

89th Congress }
1st Session }

COMMITTEE PRINT

Copy 1

1637-8

EXCISE TAXES

STATEMENTS

OF

SECRETARY OF THE TREASURY

HENRY H. FOWLER

AND

ASSISTANT SECRETARY OF THE TREASURY

STANLEY S. SURREY

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ON

H.R. 8371

AN ACT TO REDUCE EXCISE TAXES
AND FOR OTHER PURPOSES



JUNE 8 AND 9, 1965

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1965

COMMITTEE ON FINANCE

HARRY FLOOD BYRD, Virginia, *Chairman*

RUSSELL B. LONG, Louisiana

GEORGE A. SMATHERS, Florida

CLINTON P. ANDERSON, New Mexico

PAUL H. DOUGLAS, Illinois

ALBERT GORE, Tennessee

HERMAN E. TALMADGE, Georgia

EUGENE J. McCARTHY, Minnesota

VANCE HARTKE, Indiana

J. W. FULBRIGHT, Arkansas

ABRAHAM A. RIBICOFF, Connecticut

JOHN J. WILLIAMS, Delaware

FRANK CARLSON, Kansas

WALLACE F. BENNETT, Utah

CARL T. CURTIS, Nebraska

THRUSTON B. MORTON, Kentucky

EVERETT MCKINLEY DIRKSEN, Illinois

ELIZABETH B. SPRINGER, *Chief Clerk*

CONTENTS

	Page
Text of H. R. 8371.....	1
Statement of Hon. Henry H. Fowler, Secretary of the Treasury, accompanied by Stanley S. Surrey, Assistant Secretary of the Treasury..	15
Statement of Hon. Stanley S. Surrey, Assistant Secretary of the Treasury..	21, 55

EXHIBITS

Alcohol and tobacco tax payment system.....	59
Comparison of social security tax increases and excise tax decreases.....	46
Estimated initial impacts of social security and excise programs.....	44
Excise tax program to be enacted in 1965 indicating differences between President's recommendation and H. R. 8371.....	22
Gross fiscal year reductions in administration budget receipts.....	18
Percentage of annual retail sales each month.....	40
Reduction in tax collections, full year effect, House bill and President's program.....	18
Tax revenue arising from the 10 percent manufacturer's excise tax on trucks, buses, and trailers as it applies to pickup trucks.....	60
Telegrams to the chairman:	
American Motors Corp.....	49
Chrysler Corp.....	48
Ford Motor Co.....	48
General Motors Corp.....	49

EXCISE TAXES

TUESDAY, JUNE 8, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (presiding), Long, Smathers, Anderson, Douglas, Talmadge, McCarthy, Hartke, Ribicoff, Williams, Bennett, Morton, and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The bill under consideration by the committee today is the Excise Tax Reduction Act of 1965, H.R. 8371.

(A copy of the bill follows:)

[H.R. 8371, 89th Cong., 1st sess.]

AN ACT To reduce excise taxes, 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, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Excise Tax Reduction Act of 1965".

(b) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.

TITLE I—RETAILERS EXCISE TAXES

SEC. 101. REPEAL OF RETAILERS EXCISE TAXES.

(a) IN GENERAL.—Subchapters A (relating to jewelry and related items), B (relating to furs), C (relating to toilet preparations), and D (relating to luggage, handbags, etc.) of chapter 31 are repealed.

(b) TECHNICAL AND CONFORMING AMENDMENT.—

(1) The table of subchapters for chapter 31 is amended by striking out the items relating to subchapters A, B, C, and D.

(2) Sections 4051 through 4053 are repealed and the table of sections for subchapter F of chapter 31 is amended by striking out the items relating to sections 4051, 4052, and 4053.

(3) Section 4055 is amended by striking out ", in the case of the tax imposed by section 4041,".

(4) Section 4057(a) is amended by striking out ", in the case of a tax imposed by section 4041,".

(5) Section 4224 (relating to exemption for articles taxable as jewelry) is repealed and the table of sections for subchapter G of chapter 32 is amended by striking out the item relating to section 4224.

(6) Section 6011(c) (relating to return of retailers excise taxes by suppliers) is repealed.

TITLE II—MANUFACTURERS EXCISE TAX

SEC. 201. AUTOMOBILES AND AUTOMOBILE PARTS.

(a) PASSENGER AUTOMOBILES, ETC.—Paragraph (2) of section 4061(a) (relating to imposition of tax) is amended to read as follows:

“(2) (A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

“10 percent for the period ending June 30, 1965.

“7 percent for the period July 1, 1965, through December 31, 1965.

“6 percent for the period January 1, 1966, through December 31, 1966.

“4 percent for the period January 1, 1967, through December 31, 1967.

“2 percent for the period January 1, 1968, through December 31, 1968.

Effective for the period beginning January 1, 1969, the tax imposed under this paragraph shall cease to apply.

“(B) The articles to which subparagraph (A) applies are:

“Automobile chassis and bodies other than those taxable under paragraph (1).

“Chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles. A sale of an automobile, or of a trailer or semitrailer suitable for use in connection with a passenger automobile, shall, for the purposes of this paragraph, be considered to be a sale of a chassis and of a body enumerated in this subparagraph.”

(b) PARTS AND ACCESSORIES.—

(1) Effective as provided by section 701(a)(1), subsection (b) of section 4061 (relating to imposition of tax on parts and accessories) is amended by striking out “and other than automobile radio and television receiving sets” and by striking out “, except that on and after July 1, 1965, the rate shall be 5 percent”.

(2) Effective as provided by section 701(a)(2), subsection (b) of section 4061 is amended to read as follows:

“(b) PARTS AND ACCESSORIES.—

“(1) Except as provided in paragraph (2), there is hereby imposed upon parts or accessories (other than tires and inner tubes) for any of the articles enumerated in subsection (a)(1) sold by the manufacturer, producer, or importer a tax equivalent to 8 percent of the price for which so sold, except that on and after October 1, 1972, the rate shall be 5 percent.

“(2) No tax shall be imposed under this subsection upon any part or accessory which is suitable for use (and ordinarily is used) on or in connection with, or as a component part of, any article enumerated in subsection (a)(2) or a house trailer.”

(c) TECHNICAL AMENDMENT.—The last sentence of paragraph (1) of section 4061(a) is amended by striking out “the chassis and of the body” and inserting in lieu thereof “a chassis and of a body enumerated in this paragraph”.

SEC. 202. LUBRICATING OIL.

(a) IMPOSITION OF TAX.—Section 4091 (relating to imposition of tax) is amended to read as follows:

“SEC. 4091. IMPOSITION OF TAX.

“There is hereby imposed on lubricating oil (other than cutting oils) which is sold in the United States by the manufacturer or producer a tax of 6 cents a gallon, to be paid by the manufacturer or producer.”

(b) PAYMENTS TO ULTIMATE PURCHASERS.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

“SEC. 6424. LUBRICATING OIL NOT USED IN HIGHWAY MOTOR VEHICLES.

“(a) PAYMENTS.—If lubricating oil (other than cutting oils, as defined in section 4092(b), and other than oil which has previously been used) is used otherwise than in a highway motor vehicle, the Secretary or his delegate shall

pay (without interest) to the ultimate purchaser of such lubricating oil an amount equal to 6 cents for each gallon of lubricating oil so used.

"(b) TIME FOR FILING CLAIMS; PERIOD COVERED.—

"(1) GENERAL RULE.—Except as provided in paragraph (2), not more than one claim may be filed under subsection (a) by any person with respect to lubricating oil used during the one-year period ending on June 30 of any year. No claim shall be allowed under this paragraph with respect to any one-year period unless filed on or before September 30 of the year in which such one-year period ends. For purposes of this paragraph, in the case of lubricating oil used during the six-month period beginning January 1, 1936, the term 'one-year' shall be read as 'six-months'.

"(2) EXCEPTION.—If \$1,000 or more is payable under this section to any person with respect to lubricating oil used during a calendar quarter, a claim may be filed under this section by such person with respect to lubricating oil used during such quarter. No claim filed under this paragraph shall be allowed unless filed on or before the last day of the first calendar quarter following the calendar quarter for which the claim is filed.

"(c) EXEMPT SALES.—No amount shall be paid under this section with respect to any lubricating oil which the Secretary or his delegate determines was exempt from the tax imposed by section 4091. The amount which (but for this sentence) would be payable under this section with respect to any lubricating oil shall be reduced by any other amount which the Secretary or his delegate determines is payable under this section, or is refundable under any provision of this title, to any person with respect to such lubricating oil.

"(d) APPLICABLE LAWS.—

"(1) IN GENERAL.—All provisions of law, including penalties, applicable in respect of the tax imposed by section 4091 shall, insofar as applicable and not inconsistent with this section, apply in respect of the payments provided for in this section to the same extent as if such payments constituted refunds of overpayments of the tax so imposed.

"(2) EXAMINATION OF BOOKS AND WITNESSES.—For the purpose of ascertaining the correctness of any claim made under this section, or the correctness of any payment made in respect of any such claim, the Secretary or his delegate shall have the authority granted by paragraphs (1), (2), and (3) of section 7602 (relating to examination of books and witnesses) as if the claimant were the person liable for tax.

"(e) REGULATIONS.—The Secretary or his delegate may by regulations prescribe the conditions, not inconsistent with the provisions of this section, under which payments may be made under this section.

"(f) EFFECTIVE DATE.—This section shall apply only with respect to lubricating oil placed in use after December 31, 1935.

"(g) CROSS REFERENCES.—

"(1) For civil penalty for excessive claims under this section, see section 6675.

"(2) For fraud penalties, etc., see chapter 75 (section 7201 and following, relating to crimes, other offenses, and forfeitures)."

(c) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) (A) Subpart B of part III of subchapter A of chapter 32 is amended by adding at the end thereof the following new section:

"SEC. 4094. CROSS REFERENCE.

"For provisions to relieve purchasers of lubricating oil from excise tax in the case of lubricating oil used otherwise than in a highway motor vehicle, see section 6424."

(B) The table of sections for such subpart B is amended by adding at the end thereof the following:

"Sec. 4094. Cross reference."

(2) (A) Section 6206 is amended—

(i) by striking out "6420 AND 6421" in the heading and inserting in lieu thereof "6420, 6421, AND 6424",

(ii) by striking out "6420 or 6421" each place it appears in the text and inserting in lieu thereof "6420, 6421, or 6424", and

(iii) by inserting "(or, in the case of lubricating oil, by section 4091)" after "4081".

(B) The table of sections for subchapter A of chapter 63 is amended by striking out "6420 and 6421" and inserting in lieu thereof "6420, 6421, and 6424".

(3) (A) Section 6675 is amended—

(i) by inserting "OR LUBRICATING OIL" after "GASOLINE" in the heading;

(ii) by striking out "or" before 6421 in subsection (a) and inserting in lieu thereof a comma, and by inserting ", or 6424 (relating to lubricating oil not used in highway motor vehicles)" in such subsection after "systems";

(iii) by striking out "or 6421," in subsection (b) (1) and inserting in lieu thereof "6421, or 6424,".

(B) The table of sections for subchapter B of chapter 68 is amended by striking out "certain gasoline" and inserting in lieu thereof "certain gasoline or lubricating oil".

(4) Sections 7210, 7603, and 7604, and the first sentence of section 7605(a), are each amended by inserting "6424(d) (2)," after "6421(f) (2),". The second sentence of section 7605(a) is amended by striking out "or 6421(f) (2)," and inserting in lieu thereof ", 6421(f) (2), or 6424(d) (2),".

SEC. 203. HOUSEHOLD APPLIANCES.

Subchapter B of chapter 32 (relating to refrigeration equipment; electric, gas, and oil appliances; and electric light bulbs) is repealed and the table of subchapters for chapter 32 is amended by striking out the item relating to subchapter B.

SEC. 204. ENTERTAINMENT EQUIPMENT.

Subchapter C of chapter 32 (relating to radio and television sets, phonographs and records, etc.; and musical instruments) is repealed and the table of subchapters for chapter 32 is amended by striking out the item relating to subchapter B.

SEC. 205. RECREATIONAL EQUIPMENT.

(a) SPORTING GOODS.—Section 4161 (relating to sporting goods) is amended to read as follows:

"SEC. 4161. IMPOSITION OF TAX.

"There is hereby imposed upon the sale of fishing rods, creels, reels, and artificial lures, baits, and flies (including parts or accessories of such articles sold on or in connection therewith, or with the sale thereof) by the manufacturer, producer, or importer a tax equivalent to 10 percent of the price for which so sold."

(b) PHOTOGRAPHIC EQUIPMENT.—Part II of subchapter D of chapter 32 (relating to photographic equipment) is repealed and the table of parts for such subchapter is amended by striking out the item relating to part II.

SEC. 206. BUSINESS MACHINES AND OTHER ITEMS.

Subchapter E of chapter 32 (relating to business machines; pens and mechanical pencils and lighters; and matches) is repealed and the table of subchapters for chapter 32 is amended by striking out the item relating to subchapter E.

SEC. 207. PARTIAL PAYMENTS; SALES OF INSTALLMENT ACCOUNTS.

(a) PARTIAL PAYMENTS.—Section 4216(c) (relating to definition of price; partial payments) is amended by striking out "that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment." in the material following paragraph (4) and inserting in lieu thereof "a percentage of such payment equal to the rate of tax in effect on the date such payment is due."

(b) SALES OF INSTALLMENT ACCOUNTS.—Section 4216(e) (relating to definition of price; sales of installment accounts) is amended—

(1) by striking out "total tax"; in paragraph (1) and inserting in lieu thereof "total tax which would be payable if such installment accounts had not been sold or otherwise disposed of (computed as provided in subsection (c))"; and

(2) by amending paragraph (2) to read as follows:

"(2) if any such sale is pursuant to the order of, or subject to the approval of, a court of competent jurisdiction in a bankruptcy or insolvency

proceeding, the amount computed under paragraph (1) shall not exceed the sum of the amounts computed by multiplying (A) the proportionate share of the amount for which such accounts are sold which is allocable to each unpaid installment payment by (B) the rate of tax under this chapter in effect on the date such unpaid installment payment is or was due."

(c) CONFORMING AMENDMENT.—Section 6416(b)(5) (relating to return of certain installment accounts) is amended by striking out "proportionate" and inserting in lieu thereof "allocable".

SEC. 208. TECHNICAL AND CONFORMING CHANGES.

(a) Section 4216(b)(2) (relating to constructive sale price; special rule) is amended—

(1) by striking out the material immediately preceding subparagraph (A) and inserting in lieu thereof the following:

"(2) SPECIAL RULE.—If an article is sold at retail or to a retailer, and if—";

(2) by striking out in subparagraph (A) ", to retailers, or to special dealers" and inserting in lieu thereof; "or to retailers";

(3) by striking out "(other than special dealers)" each place it appears; and

(4) by striking out in subparagraph (C) "4191 (relating to business machines), or 4211 (relating to matches),".

(b) Paragraph (3) (relating to special dealer) of section 4216(b) is repealed.

(c) Section 4218 (relating to use by manufacturer or importer considered a sale) is amended—

(1) by striking out the heading to subsection (b) and inserting in lieu thereof the following:

"(b) TIRES AND TUBES.—"

(2) by striking out in subsection (b) "or an automobile radio or television receiving set taxable under section 4141,";

(3) by striking out the heading to subsection (v) and inserting in lieu thereof the following:

"(c) AUTOMOTIVE PARTS AND ACCESSORIES.—"

(4) by striking out in subsection (e) "a radio or television component taxable under section 4141, or a camera lens taxable under section 4171,".

(d) Section 4221 (relating to certain tax-free sales) is amended—

(1) by striking out in subsection (d)(6)(B) "a radio or television component taxable under section 4141, or a camera lens taxable under section 4171,";

(2) by striking out the heading to paragraph (2) of subsection (e) and inserting in lieu thereof the following:

"(2) TIRES AND TUBES.—";

(3) by striking out "or 4141" in subparagraphs (A) and (C) of subsection (e)(2);

(4) by striking out "tire, inner tube, or automobile radio or television receiving set" in subparagraphs (A) and (C) of subsection (e)(2) and inserting in lieu thereof "tire or inner tube";

(5) by striking out "tire, tube, or receiving set" each place it appears in subparagraphs (A)(1) and (B) of subsection (e)(2) and inserting in lieu thereof "tire or tube";

(6) by striking out paragraph (3) of subsection (e); and

(7) by striking out subsection (f).

(e) Section 4222 (relating to registration) is amended by striking out paragraph (4) of subsection (b).

(f) Section 4227(2) is amended by striking out "and automobile radio and television receiving sets,".

SEC. 209. REFUNDS WITH RESPECT TO FLOOR STOCKS AND CERTAIN CONSUMER PURCHASES.

(a) PASSENGER AUTOMOBILES, ETC.—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended to read as follows:

"(1) PASSENGER AUTOMOBILES, ETC.—Where before July 1, 1965, or January 1, 1966, 1967, 1968, or 1969, any article subject to the tax imposed by section 4061(a)(2) has been sold by the manufacturer, producer, or importer and on such date is held by a dealer and has not been used and is intended for sale, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer an amount equal to the difference

between the tax paid by the manufacturer, producer, or importer on his sale of the article and the amount of tax made applicable to the article on such date, if—

"(A) claim for such credit or refund is filed with the Secretary or his delegate on or before the 10th day of the 7th calendar month beginning after such date based upon a request submitted to the manufacturer, producer, or importer before the first day of the 8th calendar month beginning after such date by the dealer who held the article in respect of which the credit or refund is claimed; and

"(B) on or before such 10th day reimbursement has been made to the dealer by the manufacturer, producer, or importer for the tax reduction on the article or written consent has been obtained from the dealer to allowance of the credit or refund."

(b) FLOOR STOCK REFUNDS; OTHER MANUFACTURERS EXCISE TAXES.—

(1) **IN GENERAL.**—Where before July 1, 1965, any article subject to the tax imposed by section 4111, 4121, 4141, 4151, 4171, or 4191 of the Internal Revenue Code of 1964 (hereinafter in this Act referred to as the "Code"), or where before January 1, 1966, any article subject to the tax imposed by section 4061(b), 4091(1), or 4131 of the Code, has been sold by the manufacturer, producer, or importer, and on such date is held by a dealer and has not been used and is intended for sale, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer an amount equal to the difference between the tax paid by the manufacturer, producer, or importer on his sale of the article and the amount of tax made applicable to the article on such date, if—

(A) claim for such credit or refund is filed with the Secretary of the Treasury or his delegate on or before February 10, 1966 (or August 10, 1966, in the case of an article subject to the tax imposed by section 4061(b), 4091(1), or 4131 of the Code), based upon a request submitted to the manufacturer, producer, or importer before January 1, 1966 (or July 1, 1966, in the case of an article subject to the tax imposed by section 4061(b), 4091(1), or 4131 of the Code), by the dealer who held the article in respect of which the credit or refund is claimed; and

(B) on or before such February 10 (or such August 10 in the case of an article subject to the tax imposed by section 4061(b), 4091(1), or 4131 of the Code) reimbursement has been made to the dealer by the manufacturer, producer, or importer for the tax reduction on the article or written consent has been obtained from the dealer to allowance of the credit or refund.

(2) DEFINITIONS.—For purposes of this subsection—

(A) The term "dealer" includes a wholesaler, jobber, distributor, or retailer.

(B) An article shall be considered as "held by a dealer" if title thereto has passed to the dealer (whether or not delivery to him has been made), and if for purposes of consumption title to the article or possession thereof has not at any time been transferred to any person other than a dealer. For purposes of paragraph (1) and notwithstanding the preceding sentence, an article shall be considered as "held by a dealer" and not to have been used, although possession of such article has been transferred to another person, if such article is returned to the dealer in a transaction under which any amount paid or deposited by the transferee for such article is refunded to him (other than amounts retained by the dealer to cover damage to the article). Moreover, such an article shall be considered as held by a dealer on July 1, 1965, even though it is in the possession of the transferee on such date, if it is returned to the dealer (in a transaction described in the preceding sentence) before August 1, 1965.

(3) **LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.**—No manufacturer, producer, or importer shall be entitled to credit or refund under paragraph (1) unless he has in his possession such evidence of the inventories with respect to which the credit or refund is claimed as may be required by regulations prescribed under this subsection.

(4) **OTHER LAWS APPLICABLE.**—All provisions of law, including penalties, applicable in respect of the taxes imposed by sections 4061(b), 4091(1), 4111, 4121, 4131, 4141, 4151, 4171, and 4191 of the Code shall, insofar as applicable

and not inconsistent with paragraphs (1), (2), and (3) of this subsection, apply in respect of the credits and refunds provided for in paragraph (1) to the same extent as if the credits or refunds constituted overpayments of the taxes.

(c) REFUNDS WITH RESPECT TO CERTAIN CONSUMER PURCHASES.—

(1) IN GENERAL.—Where after May 14, 1965, and before July 1, 1965, a new automotive item subject to the tax imposed by section 4061(a)(2) of the Code, or a new self-contained air-conditioning unit subject to the tax imposed by section 4111 of the Code, has been sold to an ultimate purchaser, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer of such article an amount equal to the difference between the tax paid by such manufacturer, producer, or importer on his sale of the article, and the tax made applicable to the article on July 1, 1965, if—

(A) claim for such credit or refund is filed with the Secretary of the Treasury or his delegate on or before February 10, 1966, based upon information submitted to the manufacturer, producer, or importer before January 1, 1966, by the person who sold the article (in respect to which the credit or refund is claimed) to the ultimate purchaser; and

(B) on or before February 10, 1966, reimbursement has been made to the ultimate purchaser for the tax reduction on the article.

(2) LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.—No manufacturer, producer, or importer shall be entitled to a credit or refund under paragraph (1) with respect to an article unless he has in his possession such evidence of the sale of the article to an ultimate purchaser, and of the reimbursement of the tax to such purchaser, as may be required by regulations prescribed under this subsection.

(3) OTHER LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect to the taxes imposed by sections 4061(a)(2) and 4111 of the Code shall, insofar as applicable and not inconsistent with paragraphs (1) and (2) of this subsection, apply in respect of the credits and refunds provided for in paragraph (1) to the same extent as if the credits or refunds constituted overpayments of the tax.

(d) Section 6412(e) (relating to cross reference) is repealed.

SEC. 210. HIGHWAY TRUST FUND.

(a) Section 209(c)(1) of the Highway Revenue Act of 1956 (relating to general provisions for transfers to the Highway Trust Fund) is amended—

(1) by striking out "and" at the end of subparagraph (F);

(2) by striking out the period at the end of subparagraph (G) and inserting in lieu thereof "; and";

(3) by inserting after subparagraph (G) the following new subparagraph:

"(H) 100 percent of the taxes received after December 31, 1965, under sections 4061(b) (tax on parts and accessories for trucks, buses, etc.) and 4091 (tax on lubricating oil)."; and

(4) by adding at the end thereof the following new sentence: "In the case of any tax described in subparagraph (H), amounts received during the calendar year 1966 shall be taken into account only to the extent attributable to liability for tax incurred after December 31, 1965."

(b) Subparagraph (A) of section 209(c)(3) of the Highway Revenue Act of 1956 (relating to transfers to the Highway Trust Fund for liabilities incurred before October 1, 1972) is amended to read as follows:

"(A) 100 percent of the taxes under sections 4041 (taxes on diesel fuel and special motor fuels), 4061(b) (tax on parts and accessories for trucks, buses, etc.), 4071(a)(4) (tax on tread rubber), 4081 (tax on gasoline), and 4091 (tax on lubricating oil).";

(c) Section 209(f)(3) of the Highway Revenue Act of 1956 (relating to transfers from trust fund for gasoline used on farms and for certain other purposes) is amended as follows:

(1) by striking out the heading and inserting in lieu thereof the following:

"(3) TRANSFERS FROM TRUST FUND FOR GASOLINE AND LUBRICATING OIL USED FOR CERTAIN PURPOSES.—";

(2) by striking out "and 6421" and inserting ", 6421"; and

(3) by inserting after "transit systems" the following: ", and 6424 (relating to amounts paid in respect of lubricating oil not used in highway motor vehicles)".

TITLE III—TAXES ON FACILITIES AND SERVICES

SEC. 301. REPEAL OF ADMISSIONS AND CLUB DUES TAXES.

Subchapter A (relating to admissions and club dues) of chapter 33 is repealed and the table of subchapters for chapter 33 is amended by striking out the item relating to subchapter A.

SEC. 302. COMMUNICATIONS TAX.

Subchapter B of chapter 33 (relating to communications taxes) is amended to read as follows:

“Subchapter B—Communications

- “Sec. 4251. Imposition of tax.
- “Sec. 4252. Definitions.
- “Sec. 4253. Exemptions.
- “Sec. 4254. Computation of tax.

“SEC. 4251. IMPOSITION OF TAX.

“(a) IN GENERAL.—

“(1) Except as provided in subsection (b), there is hereby imposed on amounts paid for the following communication services a tax equal to the percent of the amount so paid specified in paragraph (2):

- “Local telephone service.
- “Toll telephone service.
- “Teletypewriter exchange service.

“The taxes imposed by this section shall be paid by the person paying for the services.

“(2) The rate of tax referred to in paragraph (1) is as follows:

“Amounts paid pursuant to bills first rendered—	Percent—
“During 1966.....	3
“During 1967.....	2
“During 1968.....	1

“(b) TERMINATION OF TAX.—The tax imposed by subsection (a) shall not apply to amounts paid pursuant to bills first rendered on or after January 1, 1969.

“(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communication services rendered before November 1 of any calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered during such year.

“SEC. 4252. DEFINITIONS.

“(a) LOCAL TELEPHONE SERVICE.—For purposes of this subchapter, the term ‘local telephone service’ means—

“(1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and

“(2) any facility or service provided in connection with a service described in paragraph (1).

The term ‘local telephone service’ does not include any service which is a ‘toll telephone service’ or a ‘private communication service’ as defined in subsections (b) and (d).

“(b) TOLL TELEPHONE SERVICE.—For purposes of this subchapter, the term ‘toll telephone service’ means—

“(1) a telephonic quality communication for which (A) there is a toll charge which varies in amount with the distance and elapsed transmission time of each individual communication and (B) the charge is paid within the United States, and

"(2) a service which entitles the subscriber, upon payment of a periodic charge (determined as a flat amount or upon the basis of total elapsed transmission time), to the privilege of an unlimited number of telephonic communications to or from all or a substantial portion of the persons having telephone or radio telephone stations in a specific area which is outside the local telephone system area in which the station provided with this service is located.

"(c) **TELETYPEWRITER EXCHANGE SERVICE.**—For purposes of this subchapter, the term 'teletypewriter exchange service' means the access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part, and the privilege of intercommunication by such station with substantially all persons having teletypewriter or other data stations constituting a part of the same teletypewriter exchange system, to which the subscriber is entitled upon payment of a charge or charges (whether such charge or charges are determined as a flat periodic amount, on the basis of distance and elapsed transmission time, or in some other manner). The term 'teletypewriter exchange service' does not include any service which is 'local telephone service' as defined in subsection (a).

"(d) **PRIVATE COMMUNICATION SERVICE.**—For purposes of this subchapter, the term 'private communication service' means—

"(1) the communication service furnished to a subscriber which entitles the subscriber—

"(A) to exclusive or priority use of any communication channel or groups of channels, or

"(B) to the use of an intercommunication system for the subscriber's stations,

regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b) (2), or (c),

"(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and

"(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,

except that such term does not include any communication service unless a separate charge is made for such service.

"SEC. 4253. EXEMPTIONS.

"(a) **CERTAIN COIN-OPERATED SERVICE.**—Service paid for by inserting coins in coin-operated telephones available to the public shall not be subject to the tax imposed by section 4251 if the charge for such telephone service is less than 25 cents; except that where such coin-operated telephone service is furnished for a guaranteed amount, the amounts paid under such guarantee plus any fixed monthly or other periodic charge shall be subject to the tax.

"(b) **NEWS SERVICES.**—No tax shall be imposed under section 4251, except with respect to local telephone service, on any payment received from any person for services used in the collection of news for the public press, or a news ticker service furnishing a general news service similar to that of the public press, or radio broadcasting, or in the dissemination of news through the public press, or a news ticker service furnishing a general news service similar to that of the public press, or by means of radio broadcasting, if the charge for such service is billed in writing to such person.

"(c) **INTERNATIONAL, ETC. ORGANIZATIONS.**—No tax shall be imposed under section 4251 on any payment received for services furnished to an international organization, or to the American National Red Cross.

"(d) **SERVICEMEN IN COMBAT ZONE.**—No tax shall be imposed under section 4251 on any payment received for any toll telephone service which originates within a combat zone, as defined in section 112, from a member of the Armed Forces of the United States performing service in such combat zone, as determined under such section, provided a certificate, setting forth such facts as the Secretary or his delegate may by regulations prescribe, is furnished to the person receiving such payment.

"(e) **ITEMS OTHERWISE TAXED.**—Only one payment of tax under section 4251 shall be required with respect to the tax on any service, notwithstanding the lines or stations of one or more persons are used in furnishing such service.

"(f) **COMMON CARRIERS AND COMMUNICATIONS COMPANIES.**—No tax shall be imposed under section 4251 on the amount paid for any toll telephone service described in section 4252(b) (2) to the extent that the amount so paid is for use by a common carrier, telephone or telegraph company, or radio broadcasting station or network in the conduct of its business as such.

"(g) **INSTALLATION CHARGES.**—No tax shall be imposed under section 4251 on so much of any amount paid for the installation of any instrument, wire, pole, switchboard, apparatus, or equipment as is properly attributable to such installation.

"SEC. 4254. COMPUTATION OF TAX.

"(a) **GENERAL RULE.**—If a bill is rendered the taxpayer for local telephone service or toll telephone service—

"(1) the amount on which the tax with respect to such services shall be based shall be the sum of all charges for such services included in the bill; except that

"(2) if the person who renders the bill groups individual items for purposes of rendering the bill and computing the tax, then (A) the amount on which the tax with respect to each such group shall be based shall be the sum of all items within that group, and (B) the tax on the remaining items not included in any such group shall be based on the charge for each item separately.

"(b) **WHERE PAYMENT IS MADE FOR TOLL TELEPHONE SERVICE IN COIN-OPERATED TELEPHONES.**—If the tax imposed by section 4251 with respect to toll telephone service is paid by inserting coins in coin-operated telephones, tax shall be computed to the nearest multiple of 5 cents, except that, where the tax is midway between multiples of 5 cents, the next higher multiple shall apply."

SEC. 303. TAX ON TRANSPORTATION OF PERSONS BY AIR.

(a) **IN GENERAL.**—Section 4261 (relating to imposition of tax on transportation of persons by air) is amended by striking out "November 15, 1962, and before July 1, 1965" wherever it appears and inserting in lieu thereof "November 15, 1962".

(b) **CONFORMING AMENDMENT.**—Section 5 of the Tax Rate Extension Act of 1962 (76 Stat. 115) is amended by striking out subsection (e).

SEC. 304. SAFE DEPOSIT BOXES.

Subchapter D of chapter 33 (relating to safe deposit boxes) is hereby repealed and the table of subchapters for chapter 33 is amended by striking out the item relating to subchapter D.

SEC. 305. CONFORMING CHANGES.

(a) Section 4201 (relating to cases where persons receiving payment must collect tax) is amended to read as follows:

"SEC. 4291. CASES WHERE PERSONS RECEIVING PAYMENT MUST COLLECT TAX.

"Except as otherwise provided in section 4264(a), every person receiving any payment for facilities or services on which a tax is imposed upon the payor thereof under this chapter shall collect the amount of the tax from the person making such payment."

(b) Section 6040 (relating to cross references) is amended by striking out paragraph (6).

TITLE IV—MISCELLANEOUS TAXES

SEC. 401. DOCUMENTARY STAMP TAXES.

(a) **IN GENERAL.**—Subchapters A (relating to issuance of capital stock, etc.), B (relating to sales or transfers of capital stock, etc.), and C (relating to convey-

ances) of chapter 34 are repealed and the table of subchapters for chapter 34 is amended by striking out the items relating to such subchapters.

(b) **TECHNICAL AND CONFORMING CHANGES.**—Sections 4381 (relating to definitions), 4382 (relating to exemptions), and 4383 (relating to certain changes in partnerships) are repealed and the table of sections for subchapter E of chapter 34 is amended by striking out the items relating to sections 4381, 4382, and 4383.

SEC. 402. PLAYING CARDS.

Subchapter A of chapter 36 (relating to playing cards) is repealed and the table of subchapters for chapter 36 is amended by striking out the item relating to subchapter A.

SEC. 403. OCCUPATIONAL TAX ON COIN-OPERATED DEVICES.

(a) **IN GENERAL.**—Section 4461 (relating to imposition of tax) is amended by striking out subsection (a) and so much of subsection (b) as precedes paragraph (1) and inserting in lieu thereof the following:

“(a) **IN GENERAL.**—There shall be imposed a special tax to be paid by every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated gaming device (as defined in section 4462) at the following rates:

“(1) \$250 a year; and

“(2) \$250 a year for each additional device so maintained or the use of which is so permitted. If one such device is replaced by another, such other device shall not be considered an additional device.

“(b) **EXCEPTION.**—No tax shall be imposed on a device which is commonly known as a claw, crane, or digger machine if—”

(b) **DEFINITION.**—Section 4462 (relating to definition of coin-operated amusement or gaming device) is amended to read as follows:

“SEC. 4462. DEFINITION OF COIN-OPERATED GAMING DEVICE.

“(a) **IN GENERAL.**—For purposes of this subchapter, the term ‘coin-operated gaming device’ means any machine which is—

“(1) a so-called ‘slot’ machine which operates by means of the insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive, cash, premiums, merchandise, or tokens, or

“(2) a machine which is similar to machines described in paragraph (1) and is operated without the insertion of a coin, token, or similar object.

“(b) **EXCLUSION.**—The term ‘coin-operated gaming device’ does not include bona fide vending machines in which are not incorporated gaming features.”

(c) **CLERICAL AMENDMENT.**—The table of sections for subchapter B of chapter 36 is amended by striking out:

“Sec. 4462. Definition of coin-operated amusement or gaming device.”

and inserting in lieu thereof:

“Sec. 4462. Definition of coin-operated gaming device.”

SEC. 404. OCCUPATIONAL TAX ON BOWLING ALLEYS, BILLIARD AND POOL TABLES.

Subchapter C of chapter 36 (relating to occupational tax on bowling alleys, billiard and pool tables) is repealed and the table of subchapters for chapter 36 is amended by striking out the item relating to subchapter C.

SEC. 405. TECHNICAL AND CONFORMING CHANGES.

(a) Section 4402(2) (relating to exemption from tax on wagers) is amended by striking out “section 4462(a) (2) (B),” and inserting in lieu thereof “section 4462(a) (2),”.

(b) Section 4901(a) (relating to payment of tax as condition precedent to carrying on certain business) is amended by striking out “4461(2)” and inserting in lieu thereof “4461(a) (1)”.

(c) Section 4905(b) (1) (relating to registration) is amended by striking out “playing cards,” and by striking out “4455,”.

(d) Paragraph (2) of section 4914(a) (relating to transactions not considered acquisitions) is amended by inserting before the semicolon at the end thereof “as in effect on January 1, 1965”.

TITLE V—ALCOHOL AND TOBACCO TAXES

SEC. 501. PRESENT TAX RATES MADE PERMANENT.

(a) Section 5001(a) (relating to imposition, rate, and attachment of tax on distilled spirits) is amended by striking out the last sentence of paragraph (1) and the last sentence of paragraph (3).

(b) Section 5022 (relating to tax on cordials and liqueurs containing wine) is amended by striking out at the end of the first sentence "until July 1, 1965, and on or after July 1, 1965, at the rate of \$1.60 per wine gallon and a proportionate tax at a like rate on all fractional parts of such wine gallon".

(c) Section 5041(b) (relating to rates of tax on wine) is amended—

(1) by striking out in paragraph (1) "except that on and after July 1, 1965, the rate shall be 15 cents per wine gallon";

(2) by striking out in paragraph (2) "except that on and after July 1, 1965, the rate shall be 60 cents a wine gallon";

(3) by striking out in paragraph (3) "except that on and after July 1, 1965, the rate shall be \$2.00 per wine gallon";

(4) by striking out in paragraph (4) "except that on and after July 1, 1965, the rate shall be \$3.00 per wine gallon"; and

(5) by striking out in paragraph (5) "except that on and after July 1, 1965, the rate shall be \$2.00 per wine gallon".

(d) Section 5051(a) (relating to imposition and rate of tax on beer) is amended by striking out the second sentence.

(e) Section 5063 (relating to floor stocks refunds on distilled spirits, wines, cordials, and beer) is hereby repealed and the table of sections for subpart E of part I of subchapter A of chapter 51 is amended by striking out the item relating to section 5063.

(f) Paragraph (1) of section 5701(c) (relating to rate of tax on cigarettes) is amended by striking out "until July 1, 1965, and \$3.50 per thousand on and after July 1, 1965".

(g) Section 5707 (relating to floor stocks refund on cigarettes) is hereby repealed and the table of sections for subchapter A of chapter 52 is amended by striking out the item relating to section 5707.

(h) Section 497 of the Revenue Act of 1951 (relating to refunds on articles from foreign trade zones) is hereby repealed.

TITLE VI—ADMINISTRATIVE PROVISIONS

SEC. 601. TECHNICAL AND CONFORMING CHANGES.

(a) Section 6415 (relating to credits or refunds to persons who collected certain taxes) is amended—

(1) by striking out "section 4231(1), 4231(2), 4231(3), 4241, 4251, 4261, or 4286" each place it appears and inserting in lieu thereof "section 4251 or 4261"; and

(2) by striking out the last sentence of subsection (a).

(b) Section 6416 (relating to credits and refunds of certain taxes on sales and services) is amended—

(1) by striking out in the material in subsection (a) (1) which precedes subparagraph (A) "section 4231 (4), (5), or (6) (cabarets, etc.)";

(2) by striking out "admission, or service" each place it appears in subsection (a) (1) (A);

(3) by amending subparagraph (B) of subsection (a) (1) to read as follows:

"(B) has repaid the amount of the tax to the ultimate purchaser of the article;"

(4) by striking out "or (D)" in subsection (a) (1) (C);

(5) by striking out "(1), (II), or (III), as the case may be," in subsection (a) (1) (D);

(6) by striking out subparagraphs (A) and (B) of subsection (a) (3), by striking out "(II)" in subparagraph (C) of such subsection, and by striking out "or (D)" in subparagraph (D) of such subsection;

(7) by striking out "31 or" and "(in the case of a tax imposed by chapter 32)" in subsection (b) (1) ;

(8) by amending subparagraph (F) of subsection (b) (2) to read as follows:

"(F) in the case of a tire or inner tube, resold for use as provided in subparagraph (O) of paragraph (3) and the other article referred to in such subparagraph is by any person exported or sold as provided in such subparagraph;" ;

(9) by striking out subparagraphs (N), (O), (P), and (Q) of subsection (b) (2) and by striking out the semicolon at the end of subparagraph (M) of such subsection and inserting a period ;

(10) by striking out "(D)," in subparagraph (A) of subsection (b) (3), by striking out subparagraph (D) of such subsection, and by amending subparagraphs (B) and (C) of such subsection to read as follows:

"(B) in the case of a part or accessory taxable under section 4061 (b), such article is used by the second manufacturer or producer as material in the manufacture or production of, or as a component part of, any other article manufactured or produced by him ;

"(C) in the case of a tire or inner tube taxable under section 4071, such article is sold by the second manufacturer or producer on or in connection with, or with the sale of, any other article manufactured or produced by him and such other article is by any person exported, sold to a State or local government for the exclusive use of a State or local government, sold to a nonprofit educational organization for its exclusive use, or used or sold for use as supplies for vessels or aircraft ;"

(11) by amending paragraph (4) of subsection (b) to read as follows:

"(4) TIRES AND INNER TUBES.—If—

"(A) a tire or inner tube taxable under section 4071 is sold by the manufacturer, producer, or importer thereof on or in connection with, or with the sale of, any other article manufactured or produced by him ; and

"(B) such other article is by any person exported, sold, to a State or local government for the exclusive use of a State or local government, sold to a nonprofit educational organization for its exclusive use, or used or sold for use as supplies for vessels or aircraft, any tax imposed by chapter 32 in respect of such tire or inner tube which has been paid by the manufacturer, producer, or importer thereof shall be deemed to be an overpayment by him." ;

(12) by striking out "4053(b) (1) or" each place it appears in subsection (b) (5).

(13) by amending subsection (c) to read as follows:

"(c) CREDIT FOR TAX PAID ON TIRES OR INNER TUBES.—If tires or inner tubes on which tax has been paid under chapter 32 are sold on or in connection with, or with the sale of, another article taxable under chapter 32, there shall (under regulations prescribed by the Secretary or his delegate) be credited (without interest) against the tax imposed on the sale of such other article, an amount determined by multiplying the applicable percentage rate of tax for such other article by—

"(1) the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base), if such tires or inner tubes were taxable under section 4071 (relating to tax on tires and inner tubes) ; or

"(2) if such tires or inner tubes were taxable under section 4218 (relating to use by manufacturer, producer, or importer), the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Secretary or his delegate.

The credit provided by this subsection shall be allowable only in respect of the first sale on or in connection with, or with the sale of, another article on the sale of which tax is imposed under chapter 32 ;"

(14) by striking out subsection (d) ; and

(15) subsection (g) is amended by striking out "sections 4061(a), 4111, 4121, 4141," and inserting in lieu thereof "section 4061(a) ;".

(c) Section 6808 (relating to special provision relating to stamps) is amended by striking out paragraphs (1), (4), and (9).

(d) Section 7012 (relating to cross references) is amended by striking out subsection (d).

(e) Section 7275 (relating to failure to print correct price on tickets) is repealed and the table of sections for subchapter B of chapter 75 is amended by striking out the item relating to section 7275.

(f) Section 7326(a) (relating to disposal of forfeited or abandoned property in special cases) is amended by striking out "section 4462(a) (2)" and inserting in lieu thereof "section 4462".

TITLE VII—EFFECTIVE DATE

SEC. 701. EFFECTIVE DATES.

(a) RETAILERS AND MANUFACTURERS EXCISE TAXES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by titles I and II of this Act shall apply with respect to articles sold on or after July 1, 1965.

(2) SPECIAL RULES.—The amendments made by sections 201(b)(2) (relating to automobile parts and accessories) and 202(a) (relating to lubricating oil) shall apply with respect to articles sold on or after January 1, 1966. The amendments made by section 202 (b) and (c) (relating to payments with respect to lubricating oil) shall take effect January 1, 1966. The amendments made by section 203, insofar as they relate to the tax imposed by section 4131 (relating to electric light bulbs) of the Code, and the amendments made by section 208, insofar as they relate to the tax imposed by section 4061(b) (relating to automotive parts and accessories), section 4091 (relating to lubricating oil), or section 4131 (relating to electric light bulbs) of the Code, shall apply with respect to articles sold on or after January 1, 1966. The amendments made by sections 207 (relating to partial payments; sales of installment accounts) and 209(a) (relating to floor stocks refunds on passenger automobiles, etc.) shall take effect July 1, 1965. The amendments made by section 210 (relating to Highway Trust Fund) shall take effect January 1, 1966.

(3) INSTALLMENT SALES, ETC.—For purposes of paragraphs (1) and (2), an article shall not be considered sold before July 1, 1965, or January 1, 1966, as the case may be, unless possession or right to possession passes to the purchaser before such date. In the case of—

(A) a lease,

(B) a contract for the sale of an article where it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments,

(C) a conditional sale, or

(D) a chattel mortgage arrangement wherein it is provided that the sale price shall be paid in installments,

entered into before such date, payments made on or after such date shall, for purposes of this subsection, be considered as payments made with respect to articles sold on or after such date.

(b) FACILITIES AND SERVICES TAXES.—

(1) ADMISSIONS AND CLUB DUES.—

(A) The amendments made by sections 301 and 305 insofar as they relate to the taxes imposed by section 4231 of the Code, shall apply with respect to admissions, services, or uses after noon, December 31, 1965.

(B) The amendments made by sections 301 and 305 insofar as they relate to the taxes imposed by section 4241 of the Code, shall apply with respect to—

(i) dues and membership fees attributable to periods beginning on or after January 1, 1966;

(ii) initiation fees and amounts paid for life memberships attributable to memberships beginning on or after January 1, 1966; and

(iii) in the case of amounts described in section 4243(b) of the Code, 3-year periods beginning on or after January 1, 1966.

(2) COMMUNICATIONS.—

(A) The amendments made by section 302 (relating to communication services) shall apply to amounts paid pursuant to bills rendered on or after January 1, 1966, for services rendered on or after such date. In the case of amounts paid pursuant to bills rendered on or after January 1, 1966, for services which were rendered before such date and for which no previous bill was rendered, such amendments shall apply except with respect to such services as were rendered more than 2 months before such date. In the case of services rendered more than 2 months before such date, the provisions of subchapter B of chapter 33 of the Code in effect at the time such services were rendered shall apply to the amounts paid for such services.

(B) Section 4251(b) of the Code, as in effect June 30, 1965, is repealed effective on and after July 1, 1965.

(3) **TRANSPORTATION OF PERSONS BY AIR.**—The amendments made by section 303 shall apply with respect to amounts paid for transportation, and amounts paid for accommodations in connection with transportation, beginning on or after July 1, 1965.

(4) **SAFE DEPOSIT BOXES.**—The amendments made by section 304 shall apply with respect to use periods beginning on or after July 1, 1965.

(c) MISCELLANEOUS TAXES.—

(1) The amendments made by section 401 (relating to documentary stamp taxes) shall apply on and after January 1, 1966.

(2) The amendments made by sections 402 (relating to playing cards), 403 (relating to occupational tax on coin-operated devices), 404 (relating to occupational tax on bowling alleys, billiard and pool tables), and 405 (relating to technical and conforming changes) shall apply on and after July 1, 1965.

(d) **ALCOHOL AND TOBACCO EXCISE TAXES.**—The amendments made by title V shall apply on and after July 1, 1965.

(e) **ADMINISTRATIVE PROVISIONS.**—Each amendment made by title VI, to the extent it relates to any tax provision changed by this Act, shall take effect in a manner consistent with the effective date for such changed tax provisions.

Passed the House of Representatives June 2, 1965.

Attest:

RALPH R. ROBERTS,
Clerk.

The CHAIRMAN. The Secretary of the Treasury has been invited to appear today and present the views of the administration on this legislation.

Mr. Secretary, we welcome you and are delighted to have you.

**STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE
TREASURY, ACCOMPANIED BY STANLEY S. SURREY, ASSISTANT
SECRETARY OF THE TREASURY**

Secretary FOWLER. Thank you, Mr. Chairman.

The CHAIRMAN. You may proceed.

Secretary FOWLER. I am pleased to be able to state the views of the Treasury Department on H.R. 8371, the Excise Tax Reduction Act of 1965.

You have the President's message on excise tax reduction and user charge increases before you, so I will not repeat here the recommendations he has already made in that message. You also have the report of the Ways and Means Committee on the bill.

In both the departmental and executive branch consideration and the hearings before the House Ways and Means Committee, I have voluntarily disassociated myself from any specific discussions or decisions as to how the excise tax reduction should be distributed among the various excise tax products and services and, specifically, how the passenger automobile excise taxes should be handled. For that reason,

I would like to confine my comments today to the general fiscal aspects of the President's recommendations and the House bill. Assistant Secretary Surrey is here with me to present the administration's position on the differences between the President's proposed program and the bill as adopted by the House, which centers on the treatment of the passenger car excise tax. He will also present the administration's position on the specific tax reductions proposed.

Mr. Chairman, I think that members of the committee are aware of the fact that having been retained in private practice prior to taking my office as counsel for the Automobile Manufacturers Association to offer advice on the matter of passenger car excise taxes and related questions, I immediately severed any connection with the automobile industry or its representatives, as did my former law firm, before taking office as Secretary of the Treasury.

Nevertheless, I have felt it desirable to refrain from discussions or decisions as to how the excise tax reduction should be distributed among the various products and activities and specifically how the passenger car excise tax should be handled. I have endeavored to examine and observe the properties in this situation, and it has seemed to me that the most appropriate analogy is the accepted practice of a lawyer, as I am, if he goes to the bench. A law review article, which I have studied, examined this situation of judges and past connections and summarizes my position. I would like to read one quote from it so the committee can understand why I am proceeding in this fashion.

I quote:

A second possible cause of bias is the judge's party contact. The propriety of a judge's sitting on a case involving a former client seems to depend upon whether or not the case in question was in his eyes prior to his going on the bench. When the judge has had prior contact with both the client and the case, disqualification is universal for the obvious but seldom articulated reason that a judge would seldom have an open mind under such circumstances, and to sit would invite charges of corruption.

I should note that the bill before you does not deal with the recommendations for increased user taxes. The Ways and Means Committee decided to reserve the user charge recommendations for future consideration. At the same time it recognized the desirability of rapid action on the excise reductions to avoid any lengthy disturbance of the marketing of taxed products. While this procedure is understandable, I would like to emphasize that we regard user taxes as a most important part of the President's program.

The elimination or reduction of the selective excise taxes not now dedicated to particular uses; such as, the highway trust fund or falling into the category of sumptuary taxes; such as, liquor and tobacco is an important step in our continuing program of tax reform, which has included the Revenue Acts of 1962 and 1964 as well as the depreciation reform. We are all interested in the development of an overall tax system which is characterized by equity and simplicity and which makes a maximum contribution to economic growth.

The excise tax reductions recommended by the President represent the next logical step in this direction.

Reduction of our selective excise taxes increases the equity of the tax system. Many selective taxes are discriminatory and burdensome on producers, sellers, and consumers of the items subject to tax.

I believe that the Congress and the public have long felt that many of our excise taxes have no place in a permanent tax system. Thus, wherever it is appropriate to remove a particular burden on one product or another, we should strive consistent with other tax goals to provide a freely operating competitive-price system, and, in the President's words:

* * * end an unfair burden on many businesses and workers who produce the commodities singled out for excise taxation.

Excise taxes, unlike income taxes, impose burdens on those whose income is below the level of their personal exemptions and deductions. The present excise tax reduction program will lighten the burden of regressive taxation on low- and middle-income people. A great deal of the revenue involved comes from extremely regressive taxes, which are a heavy burden on low incomes. These include the taxes on telephones, automobile parts and accessories, toilet preparations, and most of the household appliances.

The proposed reductions will simplify the tax system by greatly reducing the number of separate taxes as well as the accompanying burden on business of collecting and reporting those taxes. It will cut the Government's cost of tax collection and enforcement.

Many of the selective excises involved in this legislation are expensive to collect, and they impose heavy compliance burdens on the taxpayers. This is particularly true of the retail excises and some of the lower yield taxes; such as, the tax on cabarets and safe-deposit boxes.

Many of the selective excises fall on items which have nontaxed substitutes. Room air conditioners are taxed, but central air conditioning is not. Most admissions are taxed, but many are not. Some house furnishings are taxable, others not.

But an equally compelling reason for the elimination or reduction of many of these selective excises is that they are incompatible with a tax system that leaves the private economy the maximum opportunity for growth. These taxes were imposed largely in war and emergency in part to sustain production and consumption in the taxed products and services and encourage the transfer of the material and manpower resources dedicated to these products to other areas deemed more essential to the war effort. Imposed in part for this reason, it is only logical that they should be removed as a part of a normal peacetime economy. This removal of a burden on the private sector will bolster the economy in a particularly valuable way since it will strengthen the competitive forces in the marketplace, and it will entail significant price reductions, thereby contributing to wage-price stability.

The House bill will have substantially the same impact in fiscal years 1966 and 1967 as the President's recommendations. But in the fiscal years 1968, 1969, and 1970 the House bill will eliminate additional excise taxes in successive stages totaling nearly \$1 billion beyond the President's program.

The revenue effects of an excise tax reduction are somewhat complicated and I would like to clarify the various figures.

When we speak of the full-year gross revenue loss from repealing an excise tax, we are referring to the revenue that is collected in a full year of operation under that tax. The full-year decreases in tax collections in the administrative budget under the House bill and the President's program are given in table 1.

TABLE 1.—*Reduction in tax collections, full-year effect, House bill and President's program*

[In billions of dollars]

	House bill		President's program	
	Separate	Cumulative	Separate	Cumulative
July 1, 1965, reduction.....	1.75	1.75	1.75	1.75
Jan. 1, 1966, reduction.....	1.68	3.43	1.73	3.48
Jan. 1, 1967, reduction.....	.47	3.90	.28	3.76
Jan. 1, 1968, reduction.....	.47	4.37	.09	3.85
Jan. 1, 1969, reduction.....	.47	4.84	.09	3.94

Under the House bill, the important figures here are \$1.75 billion for the July 1 reduction, \$1.68 billion for the January 1, 1966, reduction, and \$470 million for the reduction on each January 1, 1967 to 1969. These will add eventually to a reduction of \$4.8 billion in tax collections. Compared to the President's program, the principal differences occur after 1966. The reduced tax collections under the excise reduction recommendation of the President were \$3.9 billion.

The committee will be particularly interested in the budget effect of these cuts. The figures in table 1 change in several ways as respects the gross budget effect, before feedbacks.

In the first place, the House bill provides that certain tax receipts, amounting to about \$70 million, be put in the highway trust fund. This allocation to the trust fund does not reduce tax collections, but it does lower administrative budget receipts.

Second, if an excise tax is repealed effective July 1, 1965, the Federal Government will still get tax payments in July and August on taxable transactions entered into in May and June because the taxes on those transactions will be turned into the Treasury after July 1. The fiscal year loss is, of course, even less when the reduction becomes effective on January 1 in the middle of a fiscal year.

Finally, the budget effects must take into account customer refunds and floor stock refunds.

The gross fiscal year budget losses under the House bill and the President's program from the tax reduction are shown in table 2.

TABLE 2.—*Gross fiscal year reductions in administrative budget receipts*

[In billions of dollars]

	Fiscal year		
	1966	1967	1968
House bill:			
July 1, 1965, reduction.....	1.63	1.75	1.75
Jan. 1, 1966, reduction.....	.84	1.78	1.77
Jan. 1, 1967, reduction.....		.15	.49
Total.....	2.17	3.68	4.01
President's program:			
July 1, 1965, reduction.....	1.63	1.75	1.75
Jan. 1, 1966, reduction.....	.84	1.74	1.78
Jan. 1, 1967, reduction.....		.09	.30
Total.....	2.17	3.68	3.78

Under the House bill the gross budget losses are (in round figures) in fiscal year 1966 \$2.2 billion, in fiscal year 1967 \$3.7 billion, and in fiscal year 1968 \$4 billion. The losses under the President's program would have been the same in fiscal year 1966, and slightly smaller in fiscal year 1967 and fiscal year 1968.

Excise tax reduction will mean that there is this much more disposable income of consumers and businesses. As this is spent, there will be increased income taxes and more disposable income for further re-spending, again increasing income tax receipts.

To properly assess the excise tax reduction, we should take into account these feedbacks of increased collections under other taxes. On this basis the expected net budget impacts of the House bill and the President's program are:

(In billions of dollars)

	House bill	President's program
Fiscal year:		
1966.....	1.8	1.8
1967.....	2.2	2.1

In the long run the net revenue loss after feedback will be about one-half of the gross loss.

This excise tax reduction can have an important strategic effect in maintaining the upward thrust of the economy. It is well known that a decline in the pace of our economy, leading possibly to a recession, can cause a major decline of revenues. Federal revenues declined in the recession of 1958 and in the recession of 1960. They did not decline during the period of the major income tax reduction in 1964-65.

Let me turn now to the specific matter of the net budget deficit.

In January of 1963 it was anticipated that the budget deficit for the fiscal year 1964 would be \$12 billion. In the end a number of circumstances, including the combination of improving economic conditions resulting from both the anticipation and enactment of the Revenue Act of 1964 and firm expenditure control, brought this figure down to \$8.2 billion.

In January of this year the budget deficit for fiscal year 1965 was estimated to be \$6.3 billion. Thanks to continued expenditure control and substantial improvements in revenue collections, it was announced late in April that the deficit was likely to be \$5.3 billion. Now as a result of additional information, we anticipate that the deficit for fiscal year 1965 will be reduced to \$4.4 billion. Of this \$1.9 billion reduction in the deficit below the January estimate, \$500 million represents reduced expenditures, and \$1.4 billion represents increased revenues. It may be that by the end of the fiscal year the expenditure figures will show further reductions but it is too early to hazard any hard estimate.

In January the budget estimate of the deficit for the fiscal year 1966 was \$5.3 billion. At that time we were contemplating an excise tax reduction program of only \$1.75 billion. Since then we have revised upward our estimate of revenues under the income tax by \$1.6 billion. We have also recommended the enlarged excise tax reduction program

which will involve for fiscal year 1966 a net budget loss after feedback of \$1.8 billion. This is larger by \$0.6 billion than the net budget loss that would have occurred under the original \$1.75 billion program contained in the budget message. This additional revenue reduction of \$0.6 billion combined with the expected increase in receipts of \$1.6 billion still leaves a net improvement in receipts of \$1 billion.

At this time, the Bureau of the Budget continues to expect expenditures for fiscal 1966 to be approximately the same as they were estimated to be in the January budget.

There have been some increases due to increased defense operations in Vietnam, but these have been matched by economies elsewhere. The prospective improvement in the deficit figure is, then, this increase of \$1 billion in receipts which would reduce the deficit to \$4.3 billion—slightly below the \$4.4 billion now anticipated for fiscal year 1965.

The question could be raised, "Would the deficit in fiscal year 1966 be lower by \$1.8 billion if there were no excise tax reduction?" The answer would be "Yes" only if we ignore the strategic effect of the reduction, that is, if we ignore the particular contributions that the reduction will make to maintaining the expectation of growth, which is our basic defense against the development of recession. As I said before, deficits rise with recession but they can fall with responsible tax cuts.

For the fiscal year 1967, assuming continued economic growth at the long-term trend rate, administrative budget revenues should increase by about \$5 billion. This potential gain will be slightly offset by the fact that the January 1966 excise tax cuts will be in operation for all of fiscal year 1967 compared to only half of fiscal year 1966, and some further excise tax cuts will come into effect January 1, 1967. On the other hand, we will in fiscal year 1967 be realizing more of the economic feedback of the first two stages of the program. The added revenue loss of the House bill in fiscal year 1967 over fiscal year 1966 on a net basis will be about \$0.4 billion. (Under the President's program, this added revenue loss in fiscal year 1967 would have been about \$0.3 billion.) Roughly, we could thus put the potential revenue gain in fiscal year 1967 at \$4.6 billion.

We do not know now what expenditures in fiscal year 1967 will be, but this potential revenue gain leaves considerable room for providing such increased expenditures as might be needed by a growing population and still achieving reduction of the budgetary deficit.

On this matter of expenditures, I would like to repeat the President's statement to the Ways and Means Committee, "I would like to make clear once again my strong determination to hold expenditures to the lowest reasonable levels." As you realize, expenditure control requires hard decisions and the determination to stand behind them. I believe that the administration has given ample evidence of this determination.

Mr. Surrey is now prepared to present the administration's position on the specific tax reductions in the bill and the differences between the President's program and the House bill which center largely on the passenger car excise tax.

The CHAIRMAN. Thank you very much, Mr. Secretary. The Secretary has suggested that Mr. Surrey make the next presentation, at the end of which both the Secretary and the Assistant Secretary will be available for questions.

Secretary FOWLER. Yes, sir.

The CHAIRMAN. Is that agreeable to the committee?
Mr. Surrey.

STATEMENT BY HON. STANLEY S. SURREY, ASSISTANT SECRETARY OF THE TREASURY

Mr. SURREY. H.R. 8371 can be described by saying that it repeals all of the excises except—

Those which are intended to impose part of the cost of a particular Government service in the area thereof. This category includes the highway trust fund taxes, the tax on fishing equipment and certain firearms, shells and cartridges, and the tax on air passenger travel.

Those on alcohol and tobacco, which are traditional sources of revenue. As the House committee report indicates, the fact that these taxes may inhibit some choices is part of the reason that we have had them.

Those which are intended to be regulatory in nature, such as the taxes on certain firearms, wagering, coin-operated gaming devices, marihuana, and opium.

The bill makes these changes in a way that is fiscally responsible through staged reductions. Where postponement of purchases in anticipation of a reduction could be a potential problem, the reduction is scheduled for the first stage—July 1, 1965. The remaining part of the reduction is scheduled for January 1, 1966 (December 31, 1965, in the case of certain admission taxes and the cabaret tax). In the case of the two taxes where very large amounts of revenue are involved, telephone service and passenger automobiles, part of the reduction is staged through 1967-69.

In two industries where the effect on sales because of the anticipated reduction on July 1 might be a serious problem, passenger automobiles and air conditioners, the bill provides customer refunds to the original announcement date—May 15. In the other situations floor stock refunds are provided where considered appropriate.

An alphabetical listing of the present excise taxes and the indicated changes under the House bill and the President's program is attached to this statement.

(The listing referred to follows:)

*Excise tax program to be enacted in 1965 indicating differences between
President's recommendation and H.R. 8371¹*

	July 1, 1965	Jan. 1, 1966	January 1967 to January 1969
Admissions.....		Repeal ²	
Air conditioners.....	Repeal.....		
Automobiles:			
President's recommendation.....	Reduce 10 percent 7 percent.	Reduce 7 percent to 6 percent.	Reduce 6 percent to 5 percent, 1967. Reduce to 4 percent, 1967. Reduce to 2 percent, 1968. Repeal, 1969.
House bill.....	do.....	do.....	
Automobile parts and accessories (exclud- ing trucks parts).....		Repeal.....	
Ballpoint and fountain pens, etc.....	Repeal.....		
Bowling alleys and pool tables.....	do.....		
Business and store machines.....	do.....		
Cabarets.....		Repeal ²	
Cameras and film, etc.....	Repeal.....		
Cigarette lighters.....	do.....		
Club dues.....		Repeal.....	
Coin-operated amusement devices.....	Repeal.....		
Deeds of conveyance.....		Repeal.....	
Electric, gas, and oil appliances.....	Repeal.....		
Electric light bulbs.....		Repeal.....	
Freezers.....	Repeal.....		
Furs.....	do.....		
Jewelry.....	do.....		
Lubricating oil:			
President's recommendation.....		Repeal.....	
House bill.....		Repeal as to non- highway use. Put into high- way trust fund as to highway use.	
Luggage and handbags.....	Repeal.....		
Matches.....	do.....		
Musical instruments.....	do.....		
Playing cards.....	do.....		
Phonograph records.....	do.....		
Radios and phonographs.....	do.....		
Refrigerators.....	do.....		
Safe deposit boxes.....	do.....		
Sporting goods (except fishing).....	do.....		
Stocks and bonds—issuance.....		Repeal.....	
Stocks and bonds—transfer.....		do.....	
Telegraph.....		do.....	
Telephone:			
General and toll (including teletype- writer service).....		Reduce 10 per- cent to 3 per- cent.	Reduce to 2 percent, 1967. Reduce to 1 percent, 1968. Repeal, 1969.
Interior communications systems.....		Exempt.....	
Television sets.....	Repeal.....		
Toilet preparations.....	do.....		
Wire and equipment service.....		Repeal.....	

¹ The table does not deal with the user tax recommendations. In addition to the items in the table, the automatic reductions in present law respecting cigarettes, beer, distilled spirits, and wine are to be repealed, and the automatic reduction in the case of the general telephone tax is postponed.

² The President recommended a Jan. 1, 1966, effective date; this was advanced to Dec. 31, 1965, by the House.

Let me turn now to the few instances in which the House bill differs from the President's program. The President recommended that the passenger automobile tax be reduced by half, from 10 to 5 percent, in reductions staged 3 percent on July 1, 1965, 1 percent on January 1, 1966, and 1 percent on January 1, 1967. The revenue obtained from a tax at a 5-percent rate is \$950 million, at 1966 levels of income. This tax is efficient to collect. It is not regressive. It falls upon an item without close substitutes. Most important the revenue is large.

The House bill provides that the entire tax be phased out by January 1, 1969; 3 percent on July 1, 1965, 1 percent January 1, 1966, and 2 percent on January 1 in each year 1967, 1968, and 1969.

We believe, however, that only 5 percentage points of the automobile tax should be removed, and 5 percentage points left in effect, in accordance with the President's recommendation. This will allow future Congresses to consider whether to reduce the automobile excise tax below 5 percent.

Postponing the decision with respect to this remaining 5 points of the automobile excise tax until the future is the course of fiscal prudence. In the judgment of the administration it is unwise to enact now large tax changes to come into effect 3 and 4 years in the future. It is impossible to forecast the economic situation that far ahead. The prudent course for the Nation is to stay with the President's program.

One cannot foretell just what tax requirements for responsible fiscal policy will be in the fiscal years 1967, 1968, and 1969, depending as they do on expenditures, receipts, and the economic situation. In fact, one cannot tell just what expenditures will be forced upon us by the automobile itself. How much will we have to spend to deal with such problems as highway safety, air pollution, and automobile graveyards?

The other differences in the House bill from the President's recommendation are relatively minor, and we concur in the House action.

The House bill would retain the tax on lubricating oil so far as it applies to highway users. This would be done by repealing the present tax on cutting oil and by providing refunds for use of lubricating oil in other than highway vehicles. The proceeds of this tax, \$50 million, would be put in the highway trust fund.

The remaining difference in the House bill deals with the automobile parts and accessories tax so far as it applies to parts which are primarily designed for trucks. The President recommended retention of this 8 percent tax as it applies to parts which are not suitable for use in a passenger automobile. The problem here is that some large components of trucks are subject to a 10-percent tax if they are installed by a truck manufacturer on a new truck. This 10-percent tax on trucks, which is part of the highway trust fund is not changed by this bill. If no parts tax applied, there would be a considerable incentive to install the part later as an accessory. Retaining the tax for truck parts and accessories will avoid aggravating this problem. The House bill places this truck parts tax, which amounts to about \$20 million, in the highway trust fund, along with the basic tax on trucks.

Finally, I want to say a brief word about the matter of effective dates. The Ways and Means Committee went extensively into this problem, as its report indicates. It considered the potential postponements of sales and came to the same conclusions that we had reached, after the extensive discussions which trade associations and individual firms had with the Treasury and with the staff of the joint committee.

Two industries thought this sales postponement problem was serious. In automobiles the tax involves a larger dollar amount. Postponement of a purchase until after July 1 would bring the buyer close to the new model year when he might decide to wait until fall. This could result in a significant loss of sales for the current model year and perhaps even some permanent loss of sales.

In air conditioners the problem is somewhat similar. Here, nearly 40 percent of the year's sales come in May and June. Postponement of a purchase until after July 1 would mean that part of the hot weather is gone and many potential customers would postpone the purchase until next year. In these two cases, the House considered that customer refunds were appropriate with respect to purchases between May 15 and July 1.

As to other industries, the committee noted that retroactive refunds were not provided in the last significant excise tax reduction, that of 1954, and that a retroactive date, with consumer refunds, would constitute a serious administrative burden for the industries affected. In order to provide the Internal Revenue Service with some means of verifying the refund claims, it would be necessary that they be channeled through, and consolidated by, the person who initially paid the tax. For most taxes, this would be the manufacturer. Such a procedure would involve the processing, verifying, and consolidating of thousands of small claims by a manufacturer. For manufacturers that sell many different tax articles the burdens would be multiplied many times, and the benefit of retroactivity would be far outweighed by the burden of additional paperwork involved. Consequently, the House thought that in view of the short time between the announcement date—May 15—and the effective date of the first scheduled reduction, July 1, it would be wise to proceed in all other cases in accordance with prior practice and avoid retroactive reduction. However, as stated earlier floor stock refunds are provided in the House bill for most of the manufacturers taxes.

The Treasury staff has been working with the staff of the Joint Committee on Internal Revenue Taxation on some technical amendments. We will be glad to discuss these matters with the committee, when it considers the bill in detail.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Surrey.

The Chair would like to ask just a few questions which will be directed first to the Secretary.

Secretary FOWLER. Yes, sir.

The CHAIRMAN. And if desired, the Assistant Secretary for comment.

It has been suggested in the last few days that, in the case of certain taxes to be repealed outright, the reduction should be effective on the day the President signs the bill. I would like your opinion, Mr. Secretary, as to whether that should be done.

Secretary FOWLER. Mr. Chairman, as Secretary Surrey's comments have indicated, the effective date has been a matter of real concern to him and his staff in long and extensive interviews with the various industries affected from the very beginning of the consideration of this program. It was felt, after this series of conferences and appraisalment of the problem, that the threat of any kind of a buying slowup on the items on which tax reductions would be scheduled could be minimized to a very substantial extent provided there was a reasonably short period of time between the President's message and the action by the Congress. It was our view at the time of the President's message that except for the two items mentioned, any reduction prior to the general effective date, prior to July 1, would not be necessary.

However, I think we are all familiar with the fact that there has been some concern among sellers of some of the other items, and there has been some expression of desire on their part to have the reduction become effective as soon as the bill is enacted, that is, signed by the President, which would be presumably a matter of a week or two before the effective date of July 1, assuming that the Senate should act in the next week.

I do not think that the administration would be opposed to the enactment of this early effective date, to, let us say, June 15. As a technical matter I think Internal Revenue Service could cope with such an amendment if the Senate or the Congress wished to include it.

I would like to point out that the gross revenue consequences on the 1966 budget, according to our best estimate, would be approximately \$50 million more or less if June 15 were the date. It is pretty hard to calculate that with any precision. My own feeling, Mr. Chairman, is that this is a close question. I do not believe that any real damage would be done to the economy by keeping to the effective date of July 1 because most of the sales that would be affected would not be cancellations of sales because of the impending excise tax cut. We believe they would be more in the nature of deferral of sales for a 2-week period or arrangements between buyers and sellers whereby the effective date of the transaction would be July 1 or a few days thereafter. So that any real substantial injury to the economy overall or to particular dealers, we believe, is a de minimis problem.

The CHAIRMAN. What would be the loss to the Treasury?

Secretary FOWLER. About \$50 million additional gross revenue loss.

The CHAIRMAN. The next question, what is the difference between the House passed bill and the administration's recommendations?

Secretary FOWLER. The principal difference, Mr. Chairman, has to do with the fact that, as Secretary Surrey has indicated, the House bill would provide the elimination of all 10 points of the current passenger automobile excise tax, whereas the President's program would have provided for only a reduction from 10 to 5 percent.

The House bill provides that as of succeeding years 1967, 1968, and 1969, the additional 5 percent, the remaining 5 percent I should say, excise tax on passenger cars that would exist after the President's program would be eliminated in a staged reduction process, one additional point going off January 1967 and two points going off, January 1, 1968, and 1969.

The CHAIRMAN. Have you an estimate of the loss of revenue?

Secretary FOWLER. Yes, sir. That would be approximately an additional billion dollars of gross revenue loss that would flow from the House bill.

The CHAIRMAN. I would like to ask this question, and I think the committee should have an answer before we act upon the bill. Does the administration want the bill as it is now before the Finance Committee?

Secretary FOWLER. The administration's distinct preference, Mr. Chairman, as Secretary Surrey's statement has indicated, is that the bill that we would like to see emerge is the bill in line with the President's program rather than the bill as approved by the House in this particular area.

There are other minor amendments in the House bill which Secretary Surrey has dealt with in his statement about which there is no substantial difference.

The CHAIRMAN. Would you indicate the differences between the recommendations of the President in the House bill and the bill that is now pending before this committee?

Secretary FOWLER. The principal difference is the one I have indicated. The House bill would eliminate completely by January 1, 1969, the passenger car excise tax. The President's program would retain 5 percent of that 10 percent effective indefinitely with the initial 5-percent reduction becoming effective with a 3-percent reduction on July 1, an additional 1 percent on January 1, and an additional 1 percent the following January 1.

There are other differences, Mr. Chairman. For example, some items are being transferred to the highway trust fund. One item in particular, the tax on lubricating oil, which the President recommended be eliminated, is being retained in the House bill to the extent that the oil is used in highway vehicles and the revenue dedicated to the highway trust fund.

The tax on truck parts, which the President would have left standing and thereby revenues from it flowing into the general fund—the House bill provides it be turned over to the highway trust fund.

The total of those changes is approximately \$70 million.

The CHAIRMAN. Well, substantially the administration still favors the original recommendations made by the President.

Secretary FOWLER. Yes, sir.

The CHAIRMAN. When the ultimate full-year effect of the bill is reached, how much will it be?

Secretary FOWLER. The bill as it passed the House, the full-year effect, would be, as indicated in table 1 in my statement, \$4.84 billion, nearly \$5 billion.

The CHAIRMAN. That is the total.

Secretary FOWLER. That is going through January 1, 1969, when the final tax on passenger cars would be eliminated.

The CHAIRMAN. What is your opinion as to how much the bill will affect the Federal deficits for the fiscal years 1966, 1967, and 1968, until the reductions expire?

Secretary FOWLER. I think as to the fiscal year 1966, the net budget impact of the House bill and the President's program would be \$1.8 billion. For the fiscal year 1967 the net budget impact of the House bill would be \$2.2 billion and the President's program \$2.1 billion.

We have not calculated—made any hard estimate, Mr. Chairman, for the effects for the fiscal years 1968 and 1969 but, under the House bill, there would be some additional impact on the budget in the neighborhood of around \$400 million in 1968 and almost the full long-term reduction of \$950 million in 1969.

The CHAIRMAN. Now the Federal budget has not been balanced since the fiscal year 1960; is that correct?

Secretary FOWLER. Yes, sir.

The CHAIRMAN. Your predecessor—and I speak with all due credit to him because I knew him very well—had a different estimate as to

when it would be balanced almost every time he appeared before the committee. When do you think the budget will be balanced again?

Secretary FOWLER. Well, Mr. Chairman, I am not much given to forecasting in this particular area. I have watched many forecasters make predictions along this line and, it seems to me, the resulting variances between the forecasts and realities that have been achieved would indicate this is a fairly difficult art which I would not pretend to master. Therefore, I would have to respond to your question in this fashion: Provided the economy continues to expand on the trend line that it has followed in recent years, and assuming that the budget proposals, as they are made by the President and as Congress itself acts upon them, hold down any increase in expenditures in a substantial way in 1967 and 1968 so that the increased revenues accrue to the Treasury as a result of the increased expansion, I think it will be feasible to achieve a budget balance in the fiscal year 1967 or 1968—more likely 1968.

The CHAIRMAN. Of course, I take it that you will use all the efforts you can to balance the budget.

Secretary FOWLER. I certainly intend to do so.

The CHAIRMAN. How much has the Federal debt increased since 1960?

Secretary FOWLER. Mr. Chairman, I do not recall exactly what it was in 1960. I have those figures readily available in another one of these black books but the current figure now, I think, for the debt as we stand here today is about \$319 billion. I believe that is what the Treasury statement would show today. I do not have the 1960 figure to measure that again. Just 1 second, it is being handed to me here. The public debt at the end of the fiscal year 1960 was \$286 billion.

The CHAIRMAN. In this bill the administration would reduce excise taxes and general fund revenue. In another bill before the committee the administration would increase social security, medical care taxes, and trust funds receipts. Taking these two bills together, what will be the ultimate effect on the workingman's tax bill?

Secretary FOWLER. I think that mathematically it would—I have not been able to follow in detail what the current estimates are of the legislation before this committee, but assuming the same withdrawal of revenues, of income from the House bill, I believe it would be fair to say that the President's program on excise taxes and social security would mean that at the beginning of the calendar year 1966 there would be available to the taxpayer for private use approximately \$1 billion, if the two-step excise tax amounting to about \$3.5 billion becomes effective as of January 1. A net stimulus, as the economists would say, of about \$1 billion.

The CHAIRMAN. In other words, speaking of 1966 alone—and not of the other years—but this is not the full effect, there is a net reduction in taxes as compared to the increase.

Secretary FOWLER. There is a net overall benefit to taxpayers after counting in the increased social security benefits.

The CHAIRMAN. Will you repeat again how much it will be for the year 1966?

Secretary FOWLER. The net effect of the tax changes and the additional benefits in the two programs is approximately \$1 billion as I understand it.

The CHAIRMAN. Just one more question, and it is not tied to this bill. You have placed tax receipts, excise tax receipts, in the highway trust fund.

Secretary FOWLER. Those excise tax receipts that are currently dedicated to the highway trust fund under the Highway Acts of 1956 and 1961 continue to be dedicated as they are under the existing legislation.

The CHAIRMAN. It so happens I was one of the patrons of the highway trust fund many years ago and I think that is a very fair way to handle it because it comes from the gasoline tax.

Secretary FOWLER. Yes, sir.

The CHAIRMAN. When a person uses the roads, he pays part of its costs. Would you give me some figures on that trust fund at this time?

Secretary FOWLER. The figure of transfers to the highway trust fund under the provisions of the law that are now in effect—the act we referred to—amounts to \$3,759 million for estimated 1966 levels of income.

The CHAIRMAN. That is, distributed to the States?

Secretary FOWLER. That is correct, sir.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Senator Long?

Secretary FOWLER. Thank you, Mr. Chairman.

Senator LONG. Mr. Secretary, I am not worried too much about this increase in the debt. We have been increasing the debt by about 2 percent a year for the last 5 years while have been increasing the income and the growth product of our people by about 5 percent. I am somewhat concerned about this problem: Are we going to be able to set up this Government on such a basis that one of these days we quit increasing the debt or do we have to anticipate a gradual increase in the debt as the country grows, assuming we can keep the country prosperous?

Secretary FOWLER. Well, I think that the keeping of the country prosperous does not, Senator Long, depend upon increasing the Federal debt. Increasing private debt and State and local debt and Federal debt as a totality of course does have some relationship to expanding the economy and purchasing power. But I don't think that the quantity of the increase in the Federal debt is a very material factor so that we need depend on it.

Therefore, I think that the Congress and the executive branch have an option when you have a balanced budget or a surplus of allocating the increased revenues that come out of an expanding economy either to debt retirement or to further tax reduction or to increase the Government expenditures and these are options which presumably, I would hope, we would be able to exercise some day. We are in essence exercising those options in one form by over the last 2 years, allocating the additional revenues that have resulted from the expansion between, largely between, tax reduction and reduction of the deficit in the administrative budget while holding expenditure levels fairly close. I think the average expenditure increase over the last 2 fiscal years has been about \$1 billion; and so that is the policy we are following now.

Should we reach a situation in which we had the economy expanding substantially and a balanced budget or surpluses, the handling of debt requirement—it can be handled in such a way that it is not deflationary—can serve to make available in the private sector funds for

additional investment or consumption. So I think we do have options in this field of debt retirement.

Unfortunately we have not, over the last 5 or 6 years, had that opportunity to make that particular choice.

Senator LONG. You estimated a \$50 million budget cost of advancing the expiration day to June 15 of these manufacturers excise taxes and I assume you included in that those retail excise taxes. Is that based on the assumption that these sales will continue on the same basis as they were during the previous part of the year?

Secretary FOWLER. I think that is the assumption.

Senator LONG. A friend of mine just called me from my home State yesterday and he said with regard to the sale of things like color television and things like that there are just no sales going on. Someone called me from a department store in New York and said they are just not doing any business across the lady's handbag counter. It occurs to me you might take a look at the sales of such items which are actually occurring and upon which there is something of a buyer's strike going on right now. I would just be curious to know if you have any information with reference to that.

Secretary FOWLER. I think the information you have related is substantially like a lot of the reports that all of use get. I think the only thing I would want to comment is, as I said to Chairman Byrd, I don't think the fact that the sale of the color television set is not occurring today or may not occur between now and July 1 means that the sale is lost to your dealer friend who called. I think he probably has that customer fairly well lined up to come in on July 1 or his sales force is a little lax.

Senator LONG. Let me just tell you what he says to me. He says:

Senator, it is just the same as if a man walked by your store and saw a good suit of clothes that he is interested in buying but for one reason or another he decided this was not the time to buy it.

It is just a long time before you would get that fellow back in your store to buy that same suit of clothes.

For example, if you relate that to television sets, maybe the fellow has got a wedding anniversary or his wife's birthday or child's birthday and he is going to give them a present. If he postpones the decision to buy, he might be postponing that decision until Christmas or thereafter.

Secretary FOWLER. I don't think that daughter graduating from high school is going to let him get by until July 1. Those color television fans are going to remember those sets are still around on July 1.

Senator LONG. I am not talking about the fellow who promised a child a color television. I know what it is to try to back off from a promise once you made it to the child, but I am thinking of a fellow who is thinking about a certain occasion. The argument given by the man running the store is once you let a fellow get out of the store without selling him, it may be a long time before you sell him anything again.

Secretary FOWLER. Senator Long, I want to be clear on this. Speaking for the Treasury and the administration, I don't think we want to be in a position of opposing an amendment along this line if it is the judgment of the committee that it is a desirable thing to do.

All I have tried to do is simply point out the consequences. There are no real technical barriers to your doing it if it seems to be desirable.

The revenue consequences are indicated, and I was simply trying to explore the various aspects of the problem. We take no hard and fast position on it.

Senator LONG. Let me ask Mr. Surrey a question here.

Secretary FOWLER. I would like to say if the committee does go in this direction, that in any provision of that sort I don't think you should pick a day certain. It should be the day after the President signs the bill so that it can be geared to that particular act.

Senator LONG. Mr. Secretary, as I understand it you have more or less requested that you be relieved of the responsibility with regard to this automobile tax decision because you had previously represented automobile companies.

Secretary FOWLER. That is correct, sir.

Senator LONG. And you have not urged that this particular cut be in effect and you haven't urged this extension. Your attitude has been that you should be more or less relieved of the burden of decision here because you had previously represented automobile companies?

Secretary FOWLER. That is correct. I have left that to Assistant Secretary Surrey. I think he can elaborate on his statement. I have reported in response to question of the Chairman what the administration position is. Now that administration position is that we prefer to have the President's program as recommended.

Senator LONG. I will be through in just one moment.

Senator MCCARTHY. Have you been reading whether marriages have fallen off in June in anticipation of the excise tax?

Secretary FOWLER. No; our research has not gotten that far.

Senator LONG. May I ask Mr. Surrey this.

Mr. Surrey, if during the next 2 or 3 years we should run into an emergency situation, in other words suppose this war in Vietnam got to be a hot war and we got engaged in other areas where we had to raise a lot of additional revenues, would this very tax here on automobiles be one of those that you might very well have to recommend either putting back on or further deferring the cancellation of in the event that we had voted to take only five points off.

Mr. SURREY. I think so, Senator. As I indicated this is a tax where the revenue is large, but it is the kind of tax where to collect that large amount of revenue is no particular burden on the manufacturer involved and no particular burden on the Internal Revenue Service.

It happens to be one of the taxes that is efficient to collect.

Senator LONG. Now, in the event that we don't go along with the House in this particular matter, do you see any impediment to our deciding at a later date that the thing worked out the way we hoped it would, that the economy continued to prosper, to repeal this tax or phase it out the way the House bill recommends.

Mr. SURREY. No, I don't, Senator. That is our position, that future Congresses can take a look at this, and make up their minds in the light of the situation at that time.

Senator LONG. That is all, thank you.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Mr. Secretary, I assume you are familiar with the recent speech of Mr. William McChesney Martin, Chairman of the Federal Reserve Board.

Secretary FOWLER. Yes.

Senator WILLIAMS. Do you also see certain parallels between the existing economic conditions and the conditions which prevailed prior to the 1920 stock market?

Secretary FOWLER. Senator Williams, I have not studied the 1920 period. I have not been a student of the history of that particular period and therefore I have no view on the similarities or the differences. I must say that any opinion I have is to the effect that the dissimilarities between the two situations so far outweigh the similarities that I am not at all fearful of the repetition of the 1920-33 experience. I have so stated in response to questions publicly that I believe we have evolved methods and techniques to avoid further depression of that sort.

I do not think we have evolved techniques and methods and policies that make us recessionproof, foolproof against a slowdown or a turn-down. But, so far as any cataclysm, economic cataclysm, of the 1920 variety I see no cause for concern.

Senator WILLIAMS. You see no cause for concern at this particular time?

Secretary FOWLER. About a repetition of 1920; no sir.

Senator WILLIAMS. Has that been the position for the last several months of the administration?

Secretary FOWLER. I think this has--as I remember Chairman Martin's statement and have discussed the matter with him, I don't believe there have been any sharp differences of view. He noted and developed in some detail the dissimilarities between the two situations and whether or not we are facing into another 1920, has not been, to my knowledge, the subject of any differences of view between those of us who are concerned with this problem.

Senator WILLIAMS. One basis for that question was that the President in his budget message to the Congress in January of this year stated that he was going to recommend an excise tax cut of \$1,750 million. Then on May 17 he sent a message stating that in addition to his January recommendation for \$1 $\frac{3}{4}$ billion excise tax reduction, he was recommending an additional cut of \$1 $\frac{3}{4}$ billion. What happened in the meantime that caused the administration to think that this additional tax reduction was necessary in order to keep the economy moving?

Secretary FOWLER. Well, I think the principal thing that happened was that an opportunity presented itself, Senator Williams, to do what we all have wanted to do for a long time and that is to take a much deeper slice out of the present excise tax burden. More specifically, the thing that did happen was that as the income tax returns became available, after April 15, particularly those that had to do with individual tax liabilities for the calendar year 1964, we found that we would have an additional billion four hundred million available for fiscal 1965, as I have indicated in my statement, and an anticipated projection on that basis of a billion six hundred million for fiscal 1966 over and above what had been contemplated in the January budget figure.

So then we were faced with, you might say, a decision, but also the opportunity of providing for an additional substantial cut in excise taxes. It has been our view, and that of most of the Members of Congress, that certainly from the standpoint of equity and simi-

plicity and fairness of our tax system, it would be desirable to go as far as we could in reducing these excise taxes other than the ones that we expect to maintain permanently.

So, in effect, having estimated what would be the result of an additional \$1,750 million cut effective January 1, 1966, and having found that to be, as I have indicated approximately a \$600 million impact on the 1966 budget, we, in effect, decided to allocate out of the increased revenue projections \$1 billion to a further reduction of the deficit, and \$600 million to a further reduction of the excise taxes which, as Mr. Surrey's statement has indicated, enabled us pretty well to cut further in this selective excise tax structure and get rid of more taxes once and for all, still maintaining the 5-percent item on the passenger cars.

Senator WILLIAMS. The narrowing of the gap between the expenditures and receipts also forestalled the catastrophe of a balanced budget, didn't it?

Secretary FOWLER. That wasn't what was in my mind, Senator Williams. I would welcome an opportunity to achieve a balanced budget and I would not view it as anything but a national benefit.

Senator WILLIAMS. You don't think it would be a catastrophe. Well, I just wondered.

Di the next couple of days you are supposed to come back to this committee, I understand, for a debt ceiling increase.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. How much of an increase in the debt are you going to have to ask and what portion of that is to finance this tax cut we have before us?

Secretary FOWLER. Well, I think the increase that the House has voted is from a \$324 billion debt ceiling to a \$328 billion debt ceiling, and as I will explain, try to explain, in my statement, that really reflects by and large what we have to do to the ceiling in order to take care of the deficit which has already occurred in fiscal year 1965, and is really not attributable to the excise tax cut.

Senator WILLIAMS. I understand that. And you will be back the next year to take care of the next fiscal year.

Secretary FOWLER. That is right. And what it adds up to is that this additional step amounts to, as I have indicated, approximately \$600 million net budgetary impact in fiscal 1966.

Now this, however, ignores the fact that conceivably the additional cut on January 1, 1966, may have an unmeasurable but beneficial impact on the expanding economy. I don't know what we will be back for, Senator Williams, next year, if we didn't have this excise tax cut. That would depend on what happened to the economy in the intervening time and naturally what happens to revenues.

Senator WILLIAMS. As I understand your statement you were describing these taxes as "regressive" which we should look forward to removing at an early date.

Secretary FOWLER. Some of them are very regressive. Some of them are not.

Senator WILLIAMS. The question that is in my mind is, If the 5 percent of the automobile tax is regressive how is it that Mr. Surrey can say the other 5 percent has no noticeable effect? At what point does it stop being regressive and become progressive.

Is all or a part of the excise tax on automobiles regressive?

Secretary FOWLER. Well, I think I will let Mr. Surrey deal with that one.

Mr. SURREY. Senator, you obviously don't split it up as you indicate between the two 5's. As a whole, the automobile tax is not a regressive tax and many of the other excises are regressive in themselves. But this tax is not a regressive tax in the sense that, say, the tax on telephones would be a regressive tax.

Senator WILLIAMS. But it is the feeling that it will stimulate the sales though by reducing the taxes; is it not?

Mr. SURREY. With respect to all of these excises, Senator, we are not particularly estimating that it will increase the sales of any particular commodity. Rather it is the point that when you reduce these excises as a whole, consumers have more to spend on what they prefer to spend upon. Some may spend on the articles whose taxes have been reduced. Others may spend on articles which were never taxed. It is the overall impact that is important.

Senator WILLIAMS. The question which has been asked me for which I don't have an answer at the time is when the automobile industry is running at the most expanded scale it has had in recent years, you stimulate it now, but if they do have a recession in sales, what will be your next step to stimulate it? Aren't you stimulating something at a time that it really isn't necessary?

Mr. SURREY. Well, in a sense, Senator, one could say that with respect to a number of industries. For example, retail sales are the highest that retail sales have been ever in the United States but I don't believe that would be a reason to keep the retail sales taxes. I think as the Secretary indicated there has been a general feeling in the Congress and outside the Congress that whenever there was an opportunity to do so, as far as possible this excise tax field should be cleared up and these taxes which are poor taxes for a variety of reasons, some regressive, some difficult to administer, some placing particular burdens on business, should be cleared up to the extent that revenues permit. Consequently for a variety of reasons these taxes were selected that the President recommended and the House has adopted.

The effort is to make as much improvement as possible in the excise tax system. Many of these businesses whose taxes are being removed are very prosperous today, but the particular reason is not to increase their sales as such. It is to eliminate and reform a part of the tax system which has proved troublesome, which everybody has agreed is troublesome and at the same time have a beneficial effect on the economy.

Senator WILLIAMS. I will ask just one question. Do you think it is wise for the administration to place its entire dependence on corporate and individual income taxes in our economy?

Mr. SURREY. I wouldn't say it is wise to place the entire reliance. There will be, after this bill, almost \$11 billion of excise taxes retained by the Federal Government.

Senator WILLIAMS. Those are not regressive in your mind, in your opinion?

Mr. SURREY. Some of them are regressive, Senator.

Senator WILLIAMS. No further questions.

Secretary FOWLER. There are other reasons, I think, that, shall we say, more than counterbalance their regressivity, that justify their maintenance. Senator Byrd has referred to the taxes on gasoline as providing the revenues for the highway program. I think the general attitude toward taxes on tobacco and alcohol is that even though they are regressive it is a good thing, as a matter of public policy, to tax these items.

The CHAIRMAN. Senator Smathers.

Senator SMATHERS. Mr. Secretary, I gather from what you say you believe, as others have believed, the reduction of taxes or the increase of taxes can have a vital effect upon our economy and should be used in order to effect that economy, is that correct?

Secretary FOWLER. Yes, Senator. I do think so. Apart from their revenue-raising effect which is the main reason for them, the manner and the amount and the method in which they are imposed can have economic side effects which are of very great importance and which the Treasury and this committee and the Congress have to constantly be aware of.

Senator SMATHERS. As I gather it from your answer to the distinguished Senator from Delaware, you do not believe that our economy is moving into a deflationary period?

Secretary FOWLER. No; I do not believe it is moving into a deflationary period and my own view is that the outlook insofar as it can be reasonably foreseen, seems to me to be a very favorable one for continued expansion. I could elaborate on that, Senator, if it is pertinent to this consideration at this time.

Senator SMATHERS. May I say right there, and I think it is pertinent in this respect, that you have recommended that the Finance Committee and the Senate do not take exactly the same position that has been taken by the House. In other words, we are holding back, I think, as Mr. Surrey said, postponing the decision with respect to the remaining five points of the automobile excise tax until the future demonstrates such is the course of fiscal prudence. It is impossible to forecast the economic situation that far ahead and he said the prudent course of the Nation is to stay with the President's program. I gather from what he is saying and from what you are saying, that you think the economy is in sufficiently good shape at this point that it does not need this extra stimulation which obviously would result if we adopted in toto the recommendation of the House Ways and Means Committee.

Secretary FOWLER. That is right. And I think that also the fact that that impact would be some time off is another consideration. It is a fair reading on what we have said that we think to eliminate the entire tax now would not be a prudent or necessary thing to do in the light of the general economic situation, and this does involve some judgment as to the general economic outlook.

Senator SMATHERS. In other words, you seek to hold back some weapon, so to speak, in the event that the economy should begin to turn downward you could recommend to the Congress which would have the effect in your judgment of turning it back up.

Secretary FOWLER. Yes, Senator. We are not coming here today in the posture of a department that is seeking desperately to shore

up anything that looks like a failing economy. We are coming here in a very much of a different posture and that is to take advantage of the flush that we have had in additional revenues even beyond our estimates as recently as January, of a substantially expanding economy, and take advantage of the current outlook to remove a greater slice of the selective excises.

We are in a period of a very long and sustained expansion, and I, for one, think it is the better part of prudence, in a period such as this, for business forecasters and commentators and public officials to look at business prospects and keep a somewhat open-eyed view to find any emerging imbalances or trouble spots and attempt to deal with them to some extent in advance.

The way to deal with a recession is to avoid having it, if you can.

Now, I think, therefore, the continued examination of the ways in which we can sustain an expansion is a healthy exercise. I believe it is the duty and responsibility of those of us who are concerned to realize that it is the balanced character of this particular expansion which has given its durability and its sustained effect over a long period of time. The retention of such a balanced character to the expansion requires us to be concerned with seizing additional opportunities to remove obstacles and burdens to further growth such as is exemplified in this bill here, and it is important to have that continued emphasis. It is also important to have the emphasis which Chairman Martin was giving the other day that it is possible to lose an expansion by having it go so far so fast that inflationary tendencies overtake it and in effect it falls forward.

I think both of these points of view are ones that all of us should keep in front of us. It is a very healthy thing to have them, and I, for one, think it is perfectly natural when the economy is catching its breath, following the very large increases in sales and production during the first quarter, that as we return to a more normal growth pattern we recognize this is something which has been fully anticipated.

For my own part I see no reason to question the earlier judgments of economists in Government and I think in business as well, that we see and expect a continued orderly growth as far ahead as one can see with reasonable clarity.

If anything that has happened since the first of the year, it seems to me that our sights have been a little bit raised insofar as the outlook for continued growth is concerned. Certainly the official forecast of \$600 billion of gross national product for calendar 1965 seems solid and maybe a trifle low.

I could go into the various indicators and that most of us are familiar with, but without taking the time of the committee to do that, just let me say that in my judgment these factors together with the additional impetus that is inherent in the bill before the committee here, give ground for solid confidence that our expansion will continue without undue strains on the capacity or manpower.

Senator SMATHERS. May I state right here to you that a member of the staff put in front of me just a second ago the percentage of annual retail sales each month, and the Senator from Louisiana would be interested in this. It shows that in the months of May and June every

year apparently the sales are lower at that particular time than they are at any other time. Here is a history of them and they apparently go up. For example May and June, 6.1 percent; May, 6.6 percent. November they went up to 10.3 percent. October, 10.5 and 10.9 percent.

Senator LONG. He might know as much about his business as you do Senator and I would be surprised if he does not.

Senator SMATHERS. I don't know much about his business. All I am saying is that this was provided by the general merchants association of the United States, Merchandising Week, the January 25, 1965, issue, which shows that is what happened. It has got to be retail.

A couple of more questions and then I will let you go.

Mr. Secretary, as I understand it, the real difference in what you want us to do is to go back to the President's recommendation which actually reduces that amount of tax taken off on and the time when it is taken off with respect to telephone and automobiles; is that correct?

Secretary FOWLER. Automobiles is the variance insofar as the President's program and the House program is concerned.

Senator SMATHERS. So far as you are concerned the recommendations they made with respect to telephones you are in complete accord with?

Secretary FOWLER. The House is in complete accord with the President's program.

Senator SMATHERS. Can you tell us whether or not the excise tax reduction in this instance with respect to telephones and all others will be passed on to consumers or not?

Secretary FOWLER. I only examined the hearings that were held last summer before the House Ways and Means Committee in which a number of proponents of excise tax reduction or elimination appeared before the committee. Members of the committee were naturally interested in that question of whether the reductions are going to be passed on, and as you might expect the record seems to be rather replete with assurance that, from various persons appearing, that will be the case.

I can't say to this committee that we have any reliable method of assuring the committee that in fact the savings will be passed on. I think all we can do is to point to the expressions of intention in those hearings last summer, and observe that the factor of competition in many of these excise tax fields is so intense and the structure of the distribution and manufacturing patterns are such that it seems a reasonable judgment to make that by and large there will be a substantial passing on of the tax reductions. As my statement indicates, and as Assistant Secretary Surrey's indicates, and the House committee indicates in its report, there will be some substantial price decreases in some of these excise taxed items.

Senator SMATHERS. If this tax reduction is to achieve the purpose which you hope that it will achieve, is it a fact that these tax reductions will have to be passed along to the consumer?

Secretary FOWLER. No. I think that there are several objectives that this bill could achieve, and I wouldn't want to place the entire thrust of the position as depending upon whether the reductions are passed on. If the reductions are not passed on through price reductions to the consumer, they nonetheless become available to the businesses, as, for example, to finance further activity, so eventually

part of it comes back to us. But we are very clear that the most beneficial result of this particular bill would be not only to put back into the private sector the revenues that are involved, but also to get this extra dividend that would be involved in price reductions of the taxed commodities which would be a healthy thing in terms of wage-price stability.

Senator SMATHERS. In other words, to make it clear so that I might understand it, you, as Secretary of the Treasury, however, are hoping or expecting, are you not, that this price reduction is passed along to the consumer?

Secretary FOWLER. Very much so.

Senator SMATHERS. In yesterday's Wall Street Journal there was an article which was of considerable interest to me, at least, showing the growth of the Nation's gross national product and then the growth of the Nation's debt and then the debt as a percentage of gross national product. I don't know whether you saw that or not.

Secretary FOWLER. Yes.

Senator SMATHERS. In 1964 it pointed out that the gross national product was \$623 billion. The debt was \$811 billion, and the debt as a percent of the gross national product was 130 percent which, of course, is the highest level of debt as compared to the gross national product that we have ever had.

As Secretary of the Treasury, are you concerned about this increase in the percentage of the debt and, if so, I would like to hear your comments about it?

Secretary FOWLER. Well, I think that it is quite clear that there can be a rate of increase in private debt that would be nonsustainable and, therefore, destabilizing in its character. I am not prepared to make a judgment that the rate of increase we have had up to now is of such a character. I think we all recognize that, as the country grows and expands and increases, it is natural that the levels of debt, private debt, corporate debt, personal debt, State and local debt, all tend to go up with it.

I think one of the real factors that perhaps the article mentioned, but did not really examine closely, is to what extent at the same time that debt has been increasing has there been increasing savings and increasing level of discretionary income that is available to you and me to spend. If that level of discretionary income is substantially expanding so that we can carry the increased debt as businesses or as individuals, and whatnot, there isn't as much to worry about as it would be if the carrying charges of the debt and the level of the debt were far exceeding the capacity of those that incur the debt to carry it.

Senator SMATHERS. All right, thank you, Mr. Secretary.

Senator DIRKSEN. Mr. Chairman, can I ask a question? Is it proposed to have the Secretary back?

The CHAIRMAN. We have 15 minutes.

Senator LONG. Mr. Chairman, as I understand it, Senator Dirksen has to leave shortly.

The CHAIRMAN. Would it be satisfactory for the committee to have Senator Dirksen ask questions?

Senator BENNETT. I will be very happy to yield my turn to Senator Dirksen.

Senator DIRKSEN. —Mr. Chairman, I am asking these questions on behalf of Senator Kuchel who is unavoidably away from Washington but he raised some question about the tax on champagne. As I had understood, Mr. Secretary, since the production of wine is one of the major operations in California that they make table wine on which the tax is 17 cents per gallon; is that correct?

Secretary FOWLER. I believe that is the rate.

Senator DIRKSEN. All they do to produce sparkling wine and champagne is to carbonate the same table wine, but the tax on sparkling wines and champagnes is \$3.40 a gallon or 20 times as much. Now this tax was put on at a time when foreign wine producers preempted about 80 percent of the American market. I understand today that about 85 percent of the champagne and sparkling wine that is consumed in this country is domestically produced, and that California vintners make the point that that tax could well be dropped to a dollar per gallon on sparkling wines and champagne because actually what it is is \$3.40 a gallon on the bubbles that go into table wine. That is what it amounts to. So if there is any logic in this so-called business of feedback to increase business, therefore increased revenue, they believe that they ought to be cut in on this excise tax bill for some of its benefits.

This is an odd line of questioning, coming from one in the corn country where we measure it by gallons as well as bushels, but I am doing this in behalf of the distinguished Senator from California.

Secretary FOWLER. Senator, I have two preliminary comments to make on this problem that you raise and perhaps Assistant Secretary Surrey, who has studied the alcohol and tobacco area very closely in connection with this program, would wish to supplement it. Questions of this sort have been raised on the House side during the course of these deliberations. We have taken the position that we recognize that there are some elements within the method and technique and rates of tax in the alcohol and tobacco areas that ought to be looked into, particularly as to whether or not the existing rules are equitable to all sectors of the industries concerned.

We have strongly urged that the House committee not at this time include any proposals that would involve a substantial loss of revenue in this particular area, and that we have a chance to study and develop ways and means of dealing with some of the real grievances that various segments, various types of producers, have in terms of the present tax system.

Now Assistant Secretary Surrey has been in meetings with a number of those who are concerned about the way in which a particular tax is levied or the discrimination which they feel it involves to them as to a competitive beverage or competitive form of tobacco. We are not ignoring this by any means but we feel that in view of the desire for speed in getting this particular legislation through, and because we want to keep the revenue picture in a somewhat more prudent area, that we hope that this matter can be deferred.

Senator DIRKSEN. I might say that a bill is pending to effectuate just what I have been saying.

Secretary FOWLER. Yes, sir.

Senator DIRKSEN. And the chances are it will be pressed on the committee and on the floor.

Secretary FOWLER. Yes, sir.

Senator DIRKSEN. Now one general question: What is the likelihood of when these excises go off that the States will put on increased excises because they are always scouring around for money?

Secretary FOWLER. I think that the prospect is quite likely that the States will select some of these excises and reimpose them at the State level. For example, the Advisory Commission on Intergovernmental Relations, in which Federal and State and local tax authorities meet to discuss mutual problems has informed us that they expect some of the States to impose a tax on deeds to replace the one that we would repeal because it ties into State and local real estate transactions.

There undoubtedly will be other areas that we can't really predict but it certainly is true that State and local tax authorities are, you might say, on the prowl for new sources of revenue and I would expect some of that to occur.

I don't believe it will be as major an exercise as one might fear because the general tendency seems to be to deal with the across-the-board type of taxes insofar as this particular type of tax is concerned and, except for a few specialized areas like the documentary stamp tax on deeds, I think the same reasons that cause the Congress to react very adversely to selective excises would cause State legislatures to feel the same way.

Senator DIRKSEN. One other question: Suppose this bill landed on the President's desk for signature, prior to the 1st of July, why shouldn't it become effective the day he signs it?

Secretary FOWLER. We do not wish to take the position in opposition to an amendment to that effect if the committee should be desirous of doing so. We had felt that the postponement of sales of excise taxed items, by and large, except for the ones specifically covered, are not going to be very serious. They are going to be postponements rather than cancellations or losses of business, but it is a marginal question, Senator Dirksen and I think would be for the judgment of the committee. The gross revenue costs would be about \$50 million.

Senator DIRKSEN. If Senator Smathers would give me his attention, going back for a moment to what he said about TV, my understanding is that it is not a question of diminished sales in May and June but rather that right now the distributors are calling up and canceling 5 carloads, 10 carloads, 15 carloads of television sets and just saying to the manufacturer, "don't ship." So they are in a bind right now, and, of course, all we hope for is retroactivity in the bill or that it be signed as quickly as possible, if it got to the President's desk before the 1st of July.

Senator SMATHERS. I think it might be helpful for the record as long as this is an official document, this is Merchandiser Weekly, January 1965 issue and it shows apparently historically that the worst months for television sets, dryers, things of that type are May, June, and July.

(The table referred to follows:)

Region and product	Percentage of annual retail sales each month											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
EAST												
Refrigerators.....	6.2	6.0	7.5	7.4	8.5	10.1	12.7	11.1	8.6	8.0	7.1	5.9
Freezers.....	7.4	5.8	6.9	6.7	7.9	9.4	11.9	11.5	9.4	8.6	7.8	6.7
Ranges.....	6.6	6.7	7.7	8.4	9.1	8.7	9.0	8.5	8.8	9.2	8.7	8.6
Water heaters.....	7.2	6.0	8.7	8.1	9.1	13.6	7.9	7.9	9.0	8.2	7.4	6.9
Washers.....	8.6	7.3	8.4	7.5	8.2	9.2	8.2	8.6	9.0	9.4	8.5	7.1
Dryers.....	8.8	6.9	6.7	5.6	5.4	5.5	6.0	7.8	9.9	12.2	14.0	11.2
Dishwashers.....	7.4	6.1	7.8	7.4	8.9	8.4	7.6	8.1	7.8	9.0	7.8	14.2
Air conditioners.....	6.7	4.7	9.4	6.4	8.4	17.3	23.9	6.4	2.4	4.0	2.3	5.1
Television.....	8.7	7.4	7.5	6.5	6.4	6.5	7.6	9.1	10.2	10.8	10.4	10.9
MIDWEST												
Refrigerators.....	5.6	5.6	6.6	7.1	8.3	11.2	12.8	12.0	8.9	8.2	7.3	6.4
Freezers.....	6.2	6.2	7.1	6.7	7.9	10.9	12.5	11.2	9.4	8.3	7.7	5.9
Ranges.....	6.3	6.4	6.6	8.3	8.6	9.3	9.4	8.3	7.7	8.9	9.7	10.0
Water heaters.....	6.0	7.7	6.6	8.5	9.1	10.1	8.7	8.2	7.3	9.1	9.7	9.0
Washers.....	7.3	6.9	7.7	8.0	7.8	7.8	8.8	9.4	9.1	9.8	10.2	8.2
Dryers.....	8.4	7.4	5.7	6.5	6.4	6.7	7.0	7.2	8.2	10.6	13.0	12.9
Dishwashers.....	8.0	6.9	6.6	6.0	6.5	6.8	7.4	7.4	6.0	7.5	10.3	20.6
Air conditioners.....	5.5	5.0	1.8	4.1	10.6	37.7	31.7	9.1	1.6	4.4	4.4	3.3
Television.....	8.1	8.0	7.4	6.2	5.5	5.8	6.3	8.2	9.9	10.1	10.3	14.2
SOUTH												
Refrigerators.....	7.9	6.7	7.6	7.2	7.6	8.4	9.1	9.7	9.5	8.6	9.5	8.2
Freezers.....	6.5	4.8	6.7	8.1	11.1	11.3	12.0	9.1	7.8	8.5	8.5	5.6
Ranges.....	7.4	6.4	8.2	7.4	7.9	8.6	7.5	9.6	7.7	9.3	10.0	10.0
Water heaters.....	7.1	7.0	9.5	9.4	8.3	7.7	7.4	9.3	8.8	8.7	7.0	9.8
Washers.....	7.7	8.0	7.8	8.2	7.8	8.0	7.5	8.4	9.7	9.7	9.4	7.8
Dryers.....	8.5	7.1	6.8	6.7	6.5	6.9	7.5	8.1	9.3	10.0	11.3	10.8
Dishwashers.....	9.2	5.8	7.6	6.5	8.2	8.1	6.9	9.0	9.3	7.8	10.1	11.5
Air conditioners.....	4.1	4.4	5.8	10.4	8.8	13.4	19.4	12.3	9.0	8.7	8.4	3.3
Television.....	9.1	8.9	7.1	6.6	6.2	6.8	7.2	7.2	10.2	11.6	10.8	9.2
SOUTHWEST												
Refrigerators.....	6.0	6.8	8.1	7.6	8.5	9.9	11.5	9.8	8.6	8.1	6.8	8.3
Freezers.....	4.8	4.6	7.0	7.5	9.1	12.9	13.9	10.7	8.4	6.9	7.4	6.8
Ranges.....	6.5	6.2	7.8	8.4	9.5	7.9	8.8	8.7	9.0	11.1	7.9	8.7
Water heaters.....	7.9	8.1	8.3	8.3	6.6	9.7	6.2	7.0	8.7	11.2	8.9	9.2
Washers.....	7.6	7.9	8.3	7.2	7.9	9.3	7.0	8.6	10.9	9.9	7.4	8.0
Dryers.....	10.1	8.6	7.2	4.8	5.0	6.8	6.9	8.4	9.3	10.4	10.0	12.5
Dishwashers.....	4.9	6.6	7.7	7.3	8.0	9.4	8.0	9.0	9.2	9.1	9.0	11.8
Air conditioners.....	6.1	4.2	8.0	13.2	14.1	13.3	16.2	10.1	5.4	1.7	4.4	2.4
Television.....	6.7	7.2	6.9	7.3	6.0	6.7	7.4	9.7	10.2	10.5	9.4	12.0
FAR WEST												
Refrigerators.....	6.7	7.1	7.0	7.3	8.9	8.7	9.6	9.3	10.5	9.1	9.0	6.8
Freezers.....	6.4	6.5	6.7	7.7	9.0	8.8	10.5	10.8	10.7	9.5	8.2	5.2
Ranges.....	8.1	8.0	7.3	7.1	8.3	7.1	9.4	8.1	9.9	8.6	10.2	7.4
Water heaters.....	8.4	8.0	7.3	8.0	8.2	8.4	8.8	9.2	8.9	8.0	9.9	6.9
Washers.....	8.1	7.5	8.0	7.7	7.7	8.2	8.6	8.2	9.4	9.4	9.5	7.7
Dryers.....	9.0	8.1	6.1	6.0	5.9	5.6	6.9	6.6	9.1	11.6	14.1	11.0
Dishwashers.....	8.0	7.1	6.5	7.0	9.5	6.6	8.5	7.2	9.4	8.7	11.2	10.3
Air conditioners.....	3.3	3.9	3.7	6.4	16.6	20.8	16.6	9.9	7.6	4.7	4.6	1.9
Television.....	7.9	7.6	7.7	8.1	7.2	6.8	7.3	8.1	9.2	9.2	10.4	10.5
NATION												
Refrigerators.....	6.6	6.5	7.4	7.4	8.4	9.5	11.1	10.3	9.2	8.7	8.0	6.9
Freezers.....	6.4	5.8	6.9	7.3	8.9	10.2	11.9	10.8	9.4	8.5	7.9	6.0
Ranges.....	7.2	6.9	7.4	7.8	8.7	8.3	8.3	8.7	8.7	9.1	9.6	8.8
Water heaters.....	7.2	7.1	8.6	8.3	8.5	9.4	7.3	8.3	8.6	8.6	7.9	8.7
Washers.....	8.0	7.5	8.1	7.7	7.9	8.8	8.1	8.6	9.5	9.5	8.9	7.6
Dryers.....	8.3	7.4	6.3	6.0	5.9	6.1	6.7	7.4	9.2	11.3	13.5	11.6
Dishwashers.....	7.6	6.6	7.0	7.1	8.9	7.7	7.9	8.0	8.7	8.7	9.7	12.1
Air conditioners.....	4.9	4.1	6.9	8.8	10.1	18.6	22.5	9.5	3.3	3.8	2.2	3.3
Television.....	8.3	7.6	7.4	6.6	6.1	6.6	7.3	8.5	9.9	10.3	10.3	10.9

Senator Ribicoff. Will the Senator yield for a second there? I think the Senator from Illinois is absolutely correct.

Senator DIRKSEN. The electronics industry was in yesterday to tell me precisely what is happening at the present time.

Senator RIBICOFF. That is correct. What is happening is that no one wants to start fooling around with the refund on the floor tax and readjustments in bookkeeping. The whole distribution system of all major items have been put awry because of this and I think the Senator from Illinois is absolutely correct. It isn't just a question of the number of sales made but a question of the whole distribution process of American merchandising. I put in an amendment yesterday to make it effective as of the date of passage to alleviate one of the factors the Senator is talking about.

The CHAIRMAN. Senator Anderson.

Senator ANDERSON. In the first place, Mr. Secretary, when did the President make an announcement about the cut in excise taxes.

Secretary FOWLER. His message occurred, I believe on May 17. On May 15 he made a statement to the public and the message came up on May 17.

Senator ANDERSON. Had he made any announcement previously about reduction, had there not been constant talk of reduction in excises?

Secretary FOWLER. There had been constant talk, I think, Senator Anderson, about excise tax action since the closing weeks of the action on the Revenue Act of 1964. And in the President's budget message in January he had said he would recommend an excise tax reduction in the magnitude of a billion seven hundred and fifty million.

Senator ANDERSON. Senator Smathers quoted the Wall Street Journal of yesterday and I would like to quote from page 4 of it. It says major retail sales rose sharply from 1964. It tells about Sears, Roebuck & Co., which said it had record sales both in May and in the first 4 months of the current fiscal year. They are up 11 $\frac{1}{10}$ percent in May. J. C. Penney sales are up \$170,309,000 from \$155 million a year ago, and Mr. Batten, the chairman, made that announcement. And then Gamble-Skogmo, Inc., said they are up from \$37 million to \$42 million, and this is the last line of the story, "last month's improvement Carl S. Raugust, said," and I quote direct from him—

occurred mainly in some of the lines, sporting goods and appliance departments headed by refrigerators, freezers, and color television sets.

Do you suppose he knows what he is doing?

Secretary FOWLER. I suppose he did.

Senator ANDERSON. Also if there was a reduction in sales of color television sets could it not be because of announcements that people are going to produce new tubes, and a reduction in price.

Secretary FOWLER. Yes.

Senator ANDERSON. Also CBS is making some announcements for a color television program for next year, it has been very heavy. It would seem to me that people who know new sets are coming on the market at sharply reduced prices might wait to see what the sets cost as well as see if the tax is going to be repealed.

Secretary FOWLER. I think there are those factors which certainly enter into what is going on.

Senator HARTKE. Will the Senator yield?

Senator ANDERSON. Yes.

Senator HARTKE. I know one of the major manufacturers in television happens to be in my home State and they have indicated their sales are 75 percent below their budget forecast since May. They now have an unmanageable accumulation of inventory and are running out of space to store these items. Even the loss of income tax alone on the same items may be forever gone if we do not have a date which is set. You are talking about May, and Sears, Roebuck. Many of the Sears, Roebuck items are not taxable. You are not taking the income tax loss factor into account. The fact is we have a growing economy.

Senator ANDERSON. What do you mean they are not taxable.

Senator HARTKE. Most of the items in the Sears, Roebuck catalog are not subject to the excise tax.

Senator ANDERSON. I just hope you take a look at the new Sears, Roebuck catalog. Many of them are taxable. Gamble-Skogmo are up to \$40 million per month which is pretty substantial and its president said it was in color television sets. I read a moment ago, Carl Raugust, and I quote directly from him—

occurred mainly in some of the lines sporting goods and appliance departments headed by refrigerators, freezers, and color television sets.

If a man is smart enough to be president of a company he is smart enough to know what the company is doing. These things always come up when it happens. I have a sheaf of telegrams that the country is going to pieces if we don't do it today. But I do hope the committee takes its time and takes a good look at it.

Secretary FOWLER. Historically, Senator Anderson, it might be noted here on this point that the last time there was a substantial excise tax reduction they were not made retroactive.

Senator ANDERSON. There is a publication that deals with tax treatment put out by Prentice-Hall which has an article in this last issue or so that the excise tax repeal brings an unexpected windfall on installment sales. Dealers and merchants who make taxable sales on installments on furs, jewelry, luggage, and other items subject to the excise taxes scheduled to go off on July 1 are going to be sitting pretty when the proposed excise tax repeal becomes a reality. The reason is installments. Would the Department object to an amendment which would try to make sure there was no windfall on installment sales?

Secretary FOWLER. No, Senator.

Senator ANDERSON. I want others who have not asked any questions to ask questions.

That is all.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Mr. Chairman, it is 12 o'clock. How long are we going to continue?

The CHAIRMAN. What is the pleasure of the committee?

Secretary FOWLER. Mr. Chairman, I might say for the information of the committee I am currently scheduled to appear in the morning at 10 before the Senate Banking and Currency Committee of which Senator Bennett is a member to deal with the proposed coinage program, and I am available to this committee this afternoon or any time thereafter, Thursday, Friday, whatever the necessity may be, but I do have that preexisting engagement.

Senator WILLIAMS. Mr. Surrey could come tomorrow, could he not.

Secretary FOWLER. Yes, indeed.

Senator ANDERSON. Mr. Chairman, I hoped we could finish it this morning.

The CHAIRMAN. We can continue for a while. Several Senators have engagements at 12:30.

Senator BENNETT. Mr. Chairman, I will try to be short.

Earlier in your testimony you talked about your projections on a trend line, and then under questioning you indicated that you thought we might approach a balanced budget in 1967 or 1968. Can you or some member of your staff supply the committee with these trend lines on which you are basing those judgments so that we can see the picture of how these lines are going to come together.

Secretary FOWLER. Well, the trend lines I had in mind, Senator, for the increase in gross national product and in the revenue, are those that are familiar to you and they are implicit in the so-called economic indicators prepared and issued monthly by the Joint Economic Committee. The trend line on the budget deficit is covered in my statement showing that a projected deficit of \$12 billion in fiscal 1964 worked out at about an \$8.2 billion figure. From a projected deficit in January for fiscal 1965 of \$6.3 billion we now see that it will be at least as low as \$4.4 billion and perhaps lower when the final returns are in, and for the fiscal 1965, even taking into account this excise tax action, that deficit will be slightly less than the currently projected one for 1965, namely, \$4.3 billion.

Senator BENNETT. I am interested in your projections into 1967 and 1968, particularly in view of the new programs that we are passing in the Congress with tremendous price tags over the next few years, the idea that we can absorb them and come to a balanced budget possibly would appear impossible.

Secretary FOWLER. I did not imply any judgment about the future expenditure programs except to say that we do not know now what expenditures in fiscal 1967 will be. But this potential revenue gain in the figure on the so-called trend line was four and a half billion dollars, and leaves considerable room for providing such increased expenditures as might be needed by growing population and still achieving reduction in the budgetary deficit. That is as close as I can come. I wouldn't attempt to predict what the expenditure level will be, as I said in answer to a previous question, I just don't feel I am in a position to forecast what the actions of the Congress will be, or what the Presidential proposals would be for fiscal 1967.

Senator BENNETT. Then, you can't be very firm in a prediction we can balance the budget in 1967 or 1968.

Secretary FOWLER. I can be reasonably firm in saying I think we can, providing the economy continues to expand the way it has been expanding. This is a very different prediction from saying we will, I would certainly hope we will and I would expect we will and I would certainly be one of those who is pressing for action in that direction so long as it seems to be consistent with the general economic policy for maintaining our ongoing expansion.

Senator BENNETT. Of course, I realize you have no responsibility for the appropriations that Congress makes and for the new programs on which—which require the making of these appropriations, and I think it is impossible to forecast.

Secretary FOWLER. That is right.

Senator BENNETT. The rate of expenditures by 1967 and 1968.

Secretary FOWLER. That is my feeling too.

Senator BENNETT. The chairman asked a question, and you didn't answer it because obviously you did not have available the information about the increased costs of the social security program. I think it would be very interesting for this committee and for the whole country if the Treasury and the social security agency could get together and make parallel columns of their estimates on the income from their various taxes. In fiscal 1966, if no change is made in the present law, the increased cost of social security will be \$2.3 billion. If we pass the bill before us it becomes \$2.9 billion. In fiscal 1967, if we do not change the present law, there will be another increase of \$1.8 billion. If we pass the new bill we will add \$3.8 billion, for a total of \$4.1 billion increase in fiscal 1967, and in fiscal 1968, the increase will be \$4.5 billion accumulated increase in social security taxes over the next 3 years of nearly \$12 billion. So that this tax reduction we have been talking about will certainly not offset whatever antistimulation the consumer will get because that much of his purchasing power will be drained off to pay for his retirement.

Secretary FOWLER. Senator Bennett, I think my comments went only to the calendar year 1966 in answer to Chairman Byrd's question, and just taking that year, the three and a half billion dollars of excise taxes, would be approximately a billion dollars more than, as I understand it, the net effect of the program, the social security program for calendar 1966 which would be about \$2.4 billion.

(Under the time schedule, it was not possible to clear any figures with the Social Security Administration. The following tentative estimates of the combined fiscal impacts were subsequently submitted by Secretary Fowler:)

*Estimated initial impacts of social security and excise programs*¹

[Billions of dollars annual rates]

	Social insurance benefits				Social insurance contributions			Excise tax cuts	Total initial impact
	OASI retro-active	OASI continuing ²	Medicare	Total	Employee and self-employed ¹	Employer ¹	Total		
Calendar year 1965:									
3d quarter.....	3.20	2.00	-----	5.20	-----	-----	-----	1.72	6.92
4th quarter.....	0	2.00	-----	2.00	-----	-----	-----	2.07	4.07
Calendar year 1966:									
1st quarter.....	0	2.40	-----	2.40	-2.65	-2.65	-5.30	3.78	.88
2d quarter.....	0	2.40	-----	2.40	-2.65	-2.65	-5.30	3.55	.65
3d quarter.....	0	2.40	1.90	4.30	-2.65	-2.65	-5.30	3.59	2.69
4th quarter.....	0	2.40	1.90	4.30	-2.65	-2.65	-5.30	3.58	2.58
Calendar year 1967:									
1st quarter.....	0	2.50	2.10	4.60	-3.70	-3.10	-6.80	4.13	1.63
2d quarter.....	0	2.50	2.10	4.60	-3.70	-3.10	-6.80	4.24	2.04
3d quarter.....	0	2.50	2.20	4.70	-3.70	-3.10	-6.80	4.30	2.20
4th quarter.....	0	2.50	2.20	4.70	-3.70	-3.10	-6.80	4.33	2.23
Calendar year 1968:									
1st quarter.....	0	2.60	2.30	4.90	-3.90	-3.20	-7.10	4.91	2.71
2d quarter.....	0	2.60	2.40	5.00	-3.90	-3.20	-7.10	5.02	2.92
Fiscal year:									
1966.....	.80	2.20	-----	3.00	-1.32	-1.32	-2.65	2.78	3.13
1967.....	0	2.45	2.00	4.45	-3.18	-2.88	-6.06	3.89	2.29
1968.....	0	2.55	2.28	4.82	-3.80	-3.15	-6.95	4.64	2.61

¹ Excludes payments under the voluntary provisions of H. R. 6675.

² Includes liberalization of retirement benefits as proposed in the Senate.

Source: Treasury Department.

Senator BENNETT. The figure given to me was \$2.5 so we are half a billion dollars apart.

I would like to take just 1 minute more to say to Senator Smathers that every automobile that is sold has a sticker required by Federal law and that sticker will show the fact that there is no longer an excise tax on it or it will show the amount of the excise tax reduction applying to that particular car so the customer will know so far as buying an automobile is concerned that there has been an excise tax reduction. We have been talking about the large retailers and we have talked about J. C. Penneys and Sears, I am sure Sears and Penneys have already reduced their retail price on these large taxable items in anticipation of the tax.

One final comment. I was interested in your questioning about will this be passed on to the consumer and won't this be necessary to benefit the revenue of the Federal Government. Off hand, I would think if the Federal Government could persuade the corporation to keep this tax it would increase its taxable base and the corporate income tax at a much higher rate than that would be paid by the consumer.

Secretary FOWLER. That is correct.

Senator BENNETT. So the Treasury will be better off if the corporations keep these tax benefits and do not pass them on to the consumer.

Secretary FOWLER. That is correct, Senator Bennett. Our position is that the consumer will be better off and that the economy from the standpoint of wage-price stability would be better off if it were passed on.

Senator BENNETT. I won't quarrel with that but I couldn't pass this opportunity to make the observation.

Secretary FOWLER. You are quite correct.

Senator BENNETT. Selfish corporations can be more profitable victims than the consumer.

Senator SMATHERS. More profitable to the Treasury.

Senator BENNETT. To the Treasury. I have no further questions.

The CHAIRMAN. Senator Douglas, would you permit me to ask this question?

Mr. Secretary, I wanted to ask under what conditions do you approve of reducing Federal taxes and increasing expenditures at the same time and borrowing money to pay for such a combination?

Secretary FOWLER. Well, I would feel that that would be justified, Senator Byrd, only if we had a recession or it was clearly indicated and we were using that combination of more or less forced feeding as a measure of fighting a recession measure. I would not approve of that combination of policies in connection with a tax cut at the time under, let's say, current conditions. In 1968 at the time the Revenue Act was under consideration, I made comment after comment and remark after remark at various gatherings saying that I felt that tax reduction involved some—ought to be related to some expenditure control. In other words, it was a two-point process, and that still continues to be my belief except in the time of very real emergency recession.

The CHAIRMAN. Didn't the President recently mention the possibility of another income tax cut.

Secretary FOWLER. Yes; I think there have been references to that by the President.

The CHAIRMAN. Do you know at this time when that would become effective?

Secretary FOWLER. No, sir; we have no concrete plans in that area now.

The CHAIRMAN. You still believe we are in a deficit period for some time to come.

Secretary FOWLER. Well, as my remarks have indicated, there will be an anticipated deficit in fiscal 1966 and probably one in fiscal 1967. I don't think, Mr. Chairman, that that necessarily precludes a further income tax proposal during this period if it is felt that the overall impact would be a desirable one on the economy. I think I continue to be one of those who believes that further reduction in taxes even at the time there is a deficit is not unwise if the results of the income tax cut are to provide the economy with an increased opportunity to expand and provided, as I have indicated, that that policy is accompanied by a very strict policy of controlling expenditures at the same time.

I think the expenditures control and tax reduction in an expanding economy is the necessary and wise combination.

The CHAIRMAN. Do you have any information that the President proposes to advocate a tax reduction at the present session of Congress?

Secretary FOWLER. No, sir.

The CHAIRMAN. There is one thing, Mr. Secretary, that I know is difficult to answer, but I want to get back to it, and I wish you would put it in the record. You are going to reduce excise taxes and the general fund revenues, and the administration in another bill would increase social security, medical care taxes, and trust fund receipts.

Now, taking these two bills together, what will be the ultimate effect on the workingman's tax bill? You previously answered the question for only 1 year.

Secretary FOWLER. Yes.

The CHAIRMAN. If you could give me a study on that I would greatly appreciate it.

Secretary FOWLER. Yes, sir.

The CHAIRMAN. Thank you, Mr. Secretary.

(The information referred to follows:)

COMPARISON OF SOCIAL SECURITY TAX INCREASES AND EXCISE TAX DECREASES

There are considerable difficulties in making any exact comparison between the increased FICA tax under legislation now before the Senate and the decreases in excise tax burdens at corresponding income levels. The net effect of excise tax reduction for any given size income would depend upon the consumption pattern which will vary from individual to individual, depending on a number of circumstances, such as family size and individual tastes. In very rough terms it would appear that the increase in the FICA tax in 1967 under H.R. 6675 would be about the same in dollar terms as the net saving from the excise tax reductions for families, with wage income only, whose incomes are up to \$5,000 per year. For income levels slightly over \$5,000, the increased FICA tax would be somewhat larger than the excise tax saving because of the increase in the wage base for FICA purposes. It should be kept in mind that the increased FICA tax is associated with increased benefits, which are not taken into account in the preceding comparison. The limited time available does not permit a more extended comparison of the two changes.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Secretary, first, I want to commend you for what I regard as a very high standard of ethics you have observed with

regard to the auto excise tax. In a very manly fashion, when you were up for your confirmation, you stated you had been the attorney for automobile manufacturers seeking to reduce excise taxes, and said that you would disassociate yourself from any dealings with this matter when confirmed, which you have done.

Now, the President wants to reduce the tax by only 5 percent instead of eliminating it completely and, of course, the automobile manufacturers want to have it completely taken off. I take it you are loyalty supporting the administration?

Secretary FOWLER. Yes, sir. I have not participated or advised the President as to what his attitude should be on this. But, when he has made his decision, I naturally support it.

Senator DOUGLAS. I want to commend you, Mr. Secretary. I think you deserve public notice. Now, on this question as to whether the reduction in the tax will be passed on, we had a reduction in the tax on passenger fares a few years ago. Was that reduction passed on?

Secretary FOWLER. I think that was a matter that probably has been the subject of the regulatory processes of the Interstate Commerce Commission and Civil Aeronautics Board, and I do not believe I have precise information.

Senator DOUGLAS. Would someone on your staff know it?

Secretary FOWLER. I think I would have to get additional information in order to give you an accurate answer, Senator Douglas.

Senator DOUGLAS. Is it not true in general it was not passed on either by the railroads or airlines?

Secretary FOWLER. That is my impression but I do not have the exact information.

Senator DOUGLAS. Now, in the case of automobiles, can you depend on the ordinary competitive processes to effect a reduction because there are only four automobile-manufacturing companies, General Motors, Ford, Chrysler, and American Motors, and American Motors is a very poor fourth, so that, in effect, there are only three.

Now, if the three automobile companies were to decide that they would not pass the cut on, do you think that the forces of competition would be strong enough to have the tax reduction passed on?

Secretary FOWLER. Senator Douglas, I will not comment substantively on that. Undoubtedly you know that representatives of each of the manufacturers did appear before the House Ways and Means Committee last summer, and their statements on this question of passing on are there in the record and will speak for themselves.

Senator DOUGLAS. I understand unofficially they have made these statements. But are those statements binding upon the companies? Would it not be reassuring before the Senate finally passes on any tax reduction on automobiles if the heads of the four companies or the three companies made a public statement that they intended to reduce prices to the agents—distributors—by the same amount that the taxes are reduced?

Mr. SURREY. I believe that with respect to the 3-percent cut in July the companies have publicly announced this and have indicated to persons buying cars that they will make refunds to the customers.

Senator DOUGLAS. Now, that is simply the 3 percent. The proposal of the administration is for further additional cuts of 2 percent to be put into effect; the proposal of the House is that the additional 7 per-

cent ultimately be removed. Would it not be highly desirable before we make these reductions if we had a pledge from these companies that they intended to pass this on? I have had unofficial assurances, and I respect these gentlemen very much, but it would be very much stronger if we had an official statement. Don't you agree on that?

Mr. SURREY. Yes, Senator, we have regarded their statements before the Ways and Means Committee and statements they have had made with respect to these refunds as statements of policy, and I presume the companies would probably want to reiterate those statements.

Senator DOUGLAS. Well, some years ago, I proposed a reduction in excise taxes at the time of the 1958 recession contingent upon agreement on the part of manufacturers that the sales price would be reduced. As I remember it, this pledge was not forthcoming.

So I hope very much that the automobile industry, in the course of the next day or two will get together and make such a pledge. Otherwise it is going to be very hard for us to vote for this reduction in tax if it is not passed on, especially in view of the enormous profits with General Motors and, to a lesser degree, Ford have made in these last years. Any Senator who voted for such a reduction, without a corresponding pledge, could be very readily and, perhaps, justly pilloried.

Does this elicit any reply from you?

Mr. SURREY. Senator, I say we have been going on the assumption that we could take the companies at their word with respect to their testimony and their public statements.

Senator DOUGLAS. Well, assumptions are fine, but I am sure, that in a business dealing with the companies that they would insist on seeing the signatures on the dotted line.

Mr. SURREY. Undoubtedly the companies are aware of your statement, your feeling on this, and I imagine would act accordingly.

Senator DOUGLAS. Would it be possible if you made that assumption, that it turned out to be a false assumption, Mr. Surrey?

Mr. SURREY. It could be, Senator, but the companies have made their statements publicly.

(In response to the above request by Senator Douglas, the following telegrams were sent to the chairman by Ford Motor Co., Chrysler Corp., General Motors Corp., and American Motors Corp.):

DEARBORN, MICH., June 9, 1965.

Senator HARRY F. BYRD,
Chairman, Old Senate Office Building,
Washington, D.C.:

In response to Senator Douglas' request at the Finance Committee's hearings on June 8, I hereby reaffirm the assurance previously given that Ford Motor Co. will pass on to its dealers any reduction in the Federal excise tax on automobiles, including both the first and subsequent phases of the reduction, and that any such reduction will be reflected in our new suggested retail prices and pricing labels which must by law be affixed to all new automobiles.

Since this issue has been raised before your committee, I am taking the liberty of sending a copy of this wire to each member of the committee. In addition, I request that it be made part of the record of hearings.

HENRY FORD II.

DETROIT, MICH., June 8, 1965.

HON. HARRY F. BYRD,
Senate Office Building,
Washington, D.C.:

In response to a query which I understand was raised by Senator Paul Douglas I am happy to reconfirm our previous commitment that Chrysler Corp. will reduce

prices by the net amount of the Federal excise tax reduction on passenger cars. Provision has already been made for immediate reduction of prices for the proposed July 1, 1965, reduction and we give our assurance that similar action will be taken with all scheduled future reductions of Federal excise taxes on passenger cars. Arrangements have also been undertaken to expedite direct refunds to the ultimate purchaser retroactively on the basis of the provisions contained in the bill as it passed the House of Representatives.

L. A. TOWNSEND,
Chrysler Corporation.

JUNE 9, 1965.

Hon. HARRY F. BYRD,
*Chairman, Senate Finance Committee,
Old Senate Office Building, Washington, D.C.:*

This is in response to the request of Senator Douglas for additional assurances concerning the intention of passenger car manufacturers to pass through the reductions in the new car excise tax. In line with its previous statement, General Motors will reflect all scheduled reductions in the excise tax fully and promptly in the manufacturers suggested retail selling price on the sticker affixed by law to every new car as the reductions take effect. The cost of the new car to the dealer will correspondingly be reduced. A copy of this wire is being sent to each member of your committee.

FREDERIO G. DONNER,
Chairman, General Motors Corp.

DETROIT, MICH., June 8, 1965.

Hon. HARRY F. BYRD,
*Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.:*

We want to reiterate our public commitment that any and all reductions in automobile excise taxes will be reflected completely in reduced automobile prices on all vehicles sold by this company as of whatever date(s) the law makes such reductions effective.

ROY ABERNETHY,
President, American Motors Corp.

Senator DOUGLAS. You said you made it on the 8 percent.

Mr. SURREY. No; on the entire tax reduction.

Senator DOUGLAS. On the entire tax reduction.

Well, you know, would it not be well if they reaffirmed their statement?

Mr. SURREY. Yes. I was indicating that they made it on the entire tax reduction, and then reaffirmed it with respect to the 8 percent.

Senator DOUGLAS. If they made it on the 8 percent when that was the issue, did they make it on the 5 percent, did they make it on the 10 percent?

Mr. SURREY. They did before the House committee, Senator, on the entire amount before the House committee in their testimony.

Senator DOUGLAS. Let us have a direct statement.

Secondly, I was greatly pleased to see you give implicit recognition, if not explicit recognition, to the fact that the automobile industry creates certain social costs which are thrown on to the community, because in your statement you raise the rhetorical question:

How much will we have to spend to deal with such problems as highway safety, air pollution, and automobile graveyards?

Now, here is an industry which creates these problems, and throws them on the community. We have 17,000 hideous automobile junkyards disfiguring this country. The Senator from Connecticut is justly concerned with the way in which the lack of safety devices increases automobile accidents. Others are concerned with the fact that the

automobile industry does not have simple devices to reduce air pollution. I have seen certain statistics indicating that from one-third to one-half of the pollution of the air comes from automobiles.

Now, would you be opposed if we authorized the withholding of a certain percentage of the automobile tax to provide for decent burials of automobiles and for the installation of air pollution reducing devices and safety devices?

You know, I think I am right on this, that the charge for a decent burial of a human body is the first claim against the decedent's estate; isn't that true?

Mr. SURREY. Yes, sir.

Senator DOUGLAS. And if provision is not specifically made it can be charged against the assets, and if the assets are not sufficient, the community has to pay for it in Potter's Field; isn't that true?

Mr. SURREY. Yes, sir.

Senator DOUGLAS. But an automobile can be abandoned, and is abandoned—over 5 million of them each year—and there are no funds to provide for burial, because the owner of the automobile body cannot be found.

Wouldn't it be a fine thing if we had 1 or 2 percent of this automobile tax retained to provide for decent burials so that each automobile would carry with it the funds for its own disposal?

Mr. SURREY. Senator, our position is, of course, that five points of this tax be retained—

Senator DOUGLAS. That is right.

Mr. SURREY (continuing). For decision by the Congress as to what should be done with the tax.

Now, as you have indicated, study is going on with respect to a variety of matters associated with the automobile, and you have an amendment with respect to junkyards. There have been various other amendments with respect to safety.

Senator DOUGLAS. The Senator from Indiana has an amendment.

Mr. SURREY. It is our thought that since the matter only affects fiscal years 1968 and 1969, there is plenty of opportunity for the Congress to consider what would be an appropriate disposition with respect to these points, as study is made of each program.

Senator DOUGLAS. We earmark revenues from gasoline taxes and from trucks to the highway system, do we not?

Mr. SURREY. Yes, sir.

Senator DOUGLAS. There is nothing wrong with earmarking receipts for specific purposes, is there?

Mr. SURREY. If there are well-developed programs relating to these matters.

Senator DOUGLAS. Well, you could authorize this, and then require appropriation later, and give general supervision to the President or the Bureau of Public Roads, as the agency of the President, couldn't all this be done?

Mr. SURREY. I think it is our feeling, Senator, that these decisions need not be made at this particular time, and that with—

Senator DOUGLAS. If you continually postpone these decisions to the future they are commonly not made at all. The favorite device of postponing action in England is to set up a royal commission to study the matter, and then generally nothing is heard about it.

You will understand how study and research is used to prevent action.

Mr. SURREY. I do not think I would be in a position to say now—for example, with respect to junkyards—that it would cost \$400 million to achieve your objectives.

Senator DOUGLAS. If it does not cost that, then the unused portion could be turned back into the General Treasury.

Yes; I will yield.

Senator RIBICOFF. I think, Mr. Surrey, it is a little more complicated than you put it in this respect. In the first place, the leadtime for tooling up an automobile is 3 years. For the installation of the safety devices, the tooling up takes 2 years.

The requirements of the General Services Administration for Government automobiles include 17 safety devices, so everybody who drives a car owned by the Federal Government has safety features in the car.

The one thing Detroit is not interested in, and has not been interested in in the past, is safety.

Now, the safety devices that go into an automobile and the air pollution devices that are included in the GSA standards would be the equivalent of the last four points that have been placed on the program for repeal by the House Ways and Means Committee.

If you had a choice of cutting off 5 percent or having the 10-percent cut, would you prefer retaining 5 percent, conditioned upon the factors set out by Senator Douglas and myself?

Mr. SURREY. I certainly feel, and as I said before the administration feels, that the five points should be retained so these decisions can be decided with full time to consider all the factors involved. For example, Senator Douglas' approach is a somewhat different approach from your approach.

Senator DOUGLAS. I am ready to take in safety, too, because we will kill fewer people and wreck fewer cars, but I also want to see them decently buried. I think this is one of the first qualities of any civilized society; to provide for decent burials instead of allowing the corpses to lay on the surface unburied.

Mr. SURREY. The difference, Senator, is, that you would retain the tax to use funds for this purpose.

Senator DOUGLAS. Yes; earmark it.

Mr. SURREY. Senator Ribicoff would eliminate the tax to achieve his purposes. Now, these are inconsistent.

Senator DOUGLAS. Don't get Ribicoff and Douglas fighting each other. We are allies. We will work out an arrangement. We want to get some cooperation from Treasury.

Now, you talk about beautification. We hold conferences, we say that the junkyards are the greatest scenic blight and blot on our landscape, and I think that is true. But let the left hand know what the right hand doeth or sayeth.

Mr. SURREY. I might indicate, Senator, that I sympathize with what you are saying, but my point is that your direction here is to retain the tax and then appropriate for these particular purposes.

Under Senator Ribicoff's proposal, there would be no tax left to retain for your purposes because if the cars were manufactured with the appropriate safety standards, then the remaining points would go off, and you would have nothing left for your auto burial program.

Senator DOUGLAS. Let Senator Ribicoff and Senator Douglas get together without trying to divide us. And so far as your saying you sympathize with me, I am sure you have read "Alice in Wonderland." You remember how the walrus and the carpenter took the oysters out for a walk together? "I weep for thee," the walrus said. "I deeply sympathize with sobs and tears." He sorted out those of the larger size, holding his pocket handkerchief before his streaming eyes, but he ate the oysters. [Laughter.]

I have no further questions, Mr. Chairman.

Senator SMATHERS. Does anybody else have any more questions?

Senator Talmadge?

Senator TALMADGE. I have one more question is all, if I may ask it, Mr. Chairman.

In connection with the retailers excise taxes, some concerns in my State have consistently followed the practice of determining the tax due, and paying it at the time the taxable products are delivered to their central warehouse. This method of tax reporting has eased their procedures.

But on repeal of the tax they will be left with an inventory on which the retailers tax has already been paid.

Can you tell me how this situation would be dealt with so that a refund can be assured?

Mr. SURREY. I understand, Senator, that this matter is being considered by the technical staff, and that we do have regulatory authority to work this out in a fair and equitable manner, so that the removal of the tax will be done appropriately in these cases.

Senator TALMADGE. Thank you, sir.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Mr. Secretary, and I think, Mr. Surrey, one point that I think should be cleared up, and that was about the social security increase in taxes which is going to occur that Senator Bennett asked about in his question, that there was no statement about the increase in benefits which are also going to be paid into the economy, and this is also going to have a stimulating effect upon the overall prosperity of the Nation, too; isn't that correct?

Secretary FOWLER. The computation of the benefits will have to be taken into account, and that is why I was unable to project the 1967 and 1968 figures. My comments had to do with, really, the first 6 months of 1966.

Senator HARTKE. What you would have to do is to add the total amount of the excise tax reductions, the total amount of the benefits which are going to be paid. Then compare this with the total amount of the social security tax increase and make the distinction as to which was the greater. The difference in the two it seems would be the overall effect upon the increase in the stream of consumer spending.

Secretary FOWLER. Yes.

Senator HARTKE. I would like to ask Mr. Surrey whether or not he really believes 10 percent, or any percentage of excise tax, can be more regressive, other than in the actual percentage to the total? You indicated that the excise tax on automobiles, for example, was not as regressive as an excise tax on other items. That is not the theory upon which the excise tax cut is being propounded, is it?

Mr. SURREY. No, Senator.

What I indicated was that looking at all these excise taxes, as the Secretary pointed out, different taxes have different problems associated with them that make it unwise to rely upon them in a Federal fiscal system if you do not need that reliance from a revenue standpoint.

Senator HARTKE. Yes. But so far as the cut is concerned, the overall dollar effect is what must be considered, and not the item which is taxed. Otherwise we run into a series of complications far beyond the human mind to comprehend.

Mr. SURREY. That is correct.

Senator HARTKE. I think that is true. So when you consider the question of whether or not you are going to cut the automobile tax 5 or 10 percent, you must consider only whether or not you want to keep that additional revenue.

In regard to that same item, it was indicated that the retroactivity as to air conditioners and automobiles was based on the assumption that this was a large dollar item, I think that is the word you used, isn't that true?

Mr. SURREY. With respect to automobiles.

Senator HARTKE. Yes, with respect to the automobiles. But the overall effect upon any manufacturer or distributor or retailer, the size of the item as to its sale value is only proportionate to his industry. To the television industry and others to which you were not applying the retroactive feature, this becomes as important to them as it does to the automobile industry; isn't that true?

Mr. SURREY. I do not think so, Senator, in this respect: this matter was discussed at great length with all the various industries, that come in to see us and in each of these industries they had to balance the question of going through all the work involved as against whether they would lose sales, and what would be the effect on sales.

With a great many of the industries, in fact all of the industries that spoke to us, other than these two, they thought their sales would be made up later on as soon as the tax went off and, consequently, that would be a better result in their situation than putting on the entire industry the very difficult job of making retroactive refunds. In these other two industries, the thought was the other way because of the two rather unusual factors that are involved.

Senator HARTKE. Is there serious objection on the part of the Treasury to having the tax effective on the date of enactment?

Mr. SURREY. I would say the day after enactment, Senator.

Senator HARTKE. The day after enactment.

Secretary FOWLER. The day after the President's signature.

Mr. SURREY. The day after the President's signature. The Secretary indicated we think this is a matter for the judgment of the committee. Instructions have to be issued, for example, as to taking inventories on that particular day with respect to floor stock refunds and the like. These can be handled if, in the judgment of the committee, they want to make that change in the House bill.

Senator HARTKE. I do not want to take any longer time, but I do think one other statement by Senator Bennett should be clarified, with which the Secretary had previously agreed. That agreement may come back to haunt the Secretary at a later date. It is regarding what

is done with the additional amount of money, whether it is passed on or whether it is kept by the manufacturer.

Isn't it true that when this is passed on to the consumer that it has a greater multiplier effect upon the economy of the Nation than if it be retained by the manufacturer?

Secretary FOWLER. That is the case, and we have a very distinct preference in these situations that the reduction be passed on to the consumer despite the fact that, as was observed, if they are retained by the company the Treasury might get a little bit better revenue in the short run.

Senator HARTKE. Yes, in the short run. But it is not true that the Treasury would be better off if the manufacturers kept it.

Secretary FOWLER. Over the long pull, no.

Senator HARTKE. I hope we are going to be here for the long pull.

Let me say one other thing. I am not asking really for a comment, but I thought this was a fine statement when you said that "we are now in a normal peacetime economy."

Those are all the questions I have.

The CHAIRMAN. The Chair would like to announce that several Senators who have not had an opportunity to question the Secretary—I understand the Secretary will be unable to be here tomorrow morning—

Secretary FOWLER. Yes.

The CHAIRMAN. So Mr. Surrey will be here, and we will have an open session for a short time. I do not think it will take long, but we want to give all the Senators a chance to ask more questions.

Secretary FOWLER. I am very sorry I cannot be here. It is a competing request.

The CHAIRMAN. We understand that.

Just one moment. Senator Williams?

Senator WILLIAMS. I have a question here Senator Carlson wanted to ask, and we will get it into the record today.

Secretary FOWLER. Yes.

Senator WILLIAMS. His question deals with the loss resulting from the Federal excise tax paid on gasoline because of leakage and/or spillage.

This gasoline was not used in any way on our highways, but the Federal excise tax was paid on it. The State legislature in the State of Kansas passed legislation to refund the State tax on this gasoline.

Now, Senator Carlson's question is how are these people who lose this gasoline through leakage and/or spillage supposed to get the Federal excise tax back? Would you have any objection to adding an amendment to this bill before us to take care of this situation now?

If you want to provide an answer for that tomorrow it is all right with me.

Mr. SURREY. All right.

Secretary FOWLER. All right, Senator Williams, we will answer that question tomorrow morning in executive session by Secretary Surrey.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:40 p.m., the committee recessed, to reconvene at 10 a.m., Wednesday, June 9, 1965.)

EXCISE TAXES

WEDNESDAY, JUNE 9, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long presiding.

Present: Senators Long, Smathers, Anderson, Gore, Hartke, McCarthy, Talmadge, Williams, Morton, and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

Senator LONG. The committee will come to order.

This session was called particularly because Senator Thruston Morton had some questions he wanted to ask of Mr. Stanley Surrey, and that being the case, I would recognize Senator Morton.

Senator MORTON. Thank you, Mr. Chairman. This won't take long because I think we ought to get into the markup of this bill as soon as we can, for various reasons.

It will stop a good deal of correspondence and telegrams and telephone calls going on.

Mr. Surrey, I understand that the House-passed bill makes permanent the so-called Korean excise taxes in their application to alcoholic beverages and tobacco products. Is that correct?

STATEMENT OF HON. STANLEY S. SURREY, ASSISTANT SECRETARY OF THE TREASURY—Resumed

Mr. SURREY. Yes, sir.

Senator MORTON. In the case of alcoholic beverages this was, in the case of distilled spirits, a dollar and a half increment per proof gallon.

Mr. SURREY. Yes, sir.

Senator MORTON. Which brings the present tax to \$10.50 per proof gallon?

Mr. SURREY. Yes, sir.

Senator MORTON. What was the Korean markup in the case of tobacco or cigarettes?

Mr. SURREY. It went up 50 cents a thousand, as I recall.

One cent a pack.

Senator MORTON. Yes. That is correct.

Now, these two industries are probably the most heavily taxed industries in the Nation. They are indeed the two most heavily taxed in the Nation. There are reasons for this and I won't quarrel with them or debate them. By their very nature they are required to carry very substantial inventories. These generate ad valorem taxes for States, local communities, school districts, and so forth. In the case

of the whisky industry, they carry the product for 4 or more years in most instances, paying taxes all the time. Then they collect for the Government, pass on to the consumer the \$10.50 per proof gallon which, of course, exceeds the total cost of the product in its manufacture, advertising, merchandising, and distribution. In many instances it exceeds the entire cost of the product including wholesale and retail markups. Of course, this tax indeed is marked up at the wholesale and retail level.

Now, these two industries serve, of course, as the tax collector. I think it is somewhat unfair that they are required to pay the tax, in the case of the tobacco industry, an average of 22 days before they receive their money, and, in the case of the distilling industry, 44 days before they receive their money.

Under the present regulations of the Alcohol Tax and Tobacco Tax Unit of the Treasury Department, the two reports are filed per month, one, I believe, on the 8th and one on the 27th, showing the amount that has been in the case of tobacco shipped, in the case of cigarettes, shipped, and in the case of distilled spirits, withdrawn from bond, in the preceding fortnight. Then they are given 8 days of grace before paying the tax.

Assuming that the rate of withdrawal from bond was steady during the fortnight, that would be 7 or 8 days in one instance, and if a Sunday comes in, perhaps 4 days, so it would be about 11, at the most 11½ days.

Now, the amounts involved are quite large, several hundred million dollars, I suppose.

If you take the difference between the 11½ days that they are given after the withdrawal from bond, and the 55 days required to collect from their wholesalers, interest rates are fairly high, so the industry in the case of distilled spirits is paying interest to the banks at probably 4½ to 5 percent on as much, I would say, as \$200 million, if not more, because of the prepayment of taxes to the Federal Government. It is not quite as bad in the case of tobacco because they seem to get their money quicker.

But I would hope, since this requires no legislation, that the Department would give serious consideration to amending this regulation.

I realize that you are squeezed for money, too, but here we are dealing with a bill reducing taxes, excise taxes in the area of several billion dollars, and it seems to me that this is the proper time to straighten out what to me is an inequity in requiring these heavily taxed industries to pay an excise tax which is in final essence a sales tax, long before they collect it.

Would you have any comment on this?

Mr. SURREY: Senator, the situation is one that the Treasury Department and the Internal Revenue Service are studying. As you indicate, this is really a historical situation. These two industries used to pay their taxes by stamp, and, therefore, had to pay immediately. As a result of legislation passed in the 1950's they were changed to a return basis which gave them some easier time for payment as compared with the stamp system, although not as easy as compared with the typical return system for other excises as you have pointed out.

The taxable periods today are somewhat awkward because they run from the 9th through the 23d, and from the 24th through the 8th, and these periods don't coincide with any other reporting periods that

are used, so there is some awkwardness. This does present some problems just from this fact alone for the industry and for the Alcohol and Tobacco Tax Division. So we have been thinking about this problem and talking to the industry about it and we are studying it to see if changes can be made.

Senator MORTON. We have been thinking about and talking about it ever since the prepayment for stamps was superseded by the present arrangement which was along about in 1952, I think.

Mr. SURREY. Probably 1954.

Senator MORTON. 1954, yes.

Senator LONG. If I might just interject here to say this, it seems to me that this tax on liquor is about 1,000 percent of the cost of production, and in the last analysis the rate at which you are going to collect that tax is the rate at which people consume liquor, and insofar as you just impose hardship on somebody who happens to be in that business, between the time he produces it and the time he is able to merchandise it, you simply are imposing a tax on a fellow whose business is 90 percent paying taxes and 10 percent merchandising a product.

Mr. SURREY. Yes, sir.

Senator MORTON. How has the—I don't know how the automobile excise tax is going to end up, but as of today, that is the present law—how is the automobile excise tax assessed and collected?

Mr. SURREY. For the sales for any particular month a return must be filed and payment made at the end of the following month.

Senator MORTON. And if I ship a car on the 10th day of April, I pay the tax on the end of May.

Mr. SURREY. That is correct.

Senator MORTON. Well, I think that the automobile industry probably has, I know it enjoys excellent credit, and probably they can afford to pay their taxes as easily, if not more easily than the distilling industry. Of course there was a time when the State of Michigan got in such hardship that they had to ask the automobile industry to pay their taxes in advance, but through political circumstances they may have straightened that one out.

There is one other thing, Mr. Surrey, and then I won't hold you any longer.

There is in the case of tobacco, cigarettes. The time starts when the merchandise leaves the manufacturing or processing plant. In the case of distilled spirits, the time starts when the bulk merchandise, that is, the whisky in barrels, is withdrawn from bonded warehouse.

You told me the other day that you are making a study of this. There seems to me an inequity and it causes operating difficulties. In the distilling industry, sales are very heavy in the 6 or 7 weeks before the Christmas season, and very light in certain other periods. Because of this heavy tax, a distiller can hardly afford to hold bottle goods on his floor because it is taxpaid or taxpaid within a few days. We have distillers in some small towns throughout Kentucky where the labor supply is somewhat limited, and it means that he has to bring in extra help at times and then face the resultant unemployment compensation. If the same thing applied to the distilling industry that applies in the case of tobacco, that is that this tax, whatever the period is, whether it is 1 month or 45 days or 15 days, whether it begins

to apply when the merchandise leaves his warehouse, it would make for a simpler operation in the industry. I think it would be one equity that we might consider in return for slapping this extra dollar and a half a gallon which the Congress promised would be taken off just as soon as the hostilities were over. I know that one Congress can't bind another, and 1 Kentucky Senator's vote can't overcome 98 others, but it does seem to me this could be studied and expeditiously studied, and with the end in mind, or view in mind, of attempting to enable them to operate on a more stable level which would make for not only a more efficient operation but would have less impact in these smaller communities on leaving a job or being out of work.

Mr. SURREY. Senator, this problem has been called to my attention within the last year, and I have had discussions with various groups in the industry, including representatives of the small distillers. As you point out, there are real operating difficulties in connection with our present system which, again, is a historical one. It grows out of difficulties of control that may have been experienced many years ago. The Alcohol Tax Unit is studying this matter and will be discussing with the industry a great many problems of detail that would have to be solved in order to make this change from withdrawal to time of shipment.

But I do think that the present system causes a number of operating difficulties which we should certainly try to avoid if at all possible. These discussions will be going on, and we will be making a very thorough study of this, with the objective of seeing what we can do to eliminate these problems that you call attention to.

Senator MORTON. Mr. Chairman, would it be in order for me to ask Mr. Surrey to have the Alcohol Tax Unit or whatever the appropriate office is in the Treasury Department, perhaps the General Counsel, prepare a memorandum for the committee on the history and how this thing works on the question of the time element in the collection of these taxes, the first problem that I brought up?

And then if we could, because I don't think the members of the committee are aware of this problem, have a memorandum of just what is happening—you have the figures as to how long it takes the industry to get its money, when they pay you their tax money, the amount that is involved, then we could give the industry an opportunity to comment on that memorandum and have this for the information of the committee.

I don't think that the committee is fully aware that the industry, the most heavily taxed industry in the country, is paying in advance and paying a pretty high interest on a big chunk of money.

Senator LONG. Let me ask you, Mr. Surrey, can you correct much of that administratively?

Mr. SURREY. I believe that with respect to the first part of Senator Morton's question we do have the administrative authority to extend the payment dates. I do want to indicate that we are studying it. The figures are large. Each day's extension involves somewhere between about \$17 to \$20 million a day, so we are dealing with rather large sums here. With respect to the second part of Senator Morton's question, the change in the time for payment from withdrawal to shipment, it is our present understanding that we do have the ad-

ministrative authority to do this. We are examining the details and will be discussing them with the industry. It may be that if certain difficulties develop we might have to ask for legislation, but my present belief is that we could do this administratively. There would be a number of details that would have to be worked out because it does mean rather complex changes in the method of handling these matters, the method of guaranteeing that we do get payment and the like.

Senator LONG. Here is the thing I am thinking about, Mr. Surrey. This really is something which amounts to a manufacturers' excise tax, does it not?

Mr. SURREY. Yes, sir.

Senator LONG. Now with regard to all of the manufacturers' excise taxes, you tax the product at the time the manufacturer departs from title to it. And here is a concern that has traditionally paid a much higher percentage of tax than any other industry in the country, and to help relieve your own administrative burden we gave you a law so you can tax these people prior to the time they part title with their product. Insofar as the time from the moment they pay the tax until they part title to their product can be reduced there is equity and justice on their side in asking for such a reduction in time.

Mr. SURREY. Yes, and there is a difference here as the Senator points out between alcohol and tobacco in this respect.

Senator LONG. Any further questions?

Senator TALMADGE. Mr. Chairman, I have one question I would like to ask if I may.

Senator LONG. You will submit the memorandum?

Mr. SURREY. Yes.

(The information referred to follows:)

ALCOHOL AND TOBACCO TAX PAYMENT SYSTEM

Prior to June 1960, the taxes on alcoholic beverages and tobacco products, with certain minor variations, were paid through the purchase of stamps which had to be affixed to the products at the time of their withdrawal from the bonded premises. In June 1960, the payment system was changed to a semimonthly return system. Under this system, the tax is computed on withdrawals during two periods, the 0th through the 23d of a month, and the 24th through the 8th of the next month. Payment of the tax so computed is due at the end of the third working day after the end of a period, except that only 2 working days are allowed for payment for the period ending June 23 of each year. The present semimonthly system therefore requires taxes to be paid on the average of about 11½ calendar days after withdrawal of the products.

The time elapsing between withdrawal of distilled spirits and cigarettes from bonded premises until the producers receive payment therefor from their customers varies between products and between manufacturers. The period is much longer in the case of distillers because they give much more generous credit terms than cigarette manufacturers. At the same time, there is a much greater diversity of credit terms between distillers than cigarette manufacturers. A rough average of the time of withdrawal until receipt of payments by manufacturers might be set at 80 days for cigarettes and 60 days for distilled spirits. At the fiscal 1966 level of revenue estimates, the tax on cigarettes for 80 days is \$170 million and on distilled spirits for 60 days is \$460 million.

Senator TALMADGE. Mr. Surrey, I notice no deduction was made whatever on trucks in the excise tax bill and I thought immediately of the small farmer, the small operator who uses a pickup truck not only for business purposes but as his family conveyance also.

It is my understanding that all of the tax on trucks was dedicated to the trust funds for highway purposes. How much is involved on pickup trucks?

Mr. SURREY. I would have to see, Senator. I am informed that right now the figures are not carried on that basis. In other words, we have only overall collections for the truck tax itself.

Senator LONG. Could you get us a breakdown on small trucks?

Mr. SURREY. I will inquire and see whether such a breakdown is possible.

Senator TALMADGE. Thank you.

(The following was later received for the record:)

The tax revenue arising from the 10-percent manufacturers' excise tax on trucks, buses, and trailers as it applies to pickup trucks depends on the definition of such trucks. Estimates have been made under two possible definitions:

(1) Defined as two-axle, four-tire trucks having a gross registered weight of up to 8,000 pounds, pickup trucks would account for 70 percent of all trucks and would provide an estimated 45 percent of the total tax revenue from the tax on trucks, buses, and trailers, or approximately \$175 million.

(2) Defined as trucks with gross vehicle weight of 8,000 pounds or less, pickup trucks would account for about 60 percent of all trucks and would provide perhaps one-third of the total tax revenue or about \$130 million.

Senator LONG. Thank you—Senator Dirksen?

Senator DIRKSEN. Mr. Surrey, I listened to Secretary Fowler's justification yesterday for the administration's position on the reduction in automobile excises as distinguished from the House bill.

Now, the administration only goes up to 5 percent.

Mr. SURREY. Yes, sir.

Senator DIRKSEN. The House bill by January 1969 would take off the entire 10 percent?

Mr. SURREY. Yes, sir.

Senator DIRKSEN. Mr. Fowler rather emphasized the fact that it might be well to keep that additional 5-percent tax as against any possible recessive condition in business at some future time.

I thought he emphasized that over and above everything else. But it appears to me that you could not get rid of that additional 5 percent at some later time if the country was in a state of recession, first, because a recession connotes a reduction in volume of business and in production, and that means a corresponding decrease in corporate income tax. It would also mean a corresponding decrease in individual income tax and those are the two on which we rely most heavily.

We might then be confronted with the necessity of scrounging around for next taxes in order to keep the governmental machine going, or we would have to resort to reduced spending, but there you fly in the face of a large group who are committed to the theory that when you are in a recession you should spend more rather than less, and you are confronted with still another situation and that means that if you continue to spend more your deficit position is going to be aggravated to that extent.

I would not, I could not see under those circumstances that you could ever persuade Congress to take over that additional 5 percent, and I am inclined to the belief that the House position is infinitely better than the administration position.

Have you some comment on that?

Mr. SURREY. I don't think, Senator, that Secretary Fowler rested the position just solely on that particular possibility. I think the

position of the administration rests on a number of matters, the principal one being that the elimination of a tax involving a billion dollars 3 or 4 years ahead is just simply looking too far ahead. One can have no idea now of what the economic situation will be that far ahead, and that there is no need for a Congress now to look that far ahead. Therefore, the tax should be retained so that future Congresses can in the light of knowledge that is much closer to the event, make a decision as to what to do with a billion dollars, and I think that is the basic position one should take.

With respect to the comment that Secretary Fowler made, that was in reply to questions asked him as to whether this be an appropriate tax to remove in time of recession. I suppose that that question would be asked from the viewpoint of a number of economists who might feel that rather than spend in a recession in order to swing the economy back on an upturn rather than a downturn, one might decide that there ought to be some reduction in taxes. As you know, there is one group of economists who think that is the proper approach as the country believes it is coming to a recession period.

I think that is what Secretary Fowler had in mind.

Senator DIRKSEN. I have not examined the House testimony and, therefore, I don't know to what extent the House committee heard from the economists who are particularly schooled in the economic factors involved in the motor industry.

But, Mr. Chairman, if I can have your attention for a moment, it would occur to me because of the large amount that we are dealing with so far as the excise tax reduction on passenger automobiles is concerned, that the committee could well afford to get a little more information on that subject, at least I would like to have a little more, before I would accede to the administration position, because we might find ourselves in a bind before we got through, and I wonder what your view is and that of the chairman.

Senator LONG. Well, I regret to say I was at the moment trying to get one point straight with Senator Anderson about a totally different matter that does not even involve this particular bill.

Senator DIRKSEN. I was just belaboring the difference between the administration and the House position on the reduction on automobiles, because the House takes it off entirely by January 1, 1960. I thought Mr. Fowler yesterday, in justifying the administration position, rather emphasized the need for keeping a little cushion as against the future, and he did mention the possibility, not the probability, of a recession. Well, in a recessive period I cannot imagine you would ever get that tax off, and speaking only for myself, I would rather go along with the House position than with the administration position unless I have more information on the subject and that is why I suggested that probably there ought to be a little more testimony from the automobile industry.

One may fairly suppose that having dealt a lifetime with that subject we would certainly have some special knowledge with respect to conditions of the impact of reduction over a period of time and leaving a 5-percent bobtail tax continue as against some future time.

Senator LONG. Well, we were hoping to go into executive session on this bill today, and we were scheduled to do so. Of course, I have no objection to the automobile people bringing in all the information

they want to bring to us, and I will step out of the room and accept the memo that they want to bring us. But so far as delaying the bill, there is urgency in so many respects my hope would be, Senator, you could vote on it one way or the other now. It would still be in conference even if the administration position prevails, and it will still be subject to debate on the floor. And I must say that industry—and I am one of their big admirers—is not poorly represented. It is well represented by very fine, able people who are well aware of everything that is to be said for the industry. They are well prepared, and while it would be fine to hear them, if we open it up, I am sure the Senator realizes that everybody who is paying an excise tax would like to be heard—even if only to make a gesture to justify the fee he is charging his clients back home—and I am afraid we would very much delay this bill.

Senator DIRKSEN. Well, Mr. Chairman, I am not disposed to delay the bill. On the other hand, I do not want to see the committee make a blunder because of the amount of money that is involved here in that one particular tax, and besides there are going to be quite a number of amendments. I have got a whole sheaf here, and I suppose every member of the committee has got amendments that would be discussed.

Senator LONG. May I say to the distinguished minority leader of the Senate, I have an amendment or two myself, and my guess is if each of us brings up witnesses to support our amendments, we are going to be here for a week or two when this bill has a certain amount of urgency to it.

Suppose we decided with the administration and it proves to be in error. We could still correct that error next year or the year after that and it still would not make any difference so far as the tax collections are concerned. They would still get the same tax out they are expecting now.

Frankly I doubt the wisdom of my voting for a billion dollar tax cut that would take place after my next election. The people might not agree with my decisions in that matter, and I ought to have a chance to explain the reduction of Federal revenues and increase in Federal deficit after my next election.

I somewhat doubt the wisdom of the Ways and Means Committee voting a tax cut to go into effect after their next election and their next election and their next election after that, and it seems to me that the next President ought to have an opportunity to recommend some tax cuts too, but that is just this Senator's view, and if he is voted down, he will cheerfully go along with the committee.

Senator DIRKSEN. Well, Mr. Chairman, let me disclaim any political motive. After all, I am going to be around here until 1968 or 1969 before the voters have another chance to either accept or reject my public service, and the record is quite clear, so I certainly have no political motive in mind.

But when you are dealing with a billion dollars in a tax cut on one particular item, I certainly do not want to move so fast that at some future time we may have to lament some blunder.

Now, the Senator from Florida is going to make an observation, and I would like to hear it.

Senator SMITHERS. The only observation I am going to make is that apparently after I questioned the Assistant Secretary yesterday as to why the Hosue recommended the reduction as it did, and did we not

need to have something held back in the event of a recession, presumably I suddenly became in the minds of the automobile people the proponent of the administration position because I want you to know that I have literally been inundated with telephone calls from automobile dealers in my State, some few from out of my State, who really made their position very clear which is that they liked the House bill and do not like the administration bill.

What I want to say is that I think that we know what their position is. They have certainly made it clear to me in the last 24 hours, as I think they probably have with every member of this committee.

I do not necessarily agree with them entirely, but on the other hand, I have got a whole ream of telegrams and information here which they have supplied.

Senator LONG. Some of my wires are coming in—Tom Jones, Ford; Bill Smith, General Motors; so and so, Chrysler—and just signing their company's name, if the company calls them, as well as theirs.

So I can understand how the people like to be heard in discussing this matter. And may I say to the companies—I am not trying to keep them from getting a tax reduction. I just pursue the Bob Kerr philosophy—we had not ought to do that now, let us wait for two or three elections before it takes place. But if the committee wants to go ahead and cut it all out, that is the committee's privilege if it wants to.

Senator DIRKSEN. Well just to keep the record straight, when they went before the Rules Committee of the House to get a rule on this bill, Howard Smith of Virginia, the chairman, asked Wilbur Mills whether the administration favored the House bill. Now, I read you from the notes of the Rules Committee:

Mr. Mills said. "Yes, they asked for all the cuts we made except the last five points of the automobile tax. However, they will go along with the committee bills."

Now, that is as clear as words can make it, and if that is the situation, then I think there is some clarification necessary here.

Senator LONG. Well, it seems to me it is just as clear as Irvin S. Cobb's story of old Bill Smith in the back of his barroom. He is the proprietor, and the bartender comes back and says, "Bill, old Bunk is out there, and he wants a beer on credit. Should I let him have the credit?" Bill says, "Has he had the beer?" The bartender said, "Yes." Bill replied, "Then give him the credit."

So what the Ways and Means Committee says here is "This is how it is going to have to be." If the administration is willing to go along with this rule, the administration says yes. Inasmuch as the beer has already been consumed, you might as well let him have the credit.

Senator HARTKE. Mr. Chairman, could I ask Mr. Surray a question?

Senator LONG. Yes.

Senator HARTKE. What is the administration's position?

Mr. SURREY. The administration's position is very clear on this point as the Secretary stated yesterday. The administration believes that the President's recommendation that the tax reduction on automobiles at this time be held to five points is the proper and prudent course of action. There is time thereafter to deal with this question of a billion dollars. That is essentially the position that Senator Long has stated.

Senator HARTKE. Is there a difference between the Treasury position and the President's position upon this matter?

Mr. SURREY. No, sir.

Senator HARTKE. Pardon me?

Mr. SURREY. No, sir; there is not.

Senator HARTKE. They are identical.

Mr. SURREY. Yes, sir.

Senator WILLIAMS. If the Senator could yield—

Senator DIRKSEN. There could not be between the Treasury and the President. After all the Secretary of the Treasury is a member of the President's family. How could there be any difference?

Senator HARTKE. I do not know, but there might be.

Senator DIRKSEN. The House Ways and Means Committee took considerable testimony. Now this committee contents itself with a half day's hearings. That is one point that I make, and they went into this quite thoroughly.

Now, do we arrogate to ourselves a higher intuitive power on this side of the Capitol? We know so much more about it that we require no testimony on the subject?

Senator LONG. May I say this as far as the President's position is concerned? Here is a letter, and I quote, discussing this Ways and Means Committee action, and he said:

While I prefer the program I recommended, I feel that if the entire tax is to be removed, the Ways and Means Committee program represents a prudent way of doing so.

Now what the President is saying in effect, if you insist on doing this, he will sign the bill—I assume that is what it means—but that on the other hand, he would prefer what he recommended, and it is signed by Lyndon B. Johnson. That is the administration's position.

Does that give the correct position, Mr. Surrey?

Mr. SURREY. Yes, sir. In other words we certainly felt there should be no increase in the tax reduction that would affect fiscal 1966 and fiscal 1967. We did not think it desirable to increase the deficit with respect to these 2 years.

Now, the House did not do that to any significant extent, and that is what the President is in effect saying when he says this is a prudent way of doing it. It is at least pushing the reduction forward and not adding to the deficit in these immediate years.

But as he indicates, certainly the administration believes that the original recommendation of five points now and then letting the future take care of itself is the wise way to do it.

Senator WILLIAMS. Do I understand that the administration thinks that the way the House did it is a prudent way of doing it but it is not the most political expedient way of doing it?

Mr. SURREY. No, prudent with respect to fiscal years 1966 and 1967. The House did not increase, except by \$100 million, the situation in those 2 years.

Senator SMATHERS. Mr. Secretary, may I ask a question on that point. Since yesterday I have been, as I stated a moment ago, called by a large number of people, many of whom say very frankly they like the House approach with respect to the first 5 percent because if you took the 5 percent off immediately, every dealer in the automobile

business who has a large stock of used cars say it would actually depreciate the value of his used car business to such a great extent that many of them would have to go into bankruptcy. Are you familiar with that particular argument?

Mr. SURREY. Yes, and consequently we thought that the three points this July was about as much as could be done at that time, and that any more than that would be an unwise step. That is the reason why we recommended phasing it out three, one, and one.

Senator LONG. I am hoping if the Senators have any more questions to ask, they will reserve them for executive session because Mr. Surrey will be available to us for technical advice with regard to the meaning of these amendments and the administration's position. And as long as this Senator has his say about it, Mr. Surrey can either be in the room or out of the room depending upon how the committee wants it.

Being the Assistant Secretary of the Treasury, it is very good to have him advocating something, but we want him for advice, too. Mr. Surrey will be available too if we want him to advise, will you not, Mr. Surrey?

Mr. SURREY. Yes.

Senator DIRKSEN. I want him very much. I want him around all the time.

Senator LONG. I declare this session adjourned. The committee will be in executive session.

(Whereupon, at 10:50 a.m., the committee proceeded into executive session.)

