defined in subsection (b)) based on a period of not less than 36 months.

"(b) COAL UTILIZATION PROPERTY DEFINED.—For purposes of this section, the term 'coal utilization property' means tangible property of a character subject to the allowance for depreciation which is—

"(1) a boiler or burner—

"(A) the primary fuel for which will be coal (including lignite), and

"(B) which replaces an existing boiler or burner—

"(i) which is part of a powerplant or major fuel-burning installation, and

"(ii) the primary fuel for which is oil or natural gas or any product thereof,

"(2) equipment for converting an existing boiler or burner described in paragraph (1)(B) to a boiler or burner the primary fuel for which will be coal (including lignite), or

"(3) qualified pollution control equipment installed in connection with equipment described in paragraph (1) or (2).

"(c) AMOUNT OF DEDUCTION.—

"(1) IN GENERAL.—The amortization deduction for any coal utilization property shall be an amount, with respect to each month of the 36-month period within the taxable year, equal to the amortizable basis of the coal utilization property at the end of such month divided by the number of months (including the month for which the deduction is computed) remaining in the period. Such amortizable basis at the end of the

month shall be computed without regard to the amortization deduction for such month.

"(2) DEDUCTION IN LIEU OF DEPRECIATION.—The amortization deduction provided by this section with respect to any coal utilization property for any month shall be in lieu of the depreciation deduction with respect to such property for such month provided by section 167.

"(3) BEGINNING OF PERIOD.—The 36-month period referred to in paragraph (1) shall begin, as to any coal utilization property, at the election of the taxpayer, with the month following the month in which such property was placed in service or with the first month of the succeeding taxable year.

"(d) DEFINITIONS; SPECIAL RULES.—

"(1) AMORTIZABLE BASIS.—

"(A) IN GENERAL.—The term 'amortizable basis' means the adjusted basis of coal utilization property.

"(B) ADDITIONS AND IMPROVEMENTS NOT TAKEN INTO ACCOUNT.—For purposes of this paragraph, the adjusted basis of any coal utilization property with respect to which an election has been made under subsection (e) shall not be increased for amounts chargeable to capital ac-

count for additions for improvements after the amortization period has begun.

"(C) DEPRECIATION DEDUCTION.—The depreciation deduction provided by section 167 shall, notwithstanding subsection (c), be allowed with respect to the portion of the adjusted basis which is not taken into account in applying this section.

"(2) QUALIFIED POLLUTION CONTROL EQUIPMENT.—

"(A) IN GENERAL.—The term 'qualified pollution control equipment' means equipment (including fluidized bed and coal cleaning equipment)—

"(i) which is used in connection with coal utilization property described in subsection (b) (1) or (2) to abate or control water or atmospheric pollution or contamination by removing, altering, disposing, storing or preventing the creation or emission of pollutants, contaminants, wastes, or heat, and

"(ii) with respect to which the State certifying authority (within the meaning of section 169(d)(2)) and Federal certifying authority have made the certifications described

in subparagraphs (A) and (B) of section 169(d)(1), respectively.

"(B) FEDERAL CERTIFYING AUTHORITY.—The term 'Federal certifying authority' means the Administrator of the Environmental Protection Agency.

"(3) POWERPLANT AND MAJOR FUEL-BURNING INSTALLATION.—The terms 'powerplant' and 'major fuel-burning installation' have the meanings given such terms by paragraphs (7) and (10) of section 103(a) of the Powerplant and Industrial Fuel Use Act of 1978, respectively.

"(4) EXISTING BOILER OR BURNER.—The term 'existing boiler or burner' means a boiler or burner which was placed in service before January 1, 1981.

"(5) REPLACEMENT OF EXISTING BOILER OR BURNER.—A boiler or burner shall be treated as replacing a boiler or burner if the taxpayer certifies that the boiler or burner which is to be replaced—

"(A) was used during calendar year 1980 for more than 2,000 hours of full load peak use (or equivalent thereof), and

"(B) will not be used for more than 2,000 hours of such use during any 12-month period

after the boiler or burner which is to replace such boiler or burner is placed in service.

"(6) LIMITATION IN THE CASE OF CERTAIN REGULATED COMPANIES.—Under regulations prescribed by the Secretary, rules similar to the rules of section 46(f) shall apply in the case of coal utilization property which is public utility property (within the meaning of section 46(f)(5)).

"(7) OPTIONAL 12-MONTH AMORTIZATION FOR POLLUTION CONTROL EQUIPMENT.—At the election of the taxpayer, subsections (a), (c), and (e) shall be applied with respect to coal utilization property described in subsection (b)(3) by substituting '12' for '36' each place it appears in such subsections.

"(8) APPLICATION WITH SECTION 169.—No election may be made under this section with respect to any amortizable basis for which an election has been made under section 169, and no election may be made under section 169 with respect to any amortizable basis for which an election has been made under this section.

"(e) ELECTION OF AMORTIZATION.—Any election under this section shall be made by filing with the Secretary, in such manner, in such form, and within such time as the

Secretary may by regulations prescribe, a statement of such election.

"(f) TERMINATION OF ELECTION.—

"(1) BY THE TAXPAYER.—A taxpayer which has elected under subsection (e) to take the amortization deduction with respect to any coal utilization property may, at any time after making such election, discontinue the amortization deduction with respect to the remainder of the amortization period, such discontinuance to begin as of the beginning of any month specified by the taxpayer in a notice in writing filed with the Secretary before the beginning of such month. The depreciation deduction provided under section 167 shall be allowed, beginning with the first month as to which the amortization deduction does not apply, and the taxpayer shall not be entitled to any further amortization deduction under this section with respect to such property.

"(2) CONSTRUCTIVE TERMINATION.—

"(A) CESSATION OF USE.—If at any time during the amortization period any coal utilization property ceases to meet the requirements of subsection (b), the taxpayer shall be deemed to have terminated under paragraph (1) his election under this section. Such termination shall be effective

beginning with the month in which such cessation occurs.

"(B) EXCESSIVE USE OF REPLACED BOILER OR BURNER.—If during any 12-month period referred to in subsection (d)(5) a boiler or burner which was replaced by coal utilization property is used for more than 2,000 hours of full load peak use (or equivalent), the taxpayer shall be deemed to have terminated under paragraph (1) his election under this section. Such termination shall be effective beginning with the month preceding such 12-month period. In determining the number of hours of full load peak use, there shall be disregarded any hours the boiler or burner was used due to—

"(i) fire, storm, flood, or other casualty, or

"(ii) a labor dispute (including a dispute which prevents or significantly reduces delivery of coal to the coal utilization property).

"(g) LIFE TENANT AND REMAINDERMAN.—In the case of any coal utilization property held by one person for life with remainder to another person, the deduction under this section shall be computed as if the life tenant were the abso-

lute owner of the property and shall be allowable to the life tenant.

"(h) APPLICATION OF SECTION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the amortization deduction provided by this section shall apply to property placed in service after December 31, 1980.

"(2) TRANSITIONAL RULE.—In the case of property the construction, reconstruction, or erection of which is begun by the taxpayer before January 1, 1981, the amortization deduction provided by this section shall only apply to that portion of the amortizable basis which is attributable to construction, reconstruction, or erection after December 31, 1980.

"(i) CROSS REFERENCE.—

"For treatment of certain gain derived from the disposition of property the adjusted basis of which is determined with regard to this section, see section 1245.".

(b) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Subsection (f) of section 642 of such Code (relating to amortization for estates and trusts) is amended by striking out "and 191" and inserting in lieu thereof "191, and 196".

(2) Subparagraph (B) of section 1082(a)(2) of such Code (relating to basis in certain exchanges) is amended by striking out "or 191" and inserting in lieu thereof "191, or 196".

(3)(A) Paragraphs (2)(D) and (3)(D) of section 1245(a) of such Code (relating to gain from dispositions of certain depreciable property) are each amended by striking out "or 194" and inserting in lieu thereof "194, or 196".

(B) Paragraph (2) of section 1245(a) of such Code is amended by striking out "193, 194" each place it appears and inserting in lieu thereof "193, 194, 196".

(4) Paragraph (3) of section 1250(b) of such Code (relating to depreciation adjustments) is amended by striking out "or 193" and inserting in lieu thereof "193, or 196".

(5) The table of sections for part VI of subchapter B of chapter 1 of such Code is amended by adding at the end thereof the following:

"Sec. 196. Amortization of coal utilization property.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 1980.

SEC. 102. ENERGY CREDIT ALLOWED TO PUBLIC UTILITIES FOR COAL UTILIZATION PROPERTY.

(a) IN GENERAL.—Paragraph (17) of section 48(l) of the Internal Revenue Code of 1954 (defining energy property) is amended by adding at the end thereof the following: "The preceding sentence shall not apply with respect to so

much of the adjusted basis of coal utilization property (within the meaning of section 196(b)) as constitutes the amortizable basis for purposes of section 196.".

(b) PERIOD FOR APPLICATION OF ENERGY PERCENTAGE.—

(1) IN GENERAL.—The table contained in clause (i) of section 46(a)(2)(C) of such Code (defining energy percentage) is amended by adding at the end thereof the following new subclause:

"VII. COAL UTILIZATION PROPERTY.—Energy property which is coal utilization property (within the meaning of 196(b))	10 percent ...	Janaury 1, 1980....	December 31, 1986.".

(2) LONG-TERM PROJECTS.—Section 46(a)(2)(C) of such Code is amended by adding at the end thereof the following new clause:

"(v) LONGER PERIOD FOR CERTAIN COAL UTILIZATION PROPERTY.—The provisions of clause (iii) shall apply to property described in subclause (VII) of clause (i) for purposes of applying the energy percentage contained in such subclause, except that '1994' shall be substituted for '1990', '1986' for '1982', '1987' for '1983', and '1990' for '1986'.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after December 31, 1980, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1954.

SEC. 103. FULL INVESTMENT TAX CREDIT ALLOWABLE FOR COAL UTILIZATION PROPERTY.

(a) IN GENERAL.—Paragraph (5) of section 46(c) of the Internal Revenue Code of 1954 (defining qualified investment) is amended by adding at the end thereof the following new subparagraph:

"(C) APPLICATION TO COAL UTILIZATION PROPERTY.—Rules similar to the rules of subparagraphs (A) and (B) shall apply to coal utilization property (within the meaning of section 196(b))."

(b) RECAPTURE FOR EXCESSIVE USE OF OLD BOILERS.—Subsection (a) of section 47 of such Code (relating to certain dispositions, etc. of section 38 property) is amended by adding at the end thereof the following new paragraph:

"(8) COAL UTILIZATION PROPERTY.—If a taxpayer is deemed under section 196(f)(2)(B) to have terminated an election with respect to any coal utilization property (or would have been deemed to have terminated such election if the 36-month amortization period had not expired), then, for purposes of this section, the taxpayer shall be treated as having disposed of such

property in the month in which the termination of the election becomes (or would become) effective.".

(c) CLERICAL AMENDMENT.—The paragraph heading of paragraph (5) of section 46(c) of such Code is amended by inserting "and coal utilization property" after "facilities".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after December 31, 1980, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1954.

SEC. 104. INDUSTRIAL DEVELOPMENT BONDS FOR COAL CONVERSION AND USE.

(a) GENERAL RULE.—Paragraph (4) of section 103(b) of the Internal Revenue Code of 1954 (relating to certain exempt activities) is amended by striking out "or" at the end of subparagraph (G), by striking out the period at the end of subparagraph (H) and inserting in lieu thereof ", or" and by inserting after subparagraph (H) the following new subparagraph:

"(I) financing of powerplant coal utilization capital expenditures.".

(b) DEFINITIONS.—Section 103 of such Code is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

"(i) POWERPLANT COAL UTILIZATION CAPITAL EXPENDITURES.—

"(1) IN GENERAL.—For purposes of subsection (b)(4)(I), the term 'powerplant coal utilization capital expenditures' means any capital expenditures which are qualified conversion costs, qualified sulfur removal system costs, or qualified coal preparation facility costs.

"(2) QUALIFIED CONVERSION COSTS.—For purposes of paragraph (1)—

"(A) IN GENERAL.—The term 'qualified conversion costs' means amounts which are paid or incurred for—

"(i) coal utilization property (within the meaning of section 196(b)); or

"(ii) fuel transportation, storage, processing, preparation, and handling equipment and facilities related to the conversion of any powerplant from the use of petroleum or natural gas to coal (including lignite).

"(B) EXCEPTIONS.—The term 'qualified conversion costs' does not include costs for—

"(i) real property acquisition; or

"(ii) facilities, equipment, or improvements which are not at the same site as the designated powerplant;

except as may be required for ash or other waste disposal, the transportation facilities related to such disposal, and coal storage or handling facilities.

"(3) QUALIFIED SULFUR REMOVAL SYSTEM COSTS.—For purposes of paragraph (1)—

"(A) IN GENERAL.—The term 'qualifying sulfur removal system costs' means the costs of design and installation of equipment and facilities for—

"(i) wet or dry scrubbing of flue gases;

"(ii) cleaning of coal (including lignite); or

"(iii) application of advanced combustion techniques for reduction of emissions;

required for reducing the sulfur atmospheric pollutants emitted by any powerplant.

"(B) EXCEPTIONS.—The term 'qualified sulfur removal system costs' does not include costs—

"(i) for real property acquisition; or

"(ii) for facilities, equipment, or improvements which are not at the same site as the powerplant.

"(4) QUALIFYING COAL PREPARATION FACILITY COSTS.—For purposes of paragraph (1), the term 'qualifying coal preparation facility costs' means the costs of design and installation of equipment and facilities for reducing the sulfur content of coal (including lignite) a substantial portion of which is contracted for use in any powerplant. Such term does not include costs for the acquisition of real property.

"(5) POWERPLANT.—For purposes of this subsection, the term 'powerplant' has the same meaning given such term in section 103(7) of the Powerplant and Industrial Fuel Use Act of 1978.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to obligations issued after the date of the enactment of this Act.

TITLE II—COAL CONVERSIONS UNDER THE CLEAN AIR ACT

SEC. 201. NEW SOURCE PERFORMANCE STANDARDS.

Section 111(a)(8) of the Clean Air Act is amended by inserting after "A conversion to coal" the following: ", whether or not required under any authority of law, including any conversion".

SEC. 202. FACILITIES CONVERTING TO COAL.

Section 113(d)(5)(A) of the Clean Air Act is amended by striking out "or" at the end of clause (i), inserting "or" at

the end of clause (ii), and inserting the following new clause after clause (ii):

"(iii) gives notice of an intent to voluntarily convert to the use of coal as a primary fuel,".

97TH CONGRESS
1ST SESSION

S. 1561

To amend the Internal Revenue Code of 1954 to encourage land conservation expenditures by allowing an income tax credit for such expenditures.

IN THE SENATE OF THE UNITED STATES

JULY 31 (legislative day, JULY 8), 1981

Mr. GRASSLEY introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To amend the Internal Revenue Code of 1954 to encourage land conservation expenditures by allowing an income tax credit for such expenditures.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits allowable) is amended by inserting after section 44E the following new section:

"SEC. 44F. CREDIT FOR LAND CONSERVATION EXPENDITURES.

"(a) GENERAL RULE.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 20 percent of the qualified land conservation expenditures paid or incurred by the taxpayer during the taxable year.

"(b) LIMITATION BASED ON AMOUNT OF TAX.—

"(1) IN GENERAL.—The credit allowed by subsection (a) for the taxable year shall not exceed the amount of the tax imposed by this chapter for the taxable year, reduced by the sum of the credits allowable under a section of this subpart having a lower number or letter designation than this section, other than credits allowable by sections 31, 39, 43.

"(2) CARRYOVER OF EXCESS CREDIT.—If the amount of the credit allowable under subsection (a) for any taxable year (determined without regard to paragraph (1)) exceeds the limitation provided in paragraph (1), the amount of such excess shall be added to the credit allowable under subsection (a) for the succeeding taxable year.

(c) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED LAND CONSERVATION EXPENDITURE.—The term 'qualified land conservation expendi-

ture' means any land conservation expenditures paid or incurred by the taxpayer with respect to any land—

"(A) which is used for the production of crops, fruits, or other agricultural products or for the sustenance of livestock; and

"(B) which is held by the taxpayer and is located within the United States.

"(2) LAND CONSERVATION EXPENDITURE.—The term 'land conservation expenditure' means any amount paid or incurred—

"(A) for purposes of soil conservation, prevention of soil erosion, or the reduction or control of agriculture-related pollution, and

"(B) for the treatment or moving of earth, including (but not limited to)—

"(i) leveling, grading, and terracing,

"(ii) contour furrowing,

"(iii) the construction, control, and protection of diversion channels, drainage ditches, earthen dams, water courses, outlets, and ponds,

"(iv) the eradication of brush, and

"(v) the planting of windbreaks.

"(d) RECAPTURE OF CREDIT IN CASE OF DISPOSITIONS, ETC.—

"(1) IN GENERAL.—If—

"(A) the taxpayer was allowed a credit under this section for qualified land conservation expenditures paid or incurred during any taxable year with respect to any land; and

"(B) the taxpayer disposes of such land or such land ceases to meet the requirement of subsection (c)(1)(A) within 3 years after the close of the taxable year referred to in subparagraph (A),

the tax imposed under this chapter for the taxable year in which such disposition or cessation occurs shall be increased by the amount of the credit allowed under this section with respect to such expenditures.

"(2) SUBSECTION NOT TO APPLY IN CERTAIN CASES.—Paragraph (1) shall not apply to—

"(A) a transfer by reason of death, or

"(B) a transaction to which section 381(a) applies.

For purposes of this subsection, the taxpayer shall not be treated as disposing of any land by reason of mere change in the form of conducting a trade or business so long as such area is retained in the trade or business and the taxpayer retains a substantial interest in the trade or business.

"(3) SPECIAL RULE.—Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit allowable under this subpart.

"(4) CARRYOVERS ADJUSTED.—In the case of any disposition or cessation described in paragraph (1)(B), any carryover under subsection (b)(2) shall be adjusted by reason of such disposition or cessation."

(b) The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 44E the following new item:

"Sec. 44F. Credit for land conservation expenditures."

SEC. 2. The amendments make by the first section of this Act shall apply to taxable years beginning after December 31, 1981.

DESCRIPTION OF ENERGY AND AGRICULTURAL TAX CREDIT BILLS (S. 329, S. 569, and S. 1561)

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

INTRODUCTION

The bills described in this pamphlet have been scheduled for a public hearing on October 23, 1981, by the Subcommittee on Energy and Agricultural Taxation of the Senate Finance Committee.

There are three bills scheduled for the hearing: S. 329 (relating to tax credits based on home heating costs) and S. 569 and S. 1561 (relating to tax credits for soil and water conservation expenditures.

The first part of this pamphlet contains a summary of the bills. This part is followed by a more detailed description of each bill, including present law, issues, an explanation of the provisions of each bill, their effective dates, and estimated revenue effects.

I. SUMMARY

1. S. 329—Senator Pell, et al.

Tax Credit for Home Heating Costs

Present law contains no tax credit based on home heating costs. Under the bill, qualifying individuals would be permitted a nonrefundable tax credit for certain amounts paid or incurred for any qualified home heating energy source. The amount of the credit would be equal to the amount paid or incurred for qualified home heating energy sources, multiplied by 12.6 percent or the preceding calendar year's change in the consumer price index, plus a factor related to the difference in degree days between the most recent winter and the preceding winter. In general, the credit would be limited to $300 ($150 in the case of married individuals filing separately) and would be phased out for individuals with income above $30,000 ($15,000 in the case of married individuals filing separately).

2. S. 569—Senators Jepsen, Baucus, Heinz, et al., and S. 1561—Senator Grassley

Tax Credits for Soil and Water Conservation

Present law permits farmers to deduct in the current tax year certain capital expenditures for soil and water conservation (sec. 175).

S. 569 would make certain expenditures for soil and water conservation on farm land eligible for the regular 10-percent investment credit. Amounts eligible for the investment credit would include soil and water conservation expenditures within the meaning of section 175(c) that the taxpayer does not elect to expense under section 175. The provisions of the bill would apply to soil and water conservation expenditures made in taxable years beginning after December 31, 1980.

Under S. 1561, a 20-percent tax credit would be allowed for land conservation expenditures incurred with respect to farm land held by the taxpayer. Such expenditures would include soil and water conservation expenditures described in section 175(c) and land conservation expenditures for depreciable property, which may also qualify for the regular investment credit. It is understood that expenditures that the taxpayer elects to expense under section 175, and expenditures for which a current deduction is otherwise allowable would not qualify as land conservation expenditures. The credit would be available for expenditures made in taxable years beginning after December 31, 1981.

II. DESCRIPTION OF BILLS

1. S. 329—Senator Pell, et al.

Tax Credit for Home Heating Costs

Present Law

Under present law, there is no general provision which permits tax credits for home heating costs.

Issue

The issue is whether a credit should be permitted for certain qualified home heating costs.

Explanation of the Bill

The bill provides a nonrefundable tax credit for certain amounts paid for qualified home heating energy sources. Under the bill, the amount of the credit would be equal to the sum of (1) the amount paid or incurred during the taxable year for all qualified home heating energy sources multiplied by the greater of 12.6 percent or the percentage charge in the CPI during the taxable year and (2) the degree day factor for such taxable year. The bill defines the degree day factor to be the amount by which the number of degree days in the calendar year immediately preceding such taxable year exceeds the number of degree days in the second preceding calendar year.

The amount of the credit is subject to a number of limitations. First, the maximum amount of the credit may not exceed $300. For this purpose, married individuals filing a joint return are treated as a single individual; married taxpayers filing separately are each subject to a maximum limitation of $150. Second, the maximum amount is reduced by 10 percent of the amount by which the taxpayer's adjusted gross income exceeds $30,000 ($15,000 in the case of a married individual filing separately). Thus, no credit would be allowed to a taxpayer whose adjusted gross income is at least $33,000 ($16,500 in the case of a married individual filing separately). Third, the amount of the credit is further reduced by any amounts received for any qualified home heating energy source under any Federal, State, or local program. Fourth, the credit is nonrefundable, and no carrybacks or carryovers of excess credits are allowed.

The credit is available only to one individual in each household. That individual is the person in the household who furnished a portion (whether or not more than half) of the cost of maintaining the household greater than the portion furnished by any other member of the household. This rule is to apply even if another member of the household actually paid the heating bills. The individual in the household who is eligible for the credit is deemed to have paid all the costs of

heating the household which were paid by the taxpayer and all the other members of the household.[1]

Under the bill, special rules are provided to permit allocation of the credit to tenants (other than tenant-stockholders in a cooperative housing association) who do not pay separately for heating. These rules attribute a portion of the rent to heating costs on the basis of regional differences in heating costs and climate. In addition, the bill authorizes the Secretary to promulgate regulations to apply the credit to condominium management associations (as defined in section 528 (c)(1) or members thereof and tenant-stockholders in cooperative housing corporations (as defined in section 216) so that the credit is allowed to the individuals paying, directly or indirectly, for the qualified home heating fuel so used.

The credit would be permitted for amounts expended for qualified home heating energy source, defined as an energy source (including wood) used for the purpose of heating the taxpayer's principal residence located in the United States. The determination of whether a dwelling unit is the taxpayer's principal residence would be made under principles similar to those of section 1034, except that (a) no ownership requirement would be imposed and (b) the principal residence must actually be used by the taxpayer as his residence during the taxable year. Thus, if part of a property were used for residential purposes and part were used for business or other purposes, only the heating costs allocable to residential purposes would be eligible for the credit. Also, no credit would be allowed to the taxpayer for any period during which the taxpayer rents his residence to another individual.

Effective Date

The credit would apply with respect to taxable years beginning after December 31, 1980, and before January 1, 1985.

Revenue Effect

It is estimated that this bill would reduce budget receipts by $2,911 million in fiscal year 1982, by $5,985 million in 1983, by $4,379 million in 1984 and by $4,118 million in 1985. These estimates reflect the most recent information available on long-term regional climatic patterns. Actual changes in receipts could vary substantially.

Prior Congressional Action

A similar provision was included in H.R. 3919 (96th Congress) as reported by the Finance Committee (S. Rep. 96–394) and passed by the Senate on December 17, 1979. That provision was not agreed to in the conference on H.R. 3919.

In addition, during consideration by the Senate of the Economic Recovery Tax Act of 1981, a similar proposal sponsored by Senator Rudman (unprinted amendment No. 322, July 28, 1981) was agreed to by roll call vote of 71–25. That amendment would have provided a credit equal to the amount paid or incurred during the taxable year

[1] Because the credit is only available to one individual per household, the lower limits applicable to married individuals filing separately would reduce the aggregate credit available to separate filers who live in the same household by half.

for all qualified home heating energy sources, multiplied by an amount equal to 40 percent of the change in the consumer price index for the year preceding such expenditure. The change would have been computed by comparing the price index as of the December immediately preceding the year of the deduction over that index for December of the second preceding calendar year.

Under that amendment, the credit would have been limited to any excess of $200 ($150 in the case of married individuals filing separately) over two percent of the amount of the taxpayer's adjusted gross income in excess of $15,000 ($12,500 in the case of married individuals filing separately). The credit would have been further reduced by any home heating energy source grants received under any Federal, State, or local program. The amendment was not agreed to in the conference on the Act.

2. S. 569—Senators Jepsen, Baucus, Heinz, et al. and S. 1561—Senator Grassley

Tax Credits for Soil and Water Conservation

Present Law

Under present law, a farmer can elect to deduct certain capital expenditures for the purpose of soil or water conservation (sec. 175). Such expenditures include amounts paid for items such as grading, terracing, and contour furrowing, the construction of drainage ditches, irrigation ditches, dams and ponds, and the planting of wind breaks. Also included are assessments levied by a soil or water conservation drainage district to the extent those expenditures would constitute deductible expenditures if paid directly by the farmer.

The cost of acquiring or constructing machinery or facilities that are depreciable may not be expensed. In the case of depreciable items such as irrigation pumps, concrete dams, or concrete ditches, the farmer is allowed deductions only through the depreciation allowances and only if he owns the asset. Certain depreciable assets are eligible for the regular 10-percent investment credit.

Certain costs incurred in connection with water and soil conservation are deductible as trade or business expenses without regard to section 175. Thus, interest expenses and property taxes are deductible as current expenses. Similarly, the cost of repairs to a completed soil or water conservation structure are deductible as current expenses. Amounts paid or incurred primarily to produce an agricultural crop are deductible expenses (see sec. 180), but are not treated as soil or conservation expenditures under section 175, even though such expenditures may incidentally conserve soil.

The deduction for soil and water conservation expenditures under section 175 is limited in any one year to 25 percent of the gross income derived by the taxpayer from farming. Any excess amount is carried forward to succeeding taxable years.

Issue

The issue is whether additional financial incentives should be provided in the form of tax credits to encourage farmers to conserve soil and water.

Explanations of the Bills

S. 569

Under S. 569, certain soil and water conservation expenditures would be made eligible for the regular 10-percent investment credit. Eligible soil and water conservation expenditures would be soil and water conservation expenditures within the meaning of section 175 (c) that the taxpayer would not elect to expense under section 175. Thus, the taxpayer would not treat amounts expended for the pur-

chase, construction, improvement, or installation of depreciable property as eligible soil or water conservation expenditures, but such property would continue to be eligible for the investment credit to the extent allowed under present law. In addition, amounts expended for soil or water conservation that the taxpayer elects to expense under section 175 would not be soil or water conservation expenditures eligible for the investment credit under the bill.

S. 1561

Under S. 1561, a 20-percent tax credit would be allowed for qualified land conservation expenditures. The credit would be available for taxpayers making qualified conservation expenditures with respect to farm land located in the United States and held by the taxpayer. Thus, expenditures made by a tenant would not qualify for the credit. Farm land would include land used for the production of crops, fruits, or other agricultural products, or for the sustenance of livestock. Soil and water conservation expenditures for the same type of land also are the expenditures that the taxpayer may elect to expense under section 175.

Qualified land conservation expenditures would be defined to include any amount paid or incurred for purposes of soil conservation, prevention of soil erosion, or the reduction or control of agriculture-related pollution. In addition, qualified land conservation expenditures would include amounts paid or incurred for the treatment or moving of earth, including (but not limited to) leveling, grading, and terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, water courses, outlets, and ponds, the eradication of brush, and the planting of wind breaks.

It is understood that qualified expenditures would not include expenditures the taxpayer elects to expense under section 175 or expenditures for which a current deduction is otherwise allowable, e.g., repairs to land conservation appliances or structures. Qualified expenditures would include expenditures for the purchase, construction, installation, or improvement of structures, appliances, and facilities that are depreciable property, some of which are also eligible for the regular 10-percent investment tax credit.

The 20-percent land conservation tax credit would be applied against the taxpayer's tax liability for the taxable year, reduced by the sum of other allowable credits except the credits allowable by sections 31, 39, and 43. If the amount of credit allowable for a taxable year exceeds this limitation, the amount of the excess would be added to the credit allowable for the succeeding taxable year.

If the taxpayer either disposes of land or ceases to use land for farming, any land conservation credits allowed with respect to such land within the 3 taxable years preceding the taxable year of such disposition or changed use would be recaptured. To the extent such credits had been applied against prior tax liabilities, the amount of the recaptured credit would be an increase in tax for the taxable year of the disposition or changed use. To the extent such credits had not been applied against prior tax liabilities, the amount of the recaptured credit would reduce the amount of credits carried over to the taxable

year of disposition or change in use. No credits could be applied against any increase in tax that resulted from the recapture of land conservation credits.

The credit recapture rules would not apply to dispositions of land if such land was transferred by reason of death or was transferred in a transaction to which section 381(a) applies. In addition, a taxpayer would not be considered to have disposed of land if the taxpayer merely changes the form in which he conducts business, but only so long as the land is retained in the trade or business and the taxpayer retains a substantial interest in the trade or business.

Effective Dates

The provisions of S. 569 would apply to taxable years beginning after December 31, 1980.

The provisions of S. 1561 would apply to taxable years beginning after December 31, 1981.

Revenue Effect

It is estimated that S. 569 would reduce budget receipts by $34 million in fiscal year 1982, $27 million in 1983, $30 million in 1984, $31 million in 1985, and $34 million in 1986.

The revenue estimate for S. 1561 is not yet available.

OCTOBER 23, 1981

STATEMENT OF SENATOR GEORGE J. MITCHELL

MR. CHAIRMAN:

THE SUBCOMMITTEE ON ENERGY AND AGRICULTURE TAXATION IS HEARING TESTIMONY TODAY ON TWO IMPORTANT ISSUES HOME HEATING COSTS AND SOIL AND WATER CONSERVATION. I WOULD LIKE TO COMMENT ON EACH ISSUE.

I AM A COSPONSOR OF SENATOR PELL'S BILL, S.329. BASICALLY, THIS BILL PROVIDES A TAX CREDIT FOR THE RISE IN HOME HEATING COSTS, ADJUSTED FOR THE SEVERITY OF THE WINTER. TO TARGET ASSISTANCE TO MODERATE INCOME WORKING FAMILIES, THE CREDIT IS PHASED OUT FOR FAMILIES EARNING MORE THAN $30,000 A YEAR.

A MEASURE SIMILAR TO THIS WAS ATTACHED TO THE TAX BILL IN THE SENATE EARLIER THIS YEAR. THIS WAS THE THIRD TIME THE SENATE HAS AGREED TO PROVIDE A TAX CREDIT FOR HOME HEATING COSTS. UNFORTUNATELY, EACH TIME THE HOUSE REFUSED TO ACCEPT THE MEASURE. I URGE SENATORS, SUCH AS SENATOR PELL, TO CONTINUE THEIR EFFORTS TO SEEK ENACTMENT OF THIS IMPORTANT MEASURE, AND I PLEDGE MY SUPPORT FOR THEIR EFFORTS.

A TAX CREDIT FOR THE COSTS OF HEATING ONE'S HOME FILLS AN IMPORTANT GAP IN THE RELIEF WE PROVIDE FOR RISING FUEL PRICES. LOW-INCOME HOUSEHOLDS QUALIFY FOR CERTAIN FEDERAL AND STATE ASSISTANCE PROGRAMS, BUT MOST MODERATE-INCOME FAMILIES ARE NOT ELIGIBLE. YET THEY HAVE BEEN SEVERELY EFFECTED BY RISING ENERGY COSTS. ALTHOUGH THE OVERALL CONSUMER PRICE INDEX HAS JUMPED 77 PERCENT OVER THE LAST DECADE, ENERGY COSTS IN NEW ENGLAND HAVE RISEN AN ASTRONOMICAL 550 PERCENT. THE UNIQUE CIRCUMSTANCES SURROUNDING THE OIL PRICE RISES AND THE CENTRAL ROLE OF ENERGY IN THE BUDGETS OF MIDDLE INCOME FAMILIES DEMAND SPECIAL RECOGNITION IN THE TAX CODE. RISING HOME HEATING COSTS CLEARLY EFFECT ONE'S ABILITY TO PAY TAXES.

THIS CREDIT IS ESPECIALLY IMPORTANT FOR THE PEOPLE OF MAINE. IN A 1980 SURVEY, MAINE CAME IN SECOND IN AVERAGE ANNUAL HEATING COSTS, JUST BEHIND NEW HAMPSHIRE. WITH THESE COSTS NOW APPROACHING $1500 PER YEAR, MAINE RESIDENTS HAVE ALL THE INCENTIVE THEY NEED TO CONSERVE ON ENERGY. PARTICULARLY IMPORTANT IS THAT ELIGIBLE HEATING EXPENSES INCLUDE THE COST OF HEATING ONE'S HOUSE WITH WOOD. WITH OVER HALF OF MAINE'S HOUSEHOLDS RELYING ON WOOD FOR AT LEAST PART OF THEIR WINTER FUEL, THIS MEASURE IS WELL-SUITED FOR MAINE'S ENERGY NEEDS.

COUPLED WITH THE 100-PERCENT PRICE INCREASE JUST 24 MONTHS AGO, THE DECISION TO LIFT CRUDE OIL CONTROLS GRADUALLY--AND THEN TO TOTALLY ABANDON THEM THIS JANUARY--ACCELERATED THE SPEED AT WHICH ARTIFICIALLY HIGH WORLD OIL PRICES HAVE BEEN TRANSLATED INTO AN ADDED DRAIN ON FAMILY BUDGETS. AND THE PEOPLE WHO HAVE FELT THIS COST THE MOST ARE THOSE LIVING IN THE NORTHERN TIER OF THE STATES, WHERE WINTERS ARE LONGER, AND COLDER THAN IN OTHER AREAS OF THE COUNTRY.

IN MAINE, FOR INSTANCE, HOME HEATING IS NOT A LUXURY OR EVEN A MODEST COMFORT, IT IS A BASIC ESSENTIAL WITHOUT WHICH LIFE ITSELF IS ENDANGERED.

SO HEATING OIL COSTS CANNOT BE AVOIDED, EVEN THOUGH MOST MAINE FAMILIES ARE USING THEIR OIL SPARINGLY, ARE KEEPING THEIR HOMES AT TEMPERATURES WHICH ARE FAR BELOW COMFORTABLE, AND ARE CLOSING OFF PORTIONS OF THEIR HOMES WHEN THEY CAN, AND LIVING IN FEWER ROOMS OVER THE COURSE OF THE WINTER, JUST TO CUT DOWN ON THE COSTS OF HEATING. THE CONSERVATION BY MAINE FAMILIES HAS HELPED THE REGION REDUCE ITS USE OF HEATING OIL, BUT THERE IS A POINT BELOW WHICH FURTHER CONSERVATION IS IMPLY IMPRACTICABLE.

A TAX CREDIT TOO OFFSET FURTHER INCREASES IN HOME HEATING COSTS IS HIGHLY DESIRABLE. GIVEN THE ENORMOUS BENEFIT PROVIDED IN THE TAX BILL FOR OIL COMPANIES, THIS MEASURE IS A VERY MODEST GESTURE TO MEET THE ENERGY NEEDS OF THE NORTHEAST.

I WOULD NOW LIKE TO TURN TO TAX CREDITS FOR SOIL AND WATER CONSERVATION. WITH THE GLOBAL POPULATION INCREASING AT A SUBSTANTIAL RATE, WORLDWIDE DEMAND FOR FOOD IS CONSTANTLY GROWING. IT IS IMPERATIVE THAT WE USE ALL OUR AVAILABLE FARMLAND, AND THAT WE NOT LOSE ANY FARMLAND TO FACTORS WITHOUT OUR CONTROL. THEREFORE, WE MUST PRESERVE ONE OF THE NATION'S MOST PRECIOUS RESOURCES, OUR SOIL.

MOST LAND THAT CAN BE EASILY FARMED IS NOW BEING USED FOR THAT PURPOSE. 85 PERCENT OF OUR MOST FERTILE CROPLAND IS CURRENTLY UNDER CULTIVATION. EACH YEAR, WE ARE LOSING A TOTAL OF 3 MILLION ACRES, INCLUDING ONE MILLION ACRES OF PRIME FARMLAND, TO NONFARM USES.

EROSION OF TOPSOIL IS A SERIOUS AND GROWING PROBLEM. THE AVERAGE NATIONWIDE LOSS OF SOIL BY SURFACE EROSION IS 4.8 TONS PER ACRE PER YEAR. EXPERTS SAY THAT THIS RATE SHOULD NOT EXCEED THE RATE OF SOIL REPLENISHMENT, WHICH IS 5 TONS PER ACRE PER YEAR. HOWEVER, SOME AREAS OF OUR COUNTRY HAVE BEEN MORE SERIOUSLY AFFECTED THAN OTHERS. FOR EXAMPLE, TAKE MY OWN STATE OF MAINE. AROOSTOOK COUNTY GROWS SOME OF THE FINEST POTATOES ONE CAN FIND. WE ARE WORLD FAMOUS FOR OUR MAINE POTATOES. POTATOES ARE THE ONLY CASH CROP GROWN IN THIS REGION, BUT THEIR CONTINUED SUCCESS IS IN JEOPARDY. THE U.S. DEPARTMENT OF AGRICULTURE HAS DEEMED AROOSTOOK COUNTY AS ONE OF THE MOST SEVERELY AFFECTED AREAS REGARDING SOIL LOSS. THIS REGION OF MAINE IS LOSING AN AVERAGE OF 15 TONS PER ACRE PER YEAR, AND IN SOME AREAS IS LOSING OVER 27 TONS PER ACRE PER YEAR.

SINCE CULTIVATION BEGAN IN THE MID 1800'S AROOSTOOK COUNTY HAS LOST TWO FEET OF TOPSOIL. THIS AMOUNTS TO ONE INCH EVERY SIX YEARS. CONSIDER THAT IT TAKES 30 YEARS TO FORM ONE INCH OF TOPSOIL AND YOU CAN READILY SEE THE MAGNITUDE OF THE PROBLEM MY STATE, AS WELL AS MANY OTHERS, IS FACING.

ERODED SOIL IS ALSO A THREAT TO OUR LAKES AND STREAMS. IT HAS HAD AN ADVERSE EFFECT ON FISH AND OTHER ANIMAL AND PLANT LIFE, AND HAS RESULTED IN DIMINISHED RESERVOIR STORAGE CAPACITY. ALSO, THIS EROSION ALLOWS CHEMICAL RESIDUES FROM FERTILIZERS AND PESTICIDES TO ENTER OUR WATERWAYS, THEREBY POLLUTING NOT ONLY OUR DRINKING WATER, BUT ALSO THE ENTIRE FOOD CHAIN AS THOSE SUBSTANCES ARE INGESTED BY FISH AND OTHER AQUATIC LIFE.

OUR FEDERAL GOVERNMENT HAS LONG BEEN CONCERNED ABOUT AND HAS ACTED UPON THIS PROBLEM, AS WELL IT SHOULD. BEGINNING WITH THE PASSAGE OF THE SOIL CONSERVATION ACT IN 1935 WE HAVE SHOWN OUR CONCERN. OTHER STATUTES, SUCH AS THE SOIL BANK ACT IN 1956, THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961, THE WATER POLLUTION CONTROL ACT IN 1972, AND THE CLEAN WATER ACT OF 1977, HAVE FURTHER DEMONSTRATED OUR WILLINGNESS TO ACT. PENDING LEGISLATION, SUCH AS S.569 AND S.561, WOULD BE FURTHER DEMONSTRATION OF OUR WILLINGNESS TO TAKE APPROPRIATE ACTION IN THIS VITAL AREA.

FORTUNATELY, THERE ARE EFFECTIVE WAYS TO COMBAT THIS PROBLEM. ENGINEERING AND AGRICULTURAL METHODS TO EXIST WHICH CAN REDUCE THE RATE OF SOIL DEPLETION TO AN ACCEPTABLE LEVEL. PRACTICES SUCH AS CROP ROTATION, TERRACING, STRIP CROPPING, PLANTING WINDBREAKS, CONVERTING MARGINAL FARMLAND TO PASTURE, AND FARMING ON THE CONTOUR, ARE BUT A FEW OF THE WAYS WE CAN HELP PREVENT EROSION. HOWEVER, WE MUST FIND WAYS TO MAKES THESE VIALBE OPTIONS AFFORDABLE TO OUR NATION'S FARMERS.

MEASURES SUCH AS S.569 AND S.1561 WILL AID IN SUCH EFFORTS.

THE PUBLIC DOES RECOGNIZE THE GRAVITY OF THIS PROBLEM, AND DOES WANT TO SEE FEDERAL INVOLVEMENT IN THE SOLUTION. A 1979 U.S. DEPARTMENT OF AGRICULTURE/LOUIS HARRIS POLL FOUND THAT 50 PERCENT OF ALL AMERICANS CONSIDERED MISUSE OF SOIL AND WATER RESOURCES A VERY SERIOUS PROBLEM. AND BY A 7 TO ONE MARGIN THEY FEEL THE GOVERNMENT SHOULD TAKE ACTION TO PROTECT FARMLAND FROM SOIL EROSION.

MR. CHAIRMAN, I FEEL WE MUST TAKE STEPS, AND TAKE STEPS NOW, TO STOP A NATIONAL DISASTER BEFORE IT OCCURS. WE MUST STOP THE LOSS OF OUR VALUABLE TOPSOIL TO THESE FACTORS WITHIN OUR CONTROL. WE MUST PROTECT THIS PRECIOUS NATURAL RESOURCE NOT ONLY TO FEED OURSELVES, BUT TO FEED FUTURE GENERATIONS AS WELL.

Senator WALLOP. This morning, the subcommittee hearing will come to order. The following bills are scheduled for this morning's hearing. S. 329, introduced by Senator Pell, fighting for a nonrefundable tax credit for certain amounts paid or incurred for home heating; S. 569, sponsored by Senator Jepsen, provides that certain soil and water conservation expenditures would be made eligible for the regular 10-percent investment credit; and S. 1561, sponsored by my colleague on the committee, Senator Grassley, which covers the same expenditures as S. 569 as well as land conservation expenditures for depreciable property which may already qualify for the regular 10-percent investment credit.

Senator WALLOP. It is my understanding that Senator Grassley has an opening statement. And then we will call the witnesses.

Senator GRASSLEY. First of all, Mr. Chairman, I want to thank you for your leadership in this area on this committee and, particularly, for holding hearings on these two bills.

Both the heating tax credit as well as soil conservation tax credit have been a source of continuing interest to me as a Member of the House of Representatives and the Senate. I like the concept of a tax credit from my perspective as a farmer as well as a legislator. Tax credits do not have the redtape and political implications of a Federal program—a tax credit is a decentralized approach which invites individual initiative and experimentation.

In my first bill as a Member of the House of Representatives, I combined the concept of soil conservation with wildlife habitat in 1977. Since the overall problem of soil conservation is so great, however, I limited my second bill to soil conservation.

Nevertheless, if there is any interest on anybody's part in the dual approach of combining soil conservation and wildlife habitat preservation, I am open to the idea even though I have not done that in my legislation.

We've got such a problem with soil conservation needs that we are going to have to focus on that. And that has been the direction of my legislation since 1979.

The credit is needed because it treats all taxpayers the same—as opposed to the deductions that now exist. And it also gives, through stretching out the application over many years, those who have no tax liabilities during the year of the soil conservation expenditure an opportunity to take advantage of it, which doesn't come with the deductions.

I think that the statistics offered in these hearings will show how severe the loss of soil is, how great a natural resource it is, how necessary it is for the Federal Government to promote the concept of soil conservation as it has been for the last 50 years under the subsidy programs that we've had, but also, these hearings will reveal that our programs have not worked. It's time that we try something new.

In many instances of economic initiative of addressing social concerns, the tax credit has been used and has proven to be an ideal approach. It has been supported by both Republicans and Democrats. After my study during the last 5½ years of this approach, I feel we are going to have to use it if this problem of soil conservation is going to be resolved.

I also have a written statement that I would like to put in the record at this point.

Senator WALLOP. So ordered.

[The prepared statement follows:]

PREPARED STATEMENT OF SENATOR CHARLES GRASSLEY, REGARDING S. 1561, A BILL TO PROVIDE TAX CREDITS FOR SOIL CONSERVATION EXPENDITURES

Mr. Chairman, I am very pleased to join you and your colleagues of the Senate Finance Subcommittee on Energy and Agricultural Taxation to hear testimony on soil and water conservation and home heating tax credit legislation. I am particularly pleased about this hearing because it gives me the opportunity to hear remarks about legislation that I have been working on for several years now and which I

have re-introduced this year as S. 1561, a bill to provide tax credits for soil and water conservation expenditures.

As a farmer and former member of the House Agriculture Committee, I have long been very concerned about the problems our country faces with soil erosion. I need not remind those present today that soil erosion presents one of our nation's most serious long term challenges. In 1977, about half of our 413 million acres of cropland were comprised of soils exposed to moderate, high or very high risk of damage by sheet or rill erosion. This exposure has resulted in over four billion tons of soil lost yearly. In my home state of Iowa our farmers lose about 10 tons of topsoil per crop acre each year, which gives the state the great misfortune of ranking first in the nation in soil erosion. Such loss of our vital resources is more than a threat to our farmers, but seriously threatens the nation's future potential as a provider of food and fiber for our own people and for those around the world.

There is no need for me to belabor the point that we are suffering intolerable levels of soil erosion and that our future relies upon the resolution of the problem. What we need to decide is how we can turn this disastrous trend around—how can we best bring soil erosion within acceptable levels. Clearly, we are not suffering such huge losses for lack of effort—we have been fighting soil erosion for nearly 50 years and presently have over 30 Federal programs to assist soil conservation efforts by providing loans, cost-sharing funds, research, education and technical assistance. Yet with all this effort, we are still losing.

Some may argue that we have not directed enough money to the effort. I can't argue with that, but the problem is that the Federal government doesn't have all the money that it would take to bring erosion under control. Earlier this year, USDA Secretary Block pointed out that it would take $250 billion to bring erosion under control. It is plain that we do not have that kind of money during these times of severe budget constraints. But one of the things that we can do is make certain what money is expended for this effort is used in the most effective way available.

I believe that this has been one of our major problems—we have been spending money in a way that does not maximize conservation effort. This is why we need to try a different approach, and I firmly believe that tax credits for conservation expenditures could better help our work in curbing soil and water erosion.

I first began to work on the idea of tax credits for soil conservation expenditures back in 1977 when I introduced the first bill providing such incentives for soil conservation purposes ever presented to Congress. During subsequent years, I continued my effort in this area. Needless to say, I was very pleased when I joined the Senate Finance Committee upon my arrival to the Senate earlier this year because now I am a member of the key committee that can help me work for the enactment of my tax credit ideas.

Moreover, I believe that the idea of tax credits for soil conservation expenditures has come into its own time. Clearly, our past soil conservation efforts have been inadequate—the continued high rates of erosion across the country, particularly in my home state of Iowa, attest to this fact.

Some might wonder why we need tax credits when we already have tax deductions available for soil conservation efforts. The simple fact is that deductions do not provide as good of an incentive. They provide incentives of varying degree depending upon the taxpayer's tax bracket. A person in a higher tax bracket is far more likely to be able to take advantage of a deduction. Also, with the new tax breaks, these deductions will become even less attractive.

A tax credit, however, is a much stronger incentive, as well as a far more effective inducement for wider utilization because taxpayers are treated equally regardless of the size of the tax liability. And since my legislation allows this credit to carry over into succeeding years, taxpayers would be assured of receiving the credit eventually even if they experienced a year in which they had no tax liability or in which the liability was too low to allow full benefit from the credit.

But beyond this, my legislation is in true harmony with the philosophy of less federal intervention. No new bureaucracy would be needed to administer the program. Government supervision over expenditures would be minimized since no new appropriations would be necessary. In short, this is the type of legislation that is most attractive to Americans today—it provides an incentive or inducement, but it does not allow the government to interfere with the decision-making process of the individual.

Thank you, again, for the opportunity to join you today and to make this statement. I look forward to working with you and my other colleagues on the Senate Finance Committee on this essential legislation.

Senator WALLOP. Now we have these three bills and two are more or less directed in one direction. And Senator Pell's is the

home heating one. And I would invite the Senator to give his statement on his bill now. And then I will have Senator Jepsen and Representative Evans give their statements. And then we will have Secretary Chapoton comment on both.

Good morning, Senator.

STATEMENT OF HON. CLAIBORNE PELL, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator PELL. Good morning, Mr. Chairman. Thank you and Senator Grassley for giving me this opportunity to be here.

Home heating costs are a critical problem that particularly affects us in New England and the other Northern tier cold weather States.

This hearing comes just at the start of the heating session and, hence, is particularly timely; and daily indications show that we may be in for a very cold winter. State officials in my own State have reported to me that the temperatures are about a third—32 percent—cooler than normal for this time of year. In addition, reports from the National Weather Service's Climate Analysis Center indicate that temperatures for other regions are cooler than a year ago. A colder winter means more burdensome costs.

In this regard, at the back of my statement, as an appendix which I trust will be entered into the record, are some very interesting weather statistics that show the effect on different States of the 1980-81 winter season. In both Wyoming and Idaho, I am glad to say, from your viewpoint, you are quite lucky because it was warmer last year. But if you look at the statistics for the other part of the country in the back of the statement, you will see from the map, that the eastern portion of the country has been affected very adversely.

I believe action on S. 329 and the residential home heating issue is appropriate since a modification of this legislation introduced by Senators Rudman, Kennedy, and myself was approved by the Senate by a vote of 71 to 25 during Senate consideration of the tax bill in July.

When I first introduced this legislation last January to provide a $300 tax credit against consumers' residential energy bills, I was especially concerned over the skyrocketing costs of residential heating for families in New England and other Northern-tier Snow Belt States. The colder than normal weather for the 1980-81 winter season and the sudden, sharp decontrol ordered by President Reagan in January, some 9 months ahead of schedule, had an impact on consumers that absolutely could not be ignored. The combination of colder weather and oil decontrol forced many families in the Northeast to pay from $0.08 to $0.13 a gallon more for oil to heat their homes than expected.

Now to be specific, in my own State of Rhode Island, accelerated decontrol and OPEC price increases meant that a typical family there that had paid $600 to heat its home 2 years ago faces a cost of nearly $1,500 in 1981, an increase of 250 percent.

The impact of early decontrol on a nationwide basis, was equally severe. Consumers, as a result of decontrol, were expected to pay an estimated $11.7 billion in additional costs for residential heating, according to the CBO. It was also estimated that the Federal

Government would recover from the Treasury between $6 and $10 billion of this amount from the oil companies through the windfall profits tax.

Now in my view, the sudden bonanza for both the oil companies and the Federal Government should, I think, have been returned, in great part, to the consumers. I was, therefore, pleased that the Senate adopted the modification of S. 329 introduced, as I mentioned earlier, by Senators Rudman, Kennedy, and myself as a part of the tax package in July. I regret the fact that it was dropped in conference, although it was overwhelmingly accepted by a rollcall vote on the Senate floor.

Mr. Chairman, the cost of residential heating for families remains a critical issue that Congress should address as soon as possible. As a result of the explosion in energy costs, some families in colder States last year paid more than one-third of their monthly income to heat their homes. They paid one-third of total income just to stay warm. That is, obviously, beyond proper consideration. And, it is just not right.

I emphasize that home heating costs are a problem not limited just to the Snow Belt, to the Northeast and New England.

Similar dramatic increases in home heating costs have hit family budgets in other regions of the Nation. According to the Bureau of Labor Statistics, household fuel costs for the Nation as a whole rose by 16.8 percent from a year ago. And for those residential users of natural gas, on a nationwide basis, the price rose 15 percent; for electricity, 16 percent; for home heating oil, 18 percent; and for other household fuels, almost 20 percent.

The current worldwide oil glut promises a pause, a hesitation, in energy price increases. A disruption in oil supplies, economic recovery or deregulation of natural gas will, again, press heating costs upward.

I believe, Mr. Chairman and Senator Grassley, that there is an urgent need for residential energy relief for consumers and families in many parts of our nation.

The Federal Government should not become a permanent subsidizer of home heating bills. That is not my intention or desire. But this Nation is undergoing an accelerated, revolutionary, and I believe temporary change in the production, use, and pricing of all forms of energy.

For many families, these changes are causing more than discomfort. They are causing acute hardship. For example, I have discussed with the Governor of Rhode Island what standby remedies exist if oil becomes far too expensive and the cost cannot be borne by consumers. Arrangements have been discussed where you would have heating shelters in the State. But, obviously, for a nation like ours to have to even think of the possibility of having heating shelters where people would go to live in order to be warm is not proper nor in accordance with our Government and our ideas.

I believe the Federal Government should help in this transition as we move into another kind of fuel and other kinds of energy by returning to the consumers some of the billions of dollars in windfall profits being taxed away from the oil companies and received by the U.S. Treasury.

And I hope that my colleagues will support some form of legislative relief, as earlier passed by the Senate, to protect families against the economic effect of our colder than normal weather conditions as well as the extraordinary increase for all forms of residential fuel during the past year.

And in conclusion, I would, again, invite to the attention of my colleagues, the tables in the back of my testimony which show the increasing cold temperatures in the different states during the 1980-81 winter season.

I thank you for your patience in listening to my statement.

Senator WALLOP. Thank you very much, Senator Pell.

[The prepared statement follows:]

PREPARED STATEMENT OF SENATOR CLAIBORNE PELL

Mr. Chairman, I want to express my deep appreciation for the willingness of you and the other Members of the Subcommittee on Energy and Agricultural Taxation to schedule this hearing on the problem of residential home heating costs and specifically, to consider legislation I introduced to help ease this burden, S. 329.

Home heating costs are a critical problem which significantly affects consumers in the New England region and other Northern tier states.

Mr. Chairman, this hearing, coming at the start of the heating season, is timely. Daily indications are that we are in for a cold winter. State officials in Rhode Island have already reported to me that temperatures are 32 percent cooler than normal for this time of year. In addition, reports from the National Weather Service's Climate Analysis Center indicate that temperatures for other regions of the country are significantly cooler than a year ago. A colder winter means more burdensome heating costs.

I believe action on S. 329 and the residential home heating issue is also appropriate since a modification of this legislation introduced by Senators Kennedy, Rudman and myself was approved in the Senate by a vote of 71-25 during Senate consideration of the tax bill in July.

Mr. Chairman, when I first introducted this legislation last January to provide a $300 tax credit against consumers residential energy bills, I was particularly concerned over the skyrocketing costs of residential heating for families in New England and other Northern tier and East Coast states. The colder than normal weather for the 1980-81 winter season and the sudden complete decontrol ordered by President Reagan in January, some 9 months ahead of schedule, had an impact on consumers that could not be ignored. The combination of colder weather and oil decontrol forced many families in the Northeast to pay from 8 to 13 cents a gallon more for oil to heat their homes than expected for the season.

To illustrate this point, during the early part of the 1980-81 heating season which normally begins in September, consumers heating their homes with oil in Rhode Island were paying an average of $1.02 per gallon for No. 2 oil. Just prior to the decontrol order in January, the average price was $1.09 per gallon and shortly after the Presidential decontrol order, prices for fuel rose to an average of $1.25 per gallon.

In Rhode Island, accelerated decontrol and OPEC price increases meant that a typical family that paid $600 to heat its home 2 years ago faced a cost of nearly $1,500 in 1981.

The impact of early decontrol on a nation-wide basis, Mr. Chariman, was equally severe. Consumers as a result of decontrol were expected to pay an estimated $11.7 billion in additional costs for residential heating, according to the Congressional budget Office. It was also estimated that the Federal government would recover for the Treasury between $6 to $10 billion of this amount from the oil companies through the windfall profits tax.

In my view, Mr. Chairman, the sudden bonanza for both the oil companies and the Federal government should have been returned to the consumers. I was therefore especially pleased that the Senate adopted the modification of S. 329 introduced by Senators Kennedy, Rudman and myself as part of the tax package in July. I regret that the amendment accepted overwhelmingly by the Senate was dropped in Conference.

The legislation I introduced to ease this burden was estimated by the Joint Committee on Taxation to cost the U.S. Treasury $2.5 billion in 1981, rising to $4.4 billion in 1984. In this regard, I am pleased to submit for the Subcommittee's record

the estimates prepared by the Joint Committee on Taxation on revenue loss to the Treasury for the tax credits proposed in S. 329 and the amendment accepted to H.R. Res. 266 in July. I am also submitting background summaries of S. 329 and the residential tax credit amendment accepted by the Senate.

Mr. Chairman, the cost of residential heating for families remains a critical issue that Congress should address as soon as possible. As a result of the explosion in energy costs, some families in colder states last year paid more than one-third of their monthly income to heat their homes. This is an unsupportable burden.

Home heating costs are a problem not limited to New England and the Northeast.

Similar dramatic increases in home heating costs have hit family budgets in other regions of the country. According to the Bureau of Labor Statistics, household fuel costs for the Nation as a whole rose by 16.8 percent from a year ago. For those residential users of natural gas, on a nationwide basis, the price rose 15.2 percent; for electricity, 16.8 percent; for home heating oil, 18.6 percent; and for other household fuels (coal and bottled gas) 19.7 percent.

The current world-wide oil glut unfortunately promises only a pause in energy price increases. A disruption in oil supplies, economic recovery or deregulation of natural gas will again press heating costs upward.

Mr. Chairman, there is an urgent need for residential energy relief for consumers and families in many parts of this country.

The tax assistance proposed in S. 329 is justified because to a large extent the sharp increase in home heating costs are the result of national energy policy, enacted by the Federal government, which permits prices of oil and gas to rise rapidly to levels set by OPEC nations. This abrupt change in national policy has provided no reasonable time for homeowners to adjust and adapt to the higher costs. The Federal government has a responsibility to provide some relief during a period of transition while homeowners change heating systems, change to new fuels and make their homes more energy efficient.

Indeed, the Federal government has recognized that responsibility by providing home heating assistance grants to the poor who are simply unable to heat their residences at the higher prices. This proposal would extend similar assistance to low- and moderate-income families who do not qualify for the current grant program.

The Federal government should not become a permanent subsidizer of home heating bills. But this Nation is undergoing an accelerated, revolutionary change in the production, use and pricing of all forms of energy. For many families, these changes are causing more than discomfort; they are causing real hardship. I believe the Federal government should help in this transition by returning to the consumers some of the billions of dollars in windfall profits being taxed away from the oil companies and received by the U.S. Treasury.

I hope my colleagues will support some form of legislative relief, as earlier passed by the Senate, to protect families against the economic effect of our colder than normal weather conditions as well as the extraordinary increase for all forms of residential fuel during the past year.

ESTIMATED REVENUE LOSS OF S. 329

RESIDENTIAL HOME HEATING FUEL CREDIT

CALENDAR YEAR 1981
(dollar amounts in millions)

ADJUSTED GROSS INCOME	NUMBER OF RETURNS (thousands)	REVENUE LOSS				AVERAGE REDUCTION
		ELECTRICITY	GAS	OIL, ETC.	TOTAL	
LESS THAN $5,000	1,880	10	41	28	79	$42
$5,000 LESS THAN $10,000	10,829	60	253	173	486	$45
$10,000 LESS THAN $20,000	21,569	128	538	368	1,034	$48
$20,000 LESS THAN $30,000	15,096	103	432	295	830	$55
GREATER OR EQUAL $30,000	2,344	15	62	43	120	$51
TOTAL	51,718	316	1,326	907	2,549	$49

JOINT COMMITTEE ON TAXATION, OCTOBER 16, 1981

ESTIMATED REVENUE LOSS OF S. 329

RESIDENTIAL HOME HEATING FUEL CREDIT
(AS AMENDED IN S.J.RES.266, 7/28/81)

CALENDAR YEAR 1981
(dollar amounts in millions)

ADJUSTED GROSS INCOME	NUMBER OF RETURNS (thousands)	REVENUE LOSS				AVERAGE REDUCTION
		ELECTRICITY	GAS	OIL, ETC.	TOTAL	
LESS THAN $5,000	1,880	3	12	9	24	$13
$5,000 LESS THAN $10,000	10,829	19	79	54	152	$14
$10,000 LESS THAN $20,000	21,569	40	168	115	323	$15
$20,000 LESS THAN $30,000	9,048	16	66	45	127	$14
GREATER OR EQUAL $30,000	--	--	--	--	--	--
TOTAL	41,336	78	325	223	626	$15

JOINT COMMITTEE ON TAXATION, OCTOBER 16, 1981

FACT SHEET ON S. 329

PURPOSE: TAX CREDIT	-----	To provide Tax Credit for Residential Heating Costs
EFFECTIVE DATE OF TAX	-----	Taxable Years 1981-1984
MAXIMUM CREDIT	-----	$300.00
ELIGIBILITY	-----	All households (both renters & owners) with incomes up to $30,000; above that level the credit is reduced until it is phased out at $35,000. Credit is also reduced dollar for dollar for any amount received by the taxpayer in the form of grant assistance from any government source.
FORMULA	-----	THE SUM OF: 1) Annual amount paid by household, individual or family for residential heating from any source: oil, wood, gas, coal. MULTIPLIED BY: 2) CPI increase from previous year (12.4% in 1980; current projected 1981- 8.4%) PLUS 3) One dollar for each heating degree day considered by the National Weather Service to be above the normal for the state (over a 30-year period).
EXAMPLE OF FORMULA USING THE STATE OF RI	---	Average price in Jan. 1981: $1.26/gal Current price (10/81): $1.26/gal Average consumption: 1200/gals/year

Amount Paid	Times CPI	PLUS Degree Days	= CREDIT
$1512.00	X .124	+ 243.7	= $431.00 (Maximum credit = $300.)

REVENUE LOSS TO US TREASURY	-----	$2.549, rising to $4.4B in 1984, as estimated by Joint Committee on Taxation (1981-1984)

State Breakdown on Degree Days Nationwide: see attached sheet 1980-81

STATE/REGION	1941-70 STATE POP. WEIGHTED HEATING DEGREE DAY NORMALS AVERAGE OVER 30 YEAR PERIOD	HEATING DEGREE ACCUMALATION 1980/1981 SEASON	HEATING DEGREE DAYS VARIATION ABOVE NORMAL
ALABAMA	2706.7	3078	371.3
ARIZONA	2290.9	1797	0
ARKANSAS	3222.3	3289	66.7
CALIFORNIA	2732.4	2103	0
COLORADO	7000.5	6237	0
CONNECTICUT	6133.4	6195	61.6
DELAWARE	4777.7	4901	123.3
FLORIDA	712.3	1011	298.7
GEORGIA	2689.1	3022	332.9
IDAHO	6917.6	6308	0
ILLINOIS	6060.1	6106	45.9
INDIANA	5716.9	5919	202.1
IOWA	6831.6	6256	0
KANSAS	4895.8	4402	0
KENTUCKY	4420.2	4693	272.8
LOUISIANA	1715.8	2029	313.2
MAINE	8000.5	8083	82.5
MARYLAND	4780.4	4921	140.6
MASSACHUSETTS	6230.5	6551	320.5
MICHIGAN	6737.5	6973	235.5
MINNESOTA	8729.0	7995	0
MISSISSIPPI	2419.3	2710	290.7
MISSOURI	5022.6	4861	0
MONTANA	8291.5	7060	0
NEBRASKA	6336.9	5547	0
NEVADA	4867.6	3698	0
NEW HAMPSHIRE	7534.2	7564	29.8
NEW JERSEY	5388.8	5743	354.2
NEW MEXICO	4699.8	4292	0
NEW YORK	5897.4	6119	221.6
NORTH CAROLINA	3394.0	3799	406
NORTH DAKOTA	9486.9	8298	0
OHIO	5782.0	6185	403
OKLAHOMA	3516.2	3235	0
OREGON	5254.9	4681	0
PENNSYLVANIA	5753.5	6143	389.5
RHODE ISLAND	5921.3	6165	243.7
SOUTH CAROLINA	2696.2	3040	343.8
SOUTH DAKOTA	7673.0	6578	0
TENNESSEE	3810.9	4136	325.1
TEXAS	2022.3	2051	18.7

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STATE/REGION	1941-70 STATE POP. WEIGHTED HEATING DEGREE DAY NORMALS AVERAGE OVER 30 YEAR PERIOD	HEATING DEGREE ACCUMULATION 1980/1981 SEASON	HEATING DEGREE DAYS VARIATION ABOVE NORMAL
UTAH	6579.6	6006	0
VERMONT	7871.6	8055	183.4
VIRGINIA	4284.8	4603	318.2
WASHINGTON	5752.6	5046	0
WEST VIRGINIA	5110.6	5590	479.4
WISCONSIN	7530.5	7354	0
WYOMING	7893.3	6836	0

FACT SHEET

ON KENNEDY, RUDMAN, PELL AMENDMENT TO

H.R. RES. 266

PURPOSE: TAX CREDIT	-----	Provide Tax Credit for Residental Heating Costs
EFFECTIVE DATE OF TAX:	-----	Taxable Year 1981
MAXIMUM CREDIT	-----	$200.00
ELIGIBILITY	-----	All households (both renters & owners) with incomes from $15,000; above that level the credit is reduced until it is phased out at $25,000. Credit is also reduced dollar for dollar for any amount received in the form of government assistance from any government source by the taxpayer for residential heating costs.
FORMULA	-----	THE SUM OF: 1) annual amount paid by household, individual or family for residential heating from any source: wood, oil, gas, coal. MULTIPLIED BY: 2) ½ CPI increase from previous year (12.4% in 1980; current projected CPI for 1981 is 8.4%)
EXAMPLE OF FORMULA:	-----	Based on an average price and consumption of #2 home heating oil in RI as of Jan., 1981: (current Oct.1981 price: $1.26/gal.)

Amount Paid	times ½CPI	=	CREDIT
$1,512.00	X .42	=	$63.00

(Maximum credit = $200.00)

REVENUE LOSS TO US TREASURY	-----	ESTIMATE FROM JOINT COMMITTEE ON TAXATION FY 1981: $626 million

Executive Summary

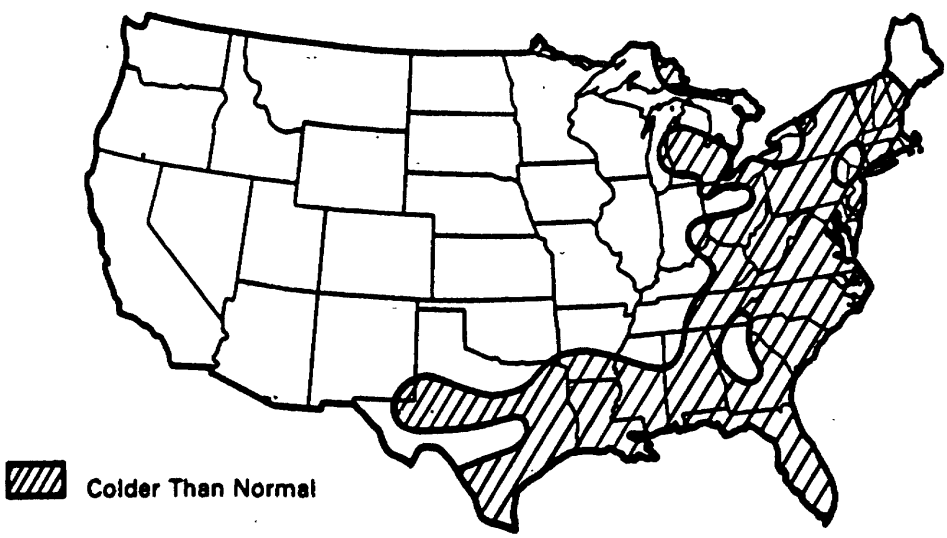
Heating Degree-Days

Heating Degree-Days Accumulated from July 1 through May 3

Departure from Last Year

Colder Than Last Year

Departure from Normal



Colder Than Normal

Source: Department of Commerce – NOAA.

Senator WALLOP. You can well imagine that there is an incredible impasse that has been created for American consumers primarily because American Government has subsidized American consumers' uses of energy. And, you know, our habits developed on the basis of consuming energy is far less than its cost of replacement has been. And that's part of the reasons why we are here. It is not the fault of the consumers that the Government seduced him for his vote and provided that kind of subsidy. But it is going to be difficult for us to get out of.

Primarily, one of the principal subsidies that remains is natural gas. Those of your consumers in Rhode Island who are fortunate enough to be on natural gas, I suspect, are paying about 28 percent less per Btu than those of your consumers who are on oil. Their problem still remains to be dished out to them. And that is not going to be easy for this Government or for you to deal with either. But somehow or another, as a country, we can't continue to distort the relative Btu values by artificially holding one or another down because that creates distortions in production. And sooner or later, contrives yet another artificial shortage in which somebody other than the Government is going to be blamed. Oil companies are going to be blamed, and all kinds of things, when it is the Government's fault.

But let me ask you this. If you have to choose between enacting your home heating credit and retention of the existing residential energy conservation credit, which would you take?

Senator PELL. I would want to study your question and review exactly what the dollar impact was. I don't know offhand what the impact would be. Maybe one of your staff could give me that answer. I would support the credit that gave the greatest benefits to the consumers.

Senator WALLOP. For this winter or for the long run?

Senator PELL. Well, for the long run, I don't believe that my legislation will be necessary because as you have pointed out, it is better that the natural economics of the marketplace take hold and take control. I look on this as temporary until we get a more permanent solution to our rising energy cost problem

Second—I don't know if you would agree or not—my long view is for the long haul, we are going to find ways of creating energy that once again will make it very cheap indeed, whether it's from fusion; whether it's from coal and shale. And then when that time comes, the question will be how we will be able to handle that bonanza.

Senator WALLOP. Let me tell you that I think that neither you, nor I, nor our children will see that.

Senator PELL. Neither you nor I, but maybe our children will.

Senator WALLOP. I doubt that they will see any real cheap energy the way we had it the 1950's and 1960's in the country. I just don't think the fusion—fusion may be plentiful when it is going to come, but it isn't going to be cheap. And certainly oil shale and gassified coal and liquefied coal are the things that are not going to be cheap.

Does your bill provide for a phaseout of that credit?

Senator PELL. Yes. It does; by 1984. Furthermore, Congress is a very flexible institution. There can always be an earlier phaseout when the time comes.

If the price of passage was a time frame, I would certainly accept it because the important thing is to try to get some relief in the immediate future for many of my constituents who will really suffer this winter, next winter, and the winter after.

Senator WALLOP. Well, I think all of us will. And they are suffering, as well, from decisions that were made well before you or I started here.

Thank you very much.

Senator PELL. Thank you very much for giving consideration to this bill.

Senator WALLOP. The next witnesses are my colleagues, Senator Robert Jepsen and his House colleague, the Honorable Cooper Evans. Is Mr. Evans here?

Senator GRASSLEY. Mr. Chairman, my colleague from Iowa is probably too modest to say what I am going to say. I would like to compliment Roger and his family because on their family farmstead, they practice soil conservation so Roger is the person who practices what he is going to preach in this legislation. I think it is pretty nice to have a chairman of the Agriculture Subcommittee on Soil Conservation who not only enjoys a leadership role, but also can demonstrate his concern through action.

And if you would like, I think we ought to invite him to join us up here to participate in the rest of this hearing.

Senator WALLOP. By all means.

Senator GRASSLEY. Thank you.

STATEMENT OF HON. ROGER JEPSEN, A U.S. SENATOR FROM THE STATE OF IOWA

Senator JEPSEN. Thank you, Mr. Chairman. It is a privilege to appear before you today. And my colleague and my lifelong friend, I might add, Senator Grassley's farm and my family farm are, as the crow flies, about 6 miles apart. He does know that we have good soil conservation practices on our lands as does he on his land. Installation of such practices is not cheap.

I appreciate having this opportunity to provide some insight and background about a bill which I introduced as chairman of the Agriculture Subcommittee on Soil and Water Conservation on February 26 of this year.

Congressman Cooper Evans of the Third Congressional District of Iowa has introduced a companion bill in the House.

I am pleased to announce and note that as of today, I have 25 cosponsors for my bill, including support from both sides of the aisle: Senators Melcher, Hatfield, Hayakawa, Abdnor, Pryor, Dixon, Kassebaum, Andrews, Laxalt, Heflin, Lugar, Thurmond, Cochran, Burdick, McClure, Helms, Mitchell, Stevens, Inouye, Baucus, Cohen, Schmitt, Heinz, Hawkins, and Zorinsky. And several others have told me that they will become cosponsors in the near future.

I would also point out that on the subject of soil and water conservation, Senator Grassley has for years, both in Iowa and in Washington, been a leader. There are features of his bill that he

will introduce in which I feel confident that as we move ahead in this whole subject matter, there might be pieces of both bills that could be resolved into one, as they usually are, and come out in a committee bill.

Mr. Chairman, I would like to reiterate once again, my concerns about the loss of this Nation's land, which is so essential for food production. This loss is caused by the erosion of our soil from uncontrolled water and wind.

As you know, for years we have extracted more and better crops from our fertile soil. But you know firsthand that we cannot keep doing that much longer. We have to stop and think: Are we using the soil in the best manner possible? Are we using the best tillage methods?

You know that 5 percent of the Nation's prime farmland is located in the State of Iowa, and that we lead the country in producing corn, soybeans, and pork. It is no wonder that American agriculture—which is Iowa to a notable degree—has been called the marvel, the envy, and the hope of a hungry world.

As a result of our great resources in Iowa, you might also realize that we have a great responsibility. While we may lead the Nation in producing corn, and we do; soybeans, and we do; and pork, and we do, we also have the dubious distinction of leading the Nation in the amount of soil lost to erosion each year.

But soil erosion is not an isolated issue. It does not just affect the Iowa farmer, it concerns agricultural producers across this country, and it should concern our policymakers. Ultimately it will affect every American who has to put food on the table.

The current situation has been rightfully described by Agriculture Secretary John Block as "a crisis in the making." When Iowa soil conservationist Gene Renken tells you that there is land in Iowa that's going to be out of farming in the next 25 years because of soil erosion, it certainly brings this crisis closer to home.

According to the facts, the productive capability of 1 to 1.5 million acres of farmland is lost each year to soil erosion. That's the equivalent of more than six cities, if you can believe it, the size of Chicago.

The director of the soil conservation department in Iowa put this information in terms we can all understand, money, cash, C-A-S-H.

Every year Iowa loses approximately 9.7 tons of soil for every acre. That's enough soil to fill up the two single-axle straight trucks. If we could sell the soil we're losing every year in the State of Iowa at $60 per ton, we could make $3 billion. But the cost in terms of resources lost can not even be measured. It takes the earth hundreds or even thousands of years to replace even 1 inch of topsoil.

Agriculture producers and professional technicians have worked hard for many years to reduce these alarming and appalling statistics. In spite of their efforts, over half of our country's topsoil has washed away and is lost forever. It is not replaceable. Vast quantitites of fertilizer, agricultural limestone, and seed have gone with it.

The long-term cost to producers, as well as to our Nation, is staggering, especially when one considers the increased demand for food, fiber, and oil seed in our growing Nation and world.

I could talk at length about the problems associated with saving soil, one of our country's most important resources. And I would point out that the President of our country, and down in Cancun, I notice that the news broadcasts in that area, and leaders from all over the world are sitting around the table this very moment talking about the problem of feeding the hungry millions.

Other valid, current, and widely accepted statistics on soil loss throughout the country are readily available and a matter of record. I will not repeat any more of them here in the interest of time except to say that annual soil losses in this country are in the range of billions of tons.

My bill was the first of several tax credit bills offered in the 97th Congress. Some of those introduced since February include tax credits for soil conservation. This bill, S. 569, offers landowners and operators a choice of a 10-percent investment tax credit or a tax deduction for the money which they spend to install and maintain soil and water conservation practices.

It will amend section 175 of the Internal Revenue Code to allow tenants as well as landowners to use the 10-percent investment credit or the tax deduction. Heretofore, tenants were not included, nor were absentee landowners. These inequities will be corrected with the passage of this bill.

The Joint Committee on Taxation estimates a loss of revenue in 1982 of $25 million. That is a small price to pay when we compare it to $3.7 billion of income tax paid by American farmers last year.

Mr. Chairman, I wish to make this report, prepared by the Joint Committee on Taxation, a matter of record for this hearing.

[A letter from Mark McConaghy of the Joint Committee follows, the report is on page 39:]

Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, D.C. 20515

considering that the tax benefits available under the Act provide at most ten percent of the cost of additional conservation expenditures, it appears that any increase in federal tax revenues resulting from the Act is likely to be small and the timing of those potential receipts is uncertain.

Sincerely,

Mark McConaghy

CC: Honorable Dan Rostenkowski
Chairman
Joint Committee on Taxation

Honorable Robert Dole
Vice Chairman
Joint Committee on Taxation

Congress of the United States
JOINT COMMITTEE ON TAXATION
1015 LONGWORTH HOUSE OFFICE BUILDING
Washington, D.C. 20515

JUN 5 1981

Honorable Roger W. Jepsen
United States Senate
Washington, D. C. 20510

Honorable Cooper Evans
U. S. House of Representatives
Washington, D. C. 20515

Dear Senator Jepsen and Mr. Evans:

This is in response to your request, addressed to Chairman Rostenkowski, for a revenue estimate of the Soil and Water Conservation Act of 1981, which has been introduced as S. 569 in the Senate and as H.R. 2515 in the House.

The Act would allow investment tax credit on those conservation expenditures which, according to the present law, may not be deducted currently under section 175 either because they exceed 25 percent of gross farm income, or because the persons incurring such expenditures have no income from farming. The estimated revenue impact of the Act through fiscal year 1986 is shown below.

1981	1982	1983	1984	1985	1986
		(Millions of Dollars)			
-9	-25	-27	-30	-31	-34

If the Act were to become Public Law after mid-September, too late for its revenue effects to be reflected in estimated payments, there would be no revenue loss in fiscal year 1981 but the figure shown for 1982 would be increased to $34 million.

You also asked us to evaluate "the probable increase in federal revenues which would result from the continued abundant agricultural production which the conservation farming will make possible". In this connection, we understand that the conservation expenditures are generally considered long term investments, and that productivity improvements from these expenditures which would affect farm income come about only gradually over a relatively long period of time. We further understand that a substantial portion of benefits obtained from conservation expenditures are off-site benefits, such as lower pollution of streams, which are in the long run interest of the society and do not necessarily lead to increase in taxable income. With these points in mind, and

Senator JEPSEN. And in conclusion, I would respectfully urge that favorable consideration be given to S. 569. We have worked hard on it. And we feel it is a reasonable piece of legislation. And will provide an incentive to get more conservation practices on our land and do it at a quicker pace.

And I thank the distinguished Senators for letting me share this proposed piece of legislation with you at this time.

Senator WALLOP. Coming from the same kind of background in struggling with the problems of erosion and loss of soil and loss of opportunities, due to wind, weather, I understand what you speak of. And certainly the ultimate value of Americans is America, and that means the soil. Thank you for your testimony.

Senator JEPSEN. Thank you.

Senator WALLOP. Is your House colleague here or would he merely like his statement put into the record?

Senator JEPSEN. Congressman Evans from Iowa has arrived.

Senator WALLOP. Congressman, welcome this morning. And you are just in time to deliver your statement.

Congressman EVANS. Thank you, Mr. Chairman.

STATEMENT OF HON. COOPER EVANS, REPRESENTATIVE FROM THE STATE OF IOWA

Congressman COOPER. Mr. Chairman, and members of the committee, I am pleased to appear before you today to speak in favor of Senator Jepsen's bill, S. 569, the Soil and Water Conservation Incentives Act of 1981. I have joined the senior Senator from Iowa in his efforts to promote sound soil and water conservation policies and practices by introducing the companion to this bill in the House.

Increasing production costs coupled with falling commodity prices limit the ability of individual farmers and landowners to commit financial resources to conservation investments. This, we hope, will be a short-lived problem. But the problem we face with respect to the deterioration of our land resources is more than a passing one. It has tremendous long-term implications for our ability to produce record harvests and thus for the ability of this country to meet the food needs of people around the world and to contribute to a favorable balance of trade for the United States. And we are not moving anywhere near as fast as we must to solve that problem.

We must provide more incentives at the national level to encourage farmers and landowners to take seriously their stewardship of this Nation's soil resources. The bill we are discussing today adds that kind of incentive. It would allow investment tax credits on those conservation expenditures which may not be deducted under current law. Section 175 of the Internal Revenue Code currently prohibits these deductions in cases where the expenditures exceed 25 percent of gross farm income, or because the persons incurring such expenditures have no income from farming.

The Joint Committee on Taxation has prepared an estimate of the revenue impact of this bill. Their estimated losses to the U.S. Treasury are as follows: in 1982, $34 million; in 1983, $27 million; in 1984, $30 million; in 1985, $31 million; in 1986, $34 million.

For purposes of comparison, the annual USDA expenditures for soil conservation are approximately $800 million.

Clearly, the loss in tax revenue is minute when you consider the potential soil which could be saved by implementing appropriate soil and water conservation measures. In addition to farmland benefits, there will be, of course, sizable additional benefits to the entire Nation from cleaner, silt-free lakes and streams when these practices are in place.

The State of Iowa, I am proud to say, leads the Nation in funds and services committed to conservation districts. Next year Iowa, as a State, plans to spend $5.7 million for soil conservation cost-sharing programs in the State. But this is not enough.

Through service as Commissioner in my home county's soil conservation district, and as someone who operates 1,400 acres of fine Iowa farmland, I have seen firsthand the urgent need for farmer incentives to make the changes necessary to conserve our soil. Because of intensive cropping practices in Iowa, the average topsoil loss is 10 tons per acre per year due to erosion. In comparison, only 5 of those 10 tons of soil are annually replaced through natural processes. If that difference is not balanced soon, we are headed for serious problems.

The rich agricultural lands of this Nation represent one of our most valuable assets, but like other natural resources, they require careful management on our part if their quality and quantity are to be maintained. This bill will provide additional incentives for good soil management, and I urge your support for this measure in the interest of all regions of the country, and in the interest of producers and consumers alike.

Mr. Chairman, I greatly appreciate the opportunity to appear before the committee this morning.

Senator WALLOP. Thank you very much, Congressman Evans. Your testimony certainly added to that of your distinguished colleague, the senior Senator from Iowa.

This is just sort of musing, but one of the difficulties that we have in the form of government in which we operate is to put into perspective all the kinds of land policies that we might have. We have turf problems as you know. I am certain that the Agriculture Committee and the Energy Committee and the Finance Committee, if they sat down together, which they would not do, they could come up with a much more creative approach and a much more efficient approach in dealing with the variety of husbandry problems that we have. I know Senator Jepsen's personal experience on this, but if one were to try to put in some sort of priority perspective, money we spend in this country for husbandry, you might spend a little bit less on managing the wilderness area and a little bit more on managing the Nation's farmlands. But we are never put into a position where we can make that choice at the same time and in perspective. I don't know what to do about it. It is just one of the frustrations that I suffer when we sit and try to make policy that will take the country through the end of the century in good shape.

I was saying before that the ultimate value to Americans of America is the physical being of this country. And if we don't care for it, to me it doesn't make any difference how enlightened our

social policies are; how far reaching our preservation of nonproduction resources is, we ultimately will have nothing that we would hand to our children and grandchildren.

And your efforts this morning are certainly a coordinated step. I appreciate it.

Senator GRASSLEY. Well, the comment I would make is that we are going to spend next year, according to the budget, I think, $135 or $145 million on soil conservation from the Federal Treasury under a program that has been in existence probably for the last 40 or 50 years. And whether you use Senator Jepsen's figure of $25 million or my figure which would be larger because of the larger credit, it's a small amount and it is going to encourage much more private investment in this area in the long term than that money that is directly appropriated from the Federal Treasury. But it is going to do it without the redtape that normally discourages participation of a lot of landowners and tenants in this program.

Senator WALLOP. Either of you are certainly welcome to come and join the committee up here.

Senator JEPSEN. Thank you, Mr. Chairman. I will not be able to but I do appreciate the invite. It is very comforting to have you as a subcommittee chairman. And it is a dimension of comfort to know that my colleague from Iowa, Mr. Grassley, who knows this subject matter as well as anybody in the United States of America, sits on the committee also.

Senator WALLOP. Thank you very much. Congressman Evans, you are more than welcome to join us.

Congressman EVANS. I am afraid my duties on the other side require that I return.

Senator WALLOP. You trust me to shoot at the Secretary all by myself? [Laughter.]

Congressman EVANS. Yes. Thank you.

[The prepared statement follows:]

PREPARED STATEMENT OF CONGRESSMAN COOPER EVANS

Mr. Chairman and Members of the Committee: I am pleased to appear before you today to speak in favor of Senator Jepsen's bill, S. 569, the "Soil and Water Conservation Incentives Act of 1981". I have joined the senior Senator from Iowa in his efforts to promote sound soil and water conservation policies and practices by introducing the companion to this bill in the House.

Increasing production costs coupled with falling commodity prices limit the ability of individual farmers and landowners to commit financial resources to conservation investments. This, we hope will be a short lived problem. But the problem we face with respect to the deterioration of our land resources is more than a passing one. It has tremendous long term implications for our ability to produce record harvests and thus for the ability of this country to meet the food needs of people around the world and to contribute to a favorable balance of trade for the United States. And we are not moving anywhere near as fast as we must to solve that problem.

We must provide more incentives at the national level to encourage farmers and landowners to take seriously their stewardship of this Nation's soil resources. The bill we are discussing today adds that kind of incentive. It would allow investment tax credits on those conservation expenditures which, may not be deducted under current law. Section 175 of the Internal Revenue Code currently prohibits these deductions in cases where the expenditures exceed 25 percent of gross farm income, or because the persons incurring such expenditures have no income from farming.

The Joint Committee on Taxation has prepared an estimate of the revenue impact of this bill. Their estimated losses to the U.S. Treasury in millions of dollars are as follows: 1982, −34; 1983, −27; 1984, −30; 1985, −31; and 1986, −34.

For purposes of comparison, the annual USDA expenditures for soil conservation are approximately $800 million. Clearly the loss in tax revenue is minute when you consider the potential soil which could be saved by implementing appropriate soil and water conservation measures. In addition to farmland benefits, there will of course be sizable additional benefits to the entire Nation from cleaner, silt-free lakes and streams when these practices are in place.

The State of Iowa, I am proud to say, leads the nation in funds and services committed to conservation districts. Next year Iowa plans to spend $5.7 million for soil conservation cost sharing programs in the state. But this is not enough.

Through service as Commissioner in my home county's soil conservation district, and as someone who operates 1,400 acres of fine Iowa farmland, I have seen first-hand the urgent need for farmer incentives to make the changes necessary to conserve our soil. Because of intensive cropping practices in Iowa, the average topsoil loss is 10 tons per acre per year due to erosion. In comparison, only 5 of those 10 tons of soil are annually replaced through natural processess. If that difference is not balanced soon, we are headed for serious problems.

The rich agricultural lands of this nation represent one of our most valuable assets, but like other natural resources they require careful management on our part if their quality and quantity are to be maintained. This bill will provide additional incentives for good soil management, and I urge your support for this measure in the interest of all regions of the country, and in the interest of producers and consumers alike.

Senator WALLOP. Thank you, both.

The next witness is the Honorable John Chapoton, the Assistant Secretary for Tax Policy, Department of the Treasury.

STATEMENT OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY

Secretary CHAPOTON. Good morning, Mr. Chairman.

We appreciate the opportunity to appear before the subcommittee this morning, Mr. Chairman. We do have a statement that is submitted for the record. If I might, I will summarize our position in the statement.

The first bill before you, S. 329, would provide a tax credit, as it has been described, of up to $300, based on the cost incurred by taxpayers for heating their homes.

The administration recognizes and is sympathetic to the problem that S. 329 seeks to address, That is, that rising energy costs have imposed a large home heating burden on taxpayers in the colder regions of the country. We also recognize that taxpayers in all regions of the country face rising energy costs and rising prices for housing and other necessities. And we do not believe that it is appropriate to single out home heating costs for special treatment.

This administration wishes to rely principally on the market to allocate energy and other resources efficiently. To the extent that we subsidize the cost of energy through the tax system or otherwise, we, to some extent, encourage waste, discourage conservation, and otherwise distort the market in a manner similar to price controls. We believe that consumers of energy ought to pay its replacement costs. But I repeat that we are not unsympathetic to the problem that Senator Pell addressed. It is, obviously, a very significant problem in his part of the country and in other parts of the country as well.

Aside from these conceptual difficulties with S. 329, we do have some technical difficulties. Compliance problems for both the taxpayer and the IRS would be created by attempting to determine what actual home heating costs are in multifamily dwellings, for example, and in cases where the same source of energy is used for

heating and for other uses in the house, such as, gas for cooking and heating.

In addition, we have to point out the very substantial revenue impact of S. 329. It would give all taxpayers with under $30,000 of adjusted gross income a credit equal to at least 12.6 percent of their home heating costs. Our estimates in 1982, as outlined on page 3 of our written statement, will be $2.9 billion; in 1983, $6 billion. And then it drops back to about $4.4 and $4.1 for the following 2 years.

Senator Rudman's amendment of the 1981 Economic Recovery Tax Act would have entailed a significantly lower revenue cost, because the phaseout would have been started at the $15,000 income level, and because the maximum amount of credit would have been at $200.

In summary, we oppose S. 329 because of what we think of as unfairness to many taxpayers, it's inconsistency with our overall policy that users of energy should pay its cost, and because of its complexity.

Turning to the Soil and Water Conservation bills, S. 569 and S. 1561, they would both provide tax credits for soil and water conservation expenditures in connection with farming.

Let me give just a little background on this. As I am sure the subcommittee knows, section 175 permits a taxpayer to expense currently rather than to capitalize soil and water conservation expenditures, and expenditures for the prevention of soil erosion. These would include items for the cost of work such as movement of earth, leveling, grading and terracing, construction of channels, ditches, dams and ponds, and eradication of brush and planting of windbreaks.

The expenditures would normally be capitalized because they add a permanent improvement to the land. And, thus, they would be added to the basis. And the farmer's costs would not be deductible and could not be depreciable because the land is not depreciable.

It could be recovered, then, only when the farmer sold his land.

In 1954, Congress determined to permit immediate expensing of these costs. The rationale at that time was quite straightforward. It would be difficult and burdensome for the taxpayer, as well as for the Internal Revenue Service, to separate deductible land expenditures, such as ordinary tilling of the soil, from properly capitalized expenditures, such as conservation, grading or terracing. Segregating and keeping accurate records of ordinary expenses of repairs versus capital expenditures would be a very difficult task for both the farmer and for the IRS.

We think the present section 175(c) constitutes good tax policy in this regard. And we are concerned about these two Senate bills because they do move in a very different direction. These bills would put a great deal of pressure on the farmers and the IRS to define and calculate soil and water conservation expenditures for purposes of a credit. It would put a great burden on this distinction: What is an ordinary and necessary business expense of the farmer? And what is a capitalized soil and water conservation expenditure?

S. 569 would permit the 10-percent credit in lieu of immediate expensing. S. 1561 would provide a new 20-percent credit in addition to expensing, apparently, and would also provide the credit for certain capital type expenditures that are now permitted an investment tax credit: that is, structures or other facilities in connection with conservation which now must be capitalized and now receive at 10 percent investment tax credit. We do have a serious concern about these two benefits, both expensing and a credit.

But most pointedly, we question the desirability of a credit for conservation. We think section 175, in allowing immediate expensing, does provide a significant incentive. But we do not feel the case has been made for a Federal tax incentive to encourage farmers to do what is clearly in their best interest. That is, to conserve their soil, the principal asset of their livelihood.

They, not the Federal tax system, we feel, are best able to judge the need of conservation measures and to determine the best measures that are needed. We do not think that Federal assistance through the tax law is desirable, particularly, Mr. Chairman, at this time, given our budgetary situation. Therefore, we must oppose both S. 569 and S. 1561.

[The prepared statement follows:]

PREPARED STATEMENT OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY, TAX POLICY, DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Subcommittee: I am pleased to appear before you today at your hearings on S. 329, which would provide a credit against tax for certain home heating costs, and S. 569 and S. 1561, which would provide tax credits for soil and water conservation.

SUMMARY

S. 329 would provide a tax credit for the amount paid or incurred for home heating costs multiplied by the greater of 12.6 percent or the preceding year's inflation rate. In general, the credit would be limited to $300 and would be phased out for taxpayers with incomes between $30,000 and $33,000.

The Treasury Department is opposed to enactment of S. 329.

S. 569 would make certain expenditures for soil and water conservation for farm land eligible for the regular 10-percent investment credit. Amounts eligible for the investment credit would include soil and water conservation expenditures within the meaning of section 175(c) that the taxpayer does not elect to expense under section 175. The bill would apply to soil and water conservation expenditures made in taxable years beginning after December 31, 1980.

S. 1561 would enact a new 20-percent tax credit for land conservation expenditures incurred with respect to farm land held by the taxpayer. Such expenditures would include soil and waste conservation expenditures described in section 175(c) and in addition land conservation expenditures for depreciable property, which may also qualify for the regular investment credit. The credit would be available for expenditures made in taxable years beginning after December 31, 1981.

The Treasury Department also opposes S. 569 and S. 1561.

S. 329—TAX CREDIT FOR HOME HEATING COSTS

S. 329 would provide a tax credit of up to $300 based on the cost incurred by taxpayers for heating their homes, for taxable years beginning after December 31, 1980 and before January 1, 1985.

While the Administration recognizes that rising energy costs have imposed a larger heating cost burden on taxpayers in the colder regions of the country, we also recognize that taxpayers in all regions of the country face rising energy costs and rising prices for housing and other necessities as well. We do not believe that it is appropriate to single out home heating costs for special treatment. Sympathetic arguments can be made on behalf of many particular groups. In response to a general need for tax relief, we have proposed and Congress recently has enacted

significant across-the-board tax cuts, which are a more appropriate form of relief than selective tax relief for special types of personal expenses.

The Administration has adopted an energy policy which relies significantly on the market to allocate energy and other resources efficiently. To the extent that we subsidize the cost of energy (through the tax system or otherwise), we encourage waste, discourage conservation, and otherwise distort the market in a manner similar to price controls. In order to ensure its efficient use, consumers of energy ought to pay its replacement cost.

Aside from our conceptual difficulties with S. 329, it would be enormously expensive and would create significant problems both for taxpayer compliance and for IRS administration. S. 329 is based upon a relatively simple concept, that taxpayers should be provided a tax credit equal to a percentage of the costs incurred in heating their homes. In many cases, however, it is extremely difficult to measure what actual home heating costs are.

Taxpayers who live in multi-family dwellings and taxpayers who rent and do not pay separately-stated utility costs have no simple, direct way of ascertaining actual heating costs. Even for single family, owner-occupied dwellings, problems exist. For example, taxpayers who use gas both to heat and cook would have no way of allocating costs between these uses. Similar problems arise for taxpayers who use electric heat.

Moreover, S. 329 would have a substantial revenue impact, since it would provide all taxpayers having less than $30,000 of adjusted gross income with a tax credit equal to at least 12.6 percent of the cost of heating their homes. An additional amount would be available as a credit if inflation rises above 12.6 percent of the cost of heating their homes. An additional amount would be available as a credit if inflation rises above 12.6 perent (regardless of the rate of increase in energy prices) or if the "degree-day factor" adds to the credit (measured by comparing the year prior to the taxable year to that two years prior). The Treasury Department estimates that this credit will reduce tax receipts in the following amounts (dollars in billions): Fiscal year 1982, 2.9; 1983, 6.0; 1984, 4.4; and 1985, 4.1.

In light of our goal to reduce deficits and balance the budget, legislation which has the effect of reducing income tax receipts must meet an especially strict scrutiny to merit support. In light of its unfairness to many taxpayers, its lack of consistency with the Administration's energy policy, its cost and its complexity, the Treasury Department opposes S. 329.

S. 569 AND S. 1561—SOIL AND WATER CONSERVATION

S. 569 and S. 1561 both would provide tax credits for soil and water conservation expenditures in connection with farming.

The Treasury Department opposes these bills.

Existing law (section 175) permits a farmer to expense currently, rather than capitalize, soil and water conservation expenditures and expenditures for the prevention of soil erosion. Such expenditures include the treatment or movement of earth, such as leveling, grading and terracing, construction of channels, ditches, dams and ponds, eradication of brush and planting of windbreaks.

Such expenditures would normally be capitalized and added to the farmer's basis in his land. Because land is not depreciable, these costs could only be recovered if and when the land is sold. In 1954, however, Congress determined to permit immediate expensing, at the election of the taxpayer, in lieu of capitalization.The rationale is straightforward: In the case of farming, it would be very difficult and burdensome for the taxpayer—as well as for the Internal Revenue Service—to separate deductible land expenditures, such as ordinary tilling of the soil, from properly capitalized expenditures, such as conservation grading or terracing. A farmer's labor is continually and constantly expended on one aspect or another of maintaining the land. Segregating and keeping accurate records of ordinary expenses and repairs versus capital expenditures would be a difficult if not futile task. This same rationale for immediate expensing has been adopted in another part of the tax law (section 180) which similarly permits farmers to expense otherwise properly capital expenditures for fertilizer, limestone and other materials to enrich or condition the land. Here also, the difficulty of separating capital from deductible expenditures is apparent.

The Treasury Department believes existing law generally constitutes good tax policy in this regard. The bills before us today, however, would move in a very different direction. These bills would significantly complicate, rather than simplify, tax policy toward farmers.

Thus, rather than continue the existing policy, which virtually eliminates the need to make difficult distinctions, these bills would put a great deal of pressure on farmers and the IRS to define and calculate soil and water conservation expendi-

tures for purposes of a tax credit. Both bills essentially use the existing definition in section 175; S. 569 adopts the definition in whole, while S. 1561 uses the same words but adds a new category of eligible expenditures for "the reduction or control of agriculture-related pollution." As we have said, the existing definition has never before been asked to carry the very heavy baggage of a tax credit. We very seriously question whether this is good policy.

In addition, we note that S. 569 would permit the 10 percent investment tax credit, at the election of the taxpayer, in lieu of immediate expensing, while S. 1561 would provide a new 20 percent tax credit apparently in addition to expensing of conservation expenditures and also in addition to any 10 percent investment tax credit now available for structures or other facilities in connection with conservation. Such structures would thus apparently receive a 30 percent credit, plus be entitled to immediate expensing. We strongly oppose the "double-dipping" aspect of these bills; taxpayers should not receive both a deduction and a credit for the same expenditure.

Finally, however, we must seriously question the desirability of any credit for conservation. Section 175 already provides significant incentives by permitting immediate and total expensing of certain capital expenditures. We believe the case has not been made that a Federal tax incentive is needed to encourage farmers to do what is in their own best interest—i.e., to conserve the soil which is their principal asset and the heart of their livelihood. We do not believe that the American farmer is uninformed or oblivious to the need for conservation. The long-term stability of our farming industry is first and foremost properly a matter of concern to our farmers. They, not the Federal tax system, are best able to judge the need for conservation measures and to determine the best measures which are needed. We do not believe that Federal assistance through the tax law is desirable, particularly in this time of budgetary austerity. We would note in this regard that the President's recently enacted tax package provides across-the-board rate reductions for all individual taxpayers and significant relief for corporations as well. This tax reduction will provide needed funds to farmers for conservation purposes and other farming purposes which they themselves select.

Senator WALLOP. Thank you very much. I have some questions I would like to ask or some points I would like to make.

On the later point you touched on, Mr. Chapoton, about the soil or farmland generally being a benefit to the farmer as opposed—you know, somebody else's responsibility. Basically, I would have to agree with you except there is more involved than just the financial betterment or enhancement of that family's income through the business of farming. There is involved, also, the fact that soil erosion is the No. 1 contributor to water pollution. So, consequently, to the extent to which we eliminate soil erosion and cut down on water pollution, then, there is a benefit to society as a whole.

Now, there would be those who would argue that that ought to be the sole responsibility of the farmer since, if he is causing the pollution, then he ought to pay for the total control of the pollution. But, in long-term structures like this—and Secretary Block used the figure of about $250 billion that it would cost to really do up soil conservation right. There is just not the income or the ability to borrow or whatever measure of paying for these structures for whatever soil control method might be used. It is just not there to pay for. And so we either have to give a tax incentive to encourage the private investment. Or we have to have more funds out of the Treasury. Part of the justification for it is because of the social benefit that comes to society as a whole.

And then I like to think of farmers as being stewards of their resources in a sense of—for this generation, people make their livelihood from it—profit from it. But we have to pass on to the next generation that same resource that has been used by this generation. And we are going to have to have some encouragement to maintain that.

You know the figure that Senator Jepsen used in his bill: $25 million. That's a heck of a lot less than the $145 million we are going to pay out of the Treasury next year for programs that are supposed to accomplish the same good. And I think you will end up getting more money invested privately in this. In other words, I think this use of the taxpayers' funds is just going to accomplish so much more good than existing programs that are on the books. We don't suggest these as a supplement to that.

Secretary CHAPOTON. I was going to ask you that. Are you making a suggestion that the existing soil conservation program find this as a substitute?

Senator GRASSLEY. No. Neither does Senator Jepsen, I am sure. This would not be a substitute for that because, obviously, for some people who are low income, or have low incomes from farming, the subsidy incentive for those people to invest some of their own money that they wouldn't otherwise have an incentive to do.

No; I think you need both programs if you are going to do the job right.

Senator WALLOP. I must say, as I am sure you are aware, that this is a difficult time to be contemplating adding to the expenditure column without finding an offset some place.

Now you are talking about for the subsidy programs?

Secretary CHAPOTON. I am. I'm just talking generally.

Senator WALLOP. Oh.

Secretary CHAPOTON. The outgo is a good deal faster than the ingo.

Senator GRASSLEY. Yes; in fact, in that view, as a member of the Budget Committee, even though I would rather not have, but because I've felt that all segments of the economy have, to contribute to balancing the budget, we reduced from $190 million down to $135 or $145 million that program for this next year.

Senator WALLOP. Yes.

Senator GRASSLEY. And that $190 million figure had been constant since 1972. And, hence, it is only purchasing probably about half of the soil conservation work that it would have purchased in 1972.

Senator WALLOP. I certainly don't quarrel with that. But the ultimate problem remains with us. Secretary Chapoton is no stranger. Because that is the case, it doesn't relieve the pressure otherwise to slip back in a little more.

All I am saying is that before we can probably move very far, as I am sure you appreciate this, we will have to find some sort of offset.

Is it your, because I an concerned about the apparent 30-percent credit that is in Mr. Chapoton's statement—I will read it and ask for your comments.

Such structure would, thus, apparently receive a 30-percent credit plus be entitled to immediate expensing. We strongly oppose the double-dipping aspects of these bills. Taxpayers should not receive both the deduction and the credit for the same expenditure.

Is it your opinion that these bills do that? And if they do——

Senator GRASSLEY. Senator Jepsen's bill doesn't do that. My bill might do that.

Secretary CHAPOTON. Your bill does do it. It is not clear to me whether that was conscious or not. We had some discussion about it.

Senator GRASSLEY. It was conscious. But then let me suggest to you that a precedent for this would be similar to what we did with the research and development tax credits this year. Firms can qualify for both of those. And that is kind of pyramiding of tax credits in that instance.

The point here is that there are some aspects of the soil conservation work that could qualify for one, but not the other. Then we wouldn't be eliminating a tax credit for at least part of that program.

In other words, you could provide a tax credit for the purchase of machinery that the farmer might want to use for certain kinds of work. The work he is doing on the structure, then, would not qualify for the tax credit. And so it's to make sure that, however the soil conservation program is done, there is going to be a tax credit applicable to the total program.

Senator WALLOP. It would be awfully hard to find the means by which both would not.

Senator GRASSLEY. Well, that would be satisfactory to me, but I thought we had to provide for pyramiding to protect against the possibility that parts of the program would not qualify for the tax credit.

Secretary CHAPOTON. I think you could simply say that there would be no double credit. And allow credit, but provide that any expenditure that already has a credit would not get a further credit.

Senator GRASSLEY. But you will admit that, even in the most recent tax bill passed, we have had pyramiding of tax credits?

Secretary CHAPOTON. It is, of course, an incremental credit. That is, the expenditures over a 3-year base period. But that is an exception to the general rule. No doubt about it. We brought that out.

Senator GRASSLEY. So, I guess I was trying to take a principle that we have found applicable to business, and say that agriculture is a business, and ought to be treated the same way.

Secretary CHAPOTON. I would point out, Senator Grassley, that it would not minimize the problem of having to identify exactly to the dollar, when you give a large credit, or any credit, the portion of expenditures which constitute soil or water conservation expenditures as contrasted with normal operating expenditures of a farm. It will be a formidable problem.

Senator GRASSLEY. More so than in research and development for major corporations in America?

Secretary CHAPOTON. As we pointed out, it will be a problem in research and development. Basically, of course, farmers are on the cash method. And corporations which are using research and development have much more sophisticated accounting systems.

Senator GRASSLEY. At least now, Mr. Chairman, you know my thinking behind it. It is a possibility. I feel strongly about this subject of soil conservation and the use of the tax credit to fill a void left by the subsidy program. And I think this will do it. We

are talking about a $250 billion program, as Secretary Block says, if we are really going to stop the runoff of topsoil.

Senator WALLOP. I think that nobody, least of all me and I am certain not even the administration, quarrels with the idea. And it may be that you and I have to get down and find some means of offsetting this. The figures are not all that big that we might not be able to find it some place. It's that type. We are now looking for an additional $16 billion to take out of it. And it doesn't help to add. That's the complication we are going to face as we go along.

Senator GRASSLEY. Republican and Democrat administrations alike have not been hesitant to recommend tax credits in the industrial and nonagricultural business arena.

Senator WALLOP. Certainly the farmers were not excluded from the tax bill either by virtue of accelerated cost recovery systems. And from what I understand is the distortion in the building of hog palaces now.

One of the things we did in that tax bill was to distort what is otherwise—it is my understanding at least in reading the trade magazines, Farm Journal and other, that we are now in a time when ordinarily hog production facilities would be going down with the price structure, but we are finding the facilities being affected because of some of the things we did in the tax credit.

Don't misunderstand my questioning. I support the concept and the idea of this. I am just telling you that we have a problem, you and I, if we want to get this going as to where we find the money to do it.

Senator GRASSLEY. You will have my cooperation on that.

Secretary CHAPOTON. We certainly have that problem, Mr. Chairman. We appreciate your concern on it.

Senator GRASSLEY. In continuation about what I said about tax credits, we tend to apply them to the production aspects of business in agriculture. Soil conservation does enhance production. Nobody argues that. But you are talking about a very long term investment to accomplish that goal. And the goal is not just enhanced production but to actually preserve our land—for goals beyond just economic advantages for the economy as a whole or beyond the economic advantages just to an individual farm. Whereas most of the tax credits we have applied to the economy before have been directed strictly at the material end of the goals that we have tried to accomplish as opposed to eliminating soil to——

Senator WALLOP. That goes back to what I was saying. The difficulty of the form of government that we operate under. And the structure of Congress that exists now. It's hard to take all those policies and view them in one perspective whole. It makes harder judgment. To have the soil conservation program which doesn't come anywhere near this committee and can't be really reached out to and addressed by any action that we take in here without creating a joint referral problem. And it may be something along that line that we can find.

Let me ask you this. In line with Senator Grassley's bill and one of the things that he said, surely if a farmer bought machinery under the present Tax Code to do a soil conservation program or practice, that is already eligible for the accelerated——

Secretary CHAPOTON. Correct. That does not——

Senator WALLOP. Depreciation?

Secretary CHAPOTON. He recovers the cost under the ACRS system and obtains a credit.

Senator WALLOP. Do you have any questions?

Secretary CHAPOTON. I might just add, Senator Grassley, that the economy may not encourage certain types of expenditures—pollution control is a good example of that. And I just point out that water pollution by lack of soil conservation is perhaps, to a farmer presently operating a farm, not a significant or sufficient interest for him to make expenditures required for him to prevent it. And that is a problem that we have in pollution with industrial plants. So it is mandated either by law—well, usually it is just mandated by local State law. And the tax system, in some cases, does take into account that nonproductive expenditures should be given special writeoffs for pollution control facilities and the like.

Here, of course, we do give an expense for that of a facility. But the point is correct that there are types of expenditures that are not production expenditures which will not be made without some type of government action. Of course, it would take a very big credit to do it, to make it rewarding monetarily if it is not an additional productive expenditure.

Senator WALLOP. Thank you very much, Mr. Chapoton.

Secretary CHAPOTON. Thank you, Mr. Chairman.

Senator WALLOP. The next witnesses are a panel consisting of Bruce Hawley, assistant director of the national affairs division, American Farm Bureau Federation, Washington, D.C.; Neil Sampson, executive vice president, National Association of Conservation Districts, Washington, D.C.; Gary Parker, president-elect, Irrigation Association, Silver Spring, Md.; Dr. Ronald E. Sneed, extension biologist and agricultural engineering specialist, North Carolina State University, Raleigh, N.C.; and Michael Strother, Washington representative of Land Improvement Contractors of America, Washington, D.C.

Gentlemen, please proceed. Bruce.

STATEMENT OF BRUCE HAWLEY, ASSISTANT DIRECTOR OF THE NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, D.C.

Mr. HAWLEY. I guess, Mr. Chairman, by way of tribute to Mr. Grassley's expertise in this area, several of the points that we had anticipated making have already been made by Mr. Grassley in his comments to the Treasury representative.

Good morning. I am Bruce Hawley. I am assistant director of the national affairs division of the American Farm Bureau Federation.

The American Farm Bureau Federation is a general farm organization with members in 48 States and Puerto Rico. Farm Bureau membership exceeds 3 million families. We are pleased to testify——

Senator WALLOP. I wonder if it is a conflict of interest for me to sit here as a member of it and listen to your testimony. [Laughter.]

Mr. HAWLEY. We will overlook that. [Laughter.]

Mr. Chairman, Mr. Grassley, we, the farmers and ranchers of this country have been battling conservation problems throughout the history of agriculture. Since the mid-1930's, the Federal Gov-

ernment has joined as a partner in that process through a variety of conservation and cost-share programs.

The partnership has succeeded well for most soil and water conservation problems until about the past 10 years. In the past 10 years, there has been somewhere in the neighborhood of a 15-percent increase in total cropland in production in the United States. Much of that land was pressed into service because of market-demand pressures, particularly, for an expanding export market. It has been more highly erodable and has been a significant contributor to the current problem which USDA estimates to be somewhere in the neighborhood of 1.5 to 2 billion tons of excess erosion per year.

Inflation, of course, has added measurably to the difficulties faced by farmers in confronting their conservation problems. Inflation, as Mr. Grassley has already pointed out, has had a significant and dilatorious affect on the existing cost-share programs. It places an extreme burden on the young farmer who is particularly unable to make the long-term financial commitments with the long-term payback periods associated with conservation practices.

Most conservation practices have a payback period of anywhere from 5 to 15 years. It is not a good short-term investment.

The overall environment, we would argue, is the primary initial beneficiary of conservation practices. And it's particularly because of this environmental benefit, that short-term public benefit if you will, that we think the tax credit approach is a particularly well-suited approach for addressing soil and water conservation problems.

You gentlemen appreciate that agriculture produces all of the feed, food, and fiber for all of the people in this country. It is a $125 billion a year annual production. It is the most highly productive sector of this economy based on labor input. It has the lowest return of any sector of society based on its capital investment. And in light of that magnitude of contribution, for that relatively modest return, I was a little surprised the Treasury's argument was, in part, that this program would provide an inconvenience for the Internal Revenue Service.

I think we can help the Internal Revenue Service understand what practices should qualify for participation in this program simply by making available to them the existing list of qualifying practices that are already on record with the Soil Conservation Service at the Department of Agriculture. Those things are clearly identified and need not be a burden that the Internal Revenue Service cannot overcome.

We have been working with other committees of Congress to increase the efficiency of the delivery of conservation programs under the existing cost-share program. Even with increased efficiency, however, these programs will be inadequate.

The existing programs provide only about $35 million a year of cost-share money for erosion control practices on cropland with an erosion problem. Those programs are a 1 for 1 cost-share program. The Government provides $1; the farmer matches it with $1, meaning that that $35 million investment only provides $70 million of conservation practices on the land.

Under this tax proposal, there is a 10-for-1 relationship. For every $10 that the farmer spends, there is only a $1 revenue loss for the Federal Government. The Joint Committee on Taxation estimates that the first year cost of this bill would be $9 million of revenue lost by the Federal Government, rising to between $25 and $30 million a year thereafter.

In a 5-year period, that would be an investment of about $120 million of revenues not received by the Government. On a 10-for-1 basis, recognize that represents over a billion dollars of private investment in solving the resource management problems facing the Nation's farmers and ranchers. That represents somewhere between 3 and 4 billion tons of erosion control potential, virtually eliminating on paper the erosion control problem that we are currently facing.

Now, of course, it is not on paper. It is scattered unevenly across the country. Some farmers would participate; some farmers would not. But it is such an optimistic and such a hopeful method of addressing this significant problem of short-term environmental concerns and long-term production potential that we think it is worth the try and we urge the committee to report the bill.

Senator WALLOP. Thank you very much. The next witness will be Neil Sampson.

STATEMENT OF NEIL SAMPSON, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS, WASHINGTON, D.C.

Mr. SAMPSON. Thank you, Mr. Chairman. I am Neil Sampson, the executive vice president of the National Association of Conservation Districts.

I have a statement on file, and with your indulgence, I would like to simply brief my remarks.

Senator WALLOP. By all means, sir. All the statements will be inserted in the record.

Mr. SAMPSON. Our association has long taken a formal position in support of investment tax credits because we think it is a very intelligent and very helpful way to supplement, not replace, the existing programs. There are some things that simply are not being done today.

For example, no incentive exists today for the large commerical farmer. The cost-sharing programs of USDA, limited to $3,500 per producer, simply don't reach very far when you have a large farm and a large amount of investment that needs to be made. Many of these farmers are doing so much work that they exceed the Department's capability to provide necessary technical assistance, cost sharing and other support. Yet they handle a great deal of America's farmland, and need to make much of the needed conservation investment. Of course, as the point has been repeatedly made, that investment is all cost and no return when viewed in the short-term financial setting.

Another thing that hasn't been mentioned yet is the fact that there simply is no investment incentive today for the nonfarming landlord. This is often a person who farmed and retired, their widow or their family who now owns that farmland for income property or a person who has bought it for an investment. Almost

half of the land being cropped in America today is being rented by the person who is actually producing the crops. Many tenants find it very difficult to create an incentive for this landlord such that a part of that rental can be reinvested in productivity of the land.

We think an investment tax credit would be one of the ways that does not currently exist for providing an incentive to those kind of landowner/tenant relationships.

The Joint Committee on Revenue and Taxation reported that this would result in revenue foregone. What they didn't report on was how much investment and economic activity it would spur in the countryside. Not all conservation practices are built by the farmer who farms the land, as Mr. Strother from the Land Improvement Contractors will no doubt point out. The economic activity from new conservation investment would generate and create tax revenues. This was not considered, it seemed to me, when the Joint Committee calculated the impact of the tax credit.

In conclusion, I would just like to point out one further idea. We've worked with Members of the House to address the problem or irrigation investments. I think some of the other panelists will address that. We would suggest that you could add this feature.

We have a tremendous water crunch coming in the Western States—a tremendous need to improve the conservation and use of irrigation water. Only 12 percent of America's farmland is irrigated, but it is now producing 27 percent of our agricultural product. In your home State, Mr. Chairman, as in my home State of Idaho, it's the water that makes that land productive as much as any other single thing. And there's a tremendous amount of investment needed on that particular point.

Senator WALLOP. I hate to take this out of your time, but when Senator Pell was testifying on his bill, which you probably heard, he said that we were very fortunate in the West in having had a warm winter. That cuts in more than one direction. It just occurred to me that we had an irrigation shortage of a substantial magnitude this summer. We had about 25 percent of normal water flow out of the mountains.

I won't take that out of your time. I was just interested in saying how——

Mr. SAMPSON. We have tested systems in the West where the center pivot system shoots out water high into the air. Under high pressure, on a hot, dry, windy day, 50 percent of that water may not ever hit the ground. The new low-pressure sprinkler systems can raise that application percentage by at least 15 to 20 percent; and also lower horsepower requirements on the pump which results in energy and water savings. So there are adequate ways of conserving water. Not on just those systems, but on others. These represent heavy investments and we wish you would consider adding this tax credit feature to the bill in front of you.

I appreciate the chance to testify. And I would be happy to answer any questions later.

Senator WALLOP. Thank you very much, Neil.

Next, Gary Parker, president-elect of the Irrigation Association.

STATEMENT OF GARY PARKER, PRESIDENT-ELECT, IRRIGATION ASSOCIATION, SILVER SPRING, MD.

Mr. PARKER. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to speak before you on the critical issue of soil and water conservation.

Our association supports S. 569 and S. 1561. We feel very strongly that we need to halt the drain on our valuable soil and water resources. The use of tax credits will be, in our opinion, very critical if we are going to encourage a more efficient use of our resources, and if we are going to encourage people to use more efficient systems to conserve energy and water.

My remarks will be addressed toward irrigation because that's the area I am most familiar with.

There is going to be a huge demand placed on the water that is available both from surface sources and from our aquifers in the years ahead. Irrigation and irrigated acreage will continue to grow to increase our food production. Our concern is not that as land is converted from dryland to irrigation growers and farmers will not use the latest in technology or the most efficient systems because we feel that they will take advantage of the latest equipment and the most energy and water efficient systems that are available.

Our concern is that 70 percent of the irrigated acres today are irrigated with inefficient methods. With methods and practices and equipment that waste water and that waste energy. And if we are going to be able to have adequate water supplies in the years ahead to meet the growing demand that there is going to be for increased irrigated acres, we have got to do something to convert these inefficient efforts into more efficient systems to conserve water and energy.

We recommend an incentive to encourage the use of more efficient irrigation practices, equipment and principles to conserve water and energy. Agricultural irrigation accounts for more than 80 percent of the country's water usage today. While it is not possible to precisely quantify the contribution irrigation makes in enhancing productivity, it is considerable. Between 20 and 50 percent of all food produced in the United States is dependent directly or indirectly on irrigated agriculture. In my home State of Nebraska, 82 percent of the corn produced in that State alone is produced under irrigation.

The future of irrigation in America is threatened by two things. One is reduced water availability. The other is higher energy prices.

The Water Resources Council's second national water assessment has concluded that almost every region west of the Mississippi has insufficient water for agricultural production at the present efficiency levels.

Recent technology developments in the irrigation industry have resulted in the design of equipment that is more water and energy efficient. Our industry, our association has responded by trying to come out with the latest in technology in the most advanced equipment to promote energy and water conservation.

The estimates of water savings possible from the adoption of more up-to-date irrigation systems runs as high as 95 percent.

There are documented cases in States like California, Nebraska, Kansas, and many other irrigation States where growers have been able to increase their production while at the same time reducing the amount of water by anywhere from 60 to 70 percent; reducing their energy cost per acre by about 10 percent, while at the same time increasing output to meet the demand.

The potential efficiency gains associated with the new developments have not been captured by producers for several reasons. Since most farm operations are heavily in debt, they can't afford to make the investment to convert to more efficient systems. There must be an incentive for them to convert to more energy- and water-efficient systems. The use of tax credits is a way to provide the economic incentive for conversions from inefficient methods to more efficient methods.

I think H.R. 621, which was introduced by Congressman Shumway, is a model and an example and prototype of the incentives that are needed to encourage the current irrigators who are using inefficient methods to convert to the equipment and practices that would conserve and prolong the amount of water that we have available for irrigated agriculture.

As I said, our industry has responded. There is a concern on the part of everybody involved in irrigated agriculture that there will not be irrigated agriculture in the United States unless we do something to convert the inefficient practices that are currently being used to more efficient equipment and methods.

Thank you.

Senator WALLOP. Thank you very much. It is my understanding that Dr. Sneed is not able to be here. We now have Mr. Michael Strother.

STATEMENT OF MICHAEL STROTHER, WASHINGTON REPRESENTATIVE, LAND IMPROVEMENT CONTRACTORS OF AMERICA, WASHINGTON, D.C.

Mr. STROTHER. Thank you, Mr. Chairman, Senator Grassley. My name is Mike Strother and I represent the Land Improvement Contractors of America, about 4,000 conservation contractors who work directly for the landowner or farmer or tenant in actually installing a wide range of conservation measures on the land.

Our organization has, for years, urged increased incentives to put conservation on the land because we believe, like the other members on this panel, the job is not getting done.

The two main points I would like to make are: One, that we do have a critical national problem. Conservative estimates put soil loss at 4 billion tons in the United States per year with roughly half of that coming from cropland; and two, that this kind of sustained loss will make it infeasible for us to continue to feed ourselves and a large portion of the world, even within 100 years or possibly less if not arrested.

Soil sediment is also the No. 1 water pollutant in the United States, by volume, according to the EPA. And I was very interested in the gentleman's comments from the Treasury Department that this creates a large water pollution problem downstream because we are spending literally billions of dollars a year to cleanup and take that soil out of the water downstream. A small incentive

upstream may well counterbalance any cost to the Treasury. It may, in fact, produce a positive revenue flow in balance.

We feel the farmers cannot afford to install all the necessary conservation measures themselves given today's economic conditions. Major conservation measures require a large outlay of capital and have a slow rate of return, if any. A highly leveraged farmer, out of necessity, must realize a quick return on his investment. Conservation cannot give him this.

As an example of the low economic return to a farmer, I have included an article from the Journal of Soil and Water Conservation on a study which was done on a variety of Illinois soils by three gentlemen, respectively, a university professor of agricultural engineering, a USDA agricultural engineer, and a professor of agricultural economics. Their study concludes in the abstract, as reprinted here, "that except in a few situations, the farmer will sacrifice income to control erosion by constructing terraces." In a survey of our members, we find a concensus that a farmer will actually lose production for about 3 years after putting in a full terrace system because it disturbs the soil structure.

He may later realize a gain in productivity, but the concensus is that he gains nothing in balance. Perhaps in the last year or two of the life of those terraces, which is about 10 years, he might, but then they have to be redone at the same cost. The cost of redoing the terrace is the same as installing it, so he is really not gaining very much for himself. What he is gaining, I think, is protecting the resource for the public for future generations to use so he rightfully should have an incentive to do this.

For the foregoing reasons, we believe it will take major new incentives to get critically needed conservation put on the land. Only by such action can we protect our food production base for the future. Our organization strongly endorses the tax-incentives approach represented by two bills before the committee today. They are certainly a step in the right direction.

I would just like to bring to the committee's attention a survey that was done by the Department of Agriculture in 1979. It was conducted by the Lewis Harris Organization, and there were 7,000 personal interviews, representing a cross-section of the adult population of the country based on the people's feelings about soil and water conservation. I have noted the source here, and have quoted three conclusions from that survey which I think are important here in determining if the public is ready to support more conservation incentives:

> By 7 to 1, Americans think that Federal action to protect farmland from erosion is a proper role for Government.
>
> People see conservation as a joint public and private responsibility. They think the burden for conservation should be shared fairly between Government and farmer.
>
> More than 75 percent of Americans feel that we have not reached the point in soil and water conservation efforts that we should be more concerned with holding down costs than with completing the work that remains.

In conclusion, Mr. Chairman, I have enumerated in my statement points that we think would be most important to make an incentive effective, and have added one of our own, No. 5, which is an expansion of the safe harbor leasing rules that were embodied in the Economic Recovery Tax Act. This would allow the farmer to

trade unused tax credits for goods and services he needs on the farm.

That concludes our statement. We appreciate the opportunity to be here today.

[The prepared statements of the preceding panel follows:]

PREPARED STATEMENT BY BRUCE R. HAWLEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation is a general farm organization with members in 48 states and Puerto Rico. Farm Bureau membership exceeds 3 million families. We are pleased to testify before this committee in support of S. 569, the Soil and Water Conservation Incentives Act of 1981.

The farmers and ranchers of this country have been battling conservation problems for years. Since the mid-'30s, the federal government has assisted in this effort. The partnership has dealt successfully with most erosion problems; however, recent increases in demand for agricultural production for domestic and export markets has significantly increased the pressure for agricultural production. This pressure has been reflected in a 15-percent increase in the U.S. cropland base in the last 10 years. Much of the additional acreage has included lands of more erodable characteristics, at a time when farm income has been unable to support long-term investments for conservation practices necessary to preserve the production potential of that land. Some estimates put annual excess soil erosion at between 1.5 and 2.0 billion tons.

Inflation has added measurably to the pressure on farmers to forego long-term investments in conservation in favor of those investments which will increase short-term cash flow. In many instances, young farmers find themselves with few alternatives except to exploit the land, much of which is rented for farming.

Traditional conservation practices have neither immediately enhanced production levels nor provided additional income to farmers. The economic benefits involve a long-term investment in farmland production potential, usually involving a 5- to 15-year payback period. The overall environment is the beneficiary of conservation practices through reduced soil and water run-off. The long-term impact is significant in terms of economic importance. According to USDA estimates, failure to increase erosion control efforts will lead to a 50-year decline in production potential of 13 to 23 percent, depending on soil depth and other factors. Loss of production capacity will ultimately threaten our ability to expand our productive capacity which currently provides food and fiber for our nation plus over $40 billion worth of farm exports.

Farm Bureau is encouraging other committees of Congress to improve the efficiency of delivery of financial incentives and technical assistance of Soil and Water Conservation programs currently operated by the federal government. However, those programs, even with increased efficiency, can provide only a partial answer to the problems in agriculture.

We urge that the existing conservation programs be supplemented by allowing private landowners and operators to claim a 10-percent investment tax credit when they invest their own money in installing and maintaining conservation practices on their land.

Major federal conservation programs limit participation to producers who would not have implemented a practice without federal financial assistance. Federal assistance is frequently not forthcoming because of a lack of funds. That limitation has rendered many producers ineligible to participate in the conservation program. As a result, implementation of conservation measures and practices has fallen behind the level needed to preserve the productive capacity of farmland.

Farmers annually pay about 3½ billion dollars in federal income taxes. Naturally, the quality of a farmer's land is an important factor affecting the profitability of a farming operation. The better the land and the care for the land, the better the chances of a profitable farming operation. This relationship makes the investment tax credit approach uniquely suitable for providing additional incentives for protection of our highly productive lands.

We believe that investment tax credits would be a more effective means of encouraging conservation. for existing conservation cost-share programs, not including costs of program administration, one dollar of federal expenditure, matched one-for-one by the farmer, only produces two dollars of conservation "on the ground." Under an investment tax credit program, each dollar of federal tax not paid would reflect ten dollars of "on the ground", privately funded, conservation practices,

yielding a five-fold increase in the "purchasing power" of federal conservation efforts.

The existing federal conservation program is "cost-sharing" about $35 million a year for erosion control practices on cropland with erosion problems. We support continuation of that program as an appropriate step towards maintenance of a continued healthy agriculture; but it should be recognized that the program produces only $70 million a year of conservation activities. Given the inflated costs of conservation practices, $70 million is inadequate.

According to estimates by the Joint Committee on Taxation, an investment tax credit for conservation would provide tax credit equivalents of $9 million the first year, later settling at $25 to $30 million per year thereafter. In 5 years, the tax credit utilization is projected to be about $120 million, representing over a $1-billion private sector investment in conservation activities. USDA estimates "cost-per-ton" erosion reduction costs to be 25 to 50 cents per ton. The incentives offered by this program, over a five year period, would go a long way toward solving soil erosion and conservation problems.

These, of course, are estimates. Conservation problems aren't uniformly spread across the 413-million-acre cropland base. All operators will not uniformly utilize the opportunities offered by this approach, if enacted. Still, the prospects for improved conservation practices are good and the costs are relatively modest. We believe it is important to move ahead with this incentive program as soon as possible.

PREPARED STATEMENT OF NEIL SAMPSON, EXECUTIVE VICE PRESIDENT, NACD

Mr. Chairman, Members of the Subcommittee: I am Neil Sampson, Executive Vice President of the National Association of Conservation Districts, commonly known as NACD. We represent the almost 3,000 soil and water conservation districts and the state associations of districts in the 50 states, Puerto Rico, and the Virgin Islands.

Conservation districts and our association have long been concerned about the increasingly serious state of the nation's soil and water resources. Information developed in recent studies conducted by the Department of Agriculture indicate that erosion from wind and water is, in some areas, more serious today than they were in the mid-1930's when the whole soil conservation movement was born. There is a great deal of available information on that subject today, including a new book, "Farmland or Wasteland: A Time to Choose," authored by myself.

The installation of conservation measures to protect the long-term productivity of the soil and water resource base, under present economic conditions, must be made in the face of overwhelming pressures to maximize production and net income. This necessitates short-term investment strategies on the part of farmers, ranchers and landowners that has seriously retarded the task of getting conservation on the land.

There are a wide array of programs to provide economic incentives for the installation of conservation measures, but these have become almost ineffective due to the cut-backs of federal funding, rising costs, and the serious cost squeeze forcing farmers to abandon conservation systems.

Our association has gone on record by formal resolution in support of revision of tax policy in an effort to accomplish this, as follows:

"Tax policies have an important, though often unintended, effect upon the way in which land is used and treated. Opportunities exist to greatly encourage the voluntary conservation and protection of land resources through the application of tax laws in ways that encourage such wise use. NACD, therefore, recommends that Congress revise federal income tax laws to provide tax incentives in the form of a conservation tax credit of up to 75 percent of the actual cost of installing permanent conservation measures. We believe an investment credit for all enduring practices is an option to straight tax write-offs which will get more conservation on the land.

We find ourselves in a difficult position today in comparing the two bills, S. 569 and S. 1561, which are before you. We are experts in soil and water conservation, not tax law. We strongly believe that some type of investment tax credit is badly needed. We think it will work in conjunction with other conservation incentives to provide incentives in situations where the current methods of cost-sharing do not apply. We leave it to this Committee to work out the most effective and simple way of amending the tax code to accomplish this task.

An investment tax credit could do several things to encourage soil and water conservation. It could provide an incentive for those years when a fortunate combination of good crops and reasonable prices allow a farmer to make a profit. Those don't come every year, but when they do, farmers will invest in the productivity of their land if possible. A tax incentive would help spur such investment.

An investment tax credit would be attractive to non-farming landlords. We hear a great deal about how little income tax is actually paid by farmers. Such statistics miss the point. Almost half of America's farmland is being rented by the farmer. Much of the land is owned by retired farmers, their widows or families. A great deal is owned by non-farming investors. These people often do pay taxes, and today there is virtually no incentive for them to plow a portion of their annual rentals back into long-term investments in the land.

It has been said that an investment tax credit for soil and water conservation would cause farmers to make conservation investments for tax reasons, not for conservation reasons. The same logic would fault investments in farm machinery and other improvements. Our position is that conservation investments must be made, irregardless of the reason, or the productivity of this nation's agriculture is going to be threatened—seriously—and soon. If national policy is to reverse the current rates of damage, every kind of incentive must be used.

We feel that a great deal of conservation investment could be spurred by an appropriate tax credit with an insignificant loss of tax revenues, as much of the tax revenue foregone would be offset by the increased business activity created in the construction and maintenance of conservation measures. For every dollar of tax credit taken, the farmer would spend ten dollars on construction, investment and maintenance that he otherwise might not spend. The value of this activity, and the tax revenues that it could generate, should offset, at least partially, the tax revenues lost through the credit.

In closing, we would like to suggest one further idea for your consideration. Both of the bills before us today would encourage the construction and maintenance of soil-saving practices on dryland. But over 27 percent of our agricultural product today comes from the 12 percent of our cropland that is irrigated, and it needs attention as well. Serious conflicts in water use exist, as well as a dire need to improve the conservation and use of water supplies and protect water quality.

We have worked with Members of the House to address this problem, and would propose an amendment to the bill before you which could have the effect of adding irrigation water conservation property to the definition of property qualifying for investment tax credits. Proposed language is attached, and we commend it to you for your consideration.

Thank you for this opportunity to express our views. We would be pleased to try to answer any questions.

IRRIGATION WATER CONSERVATION PROPERTY DEFINED

Section 48 of the Internal Revenue Code of 1954 (relating to amount of investment tax credit) is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

"(q) IRRIGATION WATER CONSERVATION PROPERTY.—For purposes of this subpart—

(1) TREATMENT AS SECTION 38 PROPERTY.—For the period beginning on the date of the enactment of this Act, any irrigation water conservation property shall be treated as meeting the requirements of paragraph (1) of subsection (a).

(2) IRRIGATION WATER CONSERVATION PROPERTY.—The term "irrigation water conservation property" means any property—

(A) which results in the reduction of water used in producing agricultural or horticultural commodities,

(B)(i) the construction, reconstruction or erection of which is completed by the taxpayer after the date of enactment of this Act, or

(ii) which is acquired after such date,

(C) with respect to which depreciation is allowable, and which has a useful life (determined as of the time such property is placed in service) of three years or more, and,

(D) which is used in accordance with a soil and water conservation plan approved by the local conservation district.

(3) CERTAIN PROPERTY TREATED AS IMPROVING IRRIGATION EFFICIENCY.—The following property, if used in producing agricultural or horticultural commodities, shall be treated as satisfying paragraph (2)(A):

(A) any irrigation system used on land that has been under irrigation in at least one of the past three years, and,

(B) is determined by the Secretary, on the basis of consultation with the Secretary of Agriculture, to be at least 10 percent more water-efficient than the system formerly used.

PREPARED STATEMENT OF MR. GARY D. PARKER, PRESIDENT-ELECT, THE IRRIGATION ASSOCIATION, SILVER SPRING, MD.

SUMMARY

(1) We support S. 569 and S. 1561, introduced by Senators Jepsen and Grassley. We need to halt the drain on our valuable soil and water resources. The use of tax credits will encourage the more efficient use of these critical resources.

(2) We recommend broadening these measures to include the adoption of incentives to encourage the use of more efficient irrigation practices.

(3) Agricultural irrigation accounts for more than 80 percent of the country's water usage. While it is not possible to precisely quantify the contribution irrigation makes to enhanced productivity, it is considerable. Between 20 and 50 percent of all food purchased in the U.S. is dependent, directly or indirectly, on irrigation.

(4) The future of irrigation in America is threatened by two things: reduced water availability and higher energy prices. The Water Resources Council's Second National Water Assessment has concluded that almost every region west of the Mississippi has insufficient water for agricultural production at present efficiency levels.

(5) Recent technological developments in the irrigation industry have resulted in the design of equipment that is more water and energy efficient. Estimates of water savings possible from the adoption of more up-to-date irrigation systems run as high as 95 percent.

(6) The potential efficiency gains associated with these new developments have not been captured by producers for several reasons. Since most farm operations are heavily indebted, farmers are often reluctant to incur additional debt. In addition, the farmer does not capture all the income benefits of upgrading his system. Many of the benefits accrue to other water users.

(7) The use of a tax credit to provide an economic incentive for such investments has several advantages. A tax credit is appealing in its administrative simplicity. It will not create an undue paperwork burden on the farmer or the government. It can also be implemented quickly. We are facing a problem that needs to be acted on now, not at some point in the future.

Mr. Chairman and Members of the Subcommittee: I am Gary Parker, President-elect of the Irrigation Association. The Association has about 850 members, spanning all segments of the irrigation industry from across the nation.

I commend the members of this Subcommittee for addressing the subject of soil and water conservation. I also commend Senators Jepsen and Grassley for taking the initiative to sponsor the bills before us, thereby helping bring this important issue to national attention. We, as a nation, must find the means to halt the ever-increasing drain on these critical natural resources. This is not a problem that will solve itself. The demands we place on these finite resources continue to rise. We are on a collision course. On behalf of the membership of the Irrigation Association, I urge the Subcommittee to consider the use of tax credits to encourage the more efficient use of our soil and water resources. In addition to supporting the general principles embodied in these bills, I strongly recommend these measures be amended to include the adoption of incentives to encourage the use of more efficient irrigation practices and equipment.

Let me now turn to that part of the soil and water issue with which I am most familiar—irrigation—and share some of my reasons for making these recommendations. Agricultural irrigation accounts for more than 80 percent of the country's water usage. It has become a major factor in American agriculture. More than one-fourth of the value of all crops produced in the U.S. and about one-sixth of all cropland is irrigated. Although 85 percent of all irrigated acreage is in the West, there is some irrigation in every state, with the fastest growth occurring in the South and Midwest.

While it is not possible to precisely quantify the contribution irrigation makes to enhanced productivity, it is considerable. For example, a recent study of Kansas agriculture attributes one-fourth of the state's gross farm income in 1977 to irrigation. A USDA study of a region in the Texas High Plains concludes that without irrigation annual net crop income in the area would be 41 percent lower. The impact of irrigation on the state of Nebraska in 1978 was estimated at close to $3.5 billion. Eighty-two percent of the corn produced is grown under irrigation. In arid regions, such as the Western U.S., irrigation makes an enormous difference in yields. Irrigated corn acreage averaged 115.2 bushels per acre in the West in 1977 while unirrigated acreage in the same region averaged only 48.3 bushels. For cotton, yields were 1.41 bales per acre with irrigation and 0.60 bales without; for wheat it was 39.4 bushels irrigated versus 27.1 bushels unirrigated. Of course, these higher yields result from the additional use of other inputs too (fertilizer, higher yielding

seed varieties, etc.). But it is all made possible by the reduced weather risks associated with irrigation. As an average for every $1 spent on irrigated agriculture, the value of crops produced increases by $2, and the secondary impact is even more dramatic. For every $1 spent on irrigation, $8 in additional economic activity is generated in the local economy.

Irrigation is used to produce a wide variety of farm products, from fresh fruits and vegetables to sugarcane to hay and feedgrains for livestock. Between 25 and 50 percent of all food purchases in the U.S. are dependent, directly or indirectly, on irrigation. Likewise, many of the farm products we sell abroad are produced under irrigation. In 1979, 15 to 20 percent of the dollar value of U.S. agricultural exports was produced with irrigation. Thus, American agriculture has become heavily dependent on irrigation.

Yet, the future role of irrigation in American agriculture is now threatened. It is threatened by two things: reduced water availability and higher energy prices.

There is mounting evidence that water availability will become a more serious problem in the years ahead. The High Plains area that extends from Texas to Nebraska and is served by the Ogallala aquifer has already begun to experience serious depletion problems. In parts of this region, groundwater levels have been declining as much as 7 to 10 feet per year due to groundwater overdraft. The same problem is occurring in south-central Arizona and parts of California. As demands on our water resources continue to mount, these effects will amost certainly spread to other parts of the country. The Water Resources Council's Second National Water Assessment concluded that almost every region west of the Mississippi has insufficient water for agricultural production at present efficiency levels. Localized problems are beginning to emerge even in the East.

In addition to inadequate supplies of water in many parts of the nation, competition among users for available supplies will intensify. Manufacturing, mining, steam electric generators, and energy development will all require large additional quantities of water in the years ahead. The Water Resources Council projects a 27 percent increase in consumptive use of fresh water between 1975 and 2000. Other forecasts call for even larger increases. As a result, agriculture will almost certainly lose access to some of the water supplies that are now available to it.

Recent technological developments in the irrigation industry have resulted in the design of equipment that is even more water and energy efficient. However, startling inefficiencies in the use of water and energy for irrigation still exist. Of the water delivered to the farm, only about half is used by the crops. The efficiency of on-farm irrigation—defined as the ration of water used by a crop from water stored in the root zone to the total volume of water delivered to the farm—varies considerably from one farm to another. The average efficiency rate for the U.S. is estimated at 53 percent, according to a recent U.S. Government Interagency Task Force. Another study of 61 projects by the Department of the Interior found an average efficiency of only 44 percent, with over one-third of the projects having an efficiency (on-farm and off-farm) of less that 30 percent.

Fortunately, there are means of significantly improving irrigation efficiency and thereby lessening the economic and resource pressures. Estimates of water savings possible from the adoption of more up-to-date irrigation systems run as high as 95 percent.

The opportunity for efficiency gains is largely a result of the recent revolution in irrigation technology. Many of the new technologies—particularly those designed to improve the efficiency of water and energy use—have been off the drawing board too recently to have been incorporated in most existing systems. Drip irrigation, tailwater recovery, flow and pressure regulating devices, low pressure systems, variable size pipe, center pivot systems, corner irrigation, computer designed nozzles, and lateral move systems are examples of this new technology.

Each of these technologies, applied under appropriate conditions, can contribute to improved irrigation efficiency and, ultimately, to greater agricultural productivity.

The potential efficiency gains associated with these new developments in irrigation have not been captured by agricultural producers for several reasons. Irrigation equipment is expensive. Installation costs range from $150 to $1,200 per acre. Thus, a system of only 160 acres can easily cost as much as $75,000 to $100,000 and more. Since most commercial farming operations are already heavily indebted, particularly in relation to their cash flow positions, these farmers are often reluctant to incur additional debt.

Another reason this technology is not being adopted more rapidly is the fact that the farmer does not capture all the income benefits of upgrading his system. Many of the benefits accrue to other water users. In its report on adoption of irrigation

state-of-the-art measures, the Federal Task Force estimated that offsite income effects were even larger than onsite income effects. The Task Force concluded that:

"Onsite benefits are the current incentives for practicing efficient water use both on farms and by irrigation districts. In some cases these may be small compared with offsite economic, social, and evironmental benefits. A national program to achieve a significantly high level of irrigation efficiency would require financial assistance or tax credit, technical assistance, and education."

The use of a tax credit to provide an economic incentive for such investments has several advantages. A tax credit is appealing in its administrative simplicity. It will not create an undue paperwork burden on the farmer or the government. It can also be implemented quickly. We are facing a problem that needs to be acted on now, not at some point in the future.

Farmers inevitably experience wide swings in their income. This is inherent in the production process. With the carry forward provisions, most producers should eventually reap the benefits of the tax credit. Also, in contrast to a tax deduction, it will benefit all farmers uniformly, regardless of their size or income.

The irrigation industry is deeply concerned with our nation's long-term water problem. Unless some constructive steps are taken soon, we fear that the reduced availability of water and higher energy prices will ultimately force most farmers to stop irrigating. This will not only be a loss to our industry but to the country as a whole. The impact on food production would be disastrous for our economy and those overseas who depend on our exports. Furthermore, such actions are needless * * * if we act quickly.

Within our industry, we have been aggressively working and researching with the goal of attaining greater water and energy efficiencies. We feel that we have made great progress, but I am afraid that without the government's help many producers will be unable or unwilling to take advantage of these advances.

It would be fairly simple to provide such an incentive. H.R. 621, introduced by Congressman Shumway and 36 cosponsors, provides the basic elements. Given the passage of liberalized across-the-board depreciation allowances since H.R. 621 was introduced, we suggest a couple of modifications to the Shumway bill. Specifically, we would delete the provision for 3 years' depreciation and would limit the tax credit to existing irrigators who are able to demonstrate that their investment will result on at least a 10-percent improvement in their water use efficiency.

To summarize, we support the concept and general direction of S. 569 and S. 1561, but we recommend that they be amended to give greater attention to the need to provide economic incentives for the adoption of more efficient irrigation techniques. While the use of the tax credit will not solve all our water problems, it is clearly an important step in the right direction. Thank you.

PREPARED STATEMENT OF MICHAEL E. STROTHER, L.I.C.A. WASHINGTON REPRESENTATIVE

Mr. Chairman and Members of the Committee. My name is Mike Strother and I represent the 4,000 members of the national trade association, Land Improvement Contractors of America. The organization has organized chapters in 34 states, and members in 42 states.

Land improvement contractors are, by and large, conservation contractors. Our members work directly for the landowner installing conservation measures. These measures include a wide range of erosion control methods such as terraces, farm ponds, grassed waterways, earthen dams, diversion channels, conservation drainage, leveling and grading, and others.

Our organization has for years urged greater incentives for soil and water conservation. This has been our consistent recommendation for two reasons:

1. *Soil erosion is a critical national problem.* Conservative estimates by soil scientists put annual soil loss at nearly 4 billion tons per year. (Source: USDA-RCA Appraisal Part II, 1980). Fully half of this tonnage comes from cropland. This erosion rate could seriously affect our ability to feed ourselves in less that a hundred years if not arrested. Soil sediment is also the Number 1 water pollutant, by volume, in the United States, according to EPA and USDA.

2. *Farmers cannot afford to install all the necessary soil conservation measures under today's economic conditions.* Major conservation measures require a large outlay of capital and have a slow rate of return, if any. A highly leveraged farmer, out of necessity, must realize a quick return on his investment. Conservation cannot give him this.

As an example of the low economic return ratio to a farmer on conservation measures, I cite a recent study called "Costs and Benefits of Terraces for Erosion

Control." (Source: Abstract appearing in Journal of Soil and Water Conservation, Sept.-Oct., 1980. Copy attached.) The study was done by Kent Mitchell, John Brach, and Earl Swanson, respectively a university professor of agricultural engineering, a USDA agricultural engineer, and a professor of agricultural economics. Their study concludes "that, except in a few situations, the farmer will sacrifice income to control erosion by constructing terraces." Most conservation measures can have an equally low cost-benefit ratio to the farmer.

For the foregoing reasons we believe it will take major new incentives to get critically needed conservation put on the land. Only by such action can we protect our food production base for the future. Our organization strongly endorses the tax incentives approach represented by two bills before the committee today, S. 569 and S. 1561. They are certainly a step in the right direction.

The Joint Committee on Taxation has reviewed S. 569 and estimated it to have a negative revenue impact of approximately $30 million per year. The incentives provided by this relatively minimal tax loss would generate substantial new amounts of conservation. The benefit from this tax incentive would flow directly to the public, a public that strongly supports the government's role in this area, as I will touch on later.

What the Farmers are Saying.—As our members work with farmers on a day-to-day basis they hear their opinions about conservation. In summarizing reports from the field we would say the average farmer wants his farm to be a showcase of good practices—including conservation practices. In fact, it is our belief that most farmers have a strong conservation ethic. However, because of the high cost of farming, in general, high interest rates, and low profits in farming today, the farmer must invest his capital where it will show the quickest and greatest return. As we have demonstrated, the return on investment for conservation is neither quick nor great. Even though the farmer wants to apply conservation measures, he often cannot as a matter of economic survival.

How Does the Public Feel?—USDA commissioned Louis Harris and Associates, Inc. to conduct a survey in the fall of 1979, to determine public attitudes about conservation of soil and water. Over 7,000 people were interviewed in-person who represented a cross-section of the Nation's adult population.

Three of the survey's major findings are: (Source: USDA-RCA Appraisal, Part I, 1980; page 317.)

(1) "By 7 to 1, Americans think that federal action to protect farmland from erosion is a proper role for government."

(2) "People see conservation as a joint public and private responsibility. They think the burden for conservation should be shared fairly between government and farmer."

(3) "More than 75 percent of Americans feel we have not reached the point in soil and water conservation efforts that we should be more concerned with holding down costs than with completing the work that remains."

The farmer's economic situation coupled with the major public benefit derived from conservation, makes a strong case for increased government incentives for soil and water conservation.

S. 569 and S. 1561. We would urge the committee to combine the best features of both S. 569 and S. 1561 to provide maximum incentives for soil conservation. The features that we feel are most important for making a tax incentive truly effective are:

(1) Maximum flexibility for a farmer or landowner to apply the incentive to his own situation.

(2) The shortest recapture period possible, or ideally complete elimination of it.

(3) The widest application of the incentive to include all capital expenditures for soil and water conservation purposes.

(4) The ability to carry unused tax benefits forward indefinitely until useable.

(5) Allow the farmer or landowner to trade unuseable tax benefits to corporations or unincorporated businesses that are profitable in return for services, materials, and machinery. This last provision is not addressed by either of the two bills before the Committee and would represent an expansion and broader application of the "safe harbor" leasing rules embodied in the Economic Recovery Tax Act of 1981. By application of this provision in unprofitable times conservation incentive would continue to work for the farmer by providing him a valuable exchange medium, when he might otherwise lose the benefit intended by the incentive.

CONCLUSION

In conclusion, our country is facing a critical challenge to our ability to feed ourselves because of an alarming loss of topsoil. Recent economic conditions make it

highly unlikely farmers will apply conservation measures on the scale needed but which are strongly supported by the general public. Increased federal tax incentives are needed to stimulate increased conservation. S. 569 and S. 1561 are attractive vehicles for generating the necessary incentives.

[From the Journal of Soil & Water Conservation, September-October, 1980]

Costs and Benefits of Terraces for Erosion Control

(By J. Kent Mitchell, John C. Brach, and Earl R. Swanson)

Abstract: To determine if terrace systems are economically justified from the farmer's standpoint, terrace construction costs were estimated using 1978 data. Terraces of both the gradient and tile-outlet-storage type were investigated on field slopes between 1 and 15 percent. Government cost-sharing for terrace construction was accounted for in the analysis. Two management levels and two subsoil types were considered as variables. A number of common soils in Illinois were selected on the basis of their initial productivity, erodibility, kind of subsoil, and range of slopes. Soil losses for various conditions were estimated using the universal soil loss equation. Corn and soybean prices for 1978 were used in the economic evaluation. The analysis showed that, except in a few situations, the farmer will sacrifice income to control erosion by constructing terraces. Although this finding contradicts the view that soil conservation pays, the study evaluated only the direct benefits of terracing. If other costs of erosion are considered, the benefits from terracing may offset the costs. The future costs of soil erosion to society in the form of reduced agricultural productivity may justify additional expenditures by governmental agencies to promote soil conservation.

Soil is removed by erosion in many areas every year. More than 12 million tons of sediment contribute daily to surface water pollution in the 48 contiguous states (1). This sediment damages engineering works, agronomic activities, and wildlife. Gross erosion from agricultural areas in Illinois exceeds 181 million tons annually (5). Only 14 percent of the state's 9.7 million acres of sloping cropland is adequately protected from erosion (7).

There are several methods to control erosion, including tillage practices or crop rotations that reduce the potential for erosion. Terracing also is an effective erosion control practice, but terracing is expensive, even when the government shares the cost. The expense deters some landowners from installing terraces.

Allowing erosion to go unchecked, however, also can be costly. Soil erosion ultimately reduces crop yields and causes downstream sediment damages.

Our study was conducted to determine if terrace systems could be economically justified from the farmer's standpoint solely. We investigated this economic justification on several sloping soils in Illinois by considering soil productivity, erosion potential, kind of subsoil, reduced productivity from the loss of topsoil, management levels, and terrace installation costs.

STUDY METHODS

Evaluating the economic impact of initiating a conservation practice, such as terracing, involves several variables. We looked at a number of these to determine their effects on the income consequences of terracing.

Range of soils. The soils examined in our study represent a range of initial productivities, erodibilities, kinds of subsoil, and slopes. Table 1 describes the properties of these soils (3). Subsoil was classified as favorable or unfavorable depending on whether or not it has characteristics that are favorable to plant growth such as structure and soil type, but lacks nutrients.

Soil loss calculations. We used the universal soil loss equation, A=RKLSCP, to predict soil erosion rates (9). We held the rainfall factor, R, cropping management factor, C, and erosion control practice factor, P, constant throughout the study. The R factor varies in Illinois from 160 in the north to 220 in the south. We used a value of 180, the accepted figure for most of central Illinois.

We assumed the tillage system without terraces to be fall plowing, up-and-slope. This system used a P factor of ? and a C factor of 0.51. We used the same C factor for the two crop rotations considered, continuous corn and corn-corn-soybeans. To obtain the slope length and slope factor, LS, we used a slope length of 400 feet.

To calculate the percentage yield reductions due to erosion, we computed the total inches of soil eroded each year. We converted this soil loss to volume using a bulk

density of 84 pounds per cubic foot, an average value for the plow layer of several silt loam soils (2).

We assumed that the terrace system was planned and maintained properly and that the annual soil loss would be equal to or less than the soil loss tolerance level. That is, the terrace spacing was adequate to provide an LS factor in combination with a P factor for contouring so that the soil loss tolerance was not exceeded. Thus, we did not compute the soil loss for the terraced situation.

Calculating yield reductions. The extent to which soil erosion reduces yields depends upon the level of farm management and the subsoil's ability to support plant growth. Level of management can substantially change the initial soil productivity. Table 2 lists some representative characteristics of basic and high levels of management.

Table 3 shows the relationships of level of crop management, slope, subsoil, and degree of erosion to crop yields. Our analysis included the adjustment of yields to account for slope and kind of subsoil. Because favorable and unfavorable subsoils have different effects on yield, we evaluated the subsoils separately.

We assumed that moderate erosion had occurred on the soils before the study.

Senator WALLOP. Thank you very much. Let me just toss something out to you as a panel and see your response.

Given the tax bill that was just passed and was just mentioned, as well, what is it, irrigation equipment or other things that is an incentive but needs to be enhanced? I assume that irrigation equipment, like other things, has available to it, an accelerated cost recovery system, which is about as generous as we have ever had in this country in terms of purchasing incentives.

I am viewing this more in terms of tax credits from the standpoint—I'm trying to fit some budget perspective into this discussion too. The equipment would seem to have been pretty well taken care of by that, versus the practicers which is another thing. I mean you are talking about the comparison method and other kinds of things.

Isn't the equipment, now, pretty generously treated as it is in the rest of America?

Mr. PARKER. I believe that the individual, the grower, is going to install a piece of equipment where he can convert from dry land to irrigated land. The incentives are there for that individual. However, I don't think the tax incentives are there for the individual who is currently using an inefficient system. He has that in place, and he really has no incentive to convert to something that is more water efficient. He has his system in place; it is operating. And as far as he is concerned he doesn't have a real desire to conserve water. If he makes that change, if he makes a modification either in his equipment or in his practices, it's really not going to benefit him, it is going to benefit somebody else because if he does it, all it means is that he is conserving water.

Senator WALLOP. Well, where does this bill fit into that concept in terms of incentive for equipment?

Mr. PARKER. In my opinion, if it is aimed at those people who are currently using inefficient methods. If there were some incentive for him to convert to more efficient systems, equipment, practices, I believe he would.

Senator WALLOP. I guess my question is that he has two incentives which you mentioned—availability of water and the price of energy. Now he has the third one. You know, even if you replaced an existing system with a new one, you have the accelerated cost recovery. Indeed, so would somebody, if they chose to, who bought his old inefficient system under the used equipment advantages

that were written in as a small business agricultural part of that tax act. My question is why do we need one more thing involved? And what would that one more thing be involved with equipment?

I am trying to separate equipment and practices here because it is important to us that we deal with the whole problem.

Mr. PARKER. Well, in my opinion, the incentives that are currently available are not the stimulus that we need to encourage someone to convert equipment.

Senator WALLOP. But what more is in here?

Mr. PARKER. I would propose to endorse the additional 10 percent tax credit. I believe that would be the sort of stimulus an individual would need to convert from inefficient equipment to equipment that would conserve water and energy. I believe that would be the stimulus that would get people to convert and be more concerned about water and energy conservation.

Mr. HAWLEY. Senator, maybe I am not following this properly. We did not envision that as it is currently proposed either in Senator Grassley's bill or Senator Jepsen's bill to actually address the specific issue of irrigation equipment.

There were a list of what is called "qualifying soil and water conservation practices" which did not include equipment per se. I think the answer to your question is a question of equity. Every sector of the economy is complying with various environmental requirements that have been imposed by the Federal Government.

Virtually every other sector of the economy has opted for equipment intensive compliance with those requirements, whether it's catalytic converters or scrubbers or whatever, all of which are eligible for tax credit treatment.

Agriculture's activities would be nonequipment intensive. They would be land based. It would be activities rather than machines. And those, under the existing law, are not eligible for a tax credit. All this bill really does is put us on an equal footing with everyone else who is laboring to comply with the various requirements for environmental quality with the Federal Government.

Senator WALLOP. Well, I am appreciating that distinction. But it was Senator Grassley's conversation with Secretary Chapoton that brought up the additional incentive for equipment as well as practices. I think that may be more difficult to sell. I'm not certain.

But the practices, I have no quarrel with them. And I have no quarrel with any of the concepts. I don't want it misunderstood.

Mr. SAMPSON. Could I respond on that for just a moment, Mr. Chairman?

Senator WALLOP. Sure.

Mr. SAMPSON. In irrigation, there does get to be a blurred distinction between equipment and practices. What is equipment, such as pumps and pipes to a sprinkler irrigater is practices such as ditches, land leveling and syphon tubes to a surface irrigater. There are many surface systems still remaining in the country that are in serious need of upgrading in terms of water efficiency. There is a great potential there.

Senator WALLOP. Yes.

Mr. SAMPSON. So I think we need to understand on the record, as I know you do personally, the complexity of that entire agricultural system that we are talking about.

Senator WALLOP. Well, I think there is no question. And I think, in a way, that was some of the complexity that the Secretary was talking about. And it is not a simple thing. It is a necessary point to address.

I think your point on the landlord versus the tenant's incentive is a pretty telling one.

Let me just tell you one reason why I am suddenly aware of that. When I was actively managing my own ranch, I did a lot of conservation practices because you do that when you have land. Now that much of my land is leased, I see much of the benefit of what I had done just sort of gradually drifting away. And there is the old saying that there is no manure like the master's hand. It's truer than I had thought. [Laughter.]

There is no incentive for my tenants to follow the practices that I had in place and I am losing some of them. I appreciate that point.

Mr. SAMPSON. If I could follow up with one more aspect of that. It was inferred by the gentleman from Treasury that somehow these expenses would be capitalized into the value of the land.

I've done a lot of study on that, and I can find no evidence of that whatsoever. Yesterday, in a meeting with the top economists from the Department of Agriculture, academia and resources for the future, that very question came up. It was felt by all present that there is no evidence today that investments in soil and water conservation measures are affecting the price of land. Now, something such as irrigating desertland, obviously, is a special case. But putting soil and water conservation measures on the cornland in Mr. Grassley's State, I would dare say, has had little, if any, effect on land prices.

Senator WALLOP. I guess ultimately there would be if there were none and you had a place that had been productive and no longer was.

Mr. SAMPSON. Well, value and price are two different things. And so we were talking price at that point, and they simply aren't being capitalized.

Senator WALLOP. I agree with what you are saying. But the ultimate thing would be that there would be——

Senator GRASSLEY. Well, let me give evidence to support what you just said. There is a lot of land that has changed hands that has had soil conservation structures on it where the new owner immediately eliminated the structures to the detriment of soil conservation. It could be that they weren't particularly the right structures in the first place, but you don't see those being replaced. And that's one of the criticisms we are finding from farmers who are good stewards of their soil—that we permit tax dollars to be spent on those structures, and then they are eliminated.

But my point in support of your point is that if those structures were part of the capital structure, he wouldn't be eliminating them because they were part of his consideration in purchasing and because they caused the farmland to be higher in value.

Mr. SAMPSON. Unfortunately, in the last few years people could buy a farm, rip the conservation practices out and sell the farm for 14 percent more the following year just because of the inflationary

push on land prices. In that situation, it was clear that the existence of the conservation practices meant nothing.

Senator WALLOP. I agree with that both from experience and observation. I think there is no evidence, but we also have a problem, those of us who come from agricultural worlds understand that, in trying to explain that to our city brethren. If you are going to spend some conservation practices in a hotel or an office building you would know it was repainting and putting in new furniture or new furnishings. In its way, that is conservation practice. It prolongs the life of it. And obviously there is an immediate capital advantage. If not 100 percent of the investment, then it would certainly be a high percentage of it.

Our difficulty is explaining why that same thing doesn't transfer to a land practice. And it is no easy chore when you start hitting the floor with people who are competing for that money for a constituency that has home heating problems, as we have heard this morning. It is more easily done in the Senate than the House, I might add, because almost everybody in the Senate has an agricultural constituency which can talk to them. But hardly anybody in the House has an agricultural constituency in terms of overall numbers.

Senator GRASSLEY. I would think that I ought to give Mr. Hawley an opportunity to state any misgivings or disagreements he has with my legislation. He is the only one who didn't address my legislation. Don't be afraid to be candid even though I am sitting in front of you. I would be happy to have you say what you do or don't like about it.

Maybe he's remembering that I'm a 26-year member of his organization and I help pay his salary or something. I don't know.

Mr. HAWLEY. Particularly in light of the way the question was formed, Senator Grassley, we have no reservations about your legislation.

We spoke specifically to Senator Jepsen's legislation for a couple of reasons. He had approached us with his legislation some time ago. And we had been working with him to aid in securing cosponsors.

I guess a political point at which you are far more adept than I—we felt there would be some difficulty in convincing some of your city cousins of the merit of the 20-percent tax credit for agricultural conservation practices.

Senator GRASSLEY. I can appreciate that.

Mr. HAWLEY. We had hoped that 10 percent might be more doable.

Senator GRASSLEY. And I would have to admit that 10 percent would be better than nothing if I couldn't get the 20 percent. But when I introduced my bill 4 years ago, it was felt at that time that it would have to be higher to be an effective incentive. I felt like I was even compromising at that time with the 20 percent. But now considering the budget restraints that we have and the necessity of balancing the budget by 1984, that may even be unrealistic.

Mr. HAWLEY. Realistically, considering the short-term potential for an erosion control program and the obvious long-term benefit for the future productive capacity of the food producing system of

this country, 100 percent tax credit is justifiable. In this climate, we don't think that can be a case.

Senator WALLOP. Thank you all very much. We appreciate your testimony this morning and your effort in coming here. And we will see where we can get.

The hearing is adjourned.

[Whereupon, at 11:09 a.m., the hearing was adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF THE NATIONAL CATTLEMEN'S ASSOCIATION, SUBMITTED BY JAMES L. POWELL, CHAIRMAN, TAX COMMITTEE

Introduction

The National Cattlemen's Association (NCA) supports tax incentives which will encourage bona fide farmers and ranchers to conserve and manage their agricultural land and water and to treat such land and water in a manner which provides for sustained production and the prevention of erosion and deterioration. At this particular time, and based upon our nation's agricultural production abilities, it is important that farmers and ranchers be encouraged to increase production in order to meet both national and world needs for food and fiber as well as to help maintain a favorable balance for trade with respect to exportation of agricultural products to foreign countries. Tax incentives to encourage soil and water conservation of agricultural lands can be an important impetus in this undertaking. However, NCA feels that any changes in existing law concerning tax benefits for soil and water conservation expenditures be limited to bona fide farmers and ranchers and not be made available in such manner that will promote tax shelters in the acquisition and developmend of agricultural land.

S.569 - Investment Tax Credit for Certain Soil and Water Conservation Expenditures

The provisions of S.569 would permit a farmer/rancher to claim a 10% tax credit for soil and water conservation expenditures which the farmer/rancher did not elect to deduct under section 175 of the Internal Revenue Code. Section 175 of the Internal Revenue Code allows farmers/ranchers

to make an election to deduct soil and water conservation expenditures. The amount of these expenses which is currently deductible is limited to 25% of the gross income derived from farming/ranching with the excess being carried forward to and deducted in subsequent years subject to the 25% limitation. Soil and water conservation expenditures which qualify for deductibility under section 175 include leveling, grading, terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, water courses, outlets, and ponds, the eradication of brush and the planting of windbreaks. Section 175 does not apply to expenses paid or incurred for the purchase, construction, installation and improvement of property if the property is subject to the allowance for depreciation provided in section 167 of the Internal Revenue Code.

Under S.569, a 10% investment tax credit would apply to the amount of soil and water conservation expenses described in section 175 which the farmer/rancher did not elect to deduct under section 175. In many instances this 10% investment tax credit would be beneficial to farmers/ranchers. However, it is noted that since the 10% investment credit would reduce a farmer/rancher's tax liability less than a deduction of the full amount of the soil and water conservation expenditure, the credit would be beneficial only for those expenditures which exceeded the farmer/rancher's current year's limitation which the farmer could not reasonably expect to carry over

and deduct in the next several years. Of course, some amount of this benefit would be obtained from adding the nondeducted costs to the basis of the land. However, the addition of these costs to the basis of farm/ranch land would provide a tax benefit in the form of a reduction of the capital gains tax only if and when the land were sold.

NCA commends Senator Jepsen for introducing S.569 and supports the concept embodied in this Bill to increase the benefits available to bona fide farmers and ranchers for soil and water conservation expenditures. However, NCA is concerned that extending benefits in the form of investment tax credit for these undeducted soil and water conservation expenditures not promote tax shelter programs in agricultural land. In this connection, NCA recognizes that the limitation contained in section 175 which restricts the current deduction of soil and water conservation expenditures to 25% of gross income from farming/ranching will generally restrict the benefits of section 175 to taxpayers engaged in farming and ranching businesses. Moreover, the availability under section 175 for an unlimited carry forward of unused soil and water conservation expenses provides a reasonable basis for claiming benefits without opening up this special provision to tax shelter operations.

In order to assure that the benefits of S.569 are directed to bona fide farmers/ranchers, thought might be given to amending the Bill to clarify that the investment tax credit is restricted to soil and water conservation

expenditures relating to land used in the trade or business of farming/ranching. A further modification might be to provide in S.569 that this investment tax credit be limited to the tax attributable to income derived from the farming/ranching business.

S.1561 - Investment Tax Credit for Land Conservation Expenditures

The provisions of S.1561 state that an investment tax credit of 20% on qualified land conservation expenditures will be allowed taxpayers. The Bill defines qualified land conservation expenditures to mean expenses incurred with respect to any land which is used for the production of crops, fruits or other agricultural products or for the sustenance of livestock and which is held by the taxpayer and located within the United States. These expenditures would include amounts paid for soil conservation, prevention of soil erosion, the reduction or control of agriculture-related pollution and for the leveling, grading and terracing contour furrowing, the construction, control and protection of diversion channels, drainage ditches, earthen dams, water courses, outlets and ponds and the eradication of brush and the planting of windbreaks. This credit is available for such soil and water conservation expenditures regardless of whether such expenditures are deducted under section 175 of the Internal Revenue Code. If the land on which these expenditures are made is disposed of (other than by death or certain corporate reorganizations or if it is taken out of farming use) within three years after the year in which the

expenditures are incurred, there is a recapture of the investment tax credit.

NCA commends Senator Grassley for introducing S.1561 and supports the concept of this Bill. As with S.569, NCA is concerned that this Bill not promote tax shelters in agricultural land. Several amendments to S.1561 might be considered to limit the benefits of this Bill to bona fide farmers/ranchers. The credit should be restricted to conservation expenditures with respect to land used in a farming/ranching business. It might also be appropriate to limit the credit, with appropriate carryovers, to the tax on income derived from the farming/ranching business. Since agricultural land is usually held for a number of years, consideration could be given to increasing the recapture period from 3 years to 5 years.

CONCLUSION

NCA supports the concepts embodied in S.569 and S.1561 which would provide additional tax benefits to farmers and ranchers with respect to soil and water conservation expenditures. Senator Jepsen and Senator Grassley are to be complimented for their attention to this important matter and for proposing legislation which would encourage farmers and ranchers to make needed soil and water conservation expenditures and increase agricultural productivity. Care should be exercised, however, in providing investment tax credit for soil and water conservation expenditures to assure that this credit does not cause a proliferation of tax shelters in agricultural

land. In this regard, the credit for soil and water conservation expenditures embodied in S.569 and S.1561 should be directed to bona fide farmers and ranchers. NCA would welcome the opportunity to work with the members of the Subcommittee and with their staffs to determine what further amendments may be needed to S.569 and S.1561 to assure that the tax benefits accorded by these two Bills are limited to bona fide farmers and ranchers.

Testimony from

Ronald E. Sneed, Professor
Biological and Agricultural Engineering Department
North Carolina State University
Raleigh, North Carolina

I would like to express my appreciation to the committee for the opportunity to speak in favor of tax incentives for soil and water conservation expenditures.

United States farmers are the most productive in the world. Each year, through modern technology developed by the efforts of a variety of people from plant breeders to agricultural engineers, fewer and fewer farmers produce food and fibers to feed increasingly larger numbers of people. United States farmers now contribute the greatest share of this nation's exports, and this increases each year. This is being done in spite of the loss of three million acres of farm land each year to non-agricultural purposes, one million of which is prime farm land. The loss of this prime farm land means more fuel, labor and fertilizer are needed and more acres of less productive land are needed to produce the same amount of food and fiber.

In addition to the loss of agricultural land, the quality of the remaining farm land is being reduced by the loss of soil through erosion at an average rate of more than five tons per acre per year and in some areas soil losses of more than 100 tons per acre per year occur. Conservationists would like to see this loss reduced from one to three tons per acre per year. Soil erosion from all lands amounts to more than four billion tons of sediment annually which is deposited in the streams, lakes and natural waterways of the United States. In addition to the problems caused by sedimentation, erosion reduces the crop productivity of these soils.

In the humid areas of the U.S., millions of acres are not producing their maximum potential because of the need for surface and/or subsurface drainage. In the arid West, salts which are naturally occurring in the soils or that have been added through excess irrigation water applied through inefficient systems, reduce the productive potential of the soil. Many of these soils also need subsurface drainage.

Irrigation is used on some 60 million acres in the United States. These acres constitute some 12 to 13 percent of the total cultivated crop land, and yet some 30 percent of the total crop production occurs on these land. However, some of the irrigated areas face serious problems. The high cost of energy and the scarcity and high cost of water are making irrigation uneconomical in some areas. In fact, it is certain that the irrigated acreage will decrease in areas of dimenishing ground water supplies. In most of these areas surface water is not available or is too expensive to substitute for ground water.

There are answers to these problems. Technologies presently exist or can be developed to solve many of the soil and water conservation problems, but with present high interest rates, depressed farm prices, and lack of incentive, growers cannot or will not invest borrowed capital to install these soil and water conserving practices without some incentives.

United States agriculture is the largest industry in this nation, yet it is facing severe problems. The debt load carried by U.S. farmers is the largest in history. High interest rates, coupled with inflation, are forcing many farmers out of business or forcing them to sacrifice soil and water conservation practices at the expense of production.

Water management practices such as terracing, strip cropping, contouring sod planting, minimum tillage, grassed waterways, field borders, etc., can greatly reduce the amount of erosion occurring on fields in the humid areas of the country. Not only can these practices reduce erosion and soil losses, but many will increase production. However, it normally requires several years to recover the cost through increased yields, and farmers do not have the money to invest. Studies being conducted in many states under the PL 92-500-208, Non-Point Source Pollution Control program, indicate that Best Management Practice (BMP) strategies such as those mentioned above will greatly reduce runoff and erosion from agricultural lands. Yields may or may not be increased. For example, planting corn in a rye cover crop in sandy soils has shown a yield reduction in some studies; whereas, planting corn in a cover crop on clay soils normally has shown an increase in yields. Some of the tillage practices such as sod planting may result in energy savings.

The problems of excess surface and/or subsurface moisture can be corrected. Modern technology has produced plastic drain tubing, effective filter materials, the drain plow and laser grade control equipment. In addition to increased yields through improved drainage, nitrogen fertilizer is more readily available and less nitrogen fertilizer is required, and increased trafficability results in reduced fuel consumption.

In the field of irrigation, equipment and technology have recently been introduced that can reduce energy and water consumption and also provide better moisture control. Automated equipment for land grading, automated water control devices for ditches, low pressure center pivot and lateral move systems, trickle irrigation, soil moisture measuring devices and irrigation scheduling will allow more acres to be irrigated efficiently with less expenditure of energy and water.

What will be required to encourage growers to adopt more soil and water conservation technology? Some will never change. It is like the old farmer that told the young county agent, "Son, I know more than I presently do, why should I learn anything else?" At a certain cost of water and energy, other growers will adopt new technology if the value of the commodity being produced allows a profitable operation. Lastly, tax incentives encourage growers to invest in these technologies. Many of you are aware of the Resource Conservation Act of 1977. The Act has not been adopted, only proposals have been made on conservation programs and public comment solicited. Some 65,000 responses were received. Those commenting:

-- generally supported present conservation programs, but said agencies could do a better job if they had more funding and if they could provide more technical assistance
-- supported incentives and advocated research, education and technical assistance for solving soil and water resource problems
-- said that education and research, but not regulation, are appropriate areas for government involvement in conservation activities
-- wanted red tape and regulations reduced.

Respondants commenting on alternate strategies said that they:

-- most favored redirecting present conservation programs and conservation performance bonuses, such as high target prices and loan rates or lower interest rates on loans for those who practice good conservation
-- least favored the regulatory emphasis and cross compliance
-- generally said that they would support a national conservation program that is well funded, voluntary and responsive to local conditions and needs.

There must be incentives to encourage our farmers to conserve our soil and water resources and important farm land. Voluntary conservation programs tailored to local conditions are better suited to individual needs and can be strongly supported through the Soil and Water Conservation Incentives Act of 1981 and the companion Irrigation Water Conservation Tax Act of 1981.

Thank you for the opportunity to speak.

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