

EXECUTIVE SESSION

THURSDAY, NOVEMBER 29, 1979

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

The Committee met, pursuant to notice, at 10:30 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Talmadge, Ribicoff, Gravel, Nelson, Bentsen Moynihan, Baucus, Bradley, Dole, Packwood, Roth, Danforth, Chafee, and Durenberger.

The Chairman: Explain item two, Mr. Stern.

Mr. Stern: Mr. Chairman, the Committee members have before them a document that is labelled A, called modification of allowance for consultants in the Committee Budget. In 1978, the Committee sought from the Rules Committee in the Senate, and gained, support for funding for a project to be undertaken by the Chase Econometric Associates, Incorporated, to improve their revenue-estimating ability, particularly by including some feedback on the supply side in the cost estimates.

At that time, it was estimated it cost \$244,000 over a two-year period. This was supposed to be \$100,000 the first year and \$144,000 the second year.

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1 Chase was slow in getting started, so they really only
2 used \$35,000 of the \$100,000 in the first year. They can
3 complete the project in time and do expect to complete the
4 project in time. What this bill will require is an additional
5 \$65,000 in this year to make up for the \$65,000 they used last
6 year.

7 What is involved is the reporting of a resolution to
8 increase the amount for consultant funds by \$65,000. At this
9 point, having reviewed the Committee Budget, which is a little
10 more than \$1 million, it seems to me possible to reprogram
11 within the total so that you would not be actually increasing
12 the total amount for the committee, but only the allowance
13 within the total for the consultants, so the suggestion is you
14 increase the limitation within the total for consultants by
15 \$65,000 in a resolution and have an amended contract with Chase
16 so that, within the same total that everyone agreed upon
17 originally you would be able to have that project completed by
18 early next year.

19 The Chairman: Is there any objection?

20 Without objection, agreed.

21 All right. Let's take the next item.

22 Mr. Stern: The third item relates to the budget
23 allocation report which has to be filed pursuant to the Second
24 Budget Resolution.

25 Now that the Senate and, as of yesterday, the House have

1 agreed to the Second Concurrent Budget Resolution, the Budget
2 Act requires that each Committee file a budget allocation
3 report before further legislation can be acted on. If you look
4 at document B which is before you, and you look at page 3 of
5 that document, you will see a Table, Table II.

6 That table shows, by major category, how the Finance
7 Committee total with particular emphasis on new legislation is
8 distributed by the assumption of the Senate Budget Conferees
9 and there is a staff alternative.

10 Basically what the Budget Committee has done is to assume
11 that social services will require \$400 million in increased
12 costs in order to maintain the 1979 level of \$2.9 billion.

13 While it is true that the Senate passed legislation which
14 would have reduced it from \$2.9 billion to \$2.7 billion, the
15 House bill is \$3.1 billion. It is assumed the conferees will
16 at least continue the 1979 level in 1980.

17 In the income security category, they have allowed an
18 additional \$100 million for the trade adjustment assistance
19 bill. Then they have offset that by savings of \$1.5 billion
20 that are anticipated in the health category.

21 The staff alternative is based on the assumption that it
22 will be difficult to have any more cuts in health than you have
23 already agreed upon -- namely, \$700 million. It is also
24 assumed that since the House and the Senate conferees disagree
25 on their assumption of the savings that can be achieved under

1 present law, administratively, that there is no reason why the
2 Finance Committee should not take the more favorable of the two
3 assumptions, namely, what the House conferees are telling the
4 Ways and Means Committee rather than what the Senate conferees
5 are telling the Finance Committee.

6 That saves \$300 million. I should put it another way.
7 That assumes a savings of \$300 million will be made already
8 under present law. That explains the two figures that you see
9 under health and the staff alternative, \$46.0 billion assumed
10 under present law and \$7 billion under present legislation.

11 The only change you would have to make to achieve the \$700
12 million compared to what you did already would be small
13 modifications of the effective dates in the child health
14 assessment program or other legislation by perhaps fifteen days
15 or so. It is a very minor change.

16 In the social service area, the staff alternative assumes
17 that you would reduce that program from \$2.9 billion in fiscal
18 year 1979 to \$2.7 billion as had been agreed to in the Senate
19 version of the bill and the income security assumes that you
20 will achieve further savings of \$300 million which will be
21 apparently offset by the \$100 million for trade adjustment
22 assistance, so that you would wind up with a net minus \$2
23 billion.

24 In that way, the staff alternative adds up to the same
25 overall dollar amount as the Senate Budget conferees assumed,

1 but it does it somewhat differently.

2 Senator Ribicoff: Mr. Chairman, may I make a comment?

3 The Chairman: Senator Ribicoff?

4 Senator Ribicoff: I think that we have a problem here
5 that the Committee ought to pay attention to. I think at this
6 time that it would be very unwise for us to make cuts in
7 unemployment compensation.

8 Since we met last, we have had massive lay-offs in the
9 automobile industry. The closing of sixteen steel mills has
10 been announced this week. Inflation is still rampant at the
11 rate of about 13 percent.

12 All indicators indicate that unemployment will go up with
13 a large recession in the next few months.

14 This will hurt the states, hurt the economy. Social
15 services are matters that affect the states and I am just
16 wondering if we could not be more realistic and try to carve
17 out the \$400 million or \$500 million that we have to pick up
18 out of revenue sharing.

19 Since we are talking with the states in any event, each
20 state could then make a determination on its priorities, its
21 own individual priorities, where it would save from the
22 allocations going to the states. Most states have a surplus
23 today the Federal government does not.

24 I think we have gone over these programs very carefully
25 and to satisfy the budget requirements, I wonder if it would

1 not be advisable for us to pick up the \$450 million or \$500
2 million for revenue sharing instead of unemployment
3 compensation in social services.

4 The Chairman: I, of course, do not want to vote. I doubt
5 that the Committee wants to vote to cut any of these items any
6 more than was recommended already.

7 I would like to ask Senator Moynihan, what is the
8 situation about social services? What is the potential of
9 taking the cut on social services, Mr. Moynihan?

10 Senator Moynihan: Mr. Chairman, this, it seems to me,
11 would verge on the irresponsible. The staff has no blame.

12 We have frozen this amount of money now for five years.
13 We have reduced it in this year and to reduce it still further
14 is to take these savings out of services to the poor. I just
15 do not think we can do that.

16 We are already reducing it in an inflationary age by not
17 increasing it, not even maintaining it. To reduce it further
18 seems to me to be something that this Committee should not do.

19 The Chairman: Louisiana is about an averaged-size state,
20 so I can think about that on more of a balanced basis, I guess,
21 than most people because we are about the average-sized state
22 and if you did what Senator Ribicoff was talking about, if we
23 recommended it, the Senate may not go for it, and I could
24 understand it. They voted it down, but they would do that
25 rather than cut the social services.

1 That would be a matter of asking the average sized state
2 to take a reduction at the state level, not the local level, or
3 the county level, but the state level. The average state would
4 take a cut of about \$10 million.

5 There would still be -- we would be giving them the
6 average-sized state, the state capital building, about \$40
7 million out of revenue sharing and about \$10 million, \$15
8 million. That is how it would work out for the average-sized
9 state.

10 But the local communities would still have their money and
11 not really wanting to cut any of it, it seems to me that
12 between hard choices between social services and unemployment
13 security, they are going to be difficult, though, because we
14 are going to have more unemployment this year than you had,
15 than you want.

16 If we are going to recommend something, it seems to me
17 that our bills cannot be considered until we do recommend
18 something out here. If we are going to recommend something, we
19 would probably do better recommending a small cut in revenue
20 sharing than income security or social services. I would
21 recommend a cut in almost anything to come within the balance,
22 but it would be more practical if you recommend a cut in
23 revenue sharing at this point.

24 Senator Nelson: It is coming out of the state revenues
25 anyway, is it not?

1 The Chairman: In one case you give them more money for
2 social services, in another case, you give them more money for
3 income security. But at least it would leave it entirely up to
4 them where they can best take the cut.

5 Senator Packwood: If you took it out of income security
6 and leave it in revenue sharing, it leaves them at their
7 discretion as to where they want to spend it. If you go the
8 other way around, they do not have the discretion.

9 The Chairman: That is right.

10 Senator Packwood: I think you had better take it out of
11 the income security for that reason.

12 The Chairman: What?

13 Senator Packwood: Out of income security and leave it in
14 revenue sharing.

15 Senator Ribicoff: Now you are talking about unemployment
16 and trade adjustment. That is where it is. And the
17 unemployment comp, and this is where you are hitting it, where
18 you have no choice.

19 I am sure that most states and most governors and
20 legislators would find some way in revenue sharing that they
21 could afford to forego, rather than unemployment compensation,
22 I think which is hitting the people where it hurts the most.

23 I do not think that there are any of our states where
24 there is not some revenue sharing that could be dispensed with
25 without any great loss to society in any one of our 50 states.

1 Senator Moynihan: Mr. Chairman?

2 The Chairman: Yes.

3 Senator Moynihan: I would have to say that the income
4 security increase provided by the budget is for the trade
5 adjustment act, a provision that this committee specifically
6 adopted and unfortunately it would seem to me a great reversal
7 for us now to take them away.

8 Senator Roth: Were there certain proposals by Senator
9 Boren that were going to make savings on that matter? I cannot
10 recall.

11 Senator Boren: Yes, we had a list. The Subcommittee held
12 hearings and we had presented to us a list of approximately a
13 dozen items that could save, if all of them were adopted, in
14 the neighborhood of \$3 billion. Some of them were
15 controversial, a number of them were not.

16 In fact, I sent a letter to all members of the committee
17 asking which, of any of these, on the list you felt were not
18 controversial and that you would be willing to have taken up?

19 There are several items there which could add up to at
20 least \$400 million or \$500 million, that a vast majority of the
21 states represented on this committee have already adopted. In
22 other words, it would have absolutely no impact on nearly all
23 of these states.

24 Senator Roth: Should we not act on those before we make
25 the decisions here?

1 I agree with Senator Packwood in part. I question under
2 revenue sharing there is broader discretion. They can use it
3 for the same purpose?

4 Senator Packwood: For income security.

5 Senator Roth: Or social services.

6 The Chairman: Let me ask Mike Stern. The \$3 billion in
7 savings is something that is eventually down the road. You
8 could not save it the first year. How much could you save in
9 the first year if you did those things that Senator Boren is
10 talking about.

11 Mr. Stern: There are only two items on the list where you
12 could have substantial savings in the first year. One involved
13 eliminating the national trigger for extended benefits. That
14 saved \$100 million. The other one was to revise the definition
15 or the way that you determine the insured unemployment rate for
16 purposes of the extended benefit program.

17 Senator Boren: The waiting period.

18 The Chairman: \$500 million?

19 Mr. Stern: \$500 million.

20 The Chairman: What is the other one? How much is
21 involved?

22 Mr. Stern: \$500 million.

23 The Chairman: \$500 million. By doing what?

24 Mr. Stern: Right now, when they define the unemployment
25 rate for extended benefit purposes, they not only take into

1 account the insured unemployment rate, not only take into
2 account the people actually down there receiving the regular
3 benefits under the regular benefit program, but they also count
4 the people who are in the extended benefit program.

5 So that has the effect that whenever the extended benefit
6 program triggers in, the insured unemployment rate goes up by
7 the amount of people who are now getting extended benefits.

8 We do not think that the Congress had intended that
9 originally. There the recommendation was that you define the
10 insured unemployment rate only in term of the people who are
11 getting the unemployment benefits.

12 The Chairman: If you did it that way, how much would you
13 save?

14 Mr. Stern: We think about \$500 million.

15 The Chairman: You could save, right in those two items?

16 Mr. Stern: That was a full year effect.

17 Senator Ribicoff: Would we save it this coming year.

18 All right. I am told it would be \$500 million.

19 The Chairman: How much?

20 Mr. Stern: \$500 million in the current fiscal year, even
21 if you acted on it now.

22 The Chairman: What?

23 Mr. Stern: \$500 million, if you acted on it now.

24 Senator Ribicoff: Let me ask you, by adopting that
25 formula, would you be actually depriving people of unemployment

1 compensation who are out of work and could not get a job? I am
2 just thinking of those automobile lay-offs and apparently the
3 closing of the steel mills. This could extend beyond the
4 normal unemployment comepnasation period, would it not?

5 Mr. Stern: I do not want to make it sound like a
6 technical change. The reduction comes about in unemployment
7 benefits.

8 Senator Ribicoff: That is right.

9 Mr. Stern: That may have been what the Congress
10 originally intended.

11 Senator Ribicoff: If a Chrysler plant closes down, the
12 reverberation that goes around the whole country, there could
13 be people who would need these extended benefits. These steel
14 mills -- I know they closed a plant in Connecticut, a small
15 plant, U.S. Steel. I do not see where that plant will ever
16 open up again. It is an old plant.

17 I would guess that U.S. Steel would just scrap it off the
18 board.

19 The Chairman: Let's talk about what Mike has in mind. He
20 says now that you could save \$100 million by simply eliminating
21 the national trigger. What you are talking about there, if you
22 have a lot of unemployment in your state, okay, you get this
23 benefit.

24 Mr. Stern: That is correct.

25 The Chairman: If you do not have a lot of unemployment in

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1 your state it does not trigger just because you have a lot of
2 unemployment somewhere else.

3 Mr. Stern: That is right.

4 The Chairman: Now, if you take the second item, again --
5 tell us a little bit more about that. Give it to me again.

6 Mr. Stern: The extended benefit program -- that is,
7 benefits that people get after they have been unemployed for
8 six months, those benefits are triggered by having a
9 sufficiently high level of insured unemployment in the state.
10 Insured unemployment is the number of people getting benefits
11 divided by the people who are covered.

12 What happens is, as long as there is no extended benefit
13 program, you simply count the people who are getting the
14 regular unemployment benefits, people who have been unemployed
15 for six months or less and that is the top part of the fraction
16 for determining this percentage.

17 We believe that you did not intend to make any change in
18 that when you enacted the extended benefit program, but the way
19 the program has, in fact, been administered, they count all
20 people who are receiving unemployment benefits, not just those
21 who are receiving regular unemployment benefits.

22 This has the effect that once the extended benefit program
23 triggers in a state, you then suddenly start counting all the
24 people who are unemployed for more than six months. It varies.

25 The kind of jump in the unemployment rate, the insured

1 unemployment rate in that state, because you are now counting a
2 new group of unemployed people.

3 This has the effect of keeping a program in effect in that
4 state for a longer period of time because otherwise the
5 unemployment rate would go down more quickly.

6 Senator Ribicoff: Let me ask you, forgetting the formula,
7 what does it do to people out of work? Then you are in an
8 area, or in a state, that has deep economic problems and
9 unemployment problems, do you not? That is what puzzles me.

10 If they have high unemployment and it is continuous, is
11 that not the group that should be taken care of, especially if
12 you are going to have these dislocations by the shutdown of
13 basic American industries?

14 Mr. Stern: The effect would be this. If you have a state
15 which the insured unemployment rate is beginning to get close
16 to 5 percent, still above it, beginning to get close to 5
17 percent, still above it, beginning to get close. By counting
18 the people receiving extended benefits, it may trigger out in
19 June, let's say. By not counting it, then it may trigger out
20 in May.

21 If the unemployment is going down anyway, the program will
22 trigger out earlier. That is where your \$500 million worth of
23 savings comes in under this proposal.

24 Senator Ribicoff: Is it taken out of the hides of people
25 who are out of work? It is not what the formula looks like on

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1 paper. What happens to the person in U.S. Steel, one of the 16
2 plants that have been closed down? If Chrysler goes under, and
3 they are eliminated, what happens to the person who works in a
4 Chrysler plant that is shut down or U.S. Steel plant shut down?

5 Mr. Stern: The \$500 million savings are all added not
6 paying benefits.

7 Senator Ribicoff: Not paying benefits.

8 These are the people who need the benefits, so they go on
9 welfare. So you increase the welfare rolls.

10 I mean, we know you fiddle around with paper programs, but
11 what is in back of that is flesh and blood, people.

12 Again, I want to urge that the revenue sharing gives the
13 states an opportunity, since it all affects the state, the
14 unemployment, the social services, if you take that 20 percent,
15 some 500,000 out of revenue sharing, that gives the state an
16 opportunity to look at all of its programs out of revenue
17 sharing and take a priority of which has the least impact on
18 the economy and social stability of that individual state and
19 they make the choice.

20 The Chairman: Let me just make this suggestion. Here is
21 my proposal and my suggestion to you.

22 Vote however you want to vote out there on the Floor. We
23 are not going to be able to come in here to recommend
24 legislation unless we vote for one or the other, and so I would
25 just like to ask for a show of hands between the two

1 alternatives, which way you would rather go. Between the two
2 alternatives, which way would you rather go? Would you rather
3 go by reducing the revenue sharing, or would you rather go by
4 reducing the income security?

5 Senator Nelson: Is there not a third objective?

6 Senator Dole: Senator Boren, is there not another
7 provision? The one-week waiting period for benefits?

8 Senator Boren: Another possibility would be the national
9 trigger which was mentioned.

10 Senator Dole: A third one, the one-week waiting period.
11 There are three areas where a vast majority of states have
12 acted. The one-week waiting period, virtually all of the
13 states here represented have -- those who voluntarily quit, for
14 example, not being qualified. Those refusing reasonable offers
15 of work. Nearly all of the states have those. There are very
16 few states that do not.

17 The problem is that the states have to have time to enact
18 those legislatively so that if we were to enact those this year
19 we could not figure on maybe a fourth of the amount of the
20 savings that would occur over a two-year period, since some
21 state legislatures would not meet.

22 The national trigger would save how much?

23 Mr. Stern: About \$100 million.

24 Senator Boren: That would not particularly hurt people
25 who were out for a long period of time because what we would

1 say -- let's say Kansas has only a 2 percent unemployment rate
2 and the national rate is now up over the figure, which would
3 trigger it. There is no point in triggering extended benefits
4 in states which have very low unemployment rates. It would
5 save \$100 million there.

6 Senator Talmadge: How much would you save by cutting off
7 unemployment compensation to retirees?

8 Mr. Stern: Actually, you have already got that provision
9 in law. I think the proposals that have been made are to
10 soften up that provision somewhat, either repeal it or do some
11 modification of it.

12 Senator Talmadge: I thought that we considered that a few
13 days ago when it was pointed out that someone who was retiring
14 after 30 years service and gets a pension, maybe, and also gets
15 unemployment insurance, does he not?

16 Mr. Stern: As of next April, there will be a dollar for
17 dollar offset.

18 Senator Talmadge: In other words, the Committee has acted
19 on that already?

20 Mr. Stern: That is right. The Congress acted a couple of
21 years ago.

22 Mr. Boren: If we eliminated the national trigger, \$100
23 million savings, what is the rate of unemployment? That figure
24 goes up as the rate of unemployment goes up. Would that not be
25 correct?

1 Mr. Stern: Once you trigger in nationally.

2 Senator Boren: If you eliminate the national trigger. At
3 8 percent unemployment, your savings would be up to \$1.3
4 billion.

5 It would depend somewhat upon a projection of what the
6 unemployment rate could be.

7 The Chairman: Mr. Moynihan?

8 Senator Moynihan: I respectfully suggest that we cannot
9 legislate unemployment insurance matters in this context. We
10 have nothing before us in writing.

11 The Chairman: We have to see which direction we want to
12 aim.

13 Mr. Chafee?

14 Senator Chafee: Mr. Chairman, I am prepared to go to your
15 vote, but I would just like to say in connection with what
16 Senator Boren said about the one-week waiting period and the
17 concern about the legislatures not meeting, it seems to me most
18 of the states have adopted the one-week wait, that if we
19 adopted it, required it here, I do not think that we should be
20 held up over the legislatures not meeting, because if we had
21 that requirement they will meet quickly enough. They have all
22 kinds of ways of meeting.

23 If the government calls it in, they will pass it.

24 The Chairman: How much would you save with the one-week
25 waiting period?

1 Senator Boren: \$100 million.

2 Mr. Stern: I think that the way it was being suggested,
3 though, ultimately not to make it a Federal requirement, but to
4 make it a federal matching question.

5 Senator Boren: If we made it a federal requirement, it
6 would be \$100 million. We would make \$100 million with the
7 national trigger.

8 Both of those have pretty widespread support. The vast
9 majority of states, I think, would favor those. It would be
10 relatively painless.

11 The idea of the one-week waiting period, of course --
12 somebody ought at least to go out for a week to get a job
13 before they turn to unemployment. I think something like 40
14 states have that, a very high percentage of the states have
15 that, the one week.

16 The Chairman: Let me offer you three possibilities and
17 see which way you would like to go.

18 One, we reduce it out of revenue sharing.

19 Two, we can take it out of income security.

20 Three, we can take it out of a mix between the two, some
21 of one, some of the other.

22 Let's have a show of hands. Which appeals to you most?

23 Item one, take it out of revenue sharing. Those who like
24 that.

25 (A show of hands)

1 The Chairman: Item two, the income security.

2 (A show of hands)

3 The Chairman: Item three, the mix. Part one, part the
4 other.

5 (A show of hands)

6 The Chairman: It seems to me then that the majority would
7 prefer to move it on by reducing the revenue sharing.

8 Frankly, I could go along with the mix. It is all right
9 with me. Any of the three ways, as far as I am concerned.

10 Senator Chafee: Mr. Chairman, the mixed vote was on
11 Senator Boren's suggestion, the one week plus the trigger and
12 the balance from revenue sharing?

13 The Chairman: Let's try that. Senator Boren is
14 suggesting, one, that we legislate the one-week waiting period.
15 You do not get it back. You do not get the first week.

16 Two, eliminate the national trigger. That would save you
17 \$100 million. Then we would only have to reduce revenue
18 sharing by \$300 million.

19 Yes, sir?

20 Senator Baucus: If I could ask a question of Senator
21 Boren, the states who have acted -- my state of Montna, will
22 that mean next year?

23 Senator Boren: If we enact it, it would be Federal law.
24 It would not require it.

25 The Chairman: Does your state have a problem?

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1 Senator Baucus: I do not know. We are probably one of
2 the 40 states. We have biannual sessions.

3 Mr. Stern: Our suggestion on that was not to make it a
4 Federal plan requirement where you would have a state plan out
5 of conforming and all that sort of thing, with penalties on
6 employers through the tax system, but rather that there would
7 be no Federal matching for the first week.

8 The Chairman: You pay for it yourself.

9 Mr. Stern: If they want to pay that, they would have to
10 count the additional money as if it sells particular people*
11 until they can change the legislation.

12 The Chairman: Yes, sir?

13 Senator Moynihan: I gather all those people in Youngstown
14 should look hard for work next week when half the plants in
15 town are closed down.

16 The Chairman: I do not know what the law is in that
17 state. I do not know whether that is one of the states.

18 I know Louisiana is one of the states where you do have
19 the one-week waiting period.

20 Those who would favor saying that you take those two items
21 and only have a \$300 million reduction in the revenue sharing,
22 raise your hands if you like that approach.

23 (A show of hands)

24 The Chairman: That is eight.

25 Raise your hands if you prefer to take it all out of

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1 revenue sharing.

2 Senator Dole: I have Wallop's proxy.

3 The Chairman: It seems to me that a majority would say to
4 recommend these two items, then recommend a \$300 million
5 reduction in revenue sharing.

6 Yes, sir?

7 Senator Bradley: Mr. Chairman, what is the process here?

8 We are simply making a recommendation of how we reconcile.

9 Then it goes to the Floor of the Senate.

10 If the Senate chooses, it can reject the reconciliation.

11 If it feels that either revenue sharing or unemployment
12 compensation is so important that it would like to exceed the
13 budget resolution is that right?

14 The Chairman: It may be, but as far as the Senate is
15 concerned, the Senate may not want to do either one of them.

16 Senator Bradley: I did not cast a vote on any of the
17 three options that you presented because I am not in favor of
18 any of them. I wonder if there might be an expression of
19 sentiment as to whether a recommendation could go to the Floor,
20 whether the Finance Committee as a group would vote against
21 this action that we took today.

22 Mr. Stern: Mr. Chairman, assuming that what you have
23 agreed to, our only numbers for an allocation report to be
24 filed today, that we would prepare some kind of a description,
25 both of the two unemployment proposals and the revenue sharing

1 for your consideration at your next meeting. That would be
2 when you would actually legislate.

3 What you are agreeing on are the numbers as shown in the
4 staff alternative for health, for social services, plus .4,
5 rather .2 for income security minus .1 for revenue sharing
6 minus .3.

7 That comes out to the same total amount as is shown there.
8 That is what would be in the committee's allocation report that
9 is filed. That is not legislation, of course. That is simply
10 a statement of what the Committee anticipates it is going to do
11 legislatively for your next meeting.

12 We would prepare actual descriptive materials.

13 Senator Dole: We might do something altogether different
14 at the next meeting.

15 Mr. Stern: We would take this as a directive to at least
16 prepare the materials we looked at based on these two ideas on
17 unemployment and how you would do that in revenue sharing.

18 Senator Dole: We may put a tax on unemployment comp.

19 Senator Boren: Mr. Chairman, I would like to mention one
20 other thing that I mentioned awhile ago that was not on our
21 list that we sent out. We did not have hearings on this, but
22 there has been a bill introduced by Senator Simpson and a bill
23 introduced in the House that is moving forward that would save
24 \$50 million in the unemployment area.

25 There is a Federal law that says when someone goes into

1 the military, if they stayed for only 90 days, all they have to
2 do is stay for 90 days, then they drop out for any reason --
3 not forced out, they just drop out.

4 They are eligible, then, to draw unemployment. That would
5 save \$50 million directly out of the Federal general revenues.
6 That might be another area that would even be more painless and
7 not involve a mandate, if you couple that with a trigger, and
8 then there is another proposal that staff made would save
9 another \$5 million to give incentives to Federal agencies to
10 contest improper unemployment payments to their own former
11 employees. That is 155.

12 We may be able to come up with a package here that would
13 not be very painful, I do not think, to do some of the things
14 that ought to be done.

15 The Chairman: Save the whole \$500 million?

16 Senator Boren: No.

17 With this mixture, as far as the \$200 million part, we
18 might be able to come up with a little ore painless ways of
19 doing it here.

20 The Chairman: That is all within the ballpark, all within
21 what we are talking about. If you only have to reduce -- if
22 you only have to save \$300 million on the revenue sharing, then
23 that means -- what percentage cut is that?

24 Mr. Stern: The \$6.9 million is state and local share of
25 that total. \$2.3 is the states, so it would be \$300 million

1 out of \$2.3 million. That is about 15 percent.

2 The Chairman: A 15 percent cut at the state level, a 15
3 percent cut at the state level. It is not going to wreck any
4 of them. They do not want any cut, I understand that, but that
5 is a small cut.

6 It will not put them out of business. They can live with
7 that.

8 Senator Ribicoff: They could lower their surpluses.

9 The Chairman: Right.

10 We will then so prepare a letter. I will send it over
11 there on behalf of the Committee.

12 Now, let's go to the next item.

13 Mr. Stern: This, Mr. Chairman, is the major item for
14 which the Committee meeting was called.

15 The Chairman: Let me announce this before we get on this
16 item. I am going to call another meeting of the Committee to
17 discuss other amendments that Senators want to suggest to
18 revenue bills. There are some other revenue bills over here,
19 are there not, Mr. Stern, from the House?

20 Mr. Stern: Yes, sir.

21 The Chairman: So I have had indications from Senators on
22 both sides of the aisle that they want to offer amendments
23 which we hope to avoid having on these three bills that we have
24 here, because these three matters we hope to dispose of
25 immediately and we hope not to load the technical corrections

1 bill, for example, with amendments which are not technical
2 corrections. In order to get the job done, I am going to call
3 the Committee together and we will take up some of the other
4 bills and we will put amendments on them that the committee
5 wants to suggest, well recognizing that there will be Senators
6 out there on the Floor who will also want to offer amendments.
7 We will have to try to accommodate people and let their
8 amendments be considered.

9 Senator Packwood.

10 Senator Packwood. You say other revenue bills, you mean
11 other revenue bills that raises sufficient money that when
12 amendments are offered they would not be subject to a point of
13 order?

14 I am thinking of Lloyd's amendment. I do not know what
15 revenue bill, Lloyd, you could attach it to that would have
16 enough revenue that we would not be subject to a point of order
17 on the Floor.

18 The Chairman: That is item four.

19 We are talking about those amendments. Those amendments
20 are not something that would sink those bills, would it not?

21 Senator Dole: Like reimbursement, Senator Talmadge?

22 Mr. Shapiro: Senator Long is referring to the fact that
23 since this Committee meeting has been announced there have been
24 a dozen or so amendments discussed with the staff just recently
25 that the members are interested in bringing up, many of which

1 we have just very hastily tried to get write-ups and tried to
2 determine what they are. Some are controversial, some have
3 revenue losses, some are not.

4 The items on the list, the major reason the meeting was
5 called was for the savings interest and dividend provisions.
6 The staff had believed that items five and six were imported to
7 be enacted. There are a number of extensions, simplification
8 provisions, noncontroversial, no revenue effect, because they
9 have passed the House and all the provisions in item five have
10 already been subject to hearings in Senator Byrd's
11 subcommittee, so hearings have been held.

12 The House has passed a bill and items that could be passed
13 very easily and signed into law this year.

14 Item number six, the Technical Corrections Act, which is,
15 as you know, the last-minute flurry in the legislation last
16 year in both the energy bill and the tax bill, there were a
17 significant number of corrections that need to be made.

18 The bill passed the House this summer. Senator
19 Byrd's subcommittee has held hearings. The thinking that these
20 two bills, 5 and 6, can pretty much be agreed to without
21 controversial or additional amendments, which there would not
22 be needed a conference or any significant measures.

23 They could be passed into law this year as well.

24 What Senator Long suggests is there be another session for
25 the other amendments that have come along and there are bills

1 here and they are coming over from the House in which action
2 could be dealt with at a later date.

3 At that particular time, staff will prepare materials to
4 be distributed to all the members on each of these amendments.

5 The Chairman: Mr. Moynihan?

6 Senator Moynihan: Last year the committee dealt with the
7 matter of the SEC rulings on industrial development bonds. We
8 passed the measure but it never got finalized. There will be
9 an opportunity to bring that matter up again under this
10 arrangement that you are proposing.

11 The Chairman: Yes.

12 Senator Moynihan; I thank the Chairman.

13 Senator Nelson: Do you intend to do the technical
14 amendments bill today?

15 The Chairman: Yes, sir.

16 Go ahead.

17 Mr. Shapiro: On the savings, interests and dividends, as
18 you recall, Senator Bentsen had an amendment proposed on the
19 Senate Floor on the windfall profits tax. The agreement was
20 made that he would withdraw that bill with the understanding
21 that the Committee would meet to discuss proposals and come
22 back with a committee amendment, at which time the Senate
23 would consider it.

24 There was a special exception made in regard to cloture on
25 this, so that if cloture was agreed to, this amendment would be

1 germane.

2 The staff has distributed to the members a series of
3 proposals that the staff is aware of. When the staff document
4 was submitted to all the members a couple of days ago,
5 essentially under present law, interest income is included in
6 gross income so that all interest is subject to full taxation
7 up to a maximum rate of 70 percent.

8 It is unearned income so is not limited by the 50 percent
9 limit on earned income.

10 In the case of dividends, there is a special exclusion.
11 The first \$100 exclusion on a single return, or up to \$200 in
12 the case of a joint return of dividends, may be excluded as
13 long as those dividends are from domestic corporations.

14 The series of proposals that are before the committee have
15 varying alternative proposals to provide interest and/or
16 dividend exclusions to provide for savings.

17 Senator Bentsen has a modified proposal that has a series
18 of cosponsors that has been distributed to each of you that
19 deals with both interest and dividends. What it would do is to
20 have a \$200 exclusion in the case of individual single returns,
21 and up to \$400 in the case of a joint return for both dividends
22 and interest.

23 That means you can get that exclusion on either \$400
24 dividends, \$400 interest or both. Under the proposal that has
25 been submitted to you, there is a list of the appropriate

1 interest that would be eligible for this exclusion. It must be
2 essentially all types of interest except personal loans, as
3 far as I can detect and both of these cases must be from
4 domestic corporations, domestic sources.

5 The effective date of the provision would begin after
6 December 31, 1980, effectively in 1981. The reason for that is
7 because of the budgetary purpose. It would not have an
8 objection raised against it under this budget because it does
9 not apply until the next fiscal year.

10 The revenue effect on a fiscal year basis for 1981 would
11 be \$314 million because it begins in the middle of the fiscal
12 year and does not have an effect until later because it is not
13 reflected in withholding.

14 It gets up to \$2.2 billion and goes up to about \$2.5
15 billion in 1985. The ten-year projection in 1981 to 1990
16 revenue effect is almost \$27 billion.

17 There are a series of other proposals that have been
18 submitted to the Committee. One of the different options is
19 one that is supported by Senator Nelson and other Senators
20 which would put it on an increment basis, whereas you get an
21 exclusion, but only to the extent that your interest exceeds
22 your investment in the preceeding year, and that would have an
23 exclusion of up to \$200 with a special provision for those
24 elderly, age 65, where they would get a flat exemption, I think
25 -- up to about \$500 as I understand it.

1 Senator Nelson: Both are \$500.

2 Mr. Shapiro: Both are \$500.

3 Senator Nelson: A flat exclusion over aged 65, without
4 the retiree demonstrating an increase in savings each year.
5 Prior to that there has to be an increase in savings each year.

6 Mr. Shapiro: That is right.

7 From the staff hand-out materials that you all have, there
8 are a series of other proposals by members on the Committee and
9 off the Committee of some ten proposals for various
10 alternatives, either on an incremental basis or exclusion.

11 Senator Bentsen's proposal, as I understand it, has six
12 cosponsors on the committee. Therefore, some of the other
13 proposals that are on the hand-out sheet have been incorporated
14 into that one. It includes Senators, cosponsors Talmadge,
15 Dole, Boren, Danforth, and Durenberger.

16 Senator Bentsen : Talmadge, Dole, Danforth, Moynihan,
17 Durenberger, Gravel, Boren, and Chafee. Nine cosponsors.

18 The Chairman: Senator Dole?

19 Senator Dole: Mr. Shapiro, I want to make certain I
20 understand. You indicated it could be a combination, all
21 interest, all dividends, or any combination.

22 Mr. Shapiro: Any combination. All interest, all
23 dividends, or any combination.

24 Senator Bentsen: I am sorry. I did not mean to
25 interrupt.

1 Senator Dole: I just wanted to suggest, there is a great
2 deal of interest in the original Bentsen amendment, a great
3 deal of interest on the dividend side and I think that this
4 compromise, although it might not be totally satisfactory to
5 everyone, does cover both bases.

6 There is of course, as you indicated on the little sheet,
7 a dividend exclusion now in the law. It seems to me that this
8 is a good compromise that does more than any of the other
9 proposals. I think that it is realistic from the standpoint of
10 cost.

11 I hope we could support it and take it to the Floor and
12 add it on.

13 Senator Bentsen: Mr. Chairman, if I might on this, let me
14 say that the savings in the first quarter of this year were 4.6
15 percent. That is the lowest of any major country in the world.
16 The Japanese, for example, were 22 percent.

17 We let that kind of trend in savings in this country
18 continue and it can have a disastrous consequence for capital
19 formation for homebuilding, for retirement.

20 What is happening right now is that you are seeing a
21 dismediation of funds. The savings banks are having a real
22 withdrawal of savings.

23 One of the arguments is that this ought to be an
24 incremental credit, that you ought to have some kind of
25 investment base in order to get credit for savings above that

1 making a major contribution to capital formation.

2 There are those who would say let us wait until next year.

3 We have been hearing that for quite a number of years.

4 I believe that the situation is so serious that we ought
5 to move now, tht the amount of money that we are talking about,
6 even though we are talking about billions of dollars, in
7 comparison to some of the things we are going to have to do to
8 turn this economy around, it is a relatively modest step in the
9 direction of encouraging savings and investment in this
10 country.

11 We had testified before us a number of associations,
12 senior citizens associations, savings and loans, home builders
13 who all support this kind of approach. One of the estimates
14 that we had from one of the groups was that it would add an
15 additional -- that was on the \$500 level rather than the \$200
16 and \$400 as we now have it, so you have to adjust to that, but
17 said that private investment would increase by \$21 billion, a
18 gain of \$4.8 billion. A corresponding increase in employment
19 of 250,000 jobs; rise in household per capita income of \$210;
20 increased economic activity; estimated rise in the GNP of \$9.5
21 billion.

22 Professor Boscon, an eminent economist at Stanford
23 University, says that my best approximation is that this would
24 increase personal savings to the U.S. by several billions of
25 dollars.

1 encouraged capital formation in those countries where they have
2 been able to do some things in the way of modernization of
3 productive capacity that makes them more productive than we
4 are.

5 Senator Talmadge: Thank you, Senator.

6 Senator Matsunaga: If the Senator would yield?

7 Senator Bentsen: Yes.

8 Senator Matsunaga: I was an original cosponsor. You
9 dropped my name.

10 Senator Bentsen: I apologize to you, sir, and quickly add
11 it.

12 Senator Matsunaga: You recall my suggestion to you about
13 the inclusion of the industrial loan companies?

14 Senator Bentsen: That is right. I would be happy to add
15 that.

16 Senator Matsunaga: We do have industrial loan companies.
17 My amendment would provide protection to the individual saver
18 in that it would require a certification by the Secretary of
19 the Treasury that such loans are insured and meet the standards
20 applied to banks and savings and loans, institutions in Hawaii
21 and I am sure that this might be ---that this is true in other
22 states, that we have about 21 industrial loan companies with
23 239 officers and they offer individual savings accounts and
24 consumer loans.

25 These companies have over \$400 million in assets. I would

1 urge the adoption of an amendment to include the industrial³⁷
2 loan companies.

3 Senator Bentsen: Mr. Chairman, if there is no objection,
4 I modify my amendment to include the industrial loan companies
5 as suggested by the Senator from Hawaii.

6 Senator Matsunaga: Thank you.

7 Senator Moynihan: I would like to congratulate Senator
8 Bentsen also and list myself as a cosponsor if I may, and make
9 the absolutely, to me, essential point that savings are at long
10 last to be the source to be acknowledge in the Internal Revenue
11 Code.

12 This is a time when our thrift institutions, as everyone
13 knows, are in very bad condition because of the differences of
14 interest rates available in the market generally and those
15 which they can pay. If we do not watch out, we will not have
16 any thrift institutions.

17 Obviously, we have a responsibility here.

18 Senator Dole: If the Senator would yield there?

19 Senator Moynihan: I would be happy to.

20 Senator Dole: I indicate I certainly share that. I think
21 there is a great deal of interest.

22 Of course, as the Senator knows, in New York and the fact
23 that we have combined and somewhat expanded the dividend
24 inclusion to that, the theory being that if you had simply
25 interest everybody would lock their money up in the bank and

1 not do much as far as expansion, as was pointed out by the
2 Senator from Texas.

3 I think it is a good compromise.

4 Senator Nelson: Mr. Chairman?

5 The Chairman: I was to call Senator Roth next.

6 Senator Roth: I would like to submit a new proposal, so
7 go ahead.

8 Senator Nelson: That is what I wanted to talk about,
9 against this proposal.

10 Senator Roth: If we are going to go to new proposals --

11 Senator Chafee: On the Bentsen?

12 The Chairman: Yes.

13 Senator Chafee: I am a cosponsor of this, Mr. Chairman
14 and bring up one minor point. If I could take up a technical
15 problem later on, we have a very substantial and stable
16 institution in our state that does not choose to be insured by
17 the Federal FDIC. They just do not pay the premiums, do not
18 choose to go that way.

19 I am wondering if there is some way I could look at it and
20 perhaps work with your people and see if the interest that they
21 pay to their depositors could be tax-exempt under this bill.

22 Senator Bentsen: I would be delighted to see if we could
23 not work something out on it.

24 Senator Gravel: A credit union?

25 Senator Bentsen: We took care of those.

1 The Chairman: Senator Nelson?

2 Senator Nelson: I do not care what order. I want to
3 speak against the Bentsen proposal. I also have a proposal
4 that is pending.

5 If Senator Roth wants to go ahead --

6 The Chairman: If you want to speak against it, Senator
7 Roth has an alternative suggestion. Do you want to speak
8 against the Bentsen proposal? Go ahead.

9 However you want to do it.

10 Senator Nelson: Let me say that I am in basic agreement
11 philosophically with Senator Bentsen in the objective of
12 capital formation. We may disagree on approaches, obviously.
13 I am in basic agreement with him on that and have been for some
14 time. In fact, I think that the earliest spokesman, in
15 this committee, in my memory, of over a period on behalf of the
16 issue of capital formation has been Senator Bentsen.

17 I am concerned about this problem in this proposal on two
18 grounds. One is timeliness, the other is the merits of the
19 issue.

20 The Small Business Committee conducted rather substantial
21 hearings on capital formation two or three years ago. Out of
22 those hearings we were addressing that issue, of course, from
23 the standpoint that small businesses were having much more
24 trouble getting capital than others.

25 Out of that, I came to the conclusion that the proposal

1 that Senator Bentsen is now proposing was a good one and
2 favored it. However, after considerable evaluation and
3 re-evaluation during the past two or three years I reached the
4 conclusion that my position in favor of the flat exclusion
5 concept, which is in Senator Bentsen's bill, is not a good one,
6 that there is a much better one.

7 92 percent of all the savings in this country are by
8 people who have an interest from savings of over \$500, so 92
9 percent ---what you are really doing here is a tax reform, not
10 a capital formation issue.

11 We are going to flatly state that we are going to give you
12 all a windfall of \$200 -- those who have interest on savings of
13 over \$500 a year now, 92 percent of all savings. We are going
14 to flatly say we are going to give you a windfall of \$200.

15 I am not arguing the question of whether that is good tax
16 reform or bad tax reform. I think I would be against it, but
17 as to capital formation, I think that it is a far overkill in
18 order to induce more people, to reward the 92 percent with a
19 flat \$200 tax free for doing what they already are doing.

20 That is a problem.

21 That is what finally persuaded me to drop that proposal
22 and make a proposal which simply provides that you can have a
23 tax-free interest to a maximum of \$500. That is two and a half
24 times, or a thousand per dollar, so long as the interest in
25 each succeeding year, as long as the savings is larger than it

1 was the year before.

41

2 For example, to take a small one, if you save \$1,000 and
3 have \$50 of interest, that \$50 would be tax-free. If the next
4 year you save \$1,000 you would know and you have the other
5 \$1,000 still saved, you have \$100 in interest, but \$50 of that
6 is in excess of what you had the year before. You would then
7 get \$50 tax free, not \$100.

8 I sent this to the Wisconsin Bankers Association and asked
9 them to comment on these various concepts, the flat proposal,
10 or otherwise. I will read an excerpt from the answer of
11 November 26th:

12 "Since banking is not seeking a windfall from these
13 proposals either for itself or for its customers, but rather a
14 legitimate means of increasing the nation's rate of individual
15 savings, the crucial element of our economic systems, support
16 of small business, agriculture, personal business, borrowing,
17 housing, et cetera, we are interested in legislative proposals
18 that emphasize and reward increases and the underlying
19 increases in savings. Of the proposals we have seen, your
20 proposal seems best suited to accomplish this objective."

21 Another part of the letter, "The Wisconsin Banking
22 Association believes that your bill most nearly meets the
23 present and longrange needs of our economy to reverse the
24 declining savings trend. We believe that the bill would be far
25 less expensive to the Treasury than the flat exemption

1 proposals. We believe that it properly puts the emphasis and
2 reward on increasing savings rather than in effect merely
3 providing a windfall reward for any savings.

4 Nobody can give us estimates on how much additional
5 savings would occur. We have not been able to get them.

6 It is clear, however, that the proposal I am making does
7 not reward for savings they are already making, except I do
8 have a provision, as Senator Bentsen does, for those over age
9 65 which would be permitted a flat \$500 interest exclusion
10 annually without showing an increase in savings each succeeding
11 year, as is required for those prior to retirement age.

12 The cost, if I reduce the proposal I am making to the \$200
13 and \$400, the cost of this bill would be under \$1 billion the
14 first year; a total of \$12.9 for the ten-year period versus the
15 \$26 billion for Senator Bentsen's.

16 Now, I did not offer my amendment to this bill, which I
17 could have, because I did not think that we ought to be dealing
18 with capital formation at this time. Whereas I agree with
19 Senator Bentsen's objective, I think that this is a vital
20 issue, very important to us, and we have several people here
21 who have cosponsored legislation, including the 1053
22 depreciation proposal which I sponsored on this side with
23 others with some reservations about the ten years on the
24 buildings.

25 The point of the matter is that the largest source of

1 capital in this country by far, the largest source, is
2 depreciation. \$112 billion a year, with bonds being \$72 43
3 billion and equity capital \$7.8 billion. Already, depreciation
4 is far and away the quickest and most important.

5 If we have a certain number of dollars to go with and you
6 cannot do everything, I would much rather go with depreciation
7 than with my proposal or Senator Bentsen's proposal on
8 interest.

9 The mistake we are making here is going ahead with any
10 proposal at this time. I think we need to go with the total
11 package. We are talking about my proposal, if you accepted
12 mine in toto, of \$23 billion between now and 1990 and Senator
13 Bentsen's is \$26 billion between now and 1990. He is standing
14 alone, not related to anything else.

15 They are good proposals. I do not think they should stand
16 alone. That is why I did not offer my amendment to this bill
17 here. That is why I would oppose Senator Bentsen's proposal at
18 this time, because \$26 billion or \$23 billion in my bill is a
19 lot of capital between now and 1990. It is maybe the
20 difference between having a good depreciation bill and really
21 inducing capital formation and one that is not so good on the
22 merits. Lloyd's bill is rewarding people for doing what they
23 are already doing, which may be a good thing to do if you are
24 having tax reform, I do not know, but it does not have much to
25 do with capital formation.

1 Senator Matsunaga: If the Senator would yield for a
2 question?

3 Senator Nelson: Yes.

4 Senator Matsunaga: I basically agree with the theory of
5 the Senator from Wisconsin. I think the incentive ought to be
6 for additional savings.

7 However, would there be accounting and verification
8 problems?

9 For example, assuming that a person has \$5,000 in the bank
10 and then withdraws and then takes the \$5,000 and deposits it in
11 a savings and loan account, would this be considered new
12 savings on which he would get credit for the interest?

13 Senator Nelson: On your tax return, there is a box for
14 interest from savings. You put that in, \$100, \$500, \$600, so
15 you would have had to have the savings.

16 All you would have to have one line in here that would
17 say, "strike the previous year's interest from the current
18 year's interest and that difference is the part on which you
19 are tax free, up to \$500."

20 Senator Matsunaga: I see.

21 Senator Bentsen: If you would yield for a question on
22 that very point?

23 Senator Nelson: Yes.

24 Senator Bentsen: Let us suppose that the interest rate
25 had gone up from the year before and the fellow had not put a

1 dollar in in savings but he got more income because the rate
2 went up, so that line would then show an increase. Are you
3 going to give him credit for that when he has not put another
4 dollar in?

5 Senator Nelson: I had not thought of that question.

6 Senator Bentsen: There are a lot of others that have not
7 been thought of.

8 Senator Nelson: Please let me answer. I had not thought
9 of that question. I do not know whether the staff has, or not.

10 It would be quite insignificant, because you are only
11 getting a tax-free interest based upon the excess of what you
12 got the previous year, not a cumulative total, so you have to
13 save every year to get a benefit.

14 If you had a tax free interest of \$100 more this year than
15 you had from your last year, then you would get it tax free.
16 If you save nothing more, do not save anything, you get
17 nothing.

18 If we are aiming at inducing savings, it does not. If you
19 are aiming at giving a windfall benefit, then Senator Bentsen's
20 proposal -- which I supported two years ago -- is a good tax
21 reform, maybe a good tax reform proposal, but not a very good
22 capital formation proposal.

23 The Chairman: Let me make a suggestion here.

24 I promised to call this meeting to consider the proposal
25 that is here. It is in order to offer alternatives.

1 Could we agree that we would hear the other Senators that
2 want to be heard and we will discuss this matter up until ten
3 minutes of 12:00 and at that point we will just start voting,
4 and let the chips fall where they may? Is that all right with
5 the Senators?

6 Senator Bentsen: Yes.

7 Senator Ribicoff: If I could have a few minutes --
8 The Chairman: Do you have to leave?

9 Senator Ribicoff: No.

10 The Chairman: I promised to call on Senator Roth next,
11 and then you, Senator Ribicoff.

12 Yes.

13 Senator Roth: Mr. Chairman, first I would like to say I
14 agree very strongly with both Senator Bentsen and Senator
15 Nelson that we ought to do something about capital formation.
16 I would like to point out that we have a stock of plant and
17 equipment and \$1.8 trillion. That stock has to grow by \$46
18 billion a year just to keep pace with our expanding work force.

19 That does not mean we are becoming more efficient, more
20 effective. Frankly, that is what we have to become if we are
21 going to be competitive with the Japanese and Germans and
22 others.

23 Unless we do something about capital formation, we face a
24 decade of decreasing plant equipment per worker, falling
25 productivity, falling wages, and real trouble in protecting our

1 jobs.

2 My very real concern with the proposal of Senator Bentsen
3 and like Senator Nelson, I, at one time was a supporter of it
4 too, is the point that Senator Nelson has already brought out.
5 It does provide a certain amount of tax relief.

6 From that standpoint, I could support it because I
7 think that the people of America need tax relief.

8 From the standpoint of promoting capital formation, in all
9 candor, it is pretty much a bust.

10 I think that what we have to do is try to develop an
11 approach that really provides some real incentive to the people
12 of America to become savers.

13 Senator Bentsen pointed out, we are only saving 4 percent.
14 The Japanese save 25 percent, the West Germans save 15 percent.

15 So I think that it is a mistake, if we are going to do
16 something as I think we should now, merely to reward those for
17 what already is saved, and we have an opportunity to build some
18 real incentives through additional savings.

19 What I am proposing, Mr. Chairman, is this: that we would
20 allow taxpayers to split their income into earned and unearned
21 categories and to compute their taxes separately on each, each
22 starting out at the lowest rates. Thus, the tax on both earned
23 and unearned income would start at 14 percent on the first
24 taxable dollar, rising to a maximum rate of 50 percent.

25 With this kind of approach, you are really giving an

1 incentive to people to save and that is what we have got to do.
2 We have to stop being consumers and start being savers.

3 I think Senator Nelson's is a step in the right direction,
4 but after the first year, you run into some of the same
5 problems. It does not provide the same continued incentive and
6 it becomes very complex to administer.

7 On the interest of equity, I would provide a tax exemption
8 of \$200 on joint returns for interest and dividend income for
9 those over age 65 and by those earning less than the median
10 family income, currently approaching around \$20,000 so from the
11 equity standpoint we take care of them.

12 To those who are the ones who potentially can provide
13 some real savings by my approach, we will be building in a
14 real incentive to the working people of America to stop
15 consuming and put it in savings.

16 The way it works now, any savings income is stacked on top
17 of wages and salaries for tax computation. In other words,
18 wages and salaries enter the tax bracket at a rate that begins
19 at 14 percent and runs up to 50 percent. Then your savings
20 income enters at the top of that so that you are giving a very
21 small incentive, in many cases, for people to save.

22 If we are really concerned about this problem of capital
23 formation, if we are really interested in getting the working
24 people of America to set aside some of their salaries and wages
25 from consumption and put it into savings, then we have to build

1 some incentive into it.

2 That is exactly what I am proposing here, Mr. Chairman,
3 that we separate earned income from unearned and tax them 14
4 percent up and that way, I think that we will see a tremendous
5 built-in incentive to promote the savings and capital formation
6 that I think everybody on this committee wants.

7 I would propose this as a substitute.

8 Senator Nelson: May I ask a quesiton?

9 You separate it from all unearned income as a separate
10 bracket, not just savings? Is that correct?

11 Senator Roth: Interest and dividends, yes.

12 Senator Nelson: With no cap on it, no maximum?

13 Senator Roth: Yes.

14 Let me go a little bit further, Senator Nelson. In order
15 to insure that taxpayers in the highest brackets do not receive
16 a windfall benefit, my proposal would include a limit on upper
17 income participation. Under this limitation, taxpayers with
18 unearned income large enough to reach the 50 percent bracket
19 standing alone would not be allowed to split the two. They
20 would have to continue as they did before.

21 But we are reducing the tax range from 14 percent to 50
22 percent, so that there is some built-in incentive even for
23 those people to save more.

24 The gréat benefit of that is that this will take funds out
25 of the various tax shelters and put it into more productive

1 type programs which in turn, has a beneficial effect on our
2 economy.

3 The Chairman: Incremental, is that it? Assuming right
4 now someone has \$100,000 in invested interest, he would not get
5 the benefit of this on what he already has invested, but on
6 what he invests hereafter?

7 Senator Roth: No. What we would say, he could not cut --
8 he could not separate his earned from unearned, because he
9 would be in the 50 percent bracket anyway. He would receive a
10 benefit in the sense that the range for unearned as well as
11 earned would be 14 percent to 15 percent.

12 Senator Ribicoff: Mr. Chairman, I think that what we have
13 here, we have four concepts that are intertwined with one
14 another -- the problem of productivity, capital formation,
15 savings and depreciation.

16 They all address the same basic problem that we have in
17 this country. It is obvious that next year we are going to
18 have to address this in a more serious way in the relationship
19 of one to the other.

20 What bothers me about the approach of Senator Bentsen now
21 is that you are chipping off a small part of the basic problem
22 that we are going to have to discuss. Whatever we come up with
23 is going to take an awful lot of money from the tax receipts
24 next year and I would hope that we could go about this in an
25 orderly way to have a meaningful program next year when the

1 committee meets.

2 I would go for the Bentsen approach, although I think I
3 like Senator Roth's better and I like Senator Nelson's better.
4 We are going to have to go into the problems of depreciation.
5 I do not know what we are going to allocate for that. I do not
6 think the Committee knows now what sort of a fund you are going
7 to address, whether you are going to have a tax impact of \$5
8 billion, \$10 billion, \$20 billion.

9 I would not like to foreclose the Committee at this time
10 from taking the Bentsen approach when we would find that there
11 would be another approach where the money that we are going to
12 set aside would have a greater impact than the Bentsen
13 approach.

14 Senator Roth: Mr. Chairman, I have passed out a chart
15 that I think would be of interest to everyone.

16 The Chairman: Where is it?

17 Senator Roth: Has this been passed out?

18 It is on the reverse side.

19 Mr. Chairman, that shows in the third column the average
20 interest and dividends on returns filed currently where they
21 have some interest and some dividends. It is interesting to
22 note that even in the \$2,000 or under the \$2,000 range those
23 that save or have dividends already have a total of \$605 so
24 that this proposal of Senator Bentsen would give no incentive
25 to them to save more.

1 It would give them some tax relief. I am not arguing that
2 that may not be beneficial. But it certainly does not give any
3 incentive to save.

4 Frankly, those who do have savings are the elderly who
5 have retired and they are living off what they have saved
6 prior. Most people in that range are too poor to save more.

7 The same thing is true of from \$4,000 to \$6,000.

8 If you look down, even if you had a \$1,000 exemption, all
9 you are doing is giving tax relief without providing any
10 capital formation.

11 I think that it is critically important there, as a
12 consensus, that it is important that whatever we do in this
13 area form some kind of incentive to add to the savings already
14 made.

15 You have U.S. Steel laying off 13,000 people because the
16 plants are obsolete. You have the problems of Chrysler, the
17 problems that industry after industry finds that unless it
18 modernizes it is not going to be able to compete with foreign
19 competition who have much better capital formation.

20 So I thnk that it is critically important that we do
21 something but I would hope that we would do it in such a way
22 that it really would add to our savings immediately.

23 The Chairman: Gentlemen, we had agreed to vote. The time
24 has come. I thnk we just ought to go ahead and vote on these
25 things. I apologize, Senator. You have not had a chance to

1 say anything at all yet.

2 Senator Gravel: That is all right.

3 The Chairman: I suggest we simply vote on the substitutes
4 and then vote on the proposal itself.

5 Those in favor of the Roth substitute -- shall we call the
6 roll on it?

7 Those in favor of the Roth substitute will say aye.

8 (A chorus of ayes)

9 Senator Roth: A roll call.

10 The Chairman: Call the roll.

11 Mr. Stern: Mr. Talmadge?

12 (No response)

13 Mr. Stern: Mr. Ribicoff?

14 Senator Ribicoff: Aye.

15 Mr. Stern: Mr. Byrd?

16 (No response)

17 Mr. Stern: Mr. Nelson?

18 The Chairman: Are you for it or not, or do you pass?

19 Senator Nelson: If you are calling the roll on it I would
20 like to say a word force.

21 The Chairman: The debate is over. We are voting on the
22 proposal.

23 Senator Roth: He can say one word, yes or no.

24 Senator Nelson: I ask unanimous consent to say two
25 sentences in the middle of the roll call. I do not wish to be

1 recorded as for or against Senator Roth. It sounds like an
2 interesting idea but it is very complicated. It is another one
3 I think ought to be heard along with the others. I will pass.

4 The Chairman: You withhold? All right.

5 Mr. Gravel?

6 Senator Gravel: I will vote against it, but I think it is
7 an interesting idea.

8 The Chairman: We are voting on the substitute.

9 Senator Nelson: You are voting on what?

10 The Chairman: As a substitute for the Bentsen amendment.

11 Senator Nelson: I will vote no on all of them.

12 Mr. Stern: Mr. Nelson?

13 Senator Nelson: No.

14 Mr. Stern: Mr. Gravel?

15 Senator Gravel: No. I think it is an exciting idea.

16 Mr. Stern: Mr. Bentsen?

17 Senator Bentsen: No.

18 Mr. Stern: Mr. Matsunaga?

19 Senator Matsunaga: No.

20 Mr. Stern: Mr. Moynihan?

21 Senator Moynihan: No.

22 Mr. Stern: Mr. Baucus?

23 Senator Baucus: No.

24 Mr. Stern: Mr. Boren?

25 (No response)

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1 Mr. Stern: Mr. Bradley?

2 (No response)

3 Mr. Stern: Mr. Dole?

4 Senator Dole: I am not against it, but I cannot be for
5 it.

6 The Chairman: Yes, no or pass?

7 Senator Dole: No.

8 Mr. Stern: Mr. Packwood?

9 Senator Packwood: Aye.

10 Mr. Stern: Mr. Roth?

11 Senator Roth: Aye.

12 Mr. Stern: Mr. Danforth?

13 Senator Danforth: No.

14 Mr. Stern: Mr. Chafee?

15 Senator Chafee: No.

16 Mr. Stern: Mr. Heinz?

17 (No response)

18 Mr. Stern: Mr. Wallop?

19 (No response)

20 Mr. Stern: Mr. Durenberger?

21 Senator Durenberger: Pass.

22 Mr. Stern: Mr. Chairman?

23 The Chairman: I guess I am a Gravel man -- no, but I
24 think it is an exciting idea.

25 Senator Roth: Mr. Chairman, I realize that this idea came

1 up late. I feel very strongly that this is a concept that
2 deserves careful attention and I would ask that I could
3 arrange, if it is agreeable with the Chairman, that we hold
4 early hearings and try to proceed with this idea, because I
5 think it really will create some real incentive in the area
6 that is badly needed.

7 The Chairman: Yes, sir.

8 Three ayes, ten nays, one pass.

9 Mr. Nelson?

10 Senator Nelson: Are we still open for discussion?

11 The Chairman: No.

12 Senator Nelson: Have we heard from Treasury on it?

13 Senator Dole: We do not have time.

14 Senator Bentsen: I have refrained from entering into the
15 debate --

16 The Chairman: We agreed that we were going o vote,
17 gentlemen. We will have to hear from Treasury later on. I am
18 sorry.

19 We will get to you later. We will get your votes after
20 the fact.

21 Mr. Lubick: We agree with Senator Nelson, Mr. Chairman?

22 The Chairman: What?

23 Mr. Lubick: Senator Nelson has expressed our position
24 very well.

25 Senator Nelson: Mr. Chairman, one moment. It is still

1 open for amendment, is that correct?

2 The Chairman: Yes, sir.

3 Senator Nelson: I do not intend to offer my substitute as
4 an amendment not because I do not think it is a better capital
5 formation proposal -- I believe it is far better. I do not
6 think that this is the appropriate time to start settling
7 capital formation questions with \$2 billion here and \$10
8 million here.

9 I am not offering mine. I do not want mine adopted even
10 if I had the votes at this time because I think that it is not
11 timely.

12 The Chairman: That is fair.

13 Let's vote, then, on the Bentsen amendment.

14 Mr. Stern: Mr. Talmadge?

15 Senator Talmadge: Aye.

16 Mr. Stern: Mr. Ribicoff?

17 Senator Ribicoff: No.

18 Mr. Stern: Mr. Byrd?

19 (No response)

20 Mr. Stern: Mr. Nelson?

21 Senator Nelson: No.

22 Mr. Stern: Mr. Gravel?

23 Senator Gravel: Aye.

24 Mr. Stern: Mr. Bentsen?

25 Senator Bentsen: Aye.

1 Mr. Stern: Mr. Gravel?
2 Senator Gravel: Aye.
3 Mr. Stern: Mr. Matsunaga?
4 Senator Matsunaga: Aye.
5 Mr. Stern: Mr. Moynihan?
6 Senator Moynihan: Aye.
7 Mr. Stern: Mr. Baucus?
8 Senator Baucus: Aye.
9 Mr. Stern: Mr. Boren?
10 Senator Boren: Aye.
11 Mr. Stern: Mr. Bradley?
12 (No response)
13 Mr. Stern: Mr. Dole?
14 Senator Dole: Aye.
15 Mr. Stern: Mr. Packwood?
16 (No response)
17 Mr. Stern: Mr. Roth?
18 (No response)
19 Senator Dole: Mr. Packwood votes aye.
20 Mr. Stern: Mr. Packwood votes aye.
21 Mr. Roth?
22 Senator Roth: No.
23 Mr. Stern: Mr. Danforth?
24 Senator Danforth: Aye.
25 Mr. Stern: Mr. Chafee?

1 Senator Chafee: Aye.

2 Mr. Stern: Mr. Heinz?

3 (no response)

4 Mr. Stern: Mr. Wallop?

5 Senator Wallop: Aye.

6 Mr. Stern: Mr. Durenberger?

7 Senator Durenberger: Aye.

8 Mr. Stern: Mr. Chairman?

9 The Chairman: Aye.

10 Mr. Stern: Mr. Chairman, am I correct in
11 assuming that what you were voting on was this proposal as a
12 committee amendment to H.R. 3919?

13 The Chairman: We are voting. It is too late to modify
14 the Committee amendment by my modifying it. It has to be
15 offered as an amendment on the Floor and Senator Bentsen will
16 offer it, in any event.

17 Senator Roth: Mr. Chairman?

18 The Chairman: Yes, sir.

19 Senator Roth: I would like to be recorded as voting aye,
20 but with the understanding that I intend to pursue my
21 substitute.

22 The Chairman: That makes the vote 15 to 2, 15 yes, 2 no.
23 All right.

24 Senator Matsunaga: Mr. Chairman, it is my understanding
25 that the amendment voted on was as amended by the Matsunaga

1 amendment.

2 The Chairman: Yes, as modified.

3 Let's see if we can vote on these other two things. We
4 want to get out to the Floor this proposal. Let me see. We
5 want to get out D, the House-passed -- is this the technical
6 corrections?

7 Mr. Shapiro: No, the next item is the bill that deals
8 with the extensions and simplifications -- H.R. 5224 and H.R.
9 5505, staff document D that you may ave.

10 Senator Moynihan: Could we have order, Mr. Chairman?

11 The Chairman: Let us have order.

12 I think that we felt that if we could limit these two
13 bills to what they are that we have a good chance to pass both
14 of them in fairly short order.

15 For that reason, we more or less agreed on the Democratic
16 side of the aisle that we would withhold amendments on it. I
17 can understand if someone has a technical amendment to a
18 technical amendments bill. That is appropriate. We hope to
19 limit this to what we have here.

20 Mr. Shapiro: On the first one, item number 5, which is
21 your staff document D, the first bill passed by the House,
22 is H.R. 5224, it extends the fringe benefit freeze.

23 As you know, in the 1978 Act, you froze the Internal
24 Revenue Service from providing administrative regulations or
25 rulings or benefit changes.

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1 Senator Gravel: Could we have order again?

2 The Chairman: Let us have order.

3 All right.

4 Mr. Shapiro: What this provision does, since the Congress
5 has not had an opportunity to deal with it this year, it extends
6 that freeze until June 1, 1981.

7 The second item in that bill freezes the IRS commuting
8 expenses so that regulations cannot be issued with respect to
9 deductibility of those expenses also to June 1 of 1981.

10 The third item in that bill, the Committee already has a
11 provision in conference that deals with state legislators.
12 Since that is in conference, I assume the Committee would agree
13 to the first items, fringe benefit, IRS commuting expenses.
14 Let the state legislators issue a stay in a conference on the
15 other bill. That would be deleted from this bill.

16 The next bill that is suggested --

17 Senator Dole: Can we report that bill?

18 The Chairman: All in favor, say aye.

19 (A chorus of ayes)

20 The Chairman: Opposed, no?

21 (No response)

22 The Chairman: It is reported.

23 Mr. Shapiro: What the suggestion is, add to that bill
24 H.R. 5224, certain provisions from H.R. 5505. These are
25 extensions that are included in Section 12 of H.R. 5505. There

1 are five of those that are also listed on the hand-out. The
2 first one extending for one additional year the uniform
3 services health professions health profession scholarship
4 exclusion.

5 Second, also extending for one year the National Research
6 Service Award exclusion.

7 Third, to extend through 1982 the deductibility of
8 architectural barrier removal expenditures.

9 Number four, extend for one more year, through 1980, the
10 interim relief for independent contractor status controversies.

11 Fifth, to postpone for two years the effective date for
12 the special limitation on net operating loss carryovers.

13 All five of those contain in Section 12 of H.R. 5505 the
14 House-passed bill on which hearings have been held, are also
15 being proposed to be added to H.R. 5224.

16 Senator Dole: I move those be approved.

17 The Chairman: Without objection, agreed. All right.

18 What is the next?

19 Mr. Shapiro: The last item on the bottom of your page are
20 a series of simplification measures which have been worked out
21 along the way with the staff of the Finance Committee, the
22 Joint Committee staff and the Treasury Department.

23 These have passed the House and there have been hearings
24 in the subcommittee on five items:

25 One to provide for the payment of interest on wrongful

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1 levies.

2 Second, repeal the information return requirement for
3 transfers to exempt organizations. IRS feels it is unnecessary
4 for that information.

5 Repeal the jeopardy assessment penalty. That is also an
6 unnecessary provision.

7 Fourth, to repeal the stock option reporting to IRS. As
8 of now, the IRS cannot use this information.

9 Fifth, to change the time for filing gift returns, where
10 today it is one and a half months after the quarter and move
11 that to April 15th and provide that there be an automatic
12 extension if there is one for income tax purposes.

13 All of these have been worked closely with the Treasury
14 Department, IRS and the staffs of the Finance Committee and
15 Joint Committee staff.

16 The Chairman: Is there objection?

17 Hearing none, so ordered.

18 Without objection, then, the bill will be reported.

19 All right. Now, let's take and look at the other one.

20 Mr. Shapiro: On the technical corrections bill, the bill
21 as H.R. 2797 has passed the House. The initial bill has been
22 worked on by the staffs of the Finance Committee, the Ways and
23 Means Committee, the Treasury Department and Joint Committee
24 staff.

25 The House passed its bill and those provisions were all

1 essentially covered in the hearings that Senator Byrd had in
2 his subcommittee.

3 In addition, after the House passed this bill, a series of
4 provisions have come to the attention of the Finance Committee
5 and the staff, once again, reviewed those and developed a
6 package of 37 proposed amendments.

7 These were suggested at the hearings that Senator Byrd
8 had. At the time, since they had just come up at the hearings,
9 what Senator Byrd suggested was that these proposals be
10 submitted to various Bar Associations to determine whether or
11 not there was any feeling that these new starters had any
12 substantive effect.

13 What Senator Byrd had intended to do to review these, and
14 if they have no substantive effect, based on the recommendations
15 of these Bar Associations, to suggest that they be added to
16 this bill.

17 Senator Byrd is not here. He is away. He has not had an
18 opportunity to review these.

19 What the staff has done -- six of these 37 amendments were
20 commented on by the Bar Associations. It is their belief that
21 they had some substantive effect.

22 The staff does not necessarily agree with them in all
23 cases. We feel in some cases they may not understand the
24 amendment. In some cases, they need to be reviewed.

25 The fact that this was the procedure that was worked out

1 with Senator Byrd and he has not been back, we have not had a
2 chance to talk to him, but what we would suggest to you is that
3 31 of these proposed amendments on which the Treasury
4 Department, the Finance staff and the Joint Committee and the
5 Bar Association groups all agree are appropriate technical
6 changes that the committee might agree to add those to the
7 list.

8 The remaining six, of which there is some question as to
9 whether or not they should be added, that we continue to review
10 the comments of the Bar Association and when Senator Byrd comes
11 back, review that with him and his subcommittee members and
12 with the Chairman and the Ranking Minorit member and Senator
13 Byrd.

14 If the objections have been dealt with, they may be added
15 to this list.

16 The Chairman: How does Treasury feel about that?

17 Mr. Lubick: We would agree with that procedure, Mr.
18 Chairman.

19 Senator Bentsen: Mr. Chairman, I will be having one I
20 understand Treasury does not object to, the question of a
21 foundation doing a rental in a building where they are paying
22 competitive rates and something has to be done on it by the end
23 of the year or they end up with a very substantial loss. I
24 would hope that this could be considered.

25 The Chairman: I am hoping that we can take care of

1 matters like that on these other bills that we are going to
2 report out. That is why I am having another meeting.

3 Mr. Lubick: We would urge that.

4 The Chairman: Yes, sir?

5 Senator Danforth: I have an amendment which I think is a
6 truly technical correction. Is this the appropriate time to
7 bring it up?

8 The Chairman: Yes, sir.

9 Senator Danforth: The 1978 Revenue Act provided
10 modifications with respect to entertainment facilities, denying
11 the deduction, in most cases, for a matter such as yachts and
12 beach houses and the like.

13 It had, I think, a clearly unintended effect -- I think
14 everybody recognizes that it is an unintended effect ---in also
15 covering contests where a manufacturer such as, for example,
16 General Motors, offers a contest where the employees or
17 franchisees participate and are awarded trips, such as, for
18 example, a trip to New York or Hawaii or New Orleans or Topeka,
19 wherever people want to go.

20 The literal reading, as I understand it, of the 1978
21 revenue act would cover, within the meaning of entertainment
22 facilities, a hotel room or transportation expenses for the
23 winners of these prizes.

24 Therefore, the effect would be that the employee or the
25 franchisee would in income and also the manufacturer would not

1 be able to get a deduction for the amount of the prize.

2 Therefore, this amendment is intended to clear that up.

3 Mr. Shapiro: Senator Danforth, the amendment that you are
4 referring to is one of the six that there was an objective to
5 based on a substantive change. A question was raised. That is
6 one of the items that we are suggesting be reviewed with the
7 changes and maybe you would want to consult with Senator Byrd
8 and the Treasury Department where this is being considered.

9 I am saying that is one of the six, where there is a
10 question that has been raised as to whether it has a
11 substantive effect, and how to deal with it.

12 Senator Danforth: How could there conceivably be a
13 substantive effect?

14 Mr. Shapiro: A question on the reverse side of it. From
15 what you are pointing out, the recommendation was that you have
16 a zero reporting of it even when there is a dollar amount. The
17 objection was that that is a substantive change in the law.

18 Senator Danforth: That is not what I am proposing.

19 Mr. Shapiro: You want to eliminate that part of it.

20 Senator Danforth: I do not want anything done with
21 respect to reporting. I am not suggesting anything on
22 reporting. I am simply suggesting clearing up the '78 revenue
23 act.

24 Mr. Shapiro: Right.

25 Senator Danforth: To make it clear that these kinds of

1 prizes are not included as entertainment facilities.

2 The Chairman: Mr. Lubick?

3 Mr. Lubick: Senator Danforth, as we indicated, we have a
4 problem if we do not have information reporting. The clearing
5 up, we agree with you. You are trying to put these independent
6 recipients who are not employees on the same basis as
7 employees.

8 If that is treated by compensation by an employee, do not
9 lose the deduction if it is subject to W-2 withholding in the
10 case of an employee. What we have suggested in that case and
11 what we have all worked out is the appropriate technical
12 amendment, is that we would give the same treatment where the
13 recipient is not an employee provided that there is information
14 reporting.

15 I believe Senator Danforth agrees with the information
16 reporting to the extent that it is required under present law,
17 if it is in excess of \$600. We are talking about information
18 reporting where the amount is less than \$600 and we think that,
19 in that situation, there should be information reporting
20 because the notion is to give a deduction where otherwise there
21 would not be one.

22 In the case of an employee you would, in effect, have
23 information reporting to the Service because the W-2 applies to
24 the first dollar.

25 We think the exact analog ought to be in the case of the

1 independent contractor. That is another point of difference
2 here:

3 Senator Danforth: Mr. Chairman I do not think that this
4 will take very long to make the case and to explain everything
5 to the Committee. The present law is that in the case of a
6 prize being awarded to the employee or a franchisee, the
7 manufacturer would file a reporting form. In the case of a
8 prize of less than \$600, if the prize was less than \$600 then
9 it simply is not worth the paperwork and the aggravation and
10 therefore the law now is that there is no such requirement.

11 If a prize of, say, a television set or an automobile or
12 cash is given to these employees or car dealers that is not
13 subject to any reporting.

14 I have offered a very simple amendment clearing up the
15 1978 revenue act. What Treasury is trying to do, as I
16 understand it -- I thought we might have worked this out, but
17 what I understand Treasury is trying to do is to hook onto a
18 straightforward technical amendment and additional change in
19 the law with respect to reporting, dealing only with a certain
20 kind of compensation, namely a trip where it would not apply to
21 cash or would not apply to a TV set or anything else less tha
22 \$600.

23 It may be that the whole area of reporting in this kind of
24 compensation should be addressed and that there should be
25 hearings on it and even a separate bill on it, but I do not

1 think that it should be chipped away at by singling out a single
2 type of compensation which is peculiarly affected by the 1978
3 revenue act and holding that hostage for a separate and
4 distinct problem that the Treasury perceives, which is not a
5 technical correction.

6 Mr. Lubick: I think that we are looking at the universe
7 as being a different universe, here being the universe
8 dealing with information reporting. I suggest that what we are
9 dealing with here is the universe of deductibility of
10 entertainment facilities expenses.

11 Under the statute as enacted last year, there is no
12 deduction for entertainment facility expenses except in the
13 case of an employee where you do have withholding and reporting
14 to the government and when you extend that rule to independent
15 recipients in the case of entertainment facilities only, then
16 we think it is appropriate then, if we are going to allow the
17 deduction, to pick up the same rules that you would with
18 respect to employees.

19 Senator Danforth: Let me ask one simple question.

20 There is no doubt, is there, that there was no intention
21 under the '78 revenue act to consider a hotel room, or an
22 airplane ticket to go to New York or New Orleans or someplace,
23 an entertainment facility?

24 This is simply a technical reading which was clearly not
25 intended by the Congress.

1 Mr. Lubick: I am not sure that is true, Senator Danforth.

2 Senator Danforth: I thought that was the one thing that
3 everybody agreed on.

4 Mr. Lubick: As I understand it, there was a distinction
5 made between the business trips, where what you say is
6 absolutely correct, and the furnishing of vacation trips where
7 a different result pertains.

8 Senator Danforth: Your view is, regardless of the
9 reporting thing, which is your point, not mine.

10 Mr. Lubick: I beg your pardon?

11 Senator Danforth: The reporting thing is your point, not
12 mine. But, aside from that, your view is that it was the
13 intention of the Congress to cover this kind of travel prize in
14 the same category as yachts and hunting lodges?

15 Mr. Lubick: The Senate Finance Committee report states
16 that the special facilities disallowance rule generally would
17 not apply to expenses incurred by an individual away from home
18 at a bona fide business, trade or professional meeting or
19 convention.

20 These expenses, however, would continue to be subject to
21 the generally applicable rules relating to the deductibility of
22 business, travel, convention and entertainment activity
23 expenses. So that the differentiation is between those sort of
24 items as applied in the convention context, as opposed to the
25 furnishing of these items as a prize or convention.

1 I think you are dealing with a different situation. No
2 one is suggesting that these are business when you furnish a
3 vacation.

4 The Chairman: Mr. Hawkins?

5 Mr. Hawkins: Our concern here was not simply on the point
6 of the Treasury. I hesitate to speak too firmly about what was
7 intended last fall, because I was not here last fall, but it is
8 my impression that the matter was not squarely resolved.

9 I have not found anything that specifically puts it to
10 bed, as far as intent.

11 The reason that it seemed a reasonable extension subject
12 to this reporting problem and we were concerned, and I do not
13 think that was limited to the Treasury, to this whole
14 underground economy approach to taxation that if your next door
15 neighbor gets a trip to Florida and he does not have to pay
16 taxes on it, that erodes confidence in the system.

17 If he is not a tax lawyer, it probably will not strengthen
18 his income. If it does strengthen his income and he is honest
19 and wants to report it, he does not know the amounts, he does
20 not know what the plane ticket costs, the hotel room costs,
21 what the room costs.

22 We felt -- I do not want to condemn anybody else, but
23 speaking for myself, my attitude in '78 was unclear enough so
24 that we should not resolve it in a way which would create one
25 more step in a tax system that cannot be complied with.

1 Now, clearly, if I am wrong about the intent, if the clear
2 intent of Congress was to put this in without any reporting
3 requirement, then we are wrong about that and we should just do
4 what Congress intended. I proceeded from the other view.

5 Senator Dole: Why do we not find what Congress intended?

6 I move that we approve the Danforth amendment.

7 Mr. Lubick: Senator Dole, it is my understanding -- my
8 recollection has been refreshed -- even before the 1978 Act,
9 Senator Danforth, in these cases, under the laws enacted in
10 1962 that in this vacation context, hotel rooms and things like
11 that were regarded as entertainment facilities and were subject
12 to these rules then.

13 Senator Dole: Let's vote and then work it out later.

14 The Chairman: All in favor of the Danforth proposal,
15 raise your hand if you are in favor of it?

16 (A show of hands)

17 The Chairman: Those opposed?

18 (No response)

19 The Chairman: It is agreed to.

20 Senator Dole: That is the intent of Congress.

21 The Chairman: Senator Matsunga?

22 Senator Matsunga: I have what I believe to be is a
23 technical amendment on item 2 on the exhibit passed out by the
24 staff, Rules for Work Incentive Credit and Targetted Jobs
25 Credit for Cooperatives.

1 The 1970 Act replaced the general jobs tax credit with a
2 targetted jobs tax credit, as you recall.

3 This jobs tax credit applies to hiring from seven
4 targetted groups and one of the targetted groups is the
5 cooperative education students aged 16 through 18.

6 Now, it so happens that there are students who are 19
7 years of age who are being discriminated against because they
8 are not included in the group although they are students, in
9 fac, so my proposal is to raise the figure from 18 to 19,
10 making it 16 through 19.

11 Senator Dole: Is that technical?

12 The Chairman: Is that a technical amendment?

13 Mr. Shapiro: It is a close question. It can be viewed as
14 one. The House Subcommittee on Tax Measures has considered
15 this as a separate item and has ordered it reported, I
16 think this week, and reported it to the full committee.

17 The question is that the committee wanted to cover these
18 cooperative situations. The question is, what is the age
19 limit?

20 Usually it is generally thought of that high school goes
21 through age 18. That was the age that was considered.

22 We now understand that many of these programs go through
23 age 19. It can be viewed that Congress intended to cover these
24 programs at the age limit, it was thought to be 18 at the time
25 and had they focused on 19, Congress probably would have used

1 19.

2 Mr. Lubick: At the Ways and Means Committee the other
3 day, Mr. Chairman, the amendment was adopted without approval.
4 There was a change in the effective date to wages paid after
5 November 27.

6 Since it could not be said to be an incentive, it was not
7 in the law prior to that date. We are somewhat more dubious as
8 to its nature as technical, but we certainly have no problem
9 with the amendment if the effective date change is made.

10 The Chairman: All I am afraid of -- do you think the
11 House is going to send this bill over here?

12 Mr. Shapiro: Yes.

13 The Chairman: What I am afraid of, if we keep putting
14 things on here, each amendment we add is an invitation to put
15 something else on. If the House is going to send something
16 over, I will be happy to help you pass the House bill.

17 Senator Matsunaga: The bill has already been passed.

18 Mr. Lubick: Reported out by a Subcommittee of the Ways
19 and Means Committee.

20 The Chairman: Or put it on some other bill. I am afraid
21 to keep adding to this bill.

22 If it is strictly a technical amendment, that is something
23 else, but if we are going beyond what was in the House-passed
24 bill, the bill we passed last year, I think we had better try
25 to hold it to that. Otherwise, this bill is going to bog down.

1 Everytime we add an amendment that is not a technical
2 amendment we are subject to ~~having~~ other people add meritorious
3 amendments.

4 Senator Matsunaga: Mr. Chairman, I believe that this
5 could definitely be classified as technical because at that
6 time, in 1978 when we passed the cooperative tax group, it was
7 thought that cooperative students meant those 16 through 18.
8 We find now that actually there are 19-year-olds among those
9 who are cooperative students.

10 In as much as the Ways and Means Committee has approved
11 it, or the subcommittee has approved it, there appear to be no
12 grounds that Treasury Department has no problem with it. My
13 question is who is going to oppose it.

14 The Chairman: How do you feel about putting it on the
15 technical amendments thing, Mr. Lubick?

16 Mr. Lubick: We were concerned, Mr. Chairman, if it
17 involves a change in the date that perhaps it indicates it was
18 not something you intended to do ab initio. We think it is a
19 good bill and we endorse it. I share your reluctance to open
20 up questions, making provisions applicable from here on out as
21 being strictly technical.

22 An argument can be made that it deals with the problem you
23 were intending to deal with.

24 Senator Matsunaga: So it would be technical?

25 Mr. Lubick: I will throw that back to you.

1 The Chairman: All right.

2 Those in favor of the amendment, say aye.

3 (A chorus of ayes)

4 The Chairman: Opposed, no?

5 (No response)

6 The Chairman: The ayes have it.

7 All right. Do you have a technical amendment, Mr. Boren?

8 Senator Boren: I was just ready to bring up the same
9 thing.

10 The Chairman: All right.

11 Senator Nelson: Maybe I can ask the staff, Senator Culver
12 asked me to raise a matter which he considers a technical
13 amendment which was raised in a letter to the Chairman dated
14 November 6th which relates to an amendment proposed by Senator
15 Culver, adopted to the revenue act of '78, which excludes from
16 gross income payments made under non-Federal cost-sharing
17 programs.

18 He states that there are four states: Minnesota,
19 Wisconsin, Iowa and one other, Nebraska, which have
20 cost-sharing programs of the same nature as are excluded from
21 gross income, as excluded under Federal law.

22 I showed the amendment to Senator Talmadge. He was not
23 sure that the amendment is identical with what the Federal
24 statute adopted in '78. I do not know.

25 If it is a technical amendment ---and Senator Culver

1 thinks it is, he did not intend to exclude them. I would like
2 to offer what is the identical language -- if this is not
3 identical -- the identical language for the exclusion from
4 gross income that was adopted on the Federal cost-sharing
5 programs because there are certain states that have programs
6 for creating wildlife habitats, the same as the Federal
7 program, which I would think that we would want to encourage.

8 There is no difference in substance at all between that
9 and the Federal law.

10 Mr. Lubick: We were of the view that the word "state"
11 could be construed in regulations as to include local. From
12 our point of view, this is technical in the sense that the odds
13 are we would have arrived at that same result in construing
14 last year's statute.

15 If you just want to clear it up by saying it --

16 The Chairman: You feel it could be qualified as a
17 technical amendment?

18 Mr. Lubick: We think the localities are instrumentalities
19 of the state, would come out to that result. If you want to
20 write it.

21 The Chairman: All in favor, say aye?

22 (A chorus of ayes)

23 The Chairman: Opposed, no?

24 (No response)

25 The Chairman: The ayes have it.

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1 Senator Wallop: I want to clear up one thing. That was
2 not Senator Culver's amendment. That was Senator Wallop's
3 amendment.

4 Senator Nelson: Then I think --

5 Senator Wallop: I am glad to see it going.

6 Senator Nelson: You should write a letter to Senator
7 Culver thanking him for writing a letter fighting for your
8 amendment. I thought it was his. I apologize. It is a very
9 good proposal.

10 The Chairman: Senator Chafee?

11 Senator Chafee: You indicated there would be another
12 session?

13 The Chairman: Yes, sir.

14 Senator Chafee: When we will have a chance to bring up
15 minor things and tack them onto something.

16 What happens to the problem if we have something that is
17 relatively small and very minor revenue effect, that that would
18 still be subject to a point of order, would it not, unless
19 there is some revenue-producing bill?

20 The Chairman: Not necessarily.

21 Mr. Stern: Mr. Chairman, there is one proposal that we
22 are aware of, Senator Wallop's, that actually does raise
23 revenues. To the extent that you can fit all the other minor
24 matters in the same bill is that it would, so to speak, be a
25 tax amendment shelter.

1 The Chairman: We have a good prospect waiting for you.

2 Senator Roth: Mr. Chairman, I mentioned earlier to you
3 the problem of the tax treatment of state legislators. I
4 understand that that is in conference.

5 One of my concerns is that the state legislators in small
6 states like my own are being badgered by the Internal Revenue
7 people. It was the intent of Congress in '76 to treat state
8 legislators the same wherever they were. I wonder what we
9 might do.

10 The Chairman: I am going to seek to have further
11 conference on that bill. The only reason we have not done it
12 already is because I have been so busy with this bill out here
13 on the Floor. I hope to resolve that. We have some other
14 things in there, amendments we think are important that we are
15 trying to get agreed to. We hope to work it out.

16 Senator Roth: One of the problems is IRS is imposing
17 certain rules that were not accepted in the situation. For
18 example, they have imposed a 50-mile rule which would rule out
19 small states.

20 That is something that has to be specifically addressed.

21 The Chairman: I hope to work that out, Senator. I am
22 going to try to get that conference going again, some time,
23 just as soon as we can get this bill behind us, this windfall
24 profits tax bill.

25 Senator Roth: Thank you.

1 Senator Nelson: Mr. Chairman, on that point, if I may,
2 the notice that we received had an item on it for extending it
3 through 1980, did it not?

4 Mr. Shapiro: That was in a provision that the House
5 passed. However, since you already have your provision in
6 conference that you put on, that was dropped out of that
7 provision.

8 Senator Nelson: All right.

9 Senator Baucus: Mr. Chairman, if we are off the technical
10 amendments, I am wondering whether we can agree today to add on
11 the Medicap insurance measure that we approved here in
12 committee as a committee amendment as whatever the appropriate
13 vehicle is to the Social Security disability bill that is going
14 to be considered on the Floor.

15 Senator Dole: 3236.

16 Senator Baucus: 3236, that is right. We agreed to that
17 Medigap insurance amendment that I offered some time ago.

18 Senator Nelson: Which amendment is that?

19 Senator Baucus: The amendment providing for insurance
20 companies to voluntarily submit their plans to HEW to be
21 certified to meet certain regulations and standards.

22 The idea is to begin to prevent some of the abuses and the
23 overinsuring of people.

24 The Chairman: Let's talk about that on the Floor when we
25 get that bill up and we can work something out.

1 Senator Dole: Let me say it was accepted. We had some
2 difference of opinion, but it was worked out.

3 It would be a matter of offering it and accepting it on
4 the Floor.

5 Senator Gravel: When are we going to have our next
6 meeting?

7 The Chairman: Let's vote to report this bill.

8 Senator Dole: One thing. As I understand it, there will
9 be a meeting. We will be able to offer additional amendments
10 assuming they will be reported out, just to say we can add
11 these amendments.

12 The IRS has ruled that losses for certain commodities
13 futures spread transactions are not deductible because the
14 taxpayer suffered no real economic loss. There has been some
15 abuse in that area. I understand that there may be an effort
16 underway with Treasury and the staff to work out some solution.
17 I would hope that we would be prepared to take that up when we
18 meet next week.

19 Is that possible?

20 Mr. Shapiro: We are reviewing it. We have been for quite
21 awhile, so when the committee meets next week, we will be
22 prepared to bring something to you.

23 The Chairman: Notify the staff on what you want to bring
24 up at the next meeting. I hope it will be next week.

25 Senator Boren: There is a little matter that Senator

1 Nelson and Senators Durenberger, Danforth and Chafee I had a
2 proposal on when the excise tax is collected on fishing tackle,
3 Section 7 -- we took care of Sections 2 through 6 on H.R. 505.
4 It applies to Section 7.

5 Senator Byrd did have hearings on it. I wonder if we
6 might include it in that it does not have a revenue impact.
7 The money collected on that excise tax goes into an earmarked
8 fund and the problem is that by collecting the excise tax when
9 the fishing tackle is mailed out, the payment historically in
10 that industry does not come in for five or six months.

11 Our amendment simply differs by one quarter in the first
12 three quarters of the year when it would be due and owing and
13 does not change it in the fourth quarter. In other words,
14 within a year you still collect the same amount of money but
15 you simply defer the payment by the earmarked fund.

16 The Chairman: Mr. Shapiro?

17 Mr. Shapiro: The reason that bill was divided up, the
18 provision, there are revenue effects. That particular
19 provision you have, Treasury opposes. The idea was to have the
20 extension provisions passed when there was no revenue effect so
21 they could be done this year. Treasury opposed it in the
22 House. The House still passed it, so that there is not a
23 blockage.

24 Senator Boren: There is no linear effect.

25 Mr. Lubick: There is a revenue effect. If you delay the

1 collection, the government has interest.

2 Senator Boren: In the last quarter.

3 Mr. Lubick: The individual taxpayer may pay the same
4 amount of taxes in a given year, but as far as the Treasury is
5 concerned, if its receipts are delayed, that has a revenue
6 impact on the Treasury.

7 The Chairman: Would you oppose it as a part of the
8 technical corrections bill?

9 Mr. Lubick: We would oppose it on any bill.

10 The Chairman: I do not think we ought to put it on this
11 then, in view of the situation.

12 Those in favor of reporting the bill, say aye?

13 (A chorus of ayes)

14 The Chairman: Opposed?

15 (No response)

16 Mr. Shapiro: As I understand it, the way you are
17 reporting it, with those items that are left over when Senator
18 Byrd gets up will be reviewed. These are some of the staff
19 suggestions that are still open.

20 In addition, we also have one change for the committee
21 report that deals with the advanced payment of the earned
22 income credit that we would like authority for some
23 modification to help Treasury in their regulations.

24 The Chairman: With no objection, then, agreed.

25 Senator Baucus: Mr. Chairman?

1 Just to clarify what may be a misunderstanding, the
2 Medigap insurance provision that I mentioned was already
3 approved by the Committee as a Committee amendment and it has
4 not been specified as to which bill. My suggestion was to add
5 on to the Social Security disability bill, if that meets the
6 Committee's approval.

7 The Chairman: All right.

8 We will meet next week.

9 (Thereupon, at 12:30 p.m. the Committee recessed to
10 reconvene at the call of the Chair.)

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