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EXECUTIVE SESSION

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TUESDAY, AUGUST 8, 1978

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United States Senate,
Committee on Finance,
Washington, D.C.

The Committee met, pursuant to notice, at 10:10 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Talmadge, Ribicoff, Byrd, Gravel, Bentsen, Hathaway, Moynihan, Matsunaga, Curtis, Dole, Packwood and Danforth.

The Chairman. Why do we not start off discussing the bankruptcy bill and that might take a few minutes discussion. Then we can go on from there.

Mr. Stern. Senator Hathaway has asked to be here for the unemployment matter and he is expected.

The Chairman. Why do we not talk about the bankruptcy thing first.

Mr. Shapiro. It may be helpful to very briefly give you the background of bankruptcy. Essentially, this is not a tax bill. It is a modernization of the bankruptcy laws that began with a series in the past few years by the Bankruptcy Commission and in previous Congresses there were a number of bills looked at by

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1 the Judiciary Committee. They had a bill of two parts. One
2 was the bankruptcy laws and one was the revision of the tax laws,
3 major tax changes that deal with certain reorganizations, liquidations
4 and bankruptcy tax statutes.

5 They decided there was an agreement reached in the House
6 to separate the tax portions off into a separate bill. However,
7 there are certain areas in the tax laws where there is an overlap
8 and the bankruptcy law and the tax law are so related that they
9 were retained in the bill with the understanding that the Ways
10 and Means Committee would subsequently deal with the bankruptcy
11 tax law later, and it will not come up this year, but that the
12 areas in which the House Judiciary Committee had and which dealt
13 with the tax areas, the Ways and Means Committee would subsequently
14 revise it and change the tax statutes.

15 Our staff assisted the House Judiciary Committee at that
16 time and they passed that law in the House. When the bill came
17 to the Senate. The Senate Judiciary Committee dealt with it.
18 A separate piece of legislation, with the House bill available.

19 There was agreement reached that after the Senate Judiciary
20 Committee reported out its bill there would be a 30-day referral
21 to the Finance Committee to consider those aspects in the Judiciary
22 bill that had tax provisions. But still, the main tax bill would
23 not be considered in this Congress.

24 Senator Curtis. May I ask a question right there?

25 Does this issue involving the two Committees revolve around

1 the determination of the priority of claims?

2 Mr. Shapiro. It is a part of it, Senator. It does not
3 revolve only around it. It is one of the issues.

4 Senator Curtis. One of the issues.

5 Because the advocates of the bankruptcy reform law have
6 had over the years contentions for a different priority of claims
7 as it relates to taxes of various kinds than the Ways and Means
8 Committee and the Finance Committee. Is that not correct?

9 Mr. Shapiro. That is correct.

10 Senator Curtis. Is this the same issue that was debated
11 on the Senate Floor a few years back?

12 Mr. Shapiro. In the middle 60's, when this was last debated
13 where there were some changes, and the tax debate not necessarily
14 related to the other committees at that time

15 Senator Curtis. As I recall, there was a contest on the
16 Floor of the Senate -- the House may not have passed the bill,
17 but the Judiciary Committee's contention as to the priority of
18 claims and certain side effects in the tax field was debated on
19 the Floor and the Judiciary Committee won.

20 Mr. Shapiro. Senator, that is right. That is in the 1966
21 Act, but that was the case.

22 You are correct. There was a controversy at that time as to
23 where do you place the tax.

24 Senator Curtis. That has been settled? This is a new
25 matter?

1 Mr. Shapiro. A separate matter, still a part of it. This
2 whole matter of the priorities is a part of the major changes in
3 the bankruptcy laws and the changes in it.

4 Senator Curtis. The bill is before us; we have to do something
5 in 30 days.

6 Mr. Shapiro. Yes. Essentially, as indicated, the staffs --
7 the Finance Committee staff and the Joint Committee staff -- has
8 worked with the Judiciary Committee, the Subcommittee and the
9 full Committee, in developing the tax-related provisions. They
10 reported out their bill. There were a number of technical modi-
11 fications, a few clarifying and substantive provisions that the
12 Chairman of the Subcommittee, Chairman DiContini, brought to the
13 full Committee to modify. He supported them.

14 Our staff worked with their staffs putting it together. The
15 full Committee decided that, since there were tax provisions,
16 although they had no problem with it, they preferred to leave the
17 Finance Committee to deal with it. Along the course the Finance
18 Committee staff and Joint Committee staff has worked with the
19 Administration and we have had a task force and three departments
20 there -- Treasury Department, with the Internal Revenue Service
21 and the Justice Department, in a coordinated effort to try to
22 work out with all the staffs a series of provisions that would be
23 appropriate to coordinate with the Judiciary Committee's bill.
24 This has been done.

25 Senator Curtis. I have no further questions.

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1 The Chairman. Do I understand that most of the tax aspects
2 have to do with -- it is a priority of claims as to who stands in
3 what order to get his money from a bankrupt estate?

4 Mr. Shapiro. That is correct, Senator.

5 The Chairman. It would seem to me, if that is the case, the
6 jurisdiction is overwhelmingly in the Judiciary Committee and
7 if the Senators want to differ with what this bill provides that
8 in the main they ought to bring their amendments to the Floor
9 and take issue.

10 Now, do I understand it that Treasury generally supports
11 what is in this bill?

12 Mr. Shapiro. Yes. There is one change that I would suggest
13 that has been worked at just recently. First of all, let me say
14 the bill has been referred to you. We at the staff level have a
15 series of modifications that we believe the Finance Committee
16 should accept that have been worked out with all the staffs and
17 the Subcommittee and the full Committee. They generally supported
18 that.

19 The one change, when you have a pre-bankrupt tax liability,
20 someone has a case pending with the Internal Revenue Service and
21 they go into bankruptcy, the question is, what should the rights
22 be of that taxpayer?

23 The agreement that was believed to be appropriate for the
24 debtor to issue him what is referred to as a 90-day letter, to
25 give him 150 days to make his decision as to whether to take this

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1 tax case -- either to Tax Court for decision or to let it go
2 into the Bankruptcy Court.

3 Under present law, the debtor only has a choice of going to
4 the Bankruptcy Court, but can go to the Tax Court later. And
5 that would mean that the government would have to process that
6 case twice, once in the Bankruptcy Court, the second time in the
7 Tax Court.

8 This procedure would allow the case to be processed only
9 once, that the debtor would have the decision at the beginning
10 to go to the Bankruptcy Court or the Tax Court. It would be an
11 expedited procedure. If the taxpayer would go to the two courts,
12 the Tax Court on the tax case and the Bankruptcy Court on the
13 bankruptcy matter, it would work together to have an early
14 resolution of the matter.

15 With that change, along with a series of modifications the
16 staff has worked out, the general belief is that it would be
17 appropriate for the Finance Committee to agree to that because,
18 essentially it is in the jurisdiction of the Judiciary Committee,
19 the areas of tax jurisdiction that are more appropriate for
20 your area are not to be dealt with this year. They are to be
21 dealt with by the Ways and Means and the House and they will not
22 have time to deal with that this year and will be done next year.

23 The Chairman. I would suggest that we first agree to this
24 one amendment that you are talking about. It sounds like a good
25 amendment.

1 If there is no objection, we will agree to that. Then I
2 would suggest we agree to these minor amendments, the technical
3 amendments.

4 Senator Byrd. Mr. Chairman, before we get to that point,
5 may I make a statement?

6 .The Chairman. Yes.

7 Senator Byrd. As I understand it, the Senate bill has in it
8 certain provisions dealing with taxes.

9 Mr. Shapiro. Yes, sir.

10 Senator Byrd. Then the Joint Staff has made recommendations
11 for changes in the Senate bill. Is that right?

12 Mr. Shapiro. That is right.

13 Senator Byrd. You say that the Judiciary Committee has
14 in effect approved these staff recommendations or changes in the
15 Judiciary reported bill?

16 Mr. Shapiro. That is correct. To be more specific, the
17 staff worked very closely with the Judiciary Committee staffs.
18 Senator Diconcini -- this is after the Subcommittee reported the
19 bill to the full Committee that all of the amendments were
20 finally put together -- Senator Diconcini proposed these amend-
21 ments to the full Committee.

22 The full Committee had no problem with any of the amendments.
23 They believed, since they were to the attached portions of the
24 bill, that it would be more appropriate for the Finance Committee
25 to pass the amendments, and therefore the bill was referred to the

1 Finance Committee for 30 days with the intent at that time that
2 these amendments would be agreed to by the Finance Committee.

3 Senator Byrd. Is there anything in this legislation, the
4 tax aspect of it, that would in any way affect any taxpayer,
5 individual partnership, corporation, what have you, other than
6 one which might be in bankruptcy?

7 Mr. Shapiro. No.

8 Senator Byrd. Is there anything in here that has any applica-
9 tion to any estate or any individual, any corporation, other than
10 what might be in bankruptcy?

11 Mr. Shapiro. As I understand it, the intent is purely for
12 the bankrupt cases.

13 Senator Byrd. I will yield, at this point, to the Senator
14 from Texas.

15 Senator Bentsen. Really, the question, I guess, is directed
16 to you, Senator.

17 Has your Subcommittee had hearings on the tax aspects of this
18 bill? Has the Subcommittee considered them?

19 Senator Byrd. Yes.

20 Senator Bentsen. You have considered them?

21 Senator Byrd. The Subcommittee did have hearings on it. It
22 is an immensely complicated subject. As one who is a layman, this
23 bankruptcy business is outside my line. It appears to me to be
24 all right.

25 I want to read into the record, however, a letter which I

1 received today, just this morning, from Myron M. Sheinfeld of
2 the firm of Sheinfeld, Maley and Kaye, attorneys at law, Houston,
3 Texas. And he is writing as Chairman of the Taxation Committee
4 of the National Bankruptcy Conference.

5 I will not read the entire letter, but I will put the entire
6 letter into the record.

7 Mr. Sheinfeld urges that the Committee postpone any consider-
8 ation on the special tax provisions as they presently relate
9 to S. 2266. He urges the passage of the bankruptcy bill, but
10 urges that the tax provisions not be included, and he writes in
11 his capacity as Chairman of the Taxation Committee of the National
12 Bankruptcy Conference.

13 I ask that this entire letter be put into the record.

14 (The material to be furnished follows:)

15 COMMITTEE-INSERT
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1 Senator Bentsen. Mr. Chairman, I am looking at the same
2 letter and had a call from Mr. Sheinfeld, who is a constituent
3 of mine expressing the same concern, and that was the reason for
4 my question of the distinguished Chairman of the Subcommittee as
5 to whether or not he had been able to go into this aspect of the
6 bill and had satisfied himself in that regard.

7 Senator Byrd. I just got his letter this morning. As I
8 recall, there was no opposition to the bill at the hearing. There
9 was opposition to the amendment which the staff just recommended
10 and which seems to have been approved by the Committee without
11 much opposition.

12 Mr. Shapiro. These amendments have been introduced into the
13 record so everybody would have an opportunity to see them. A
14 hearing was called. As I understand it, this particular individual
15 who Senator Byrd received a letter from did testify on the Ways
16 and Means Committee but chose not to testify in the Finance
17 Committee, but he has been following the legislation. I do not
18 know him, but as I understand it, he has been following the
19 legislation and did testify last February in the Ways and Means
20 Committee.

21 Senator Byrd. His letter does not give his reasons. His
22 letter merely urges that the tax provisions be eliminated and
23 considered next year when the larger tax bill is considered.

24 Mr. Shapiro. Let me make an observation to your point that
25 I can add on to. The bankruptcy law does not become effective

1 until October 1, 1979, and that is intended to allow the
2 practitioners an opportunity to understand it and review it,
3 taking it into account.

4 Before that becomes effective, the larger bill Senator Byrd
5 refers to would be considered by the Congress next year with the
6 clear understanding in the House that any changes that the Ways
7 and Means Committee believes would be appropriate to the tax
8 provisions that were being dealt with this year would be considered
9 by the Ways and Means Committee and that the House Judiciary
10 Committee could have its input at that time if there was a change
11 of position.

12 I would think that would clearly be the case in the Senate
13 as well. That is, even though you may agree to these provisions,
14 at this time, this bill may become law this year. When the larger
15 tax bill, where it relates only to the tax provisions, comes
16 before the Congress next year and comes to the Senate and you
17 will have an opportunity to reveal those decisions that you made
18 this year. And, to the extent they have a relationship to some
19 Judiciary Committee provisions, that they will have their input
20 as well.

21 So I would not feel that what you do this year, you do not
22 have an opportunity to review with the bigger tax bill next year.

23 Senator Byrd. Let me ask you this. What problems, if any,
24 would be created if the Committee were to follow the suggestion
25 of the attorney from Houston, Texas?

1 Mr. Shapiro. His suggestion to defer the amendment is this.
2 The amendments that have tax effects at this point are overwhelmingly
3 in the Judiciary Committee's jurisdictional areas. They have
4 related tax effects because -- let me give you an example, which
5 may be easier to explain.

6 The list of priority opinions of unsecured debts, that is
7 a whole schedule of priority and the tax liens, the tax items is
8 just one, and to take that off the list would affect the list.

9 For example, under the proposal, the tax priority is number
10 six, and that has to be on the list because the overwhelming
11 proposal on bankruptcy deals with the priority of payments.

12 You cannot separate the tax from the other, and it is these
13 types of changes that are to be considered now.

14 Senator Byrd. Under the present law, it would be sixth,
15 also.

16 Mr. Shapiro. Number four in the present law.

17 There are some changes made by the House and the Senate bills
18 to revise somewhat the priority lists and the tax priority was
19 moved from number four in the present law to number six in the
20 bankruptcy bills.

21 That has not presented any problems that the staff can see.
22 It has not been opposed by the Administration, by the Justice
23 Department or the Treasury Department.

24 Senator Byrd. If you think it would create some problems --
25 you feel it would create problems to delay it?

1 Mr. Shapiro. I think it is difficult to try to pick it out.
2 We are talking essentially about five areas in the bill referred
3 to the Committee, and these have a relationship with the bankruptcy
4 laws. That is why these were allowed and the agreement was made
5 in the House to be considered along with the bankruptcy laws that
6 all the other tax provisions were stripped off the bill and were
7 packaged as a separate bill.

8 The point that I made earlier in comment to the point you
9 had made, you will have an opportunity to deal with this next
10 year and the fact that these provisions do not become law on
11 October 1, 1979 after these provisions are agreed to and you have
12 your hearings next year and it is brought to your attention that
13 you want to make some changes in the decisions, you will have that
14 opportunity to do so without prejudice, because they would not
15 become law until October 1, '79.

16 Senator Byrd. I suggest that the Committee go along with
17 the recommendation.

18 Senator Curtis. May I ask one more question?

19 An ordinary citizen, can his unpaid taxes ever be affected
20 by the statute of limitations?

21 Mr. Shapiro. It depends. There are statutes of limitations
22 once there is an audit.

23 Senator Curtis. Let us take the case where there is no
24 dispute, no demand for an audit. Just someone owes a certain
25 amount of unpaid individual income taxes. Does the statute of

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1 limitations ever run out?

2 Mr. Shapiro. Yes, sir. The statute of limitations, once
3 that expires, there is no more tax liability.

4 Senator Curtis. For all taxes?

5 Mr. Shapiro. That statute would stay open for fraud. I do
6 not think you are talking about a case where there may be some.

7 Senator Curtis. Just the debt?

8 Mr. Shapiro. Just the debt, no.

9 Senator Curtis. I am not talking about the right to open or
10 contest. Suppose someone owes \$10,000 of income taxes and there
11 is no dispute. He is not trying to open it.

12 After how much time does that stand?

13 Mr. Shapiro. Three year statute of limitations. If the
14 person has not paid his income tax and the IRS has not processed
15 that, then the individual would not be liable for the taxes.

16 The Chairman. All in favor of reporting the bill, say
17 aye.

18 Senator Byrd. Mr. Chairman, before you report the bill, could
19 I ask that the staff explain to the Committee an amendment which
20 the Norfolk and Western Railway is anxious to have considered by
21 the Committee? I think the staff is familiar with that.

22 Mr. Shapiro. Yes.

23 The Northern and Western Railroad has a proposed change
24 which results out of the ConRail transaction. I should point
25 out that this particular amendment they have has been and is

1 included as a part of the overall tax bill and it has been
2 included as a part of a separate Ways and Means proposal. However,
3 there is a concern on their part that the bigger tax bankrupt
4 bill will not be enacted this year and that there is not a clear
5 indication of what will happen to the past bill that the Ways
6 and Means Committee reported out.

7 Therefore, they would like to be included in this bill.
8 Essentially, what it is when there was a ConRail transaction, it
9 was required that the assets be transferred -- for example, the
10 Erie Railroad transferred its assets to ConRail, and there was
11 consolidation with the Northern and Western Group and what it has
12 there was a provision that provides for a recapture of investment
13 tax credits, if there is a position.

14 As long as you hold an asset for seven years, if you sell
15 the very next year, there is no recapture of an investment tax
16 credit, but if you have a disposition before that, then the invest-
17 ment credit that you previously had taken could be recaptured.

18 In this case, some of the assets were transferred before
19 the seven years, not because they wanted to get rid of the assets,
20 but because it was a part of the overall ConRail transaction and,
21 in that case, it would necessitate a recapture.

22 The proposal that they would like is the fact if there was
23 a disposition solely as a result of that ConRail transaction that
24 the recapture provision would not apply in that case. As indicated
25 it was not intended in the ConRail transaction to provide recapture

1 in this case.

2 It was somewhat of an oversight in this situation, that
3 this particular fact was never focused on. It is completely
4 covered in the other parts of the bankruptcy statute which would
5 be considered by taxwriting committees later.

6 The question the Committee has decided that since the ConRail
7 transaction several years, and there is a recapture of investment
8 tax credit of this particular company, would the Committee want
9 to add that provision to this bill to have it enacted earlier
10 than waiting for the possibility of next year.

11 Senator Byrd. As I understand it, the Treasury Department
12 does not oppose this provision.

13 Mr. Halperin. Senator Byrd, as I stated at the hearing last
14 week, we have no objections to it as a matter of tax policy. The
15 Department of Transportation has informed us that they would hope
16 that it would be made clear that this provision is a part of the
17 Railroad Reorganization Act so that it can be taken into account
18 in determining the amount of compensation that they have to pay
19 as a part of this proceeding.

20 All other changes that were done originally would be taken
21 into account for that purpose, and they wanted to make sure that
22 this provision would also be considered a part of the railroad
23 reorganization.

24 Senator Byrd. As I understand it, it is considered as having
25 been an oversight on the part of the Congress when the law was

1 enacted dealing with ConRail.

2 Mr. Shapiro. It was never focused on, Senator. Had the
3 issue been brought up, clearly the Congress would have covered
4 that case.

5 Mr. Halperin. They want to treat it as if it had been done
6 as a part of the original bill.

7 Senator Byrd. So it is regarded as being appropriate by the
8 Treasury and by the Joint Committee staff, am I correct in that?

9 Mr. Shapiro. Yes, sir.

10 Mr. Halperin. Yes, sir.

11 Senator Byrd. I think the Committee should be aware that
12 it will benefit Northern and Western Railroad, and I think the
13 record should show that. But the record should also show that
14 the Treasury Department and the Joint Committee staff feels that
15 it is an appropriate amendment and, had this matter been brought
16 to the attention of the Committee and the Congress when the
17 ConRail legislation was before it, undoubtedly such an amendment
18 would have been included in the legislation.

19 That is my understanding of the Treasury position.

20 Mr. Shapiro. What we intend to do is not have an amendment
21 for this one situation but have it as a general applicability to
22 any taxpayer in this particular situation.

23 Senator Byrd. Yes. I think that is appropriate, but it would
24 affect one railroad at the moment.

25 Mr. Shapiro. As we understand it, that is correct.

1 The Chairman. All in favor say aye.

2 (A chorus of ayes.)

3 The Chairman. Opposed, no.

4 (No response)

5 The Chairman. The ayes have it.

6 Without objection, the bill will be reported.

7 Mr. Shapiro. As agreed to, the technical changes to and
8 Senator Byrd's amendment and that one change that we developed
9 with the Administration on the procedure in the Tax Court as
10 well.

11 The Chairman. The amendments will be agreed to, without
12 objection, and the bill will be reported.

13 What is the next item? I guess we had better go to the
14 unemployment compensation commission. Senator Hathaway wanted
15 to be here; he was here.

16 All right. Let's talk about the reporting dates for the
17 unemployment compensation commission and other amendments
18 related to unemployment programs.

19 Mr. Humphreys. We have two small unemployment compensation
20 bills that were passed by the House recently. The first one
21 contains a number of provisions related to the national commission
22 on unemployment compensation. That is a commission that was set
23 up in the 1976 amendments, but there was a lot of delay, accord-
24 ing to the members of the Commission, so under present law,
25 although it only held its first meeting this March, it would have

1 to file its report by next January. They have requested an
2 extention of the reporting date until March 15th, 1980, which
3 would give them two years, and the House bill also provides for
4 two interim reports in November of this year and November of
5 next year.

6 The legislation establishing the Commission also provided
7 that the members of the Commission would serve without pay other
8 than per diem expense reimbursements. The House bill would
9 allow them to be paid for the days that they are actually on
10 Commission business at the equivalent of a GS-18 rate, which is
11 about \$182 per day.

12 The Chairman. Without objection.

13 Senator Byrd. May I ask a question?

14 The Chairman. Yes.

15 Senator Byrd. How large a staff does this commission have?

16 Mr. Humphreys. I do not know how large the staff is right
17 now. The Executive Director is here. Maybe he can tell us.

18 He tells me that it is eighteen, so a thirteen-member
19 Commission with an eighteen-member staff.

20 Senator Byrd. One other question. The surplus in the fund
21 is about \$6 billion, as I recall. At what point would the taxes
22 be reduced or, to put it another way, how great will the surplus
23 need to become before the taxes are reduced, the unemployment
24 taxes?

25 Mr. Humphreys. There is the Federal unemployment tax. That

1 is .7 percent on the first \$6,000 of earnings. There is a debt
2 that is owed to the general Treasury by the Unemployment Trust
3 Fund. When that debt is paid off, I think the debt is in the
4 neighborhood of \$6 to \$3 billion now. When that debt is paid off,
5 the Federal unemployment tax reverts from .7 to .5.

6 I do not know what the latest projection point when they will
7 be paid off. A year ago, it was seven years in the future, some-
8 where in the 1980's that the debt to the general Treasury would
9 have paid off, and the tax would go down to .5.

10 Senator Byrd. Is it correct that the present surplus of
11 \$6 billion is about as high as it ever has been in that fund?

12 Mr. Humphreys. The surplus mainly probably consists of funds
13 in the state accounts. Each state, although it is in the Federal
14 Treasury, each state collects its own unemployment taxes and
15 deposits them in a state account in the Federal Treasury. I do
16 not think there is anything like \$6 billion in the Federal accounts.

17 Senator Byrd. If you look at the report of the trust funds
18 which is being used to determine what the deficit is, it gives
19 a figure of \$6 billion as a surplus in that trust fund.

20 Mr. Humphreys. Yes, sir. That is right. Even though these
21 are state monies, they show up in the Federal budget as a ..
22 surplus or deficit in the state accounts.

23 Senator Byrd. Then that is not Federal money, that \$6
24 billion.

25 Mr. Humphreys. That is correct. It is technically counted

1 in the Federal budget as Federal money, but it belongs to the
2 states.

3 Senator Byrd. How did the Treasury Department and how did
4 the government and OMB contend that the unified budget deficit
5 is \$50 billion when \$6 billion of that money does not belong to
6 the government, that surplus does not belong to the government?

7 Mr. Humphreys. That is a good question. That is just how
8 they have always done it in accounting it. If they run a
9 deficit, they would show that as a Federal deficit also.

10 Senator Byrd. What you are saying is, that is not an asset
11 of government?

12 Mr. Humphreys. Not the Federal government, no, sir.

13 Senator Byrd. \$6 billion that is in the trust fund, which
14 is being used to reduce the Federal funds deficit, is not an
15 asset of the government, not a surplus to the Federal government?

16 Mr. Humphreys. That is right, other than technically.
17 Technically because that is the way the accounting is, but in any
18 sort of realistic terms it is not anything the Federal government
19 could use.

20 Senator Byrd. Could you get a statement for the record as
21 to when that tax is likely to revert from .7 of 1 percent to .5
22 of 1 percent?

23 Mr. Humphreys. Yes, sir.

24 In the matter of providing pay for the members of the
25 Commission, there is a budget gap problem. The House bill would

1 make that effective upon enactment and this would be subject to
2 the point of order on the Budget Act, so that we would suggest
3 that the Committee amend that aspect of the House bill to make
4 the pay effective as of October 1st of this year, October 1st, '78.

5 The Chairman. Without objection, agreed.

6 Mr. Humphreys. Now, there are two amendments. An amendment
7 that the National Commission itself, the Executive Director -- I
8 mean, the Chairman of the Commission, Wilbur Cohen, has written
9 to the Committee and asked that we add to this bill an amendment
10 that would exempt the Commission from the Federal Reports Act and
11 from OMB circular A-19.

12 These are provisions that are designed primarily for Execu-
13 tive Branch agencies to assure that any surveys that they send
14 out or any reports that they send to Congress are cleared through
15 OMB first, and the Commission apparently feels that this is
16 inappropriate for legislatively established commissions, so they
17 asked that they be exempted from those provisions.

18 The Chairman. Without objection, agreed.

19 Mr. Humphreys. The next item in this bill has to do with a
20 provision we adopted in the 1976 amendments that provides that
21 anyone who is eligible for unemployment compensation and is, at
22 the same time, getting any type of retirement pension, any
23 pension based on his prior work, would have to have his unemploy-
24 ment benefits reduced dollar for dollar by the amount of that
25 pension.

1 At the time that we put that provision in, Congress estab-
2 lished a March 31, 1980 effective date with a view towards giving
3 the Commission a chance -- this National Commission a chance to
4 look at the provision and suggest any refinements that might be
5 necessary. The House bill proposes to delay that to May 31,
6 1981.

7 Again, this runs the bill into a Budget Act problem. It will
8 be subject to a point of order. This is something that the
9 Committee could deal with next year, but it would not be subject
10 to that point of order, and the Committee may want to delete
11 that provision of the House bill.

12 Senator Curtis. Is this the problem that we attempted to
13 meet back there when there would be situations where individuals
14 with Social Security were also beneficiaries of a company retire-
15 ment plan and some of the higher-paid individuals who would be
16 retired, they would get their retirement pay and then go down to
17 the unemployment office and register as unemployed and draw their
18 unemployment compensation? Is that the problem?

19 Mr. Humphreys. That is the provision.

20 Senator Curtis. Has that not gone into effect yet?

21 Mr. Humphreys. That has not gone into effect yet. The 1976
22 legislation provided for it to have a delayed effective date
23 because there was some question that people would be affected
24 by it that you did not want to have affected by it, and the idea
25 was that the National Commission would take a look at it and

1 perhaps come up with some refinement so that it would accomplish
2 the objective that was intended and not miss on that.

3 So anyway, under present law, it goes into effect March
4 31, 1980, the House bill would put off the effective date even
5 further. We are suggesting to just drop that at this point and
6 consider it next year.

7 Senator Curtis. It seems to me that the original concept
8 of unemployment compensation was where people lost their job and
9 could not find anything whereby they could earn a living and so
10 on and was not to be considered as being entirely any sum of
11 dollars in the case of retiring.

12 I think that the longer we delay having this go into effect,
13 the more we get away from the original concept of the purpose of
14 unemployment compensation.

15 Mr. Humphreys. The Committee, if it does consider it next
16 year, could consider whether to delay it or not.

17 Senator Curtis. What is the argument for delaying it?

18 Mr. Humphreys. The original argument for delaying it was it
19 is broadly drawn and it would apparently affect some people that
20 you might not want to affect, for example, somebody who had earned
21 a pension twenty years ago and was still drawing that pension but
22 had gone back to work, was working full-time and was laid off.

23 The way it is drawn now, the pension that he earned twenty
24 years ago would cause a reduction in the unemployment that is
25 related to his employment that he was just laid off from.

1 There is a question as to whether or not it should be that
2 broadly drawn. There are probably arguments on both sides of
3 that issue. The idea was to give the National Commission a
4 chance to sort of look at that issue.

5 Senator Curtis. Your recommendation is we delete the
6 extension?

7 Mr. Humphreys. Delete the extension at this time and maybe
8 consider it next year.

9 The Chairman. Without objection, agreed.

10 All right.

11 Mr. Humphreys. The next item is another extension that is
12 in the House bill that is related to something that the National
13 Commission was given time to study, and since we are extending
14 the time for the National Commission to report the House proposes
15 to extend this provision.

16 This provision exempts from the unemployment tax the wages
17 paid to foreign contract laborers who are brought into the country
18 by the Labor Department when they find there is not enough domes-
19 tic labor available to perform the job.

20 The point of exempting them was that since they never draw
21 unemployment benefits anyway, the tax was being imposed upon them
22 for no particular purpose. Under present law, the tax will go
23 into effect. The exemption expires and the tax goes into effect
24 January, 1980.

25 The House bill proposes to change that to 1982.

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1 I think at the time we prepared this, we believed there
2 was no Budget Act problem. I think this would have a Budget Act
3 problem, the way the Budget Act is now being interpreted.

4 The Chairman. Can we not exempt starting at a later date
5 and do it?

6 Mr. Humphreys. This creates a tax change during fiscal year
7 1980, and I think making any change would probably run the risk
8 of a Budget Act problem. Again, we could delay this and deal
9 with it next year at a time when we would not be subject to the
10 Budget Act issue.

11 It is nothing that has to be done now.

12 The Chairman. Without objection, we will delete it.

13 That takes care of that bill.

14 Mr. Humphreys. That takes care of that bill. There is
15 another bill.

16 The Chairman. Without objection, the bill will be reported.
17 What is the next bill?

18 Mr. Humphreys. The next bill is H.R. 12380. This is a
19 very minor change in the extended unemployment compensation pro-
20 gram, a program that provides benefits between the 27th and 39th
21 week of unemployment in times of high unemployment.

22 This change would let states -- or actually require states --
23 to cancel an individual's eligibility if he had not exhausted
24 those 13 weeks of benefits within three years after he started
25 drawing benefits. Few people would be affected. The main result

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1 of the bill would be a lot of states have this program in a
2 number of years to start throwing out records after three years
3 and eliminate some of their burden of record-keeping. That is
4 really all there is to it.

5 It is such a small item that we thought perhaps the Committee,
6 if they agreed to this bill, would want to combine it with the
7 other bill.

8 The Chairman. I do not see any point in combining them.
9 Let's report them out as two separate bills, pass them that way.

10 Without objection, the bills will be reported.

11 We have some various minor tariff bills. Let me see. In
12 item C --

13 Mr. Stern. Basically we had planned to do the tariff matters
14 tomorrow. Senator Ribicoff was planning on doing them tomorrow.

15 The Chairman. We will wait for Senator Ribicoff, then.

16 Do the Senators wish to discuss some of these amendments?
17 For the most part, these are Senate-initiated revenue measures
18 and would have to be added as an amendment to another bill.

19 Senator Packwood. I will take up a couple.

20 Senator Gravel. I have a couple.

21 The Chairman. What I had in mind, we cannot report them
22 except as amendments to other bills. If you want to talk about
23 them, we can talk about them.

24 Senator Packwood. That is what I would like to do and get
25 the consent of the Committee and then we will find whatever we

1 want to attach them to as we go along.

2 Let me take staff document G first, the employer contributions,
3 the pre-paid legal plans.

4 A few years ago we changed the tax code so that employer
5 pre-paid legal plans are treated as medical plans so there is not
6 a tax. We wanted to do this to get legal plans started. It
7 worked, and it worked out fine. We simply made a mistake, a
8 technical mistake at a time.

9 We forgot to exclude, for purposes of income, the amount
10 that the employer would pay in Social Security taxes or unemploy-
11 ment taxes on the value of that premium. We excluded it and
12 any other plan like this.

13 Treasury has no objection. The amendment would simply say
14 that the employer did not need to pay Social Security taxes or
15 the unemployment compensation taxes on the value of that premium.
16 There is almost no revenue effect; Treasury has no objection. It
17 was an oversight two years ago.

18 Senator Curtis. Is that the same treatment as medical plans?

19 Senator Packwood. Identical to medical plans.

20 The Chairman. Do I understand that Treasury has no objection
21 to that?

22 Mr. Halperin. That is correct, Mr. Chairman.

23 The Chairman. If there is no objection, we will want to
24 approve that and have a bill before us to which it can be added.

25 Senator Packwood. Secondly, Staff Document F, employer

1 educational assistance programs. At the moment, the state of
2 the law is that if an employer pays educational benefits for
3 employees it is not taxable as income to the employee if the
4 education is related to the job that the employee holds, directly
5 to the job the employee holds. If the education is related to
6 improving yourself for a better job or something unrelated to
7 the immediate job, then it is taxable as income to the employee.

8 I passed around a document -- you will see the list of
9 sponsors and the list of sponsoring organizations. What this
10 bill would do is simply say if an employer pays educational
11 expenses for an employee, it is not taxable income to the employee
12 period.

13 The problem is now it is inhibiting many employers from
14 going ahead, is that with every employee that you have an educa-
15 tional expense, you have to determine is this related to the job
16 or not. If it is related to the job, it is not taxable as income
17 to the employee, and the employer does not have to make with-
18 holding on it and pay Social Security on it. If it is related
19 to the job, then the employer has to. So you have to study
20 each person in the work force you might want to give some educa-
21 tional benefits too.

22 The ironic twist in this, the higher up in the company you
23 get, the higher up you get probably there is any course you could
24 take and find it to be job related. If you are vice president
25 of IBM and Exxon and you came to these week-long Brookings

1 seminars and stayed at the Madison Hotel, you can say that is
2 related to your job and you do not have to pay the income tax
3 on it.

4 But if you are a lug nut tightener, he cannot take the
5 exemption. You can see the organizations on the back that have
6 endorsed this. There is no objection.

7 When Treasury says there will be a revenue loss, that is
8 not actually a revenue loss from what they are collecting -- they
9 are not collecting any money at the moment -- but they are starting
10 to collect money to ask employers and employees, is this job-
11 related.

12 I do not think it is going to be abused. Employers are the
13 ones who are going to be paying the educational expenses. Obvi-
14 ously they are not going to waste their money sending people
15 off to take truly irrelevant courses that have no conceivable
16 relation to the benefit of the business.

17 The Chairman. Let us hear the Treasury's objection.

18 Mr. Halperin. Under present law there is a consistency
19 between the kind of educational expenses that somebody is allowed
20 to deduct if they spend it themselves and the kind that would be
21 tax-free if the employer provided it. If you have the kind of
22 thing that would be tax-free if the employer provided it or if
23 you spent your own money you would be entitled to a taxable
24 reduction -- if I understand Senator Packwood's bill, it would
25 change that. It would not affect the deductions side.

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1 For example, if you are employed by a mechanics firm who
2 thought it would be a good idea for their accountants to have a
3 law school education and they paid for it that becomes a tax-free
4 benefit while other people who are paying for a law school educa-
5 tion out of their own pocket would not be entitled to a deduction.

6 So that I think you really have a broader issue before you.
7 It is the question of what kind of education expenses ought to be
8 in effect excluded from income, either by way of deduction or
9 exclusion.

10 The law, as it has grown up is, it is only if it maintains
11 current skills, enables you to do the job that you now have better.
12 On the other hand, if it qualifies you for a better job, that
13 has been considered to be nondeductible, or taxable if the employer
14 pays for it.

15 It is really that broader question that needs to be con-
16 sidered. If you get into that broader question, you do have a
17 substantial amount of revenue involved.

18 This particular bill, if it were limited to an employer-
19 provided pension before it provided education, clearly favors
20 those people who work for companies who are willing to provide
21 it and does not give equal treatment to people who work for
22 companies who are not willing to provide education.

23 It does create another kind of inequity in employer-provided
24 benefits and benefits that you have to provide yourself.
25 Senator Packwood. Also true of employer paid life insurance

1 and employer paid health insurance. If you are going to use that
2 argument, you are going to have to go back and review all of the
3 fringe benefits that are now by law exempt and say none should
4 be allowed because some employees do not provide them.

5 Mr. Halperin. That is correct, Senator. We do favor
6 employer-provided benefits today if it is retirement income, health
7 insurance, if it is life insurance, and with the prepaid legal
8 which came in in 1976. If we continue, those may be considered
9 more basic, more important to sustain life than education. Maybe
10 not.

11 But if we continue to do this, we are creating a kind of a
12 two-way thing of looking at salaries, salaries paid in kind. In
13 certain ways now it becomes tax-free and we are talking about a
14 substantial narrowing, or a potentially substantial narrowing of
15 the tax base.

16 I suppose one could argue that food and shelter are as basic
17 as these things. I think if there is an argument for favoring
18 employer-provided things, it is that they are important and we
19 need to encourage them, and the way to encourage them is to do the
20 employers an incentive to do it and do it on a nondiscriminatory
21 basis.

22 We do not think that that kind of argument ought to be
23 extended to education. We think that life insurance and medical
24 insurance can be treated differently from everything else. If
25 you expand it, we do not know where you can stop.

1 I think that this bill is limited to job-related. It can
2 cover, as I understand it, purely personal things. It does not
3 limit on education which trains one for a higher paying job.

4 Senator Packwood. I am not worried about employers paying
5 for snake-charming courses or a whole variety of courses unrelated
6 to the job that it becomes an unrelated benefit. Employers are
7 smarter than that. When they bargain, they like a quid pro quo.

8 But it is interesting that the Treasury now says it is all
9 right. Two years ago they were opposed to prepaid legal. If there
10 was any testimony, they were probably opposed to prepaid health.
11 They were opposed to every one of these that come along. Then we
12 have them and they work out fine and Treasury comes in and says
13 those are okay, the next one is not.

14 I can think of nothing more salutary for the general benefit
15 of society than furthering an education, for the employers to pay
16 for it, and the estimated Treasury loss is relatively slight,
17 assuming there is any loss, because at the moment the Treasury
18 collects no money because they have not really started to harrass
19 employers and employees, but they are ready to.

20 The Chairman. Senator Danforth?

21 Senator Danforth. Mr. Chairman, I think that this is an
22 extraordinarily broad question. I think that the whole issue of
23 throwing our weight, government's weight, in favor of one kind of
24 compensation as opposed to another kind of compensation really
25 raises very, very fundamental philosophical questions.

1 I do not understand why we should say that we favor by
2 government policy one form of compensation over another, and I
3 do not understand why we have to further, if we have done it in the
4 past, maybe there is some logical line that can be drawn where we
5 have done it in the past, but if it is not a logical line, I do
6 not understand why we have to keep doing it.

7 I do not understand why we have to intervene in the market-
8 place between an employer and employee and why we have to say
9 that it is going to be advantageous from a tax standpoint for an
10 employee to be compensated by having his tuition paid than by
11 having just more money paid.

12 And with respect to the snake charming course, I do not follow
13 that at all. Supposing that an employee wants to go to a snake
14 charming course, why if he can get his tuition paid and not have
15 to pay taxes on his tuition for his snake charming course, he is
16 just going to say to his boss, look, what difference is it to you
17 whether you pay me X dollars an hour, if you pay me somewhat less
18 and pay my cost at Joe's Snake Charming Course?

19 So that I really see in this kind of thing sort of new
20 vistas for governmental participation in decisions that should
21 be made anyplace in the world other than Washington, D.C. and
22 any place in the world other than the Internal Revenue Code.

23 Obviously, the Internal Revenue Code is used to accomplish
24 things other than simply raising cash for Uncle. I think the
25 question is how much further do we go in this and do we take the

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1 position that all fringe benefits are good and all fringe benefits
2 therefore are going to be tax-free to the employee? If we take
3 that position, why is it that fringe benefits are better than
4 cash?

5 Senator Gravel. Mr. Chairman, I think you stated it at the
6 end very clearly: that is, that the Code is used for two things --
7 one, to raise revenue and two, to effect social and economic goals
8 in our society. So that this is no different from any one of the
9 other goals that we use the Internal Revenue Code for. It is not
10 earthshaking. We do it for a whole host of other areas which,
11 incidentally, are not productive.

12 At least this one would add to human productivity.
13 The point that you made about the snake charming course
14 really evidences a great disrespect for the corporate managers
15 of our society. I do not think a businessman is going to sit
16 there -- they are always bitching at us about the taxes, so why
17 are they going to sit there and let some person take some idiot
18 course? They are the disciplinarians in this situation. They
19 will advance and say, all right, I will pay. It is not the
20 individual who pays for it; it is the owner of the business who
21 is going to pay for it.

22 The Chairman. Gentlemen, I would hate to think that we would
23 let ourselves in for a loophole which would be severely criticized
24 later on. I can see the potential of the fairly small corporation,
25 fairly closely-held corporation, chief stockholders of that

1 corporation have children on the payroll and say, we will send
2 them to law school, send them to medical school, send them here
3 send them there, and you would give them post-graduate degrees --
4 and send them to Oxford, for that matter.

5 And the corporation would deduct all of that. Bright young
6 people working for the company -- fine. Give them an education,
7 post-graduate degrees, and so forth. I know we would be criticized
8 if we did that, if we said there is no limitation, just take all
9 of these young people and send them through college.

10 Ordinarily, in order to do that, that money would have to be
11 declared out of dividends and taxes would be paid on it and those
12 people could not deduct the expense of sending their young people
13 to college, their children, their nephews or nieces or in-laws or
14 out-laws. They could not send all of that group to college and
15 then deduct it. They would have to pay taxes on the money and
16 then send them.

17 If you do not watch out, we could start things like this and
18 find out that we are criticized on the ground that we have done
19 something for a special-interest type thing or favored somebody
20 who does not have the right to claim it.

21 I could go along with something where you are training some-
22 body for the next step up the ladder. That does not give me any
23 problem at all if you say here is somebody that you compare it
24 to our committee, someone doing some good work for us and we would
25 like to see him advance another step up the ladder, so we send him

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off to go to school for a semester and improve his skills so he will qualify for a better job. We have in mind the kind of thing that we would like to use him for. That does not give me any problem, but just a general education thing does.

I would hope, if we are going to consider this type of thing, that we will try to work it out to where we are talking about letting somebody move the next step up the ladder.

Senator Packwood. I could agree with that if you do not too narrowly circumscribe it and left it within reason to the employer and employee as to what is necessary to advance up the ladder.

The Chairman. If you talk about promoting from within, qualify someone to move up the next step, every now and then you have one of these ladders where a rung is missing off the ladder so you have to kind of jump over a rung at one point. It is sort of hard to make the next one, because one is missing. That does not give me a problem.

Mr. Halperin, can you people in Treasury go along with something where we are talking about qualifying a person to move up within the system?

Mr. Halperin. Senator, I think that is really getting into the area of trying to modify the way the rules are presently interpreted. I certainly could agree that there certainly could be differences of opinion as to where the line is properly drawn in the right place at the present time.

We would certainly be willing to consider moving that line

1 to some degree if we were sure where it led to.

2 Would you envision then, for example, law school education,
3 paying for three years of law school to be an excludable item
4 under that approach if you thought that it might qualify people
5 for a better job, outside of the company as opposed to inside?

6 The Chairman. It seems to me that we should not -- the kind
7 of thing that you are talking about would not send a person to
8 law school for three years. I would say if he is a lawyer already
9 and you want to send him off for a year, let's say, for example --
10 we do not do it, but some group that offers scholarships over
11 here on the Hill, which I think is a good idea, some foundation or
12 something -- and we had a young man working on our Committee who
13 was selected by the committee and they sent him away for a year
14 and when he came back he knew a lot more than when he left and
15 it qualified him for a better job. He got a promotion.

16 Mr. Halperin. I think, Senator, probably that particular
17 example would be excludable under present law. Most of the time
18 you run into the problem where you are dealing with a degree which
19 would qualify you for a specific type of job which you are not
20 otherwise eligible.

21 For example, if a lawyer would take a year off and be
22 supported by his firm while he took a one-year program, a graduate
23 tax program, that is not taxable under present law, as I understand
24 it.

25 Senator Curtis. Do you agree with the contention of Senator

1 Psckwood? He pointed out that the higher up the ladder you are
2 you could go to an expensive course for a week or two or longer
3 and, because of the wide range of duties assigned to that person,
4 just about anything was related to his work. But he cited the
5 illustration of someone tightening nuts in the assembly line
6 production and they could not send him to school with these
7 benefits unless, of course, limited to tightening nuts. Is that
8 correct?

9 Mr. Halperin. As I understand it, my recollection of the
10 regulation would be that it would tend to draw lines between
11 people who get actual degrees and people who do not. And I guess
12 it is true that people who are high up the ladder, and probably
13 have as many degrees as they are going to get, and the kind of
14 courses that Senator Packwood referred to would presumably not
15 produce taxable income. While I guess the people on the assembly
16 line, if they are getting a high school education or a college
17 education or a business school degree would then be qualified
18 for better jobs and would be taxable.

19 Senator Packwood. So a 19-year-old who dropped out of school
20 and is tightening lug nuts says to the employer, I would really
21 like to be a medical technician in the infirmary in this plant.
22 And the employer says, fine, that is a good goal. I will send
23 you off to the local community college for two years. That is
24 taxable income.

25 Mr. Halperin. That is correct, Senator. I think you can

1 make an argument -- a lot of people have taken the position that
2 people who spend their own money on that kind of course should
3 be entitled to a tax deduction because they are really trying to
4 create a situation where they can earn more income and it is a
5 business expense.

6 Senator Packwood. Then you come back to this argument that
7 people who spend their own money for health care ought to be
8 entitled to a deduction because it is not taxable income when
9 the employer provides legal care and life insurance. If you are
10 going to be consistent, you are going to have to go back and undo
11 all the nontaxable prepaid employer plans that are around for a
12 whole variety of things now.

13 Senator Danforth. Why do we have to be consistent? That is
14 my question. If consistency is going to be the aim, then the
15 next logical extension is that any fringe benefit is excluded
16 for the employee.

17 Senator Packwood. It seems to me, Senator Danforth, what
18 that point is missing is this. We try to do all kinds of things
19 in the Federal government encouraging education, your basic
20 educational grants and loan and 55 primary and secondary grant
21 and loan programs. We are up to our neck in education and in the
22 funding of education. The question is not that the Federal
23 government is going to get into it -- they are in -- but is this
24 a rational way for them to be in for it, and I think you will
25 get more for your dollar out of employer-paid education programs

1 than you will any other education programs we now have.

2 Senator Danforth. I do not want to be the only one talking
3 here. I think if we are up to our necks now, we are going to be
4 over our heads. I do not understand that the Federal government
5 is in the position of saying that we have got some affirmative
6 policy that some individual who is working for a company gets
7 Uncle Sam to pay some of his educational expenses.

8 The Chairman. If you do not watch out with his thing, you
9 will surely get into what a majority of the Committee and the
10 Senate itself would not approve. You do not want to be starting
11 this thing where someone says, son, do not go to college. Come
12 over here and we will get you a job with my company and then
13 after you work for the company for a year, even three months,
14 then the company will send you to law school, or the company will
15 send you to college. The first thing you know, you start this
16 thing of companies. If I were a union representative in a company
17 I would certainly push for the idea, fix it up so that the
18 company will put all of our children through college for it.

19 In order to do that, you just go put your youngster on the
20 payroll. Then after he has been on the payroll for a month,
21 for a week, then you get the thing going where the boss man puts
22 your youngsters through college for you, sends them to school,
23 sends them to college and then sends them on through law school,
24 send them through medical school.

25 You do not have a completely wide open thing, and what we

1 really ought to do is take a look at the extent to which the
2 government will let it be deducted now and then further what you
3 think would justify him going with it.

4 If we are going to fix it up so everybody is going to go
5 to college or send his youngsters to college with the employer
6 picking up the tab for it you are going to have to go a great
7 deal further than this and provide a tax credit for everybody who
8 does not have an employer willing to do it to send their youngster
9 to college too. So everyone can just deduct these expenses of
10 putting people through college.

11 I would be accused of being a vested interest man for
12 supporting the Packwood-Moynihan proposal now, but if we extend
13 this bill where you are going to take care of everybody, theoret-
14 ically if everybody can benefit, it is not a vested interest.
15 I can understand that. But the cost of it would be tremendous.

16 I think, Senator, that you ought to work with the Treasury
17 and let them show you to the extent that they think they can go
18 with it and then move it up the next step. There are probably
19 some areas where you can go beyond what they are doing, which
20 I can support.

21 Senator Packwood. I am not optimistic, but let me see if I
22 can work with Treasury and get them to quit harrassing employers
23 and employees now and see if I can get far enough so that it is
24 acceptable to me and acceptable to them. I will bring it back.

25 The Chairman. I submit, you know, we did not make this world.

1 we just found it this way. If you can improve on what we have
2 done here, you have done something worthwhile. If you send it
3 down the way you have it right now, the Treasury is going to urge
4 the President to veto it. If you work it out along the lines
5 that I think Treasury might be willing to go, at least to some
6 degree, we may get something that you can make law in this
7 session.

8 That would be the best achievement.

9 Senator Packwood. I will see how far they will go.

10 The Chairman. Senator Gravel?

11 Senator Gravel. If that completes his agenda, I wonder if
12 we could take up my point. I have a problem tomorrow. I have to
13 chair a hearing. I think we might be able to get it done today.

14 The Chairman. All right.

15 Senator Gravel. Briefly, Mr. Chairman, this is a bill that
16 I introduced some time back and you were kind enough to have
17 hearings before the full Committee. Everybody who testified
18 save Treasury was very favorable to the concept of setting up
19 a general stock ownership plan, which is really an extension of
20 present law where we have ESOPs and TRASOPs. It does no more
21 than what that would do, other than the use of a tax exempt
22 device in order to incur debt.

23 The goal is a very simple one. We will have an additional
24 \$6 trillion of capital in the United States by the year 2000. We
25 have about \$6 trillion today.

1 5 percent of the people own 50 percent, roughly, of that
 2 wealth today or 1 percent owns 25 percent of it, which is the
 3 situation that existed at the turn of the century, so we have a
 4 skewness that is not altered, although many people think the
 5 situation is altered.

6 What we have is a situation of payments taxing the rich and
 7 productive people and give that wealth to the unproductive people
 8 in society as a social goal. That has led us to the problems we
 9 have today of welfarism and inflation and the like.

10 The major confusion that has occurred with this piece of
 11 legislation -- and it is fundamental to the whole task. I want
 12 to quote a statement of Donald Lubick when he testified: "The
 13 goal of the GSOP would be accomplished with less departure from
 14 the traditional tax principles if the state and local government
 15 role was direct ownership of the enterprise." That is exactly it.
 16 That is the whole purpose of the exercise.

17 If we do not find some way of vesting more ownership into
 18 the hands directly of people, the government is going to do it.
 19 We have a clearcut case of this in Alaska where the gas line which
 20 is to be built with appeal to the state government saying you
 21 have to help us because we are having difficulty financing. If
 22 the state is going to help this gas line, to build this gas line
 23 to bring the gas down to the south 48, then obviously we are not
 24 going to GSOP them. We are going to take some equity for it.
 25 Why help them, if there is no benefit to us? So we take equity.

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1 Then it is held in the hands of the state and then you have the
2 beginning of state ownership in the state of Alaska.

3 We can circumvent that problem very simply by saying hey,
4 look. We will help us, but let's fix it so that the people have
5 the benefit directly and not the government, which would be the
6 same case of what we are doing in an ESOP, to provide some incen-
7 tive so people can own a piece of the action. So in this case,
8 the legislation I have can exactly be done by the existing state
9 government of Alaska, or any other state.

10 What I am trying to do is set up a mechanism so that people
11 directly through initial government sponsorship can then own
12 parts of capital enterprise as we expand in that particular area.

13 I would like to ask Jack to go quickly over what the specifics
14 of my bill will do so that every member of the Committee
15 understands what is involved.

16 Mr. Curtis. For purposes of clarity, should I use the
17 blackboard?

18 Senator Gravel. Why do you not?

19 The Chairman. Use the blackboard.

20 Mr. Curtis. What we are talking about, most of this is
21 going to be an amendment to Senator Gravel's bill, S. 3223, which
22 that bill, by the way, involves the establishment of a trust,
23 tax-exempt trust, very much like an ESOP trust, only applied to
24 political subdivision.

25 There is an administrative problem because Senator Gravel

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1 is concerned tied more to a capital system and less to existing
2 employee benefit law. He wanted to switch to using corporations.
3 So most of this is going to be amendments to the bill itself.

4 We are talking about having a political entity such as the
5 state, a county, or even a group of counties --

6 The Chairman. The state of Alaska?

7 Senator Gravel. This would go to all states. This is not
8 just for Alaska; this is for everybody.

9 Mr. Curtis. What we are talking about is having the state
10 of Alaska or a county or a group of counties establish a general
11 stock ownership corporation. This corporation is going to be
12 designed to acquire stock in a multitude of corporations -- or,
13 in the case of Alaska, in probably one corporation at the begin-
14 ning.

15 The general stock ownership corporation, which I will call
16 GSOP, will be designed to borrow to buy the stock. They would
17 borrow from the state or private lending institutions. The
18 financing of this would be handled very much like the traditional
19 ESOP financing that each of you had to sit through before.

20 I will simply say it is designed to borrow the money in
21 order to promote stock ownership, to promote some sort of inter-
22 est in stock ownership, the flow of income to pass down to the
23 citizens of the subdivision each year. The bill is designed to
24 make all amounts paid to the GSOP from the corporation whose
25 stock is acquired, tax deductible each year.

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1 So we are promoting the flow of cash from the corporation
2 to the GSOP. The GSOP is going to be tax exempt. It is going
3 to be required by law to distribute all of the money it receives
4 each year to the individual shareholders of the GSOP who are
5 also the citizens and residents of the political subdivision which
6 establishes it.

7 This amount of money which will be paid out each year to the
8 shareholders will be taxed as dividends as ordinary income, just
9 as though these people went out and, with their own money,
10 bought General Motors, IBM or AT&T.

11 So what we have at the beginning is a flow of cash from the
12 corporation to the GSOP on a taxable basis to promote this, a
13 requirement that the GSOP is to distribute all income each year
14 to the shareholders to use it to repay the debt incurred by buying
15 stock in the corporation by a stock purchase, or to pay some of
16 its operating assets.

17 The requirement is that the cash go through this way each
18 year, deductible, tax-exempt, taxable at this level as ordinary
19 income.

20 Each individual will acquire a share of GSOP stock. The
21 stock of the corporation which is acquired by the GSOP will all
22 be held in here. It is this stock which will be distributed out.

23 Senator Curtis. Where does the GSOP get the funds to buy
24 the stock in the corporation?

25 Mr. Curtis. They certainly will be borrowing the money.

1 In Alaska, under 3223 the state of Alaska is empowered to
2 issue industrial revenue bonds. They will have a reservoir of
3 cash that they can loan to the GSOP. In other areas, three
4 counties go together and create one of these. It could be the
5 local lenders within the counties. It could be the Federal
6 Reserve system.

7 Senator Curtis. It is either public property or tax revenues
8 or using the borrowing power.

9 Mr. Curtis. Correct.

10 Senator Curtis. In other words, it is the funds and assets
11 of the municipality.

12 Mr. Curtis. Not exactly.

13 Senator Gravel. Let me respond to that. The state, or the
14 municipality or whatever, could guarantee, if they choose to.
15 But if they chose not to, like in our case with the purchase of
16 BP, it is an existing, operating business with a guaranteed
17 income, so the state might not want to guarantee that purchase.

18 The bonds, or the debt that would be sold would be through a
19 bonding capacity which would be tax exempt like industrial bonds
20 or municipal bonds. That would be the other feature of it, and
21 that would give you the lower interest rate than what would be
22 normal, and that obvious difference would add to the amount of
23 money that could be used to retire the bonds and also pay the
24 annual dividends.

25 So the debt normally would come from the sale of bonds.

1 Mr. Curtis. If you had a bank that was involved in this
2 and loaned them money directly to the GSOP, what would probably
3 happen is the GSOP -- let's say it was tied to a specific project.
4 They want to buy a corporation. There would be an agreement
5 reached among all three parties in order to repay this loan, the
6 stock of the corporation would be acquired and would make enough
7 contributions to the GSOP issue, which would be tax deductible,
8 and they could repay the loan.

9 Mr. Gravel. A good example is what we had in testimony on the
10 South Bend Indiana Lathe Company. Through the auspices of the Chair-
11 man and the ETA, a sum of money was put up -- \$5 million -- to
12 the city, and then the city permitted that money to be loaned
13 to this private company.

14 In this particular case, South Bend, Indiana could have
15 been the sponsoring agent, set up a GSOP, where not only the
16 employees, but all the residents of South Bend, Indiana would
17 own the stock and this corporation, this GSOP, could sell revenue
18 bonds to them to buy the stock from South Bend Lathe, or buy out
19 the stock.

20 Senator Ribicoff. If I may ask the question, are we embark-
21 ing on a complete, new American philosophy? Are we establishing
22 the corporate state here?

23 Senator Gravel. No. It is very critical that this is not
24 government owned. The only government involvement here is you
25 need someone to sponsor it. You and I could sponsor it and go to

1 a referendum of the people and bring about a GSOP. The GSOP
2 becomes a private corporation which is no different from any
3 other corporation once it is founded. We have already set in
4 motion the philosophy through ESOPs and TRASOPs.

5 Senator Ribicoff. This is different. You have private
6 companies involved. In the Long approach, you are trying to
7 distribute ownership to the employees. Now you have government
8 intervention in the government controlling assets.

9 Senator Gravel. I am sorry. The government does not control
10 any assets. This is a fundamental misunderstanding with this.
11 All the government does issue the charter and make the people
12 the stockholders, and that is the end of the government involve-
13 ment.

14 Senator Ribicoff. This must have an objective. What is the
15 objective of this particular scheme, for who?

16 Senator Gravel. The objective is, let's take the case of
17 Alaska. Right now, the Alaska pipeline is owned by the oil
18 companies involved, nine of them. Under this device I will bring
19 into being 130,000 new stockholders that are not presently stock-
20 holders of that company.

21 Senator Ribicoff. What are those stockholders -- are they
22 going to buy the Alaska pipeline?

23 Senator Gravel. They will buy a piece of the Alaska pipeline.
24 That is exactly what will happen. They will borrow money, buy
25 out BP -- which will have a benefit to our balance of payments --

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1 and then turn around and be stockholders. This is no different
2 than an ESOP. It is a use of a credit device to permit more
3 people to become stockholders of American capital enterprise.
4 We have now \$6 trillion in our capital portfolio in our nation
5 and 1 percent of the people in this country own 25 percent of
6 it. 5 percent own 50 percent of it.

7 Unless we find some way to alter the skewness that presently
8 exists, you are going to have a situation where you are going
9 to have to use transfer payments, which means you are taxing the
10 productive to give to the nonproductive in order to make our
11 economic system work.

12 Senator Byrd. How does one become a stockholder?

13 Senator Gravel. Just by being a citizen of that political
14 entity. That is the only reason you need government at the
15 beginning.

16 Senator Byrd. In other words, a citizen of Alaska becomes
17 1/496,000 of an owner?

18 Senator Gravel. Exactly.

19 Let me give you another example. Supposing you had PEPCO
20 here in Washington that services Washington, Virginia and a few
21 suburban areas. Suppose we want to say let's begin to diffuse
22 the ownership. They need to go get \$1 billion in order to expand
23 to provide energy for the area.

24 So we get the sponsoring organizations which are the
25 governments -- it could be united, it does not have to be

1 government -- that this is a more legitimate one. They will set
2 up a corporation which has nothing more to do. It is a private
3 corporation. All of the stockholders of that corporation will
4 be the people who are served by PEPCO.

5 PEPCO -- this group, now, will then go borrow \$1 billion of
6 tax-exempt bonds. This group will take that \$1 billion and buy
7 stock from PEPCO. PEPCO takes the \$1 billion and expands their
8 capital, but that expansion of capital is now owned by the GSOP,
9 it is now owned by all of these people who would not have owned
10 a share of that stock if it were not through this device.

11 Senator Byrd. Let's take the state of Alaska. You have
12 500,000?

13 Senator Gravel. 450,000.

14 Senator Byrd. 450,000 people. Do you distribute that
15 stock certificate to each of the 450,000 people?

16 Senator Gravel. We sure do.

17 Senator Ribicoff. Do they buy it?

18 Senator Gravel. We just give it to them.

19 Senator Byrd. Just give it to them?

20 Senator Gravel. Yes, pretty much. That sounds like a give-
21 away. You and I go to the bank and we borrow \$10,000 to invest
22 in something that we think the reason why we are investing is
23 there is going to be enough money to pay back the bank and to make
24 us a profit.

25 So we do that. We buy that stock with the money we borrowed.

1 You can say, well, someone gave us a gift. Not really. What
2 was used with our credit-worthiness to be able to borrow the
3 money at the bank to use it. Essentially what we are doing here,
4 in the Alaska pipeline we are using the credit worthiness of
5 the Alaska pipeline to give people an interest in that pipeline.
6 That is all we are doing. It is a credit device which is no
7 different than the ESOP.

8 The ESOP is a credit device wherein you borrow money and
9 you let the productive capability of the corporation that the
10 person works for pay for the loan, and then after the loan is
11 paid off, give you the stock. It is no more of a giveaway than
12 the ESOP-TRASOP or you and I going out and borrowing money at the
13 bank. It is letting the productive elements of society pay for
14 themselves and then letting a broader number of people own those
15 productive elements than is presently the case today.

16 Senator Byrd. What this seems to do, then, also, is eliminate
17 the double taxation of dividends.

18 Senator Gravel. It goes in that direction, no question, and
19 that is the incentive. Two incentives, here. The incentive is
20 to be able to use the tax-exempt bond which is favorable; and
21 two, there are no corporate taxes on the income.

22 If we are successful, as was the ESOP where we now have
23 10 million Americans that own stock that did not own stock five
24 years ago, if we are successful and now 30 percent of the people
25 own 50 percent of the bulk, and are receiving income from it --

1 let's take the case of Alaska. If I am successful, a year from
2 now or a year and a half from now, because the state of Alaska
3 has appropriated a quarter of a million to hire Louis Kelso to
4 design the corporation, if we are successful we would be able to
5 declare a dividend to every single citizen of Alaska, a dividend
6 of \$500.

7 Treasury testifies that this is going to cost money. Sure
8 it is going to cost money. I do not know -- nobody knows.

9 What I am prepared to do on the Alaska project -- this will
10 apply to all of the United States -- in Alaska, I am prepared to
11 put into law that we will perform a study and we will look at
12 what happens to the welfare recipient. Because when he gets that
13 \$500 as income, which is going to be taxable -- at a very low
14 rate, because that is probably the only income he is going to
15 have -- that is going to have some effect on the transfer payment
16 that we give him in welfare. It is going to have an effect on
17 Social Security. It will have an effect on his attitude towards
18 work.

19 All of these things have to be measured to see if we go
20 forward.

21 If you stop and think of the immorality of the situation
22 today where 1 percent of the people in this country own 25
23 percent of the wealth --

24 Senator Byrd. Let me ask you at that point, let us assume
25 you distribute those 450,000 shares of stock. Each individual gets

1 one share, and those shares, I assume, are negotiable.

2 Senator Gravel. Would be at a point in time.

3 Senator Byrd. You could very well end up the same way,
4 with 1 percent of the people.

5 The Chairman. They would have a lot of fun, meanwhile.

6 Senator Gravel. I do not think I could amplify on that, but
7 in the next thirty years, the tragedy is, you do not know.
8 Maybe you could find out, and know and learn about what
9 goes on in every enterprise and maybe they would have a stake
10 in corporate society.

11 Right now, with 1 percent owning 25 percent and 5 percent
12 owning 50 percent, there is no constituency in the capitalist
13 system. It is moving towards the consistency of government to
14 do something. That is why you can get a statement by the Chief
15 Policy Maker of the United States of American and the IRS and
16 the Treasury Department, who can make a statement -- and I quote
17 again -- "This is fundamentally the heart of what is going on in
18 our society. The goal of the GSOP could be accomplished with
19 less departure from additional tax principles if the state or
20 local government role was direct ownership of the enterprise."

21 When a person can make that statement and in the higher
22 reaches of our government, he does not understand the object of
23 the exercise of the capitalist system. That is what is denoted
24 here.

25 The Chairman. It is true, because they would not need a law

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1 to do what he is talking about. But you are talking about
2 something that requires a law, and Treasury is not supporting you,
3 as I understand it. Is that right, Mr. Halperin? Treasury does
4 not support this?

5 Mr. Halperin. That is correct, Mr. Chairman.

6 The Chairman. At least it has not been so up to this point.
7 If you have a good sale, maybe you will have them convinced later,
8 even though they are not now.

9 Senator Gravel. They have not come up with anything imagina-
10 tive to solve the skewedness in society. The only way we are
11 going to keep this free enterprise system working is to give
12 everybody a share in the stock.

13 That is why I get so disturbed because of the confusion that
14 occurs that this is government ownership. This is exactly the
15 opposite of government ownership. I am not asking for something
16 new, really.

17 As you point out, the state of Alaska can do exactly what
18 I am suggesting now. It can sell these tax-exempt bonds. We did
19 it in the city of Valdez for hundreds of millions of dollars the
20 state can go around and create a trust that does not have any
21 corporate income taxes.

22 The only thing I am trying to do with this legislation is
23 to take it so that not just government can do this, but that a
24 group of citizens -- in this case, citizens that are defined in
25 some corporate governmental entity; that is the only reason for

1 government, to give definition to the size of the banana.

2 These are people who own the stock of the whole population,
3 so you have to have some kind of a definition. In this case,
4 this is the state of Alaska. People who live within the confines
5 of the county, western counties of Pennsylvania. We could provide
6 the capital to rejuvenate our entire steel industry.

7 We are looking to get more capital going to be able to make
8 our country more productive. I suspect that this is one of the
9 ways to do it, because we are going to be giving every American
10 a chance to get a piece of the action so that he is going to be
11 more interested in creating capital than in creating consumption,
12 that is what we have today.

13 I would hope the Committee, just on the argumentation that
14 we are not doing anything that presently cannot be done under
15 law, to let the private sector do it than just to have the govern-
16 ment do it.

17 Senator Packwood. I agree.

18 The Chairman. Let us understand this.

19 It seems to me as though we can understand this better if
20 you were somewhat more specific as to what the present plan is
21 and how you would like to implement it.

22 Actually, if I understand it, what you have in mind is the
23 state of Alaska would help this GSOP to purchase stock in that
24 pipeline. Is that right?

25 Senator Gravel. Yes. The only action the state would be doing

1 is just to set up a corporation --

2 The Chairman. A state would pass a law and enact legislation
3 to establish that corporation. Is that correct?

4 Senator Gravel. Right. The legislature has already
5 appropriated a quarter of a million dollars.

6 The Chairman. And then it would be the state of Alaska who
7 is making the loan to the corporation, to the GSOP, or someone
8 else?

9 Senator Gravel. More than likely, it would just be the sale
10 of bonds to the GSOP and the state might not guarantee it. It
11 might or might not. That remains to be studied with this quarter
12 of a million dollars, which is the best way to go.

13 The Chairman. The state would sell bonds?

14 Senator Gravel. No, the GSOP would sell the bonds.

15 The Chairman. Who would buy them?

16 Senator Gravel. You would sell them on Wall Street. The
17 general public would buy them, or anyone could invest could
18 buy the bonds.

19 Mr. Curtis. Since they are buying a share of the pipeline.

20 Senator Gravel. It will be guaranteed by the purchase of
21 the pipeline, so it would be no different.

22 The pipeline, BP owes about \$1.3 billion. Their interest
23 is \$1.5 billion, so that presently is being financed. So what
24 you would do is sell bonds. You would take the money, buy up
25 British Petroleum. They would pay back their bondholders and

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1 you would have created new debt, but at a lower interest rate
2 than the speculative rates that were sold when the pipeline was
3 in jeopardy during its construction.

4 The Chairman. The GSOP at that point would own 25 percent
5 of the pipeline? What percentage.

6 Senator Gravel. Around 15.8 percent, 16 percent of the
7 pipeline.

8 The Chairman. That should be on your chart somewhere. 15
9 percent of the pipeline.

10 Would they continue to hold it and then pledge that? Is
11 that it?

12 Senator Gravel. The BP would be out of the picture. The
13 GSOP would now own 15 percent of the pipeline, and that has an
14 income of around \$400 million per year. That 15 percent repre-
15 sents \$400 million.

16 The cost of operation is about \$80 million. The debt
17 service on \$1.5 billion is \$120 million.

18 The balance of that is \$200 million and the \$200 million
19 would be declared annually as dividends to the 450,000 stockholders
20 in Alaska, which amounts to \$500 per person.

21 The Chairman. Let us see what changes of law you need to
22 do that. The change of law you would need is that you would want
23 the bonds that would be issued by the GSOP to be tax-exempt?

24 Senator Gravel. Right. That would be the first change of
25 law that would presently be done by the state without a change

1 in law.

2 Senator Dole. Then you do not need a change.

3 Senator Gravel. BP is out of the picture, and the income
4 that BP receives would now be received by the GSOP.

5 Mr. Curtis. Which would go through and be tax deductible.

6 Senator Gravel. Right.

7 The Chairman. Tax deductible to the corporation, the pipeline
8 company?

9 Senator Gravel. No.

10 The Chairman. Would the pipeline company pay income tax
11 on the income which made the dividend possible?

12 Mr. Curtis. What you would have, the way the bill is now
13 envisioned, you would have a parent corporation, if you will,
14 which would be the successor to BP. All of its stock would be
15 owned by the GSOP, and the GSOP would, in essence, be a holding
16 company and they would be able to buy later stock in something
17 else.

18 Each of the citizens in Alaska is a shareholder in the GSOP
19 and the stock that they hold in the GSOP they could buy and sell
20 among themselves.

21 What we are talking about is the GSOP performs much of the
22 role of a holding company, so we need to get -- there has to be
23 a change in the tax laws to make this amount paid each year to
24 the GSOP tax deductible to the parent corporation.

25 If you are trying to get the money to flow out of the

1 corporation and down to the individual citizens as a dividend on
2 any stock they would buy if they had the money themselves.

3 You need to have a tax incentive for the parent corporation
4 to do something. The tax incentive, you make this dividend pay-
5 ment deductible, and then you make this trust.

6 Senator Byrd. How much is the parent corporation paying now
7 in taxes?

8 Senator Gravel. 50 percent of their income.

9 Senator Byrd. They would be paying \$200 million?

10 Senator Gravel. Yes. It is not that high, the income is
11 not that high because of deductions, the operational cost, and
12 then their interest on the debt, so their taxes are about \$17
13 million a year, working from memory.

14 Senator Curtis. Why would British Petroleum dividends have
15 to be deductible to British Petroleum?

16 Senator Gravel. First off, BP is out of the picture. They
17 are not getting any deductions. They are bought out.

18 Senator Byrd. It is a totally new company.

19 The Chairman. Draw a line through British Petroleum.

20 Mr. Curtis. Now the Alaska Pipeline.

21 Senator Gravel. You can do it several ways --

22 The Chairman. Let's not talk about several ways. We are
23 trying to understand one way.

24 Senator Gravel. One way is the BP corporation sells its
25 interest to the GSOP, period. The GSOP owns the interest in the

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1 pipeline, directly. Now you just have a GSOP that owns 15
2 percent of the pipeline.

3 Senator Byrd. Who owns the other 85 percent?
4 Senator Gravel. The rest of the oil companies -- Exxon,

5 Phillips, Union.

6 Senator Curtis. Why do you need a GSOP?
7 Senator Gravel. The state of Alaska could buy the 15 percent

8 directly -- state socialism. The difference is that this GSOP
9 is now a private corporation that elects its own board of direc-
10 tors and operates like any other private corporation in the
11 state of Alaska.

12 You are right. You can do exactly the same thing without
13 any new law, and it is state socialism. The state of Alaska would
14 own it. The state legislature would take the income and use it
15 for roads and anything else they want to.

16 Here the income comes in and it goes directly to the people
17 and there is no state government involved.

18 Senator Curtis. Why involve the government at all?
19 Senator Gravel. You have a simple choice. You can take

20 the government -- our Federal government, or the state govern-
21 ment and have it buy up all corporate enterprise in our society
22 and have a good Communistic state or you can find a way to get
23 the American people to own it directly so that they are in check

24 and balance in juxtaposition to the government.
25 Senator Curtis. In other words, they would own it, but it

1 is because the municipality bought it for them.

2 Senator Gravel. It did not buy it for them.

3 Senator Curtis. Did they not use their credit and assets?

4 Senator Gravel. No. In this example, they did not. They
5 did not use one sou of state government risk or credit or anything.
6 They went out and bought the tax exempt bonds on the strength
7 of the purchase of 15 percent of the pipeline.

8 Senator Dole. When are you going to have your stockholders
9 meeting?

10 Senator Gravel. Annually.

11 Senator Dole. I would like to address the first one.

12 Senator Gravel. I can arrange it for you. Stop and think
13 a minute. Right today, the Senate passed a law. In 1971, we
14 had 71 corporations with 75,000 natives in Alaska and they hold
15 a stockholders meeting every year.

16 Senator Curtis. I do not want to put a damper on any
17 proposal, but it seems to me we would all feel a little more
18 comfortable if your newest plan that is referred to by amendment
19 would be -- that we would reduce it to a bill.

20 Senator Gravel. It is.

21 Senator Curtis. He said much of what we have to do would
22 be in the nature of amendment.

23 Senator Gravel. I have it worked out in a bill.

24 Senator Curtis. I know you have a bill.

25 Senator Gravel. That is what the bill does. That is what

1 the bill does. That is what we are explaining, what the bill
2 does, just using one example.

3 Senator Curtis. I understood Mr. Curtis to say that much of
4 what he was explaining would be in the nature of an amendment to
5 your bill.

6 Senator Gravel. in the bill that I first introduced, we
7 used the word "trust," and that was leaning more towards the type
8 of policies that we have used in ESOPs. And of course, the
9 hearings -- I was struck with one of the difficulties with ESOPs
10 is that it relies too much on the retirement type of stuff rather
11 than the simple goal of expanding capital ownership.

12 Senator Curtis. That leads me to my suggestion. The pattern
13 that you want to go, it seems to me that we would all be a little
14 more comfortable about it if that could be introduced as a bill
15 in your last version and that it could be made available -- and,
16 of course, it would be -- to other states and municipalities to
17 private investors and companies and so on, and in the light of
18 that, see what they all had to say about it.

19 I am not qualified to say yes or no on the proposition in
20 Executive Session at this time, not knowing all of the ramifica-
21 tions that might arise.

22 Senator Gravel. Let me say that we have had a hearing on
23 the subject that was just to find out exactly what you are
24 suggesting. In that hearing, we had a hearing on Senator Long's
25 amendments to the ESOP which make the ESOP more effective.

1 This is still -- we could go along and ask all the municipalities.
2 It does not affect municipalities.

3 I just needed a vehicle. You see, with an ESOP, you have
4 the vehicle of existing corporations, employees within existing
5 corporations. With respect to this, you need a vehicle to define
6 the mass of people. The municipality has no more involvement
7 than that.

8 The Chairman. Let me add a point which should be made,
9 back there where you erased, write "pipeline company." If that
10 were an employee stock ownership and the pipeline would pay
11 money to an employee stock ownership and the employee paid to
12 that stock ownership, would be deductible to the corporation
13 just like wages would.

14 In other words, you can have an employee stock ownership
15 plan. You can set up the trust, and that employee stock ownership
16 trust can receive payments from that corporation and what it
17 receives is deductible by law. It is deductible right now by
18 law, just as though you were paying wages to those employees.

19 Now, as I understand it, he would want to have a payment
20 through to the general stock ownership plans deductible, just
21 as it were if the citizens of the state in this case were employees
22 of a corporation.

23 That is the tax advantage that he wants.

24 Now, when you do that, of course -- that company is in a
25 48 percent tax bracket. That means what they are paying through

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1 would have a much bigger advantage than it would otherwise. I
2 would say it would pay twice as much. That is what makes the
3 plan attractive as far as receiving the money that would pay the
4 thing out.

5 Mr. Curtis. Each of the shareholders down here is taxed
6 currently, so you have the flow-through of income.

7 The Chairman. That causes me to ask the question, if you
8 had that much advantage, that much tax advantage, do you have to
9 have those bonds tax exempt?

10 It would seem to me at that point it would be a sufficiently
11 especially if you had the government to stand behind it, you have
12 state governments stand behind it, it would be a sufficiently
13 attractive proposition that you would not have to have tax exempt
14 bonds. You could probably finance it with ordinary bonds.

15 Senator Gravel. Right. It would mean less income than
16 you might find the local government going and setting up a local
17 trust to use it as a device to do that. I was just being more
18 direct so that we could better assess what really is going on
19 in the economy.

20 Even if we do not pass that into law, the locals, through a
21 device, could have tax-exempt bonds. I just was trying to do it
22 directly.

23 You are right. You do not have to, and you do not have to
24 have a guarantee from the state or local government if what you
25 are buying, acquiring, is solid enough, and that is what is really

1 going to pay it, pay back as what you are investing in.

2 But you are right, Senator. The same pass-through is
3 exactly the same tax advantage that you have to a citizen in an
4 ESOP.

5 So you have ten million Americans, and I am asking for
6 something no different in this area than what we were already
7 giving to ten million Americans or 800 Alaskans. That is what
8 strikes me as odd; that this is not pioneering in any sense.
9 That pioneering was done on this Committee.

10 The Chairman. It is pioneering in this respect -- you are
11 doing something that has not been done before. Frankly, I would
12 be happy to see the people of Alaska own some interest in the
13 pipeline.

14 Senator Gravel. Could we pass out quickly the newsletter
15 that I passed out some time before? If you would open it up,
16 you would see there is a chart as to how a GSOP works, and if
17 you will just follow the chart along with me -- and this is very
18 rudimentary -- just as a corporation is formed and the stock is
19 issued to all licenses, making them owners of the corporation --
20 you see the chart -- the corporation borrows money from private
21 sources and the state guarantees the loan.

22 The state does not have to guarantee the loan.

23 The third step, the corporation invests the money in an
24 energy project making a corporation a part owner in the project
25 and thus making all Alaskans part owners of the project. And

1 finally, you see the chart. The income comes in from the project,
2 goes to the corporation. It is used to pay back the loan and
3 it is used to pay dividends. That is essentially what happens,
4 in very general form, obviously. The details are very difficult.
5 That is essentially the process.

6 What I am trying to do is make the process very direct and
7 that is to be able to have an advantage for tax-exempt bonds and
8 two, to enjoy the sound benefits of an ESOP, which would be tax
9 exempt status of the corporation.

10 The Chairman. I believe it would be best if every one of
11 us -- especially those who are not familiar with it -- I have
12 read your newsletter previously and I have studied the plan and
13 discussed it with you before, and I think it would be better if
14 we postponed the vote on this matter until all of the Senators
15 have had a chance to more thoroughly familiarize themselves.

16 Frankly, if it works, other states are going to want to do
17 the same and I can understand Treasury's concern about the matter.
18 It would lose the Treasury some money.

19 You might explain what the Treasury's concern about the
20 revenue aspects of it are, Mr. Halperin.

21 Mr. Halperin. Well, Senator, as you pointed out, there are
22 really, I guess, three advantages that are coming up here. The
23 key one is a question of the tax at the corporate level, which
24 could end up to being significant.

25 Assistant Secretary Lubick pointed out in his testimony that

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you may be able to afford the tax on this income if the state owned it directly. But he did go on to say that under the present Internal Revenue Code, the tax exemption for income from state or local governments is only from the exercise of an essential governmental function. That has not been enforced to any great degree up until now, but if you do get into a situation where state governments would start to do this on a larger scale, we would begin to create the same problem that we had with the charities before we had the unrelated business taxes.

As you pointed out, Mr. Chairman, they had twice as much income available if they do not pay taxes in order to pay off debt service, and et cetera, and it begins to give them an advantage.

So you have the revenue loss problem and you have that difficulty, and I think that is something that requires a lot of study.

The tax-exempt financing is the second problem. If the state did do it directly, it might be an industrial development bond, especially if the income from the pipeline is being used to pay off the bond or protect the bondholder and if it were done in that way, it would not be tax-exempt under present law.

The third question is, when you are going to tax the shareholders, are you going to wait until they actually get the stock distributed to them from the GSOP, or should you tax them at some point in the beginning? Perhaps there is some room for

1 working out something that would be acceptable to all sides.
2 The deferral may not be a big problem when you are talking about
3 basically, as Senator Gravel points out, low-income individuals.

4 I think it is the tax-exempt financing we have been concerned
5 about, the financing of tax-exempt financing and the possible
6 impact upon municipalities and state governments if this is
7 expanded to produce a private corporation. We are concerned about
8 the loss of the tax at the corporate level.

9 That we get into a full integration scheme, that is something
10 else, but here we are kind of going at it part way.

11 The Chairman. It would seem to me, if the state wants to
12 do it, it would clearly reduce the pressure on the state and on
13 the Federal government to provide social welfare benefits because
14 everybody would have some income, and I would think that you
15 would want to take that income into account when you are think-
16 ing in terms of how much Social Security benefits come,
17 welfare and other social services people would require.

18 I find myself wondering -- I have raised the question
19 before -- if you say that this is deductible, as the corporate
20 expense would be, and then pass that on through to the person
21 receiving the dividend, that is a very substantial tax advantage.
22 If that is the case, I find myself asking, would those bonds
23 then have to be tax-exempt?

24 It would seem to me that the proposition might be solid
25 enough to stand on its own on that basis, especially if the state

1 of Alaska wanted a guarantee on the payment of that loan.

2 Senator Gravel. If you did that, you would probably cut
3 the dividend that would be paid to the citizens of Alaska from
4 \$500 per year to \$250 per year. That is where the advantage
5 really comes in to do something exciting.

6 The Chairman. From the point of view of the Treasury, they
7 could see that if you do that in Alaska, then Louisiana might
8 get together and do the same thing, Texas and others, and by the
9 time we are through, we are talking about a lot of revenue.

10 Senator Gravel. Also you would be taking the wealth of the
11 nation, the ownership, spreading it to the people and then they
12 they would have an income and rather than paying \$178 billion in
13 transfer payments, we might only have \$100 billion in transfer
14 payments. Let me give you an example.

15 Where I cited the case to Donald Lubick, present policy
16 today is, you get a 10 percent investment tax credit. It took
17 15,000 people to build the Alaska pipeline. It only takes 200
18 people now to operate it. So you gave an investment tax credit
19 on \$8 billion of \$800 million and it is owned by the normal,
20 corporate distribution in our society today.

21 So, under corporate wealth distribution today, 1 percent
22 owns 56 percent stockholders now. This is from the Joint
23 Committee study.

24 So stockholders own 56 percent of the stock, 1 percent of
25 the people. So the stockholders of these oil companies means you

1 gave 1 percent of the American people, you gave them \$400 million
2 as an investment tax credit on the Alaskan pipeline. \$400 million
3 1 percent of the people.

4 This comes to somewhere in excess of a subsidy to this
5 1 percent of the people of \$12,000 per year. That is what we
6 are doing today.

7 All I am trying to do is just change that a little bit
8 and I am getting hassled by Treasury for what little money it
9 costs for the tax-exempt status.

10 The Chairman. Unless I miss my guess, by the time we get
11 through with your plan, we will give a lot more to the citizens
12 of Alaska by the time we are all through with this.

13 I, personally, would be delighted to see every citizen of
14 Alaska own some stock in the pipeline. I would be glad to see
15 that.

16 I would suggest that the members study this and see how
17 far they think we can go with it.

18 Senator Danforth. Mr. Chairman, just so we know what we
19 are studying, do you think they should own a piece of the pipeline
20 without paying anything in for it?

21 The Chairman. His point is that they would borrow the money
22 to buy the stock. That would make the plan feasible, that they
23 would get the same treatment with regard to the payments and to
24 that general stock ownership plan, that employee stock ownership
25 trust would receive. That is what makes the plan feasible,

1 financially feasible.

2 Senator Danforth. An employee in an ESOP, he has done
3 something. He has worked for the company. My understanding of
4 this program is that the citizens of Alaska are going to be asked
5 to pay nothing and in return for that they are going to be given
6 \$500 a year and that the financing for that \$500 a year is going
7 to be through a couple -- well, the deductibility of the distribu-
8 tion from the corporation and the tax-exempt status of the bonds
9 that the Treasury is supposed to pay for.

10 I would just like to know, if we are going to get into this
11 more deeply, how I am supposed to explain to the citizens of
12 Missouri why they are paying for this \$500 benefit for everybody
13 in Alaska?

14 The Chairman. That is why I thought we should not vote on
15 it today, Senator. We should know more about it.

16 Senator Gravel. If I could just respond, I agree we should
17 not vote on it today because obviously there is not the understand-
18 ing of the philosophy is involved.

19 Here is how you explain it to the people of Missouri. You
20 say, if you are a citizen of Missouri and you inherited \$10
21 million you are well off and you got it for nothing, and that
22 is okay in our capitalist society. And if you take that \$10
23 million and invest it, you get an investment tax credit. We
24 are going to give you 10 percent on the \$10 million every year
25 you do that, and that is going to cost the citizens of Missouri

1 when you do that because only 1 percent of the people in Missouri
2 really are getting any benefit.

3 But when you turn around and tell the people of Missouri we
4 are going to let all of you people out there buy, get some of
5 that benefit of the capital that we are going to have to create
6 in this country to keep your standard of living going the way it
7 is, so we are going to fix it so that you can do like the wealthy
8 people, go borrow money on your net worth and take the money that
9 you borrow, put it into something and let that something pay the
10 cost of the loan and then pay you the wealth thereafter. And
11 I think the people of Missouri would jump up in the air and say,
12 Hossanah. Somebody finally is letting us have a piece of the
13 action.

14 The Chairman. You had something parallel to that -- not the
15 same thing. You have a logical parallel in your REA cooperatives.

16 These cooperatives, some of them are incorporated and provide
17 electricity to these farmers' homes and they borrow the money and
18 they have a better tax break than their competitors, the so-called
19 investor-owned companies, have these things paid out, and the
20 farmers have an equity interest in it.

21 I know down in my part of the country when old Grandpa
22 passes off they sell Grandma a check of Grandpa's share in the
23 REA or in the company that incorporated the REA.

24 The Senator has an idea that is new now, but when we talked
25 about the REA, that was a shocking thing to some of the other

1 people, too.

2 So I would suggest that everybody study it. After you have
3 studied it, you might think it would be a good idea in Missouri.

4 Senator Dole. Having covered that, are we going to take
5 anything else up today?

6 Senator Hathaway. Could we take up a few more? I cannot be
7 here tomorrow. We have some that are not very controversial,

8 The Chairman. I would be willing to go on to 12:30 if you
9 would like to.

10 Senator Hathaway. I start with the one we have together
11 on the credit for the elderly.

12 What we want to do is simply raise the brackets which is
13 now \$2,500 to \$3,750. This is S. 2128, page 12 of the Committee
14 Print, lettered H. And I want to raise it to \$3,750 and take
15 off the cap. Also, to index it along the lines of the Consumer
16 Price Index.

17 The reason for this additional credit is to keep up with
18 inflation. I understand Treasury has some objections to two
19 points in this -- not the increase in the brackets, but the cap
20 and the indexing. Is that correct?

21 Mr. Halperin. Yes.

22 Senator Hathaway. Would you explain why?

23 Mr. Halperin. There are three aspects to the bill, as
24 Senator Hathaway says. One is to increase the level of the
25 amount of the credit by approximately 20 percent. One could

1 look at the increase in Social Security benefits and the
2 increased cost of living over the past few years, and we would
3 have no serious objection to raising the levels along that line.

4 That, as I understand, the revenue loss is \$75 million.

5 The other two aspects of the bill are far more expensive.
6 The second aspect is to either raise the phase-out level or to
7 eliminate the phase-out level entirely. If you eliminated the
8 phase-out level entirely, I think the revenue -- what is it?

9 Mr. Shapiro. In 1979, \$382 million, rising to \$400 million
10 by 1983.

11 Senator Hathaway. What do you recommend? Putting out a
12 higher cap?

13 Mr. Halperin. We would have difficulty raising the cap
14 at all, even raising it to \$15,000 for singles and \$17,500 for
15 marrieds, it would cost about \$200 million.

16 It is a question of what you are really trying to get at
17 here. Most of the aged, or a good deal of the aged, are not
18 paying taxes at all, so that they are not being helped by that,
19 and if we are trying to give an additional tax benefit to elderly
20 people, one, we have to consider whether we are going to go through
21 the tax system in the first place. Secondly, if we are going
22 to go through the tax system, those elderly, even a phase-out
23 starting at \$15,000 retains some of the benefit of this credit
24 for people with well over \$20,000 of income.

25 That is a significant enough bracket, or high enough bracket

1 with respect to the younger population, but a good proportion
2 of the elderly with that kind of income, a good deal of it comes
3 from investments and income alone is not a fair measurement or
4 an accurate measurement of the economic status of these individuals.

5 Our statistics indicate that people who now claim the
6 elderly credit, if I recall correctly, have something close to
7 \$3 billion in investment income, which is just about the same
8 as the amount of pension income that they have.

9 We are not necessarily talking about the lowest income
10 level of society. We think that the phase-out should probably
11 stay where it is, at \$10,000 for married and \$7,500 for singles.

12 Our preference would be not to touch the elderly credit at
13 all, but we do not have objection to increasing the cap.

14 Senator Dole. If you do that, it increases the cost of that
15 portion of it to about \$200 million, making the total cost
16 \$277.8 million instead of \$730 million.

17 Mr. Halperin. That is to increase the amount of the base
18 and to start the phase-out level at \$15,000 instead of at \$7,500
19 for singles and \$17,500 as opposed to \$10,000 for marrieds.

20 If you just do the first step, increase the base, the revenue
21 cost is \$75 million.

22 Senator Dole. Even with the other, nobody is going to receive
23 a credit with an adjusted gross in excess of \$26,500 and the
24 information I have, based on 1970 income levels, 94 percent
25 would go to those under \$20,000.

1 Senator Hathaway. I think we would go along with them as
2 far as leaving out the indexing but raise the cap. Is that right?
3 Do you agree with that?

4 Senator Dole. Right.

5 Senator Hathaway. \$7,500 to \$10,000.

6 Senator Dole. Treasury does not go along with that.

7 Senator Hathaway. We are going along with them leaving out
8 the indexing.

9 The Chairman. You would estimate that it would cost about
10 \$200 million for the part -- give that to me again? I have a
11 chart here. I wish somebody would provide me with the chart.

12 Let me see. They estimated, if you took the second one,
13 you leave out the indexing part of it and the estimated cost
14 would be what?

15 Mr. Shapiro. The way we have it, if you increase the base
16 that is being proposed and put a cap in by increasing it from
17 presently \$10,000 to \$17,500 for joint returns, increasing the
18 singles from \$7,500 to \$15,000 and do not have indexing, that
19 would cost \$277 million.

20 Senator Dole. For both.

21 Mr. Halperin. We have broken that down to say \$75 million
22 of that is from increasing the base. \$200 million comes from
23 raising the phase-out level.

24 The Chairman. Those in favor, say aye.

25 Senator Danforth. Mr. Chairman, before we vote, one question.

1 One of the problems that the Social Security system is having
2 is the termination of state and local governments, opting out
3 of Social Security which they have a right to do.

4 Has any analysis been done on the effect that this would
5 have on terminations? Would it make it relatively more attrac-
6 tive for state and local governments to terminate?

7 Mr. Halperin. Senator Danforth, obviously the prime
8 beneficiaries of the income for the elderly are people who
9 never worked at all or who are participants in the system that
10 is not a part of the Social Security system, who are basically
11 employees of the Federal government and state and local government,
12 and I would guess that anything that would tend to make their
13 retirement income taxed at a lower level, which increasing the
14 credit would do, would tend to encourage them to stay out of
15 Social Security.

16 I have no study that has been done as to how much it would
17 push you, but it clearly pushes you towards opting out of the
18 Social Security system. If you are concerned about that, then
19 we think that this amendment is not a move in the right direction.

20 Senator Dole. They do not receive tax-free Social Security.

21 Mr. Halperin. That is correct, Senator. This is intended
22 to try to create the same kind of tax benefit for those who are
23 not under Social Security as those who have Social Security, and
24 if you would rather encourage people to be in the Social Security
25 system, you may want to give them better tax treatment.

1 Senator Danforth. One of the arguments, when we were
2 talking about Social Security financing, one of the problems that
3 we talked about at that time was the termination of Social
4 Security coverage by state and local governments and by nonprofit
5 employees which was not much of a problem five years ago but has
6 been increasingly a great problem and, as I understand it, one
7 of the difficulties in Social Security financing, and as I
8 understand this provision, I do not know what the effect would
9 be.

10 It is a little hard to argue against it, you know. It
11 really is a Motherhood and Apple Pie deal. But I just wonder
12 if any consideration has been given as to how, if at all, this
13 could be meshed in with the concept of universal coverage, if
14 that concept is viable.

15 Senator Hathaway. Do we not require reporting every year
16 from our Social Security increase bill -- a study, rather --
17 and that will come back to us in a year, and I suggest that
18 we put report language in here that we restudy this when that
19 study comes back to see whether or not we should backtrack on this
20 or modify it accordingly.

21 But in the meantime, we would have given them this break,
22 which I think they deserve. And if we find out differently from
23 the study underway, we can think about it.

24 Senator Danforth. This applies only to those people who
25 have retired.

1 Mr. Shapiro. This provision is any individual 65 or older,
2 age requirement, not retirement. This provision completely revamps
3 the 1976 Tax Reform Act.

4 Prior to that, it applied only to retirement income and the
5 form was so complicated that it was discovered that very few
6 retired people bothered to fill it out, so we completely revamped
7 and called it a credit for the elderly -- simplified the return
8 to where it was a whole page. A very complicated -- it is now
9 just about six or seven lines and it now involves any individual
10 65 or older. It is a 15 percent credit on the base income, and
11 that income is reduced by Social Security.

12 Senator Danforth. Could you force a reconsideration of
13 it, to have it only apply to people who have reached the age of
14 65 before a certain date -- say a year from now, or so?

15 Mr. Shapiro. To make sure that this provision is reconsidered?

16 Senator Danforth. Things in the tax law tend to become
17 locked in after a very short period of time, and what I am
18 concerned about is if the effect if it will happen. It may not
19 have any effect at all. If it is going to have an effect on the
20 solvency of Social Security, if it is going to trigger a further
21 flood, I could like to see some sort of a possibility of shutting
22 the floodgates automatically.

23 Mr. Shapiro. What you are suggesting is a form of a sunset
24 provision?

25 Senator Hathaway. It should be at least 1980. The study

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1 will not begin until the middle of next year. That will give
2 us some time to look the study over.

3 Senator Danforth. Would that make sense to you?
4 Senator Dole. Not much.

5 I think that tax rates are driving people out of the
6 Social Security system. That would be a start, I guess.

7 Senator Hathaway. You want the whole thing to terminate at
8 a certain date unless we re-enact it? Is that what you are saying?

9 Senator Danforth. Yes.

10 Senator Dole. That would satisfy the Budget Committee.

11 Senator Hathaway. It is consistent with my philosophy on
12 sunsets. I will go along with you.

13 Senator Dole. I think the Budget Committee would look with
14 favor on that, because they want to review all tax expenditures,
15 and that would give them a foot in the door.

16 Senator Danforth. You have the Chairman's attention.

17 Senator Dole. As a member of the Budget Committee --
18 Senator Matsunaga. We must remember --

19 The Chairman. We will have plenty of chance to review it
20 before we do it. This will have to be added to some other bill,

21 anyway.

22 I would think, if the Senators wanted to express themselves
23 on this, we could vote on the principle here today on whether
24 you approve of this, and then we could discuss it when we have an
25 appropriate bill to add it to.

1 Do you want to discuss this bill, Senator Matsunaga?

2 Senator Matsunaga. Yes.

3 Before I ask a question of Senator Hathaway, I would like
4 to remind the Committee that this Committee, last February, upon
5 my suggestion, approved a \$470 million budget authority for later
6 consideration of this proposal. So we have provided for the
7 budget, and the elderly credit, we must remember -- I must point out
8 to Senator Danforth -- is intended to provide non-Social Security
9 retirees with the same tax benefit as Social Security retirees,
10 because the Social Security retirees have the benefit of non-
11 taxed income, and those who work for the Federal government or
12 state government without Social Security would be taxed on the
13 income which the Social Security retirees would not.

14 Since 1976, the annual Social Security benefit increased to
15 \$2,808 for a retired single worker and to \$4,500 for a retired
16 worker and wife in July of 1977.

17 For this reason, the Treasury in its option paper, recom-
18 mended to the President that the elderly credit be increased to
19 \$3,000 for a single person and \$4,500 for a couple filing jointly
20 where both spouses are over age 65.

21 For the same reason, I requested the budget authority to
22 cover such an increase back in February. However, since that
23 time, the average Social Security benefits have increased even
24 more, to create a wider disparity between the tax treatment of
25 Social Security and non-Social Security recipients.

1 In June of 1978, the Social Security benefits increased to
2 an average of \$3,048 for retired single workers and for \$5,096
3 for a retired worker with wife. These average Social Security
4 benefits indicate that the present elderly tax credit increases
5 proposed now may even be too small for a retired worker and wife,
6 where both spouses are over 65.

7 The proposed elderly credit for this would be \$4,500,
8 whereas, the average annual Social Security benefit payment would
9 be \$5,196 for Social Security retirees.

10 This disparity must be corrected and corresponding tax
11 benefits extended to non-Social Security retirees, as well as
12 Social Security retirees.

13 I ask one question of the proposer of the amendment. Do you
14 have any objection to extending this to those below 65?

15 Senator Hathaway. No.

16 Senator Matsunaga. Because government employee retirees,
17 for example, retire prior to the age of 65 and many of them, of
18 course, would be denied this privilege if you set the minimum
19 age at 65.

20 Senator Dole. It will run up the cost.

21 Senator Hathaway. Equitably, we could. I do not know what
22 the revenue loss would be. In equity, we should.

23 Senator Matsunaga. I do not know.

24 Senator Hathaway. The revenue loss might be so great --

25 Mr. Shapiro. We do not have that estimate. I should

1 point out what you did in '76, you provided this provision for
2 public retirees at any age that they have to have retired. This
3 provision in the present law is a credit for the elderly when
4 you reach 65, whether or not you are retired. And there is a
5 comprable provision available for public retirees, and they can
6 take advantage of it under age 65, but they have to have retired.

7 Senator Matsunaga. There is such a provision?

8 Mr. Shapiro. Only for public retirees.

9 Senator Danforth. Mr. Chairman, I think that it is important
10 to learn from lessons, and I can say that the biggest egg that
11 I have laid in the Senate has been the suggestion during the
12 Social Security bill that we move towards universal coverage.
13 It went over absolutely like a lead balloon. There was no support
14 in the Committee for it. My office was filled with lobbyists for
15 government employees within an hour. And I am not terribly
16 interested in laying the same egg again unless I can get some
17 other people to sit in the nest with me.

18 But, as I understand it, we are not going to report this
19 out today and we are discussing it and it may be on some future
20 bill, so I am just going to throw the idea out there and if anybody
21 shares my concern, I would be delighted to hear from them. If
22 not, I will get off the nest.

23 The Chairman. Let's vote on the proposal we have before us.

24 Senator Danforth. How are we going to vote on that?

25 The Chairman. We are simply voting to approve the modified

1 proposal. As I understand it, we are talking at this point
2 about people over 65. If you want to bring in something else --

3 Senator Danforth. Are we reporting out a bill?

4 The Chairman. No, we are not.

5 Senator Hathaway. What are we doing?

6 The Chairman. We are voting to approve a legislative proposal.
7 This will have to be put on some other bil. We will have to find
8 a bill we want to add it to.

9 Senator Danforth. It will not foreclose the possibility of
10 raising the question at that time.

11 The Chairman. It would not.

12 All in favor, say aye.

13 (A chorus of ayes.)

14 The Chairman. Opposed, no.

15 (No response)

16 The Chairman. The ayes have it.

17 I said I would stay until 12:30. The hour of 12:30 has come.
18 We are scheduled to meet again tomorrow, so I would suggest,
19 Senators, bring your amendments in tomorrow, and I will be glad
20 to hear you.

21 Senator Moynihan. Senator Hathaway was going to raise a
22 question of countercyclical revenue sharing. He cannot be here
23 tomorrow. Do you think that might be taken up in his absence?

24 What does Mr. Hathaway think?

25 Senator Hathaway. Is there a chance for a meeting Thursday

1 morning?

2 The Chairman. Can we meet Thursday morning?

3 Mr. Stern. Mr. Chairman, you have a meeting in the
4 Commerce Committee that you are supposed to be at by 10:30. We
5 could meet earlier, if you want to meet at 9:00.

6 The Chairman. 9:30?

7 All right, 9:30 then.

8 (Thereupon, at 12:30 p.m., the Committee recessed, to
9 reconvene Wednesday, July 9, 1978.)

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