

EXECUTIVE SESSION

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THURSDAY, SEPTEMBER 14, 1978

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

The Committee met, pursuant to notice, at 10:15 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (Chairman of the Subcommittee) presiding.

Present: Senators Long, Talmadge, Byrd, Gravel, Nelson, Bentsen, Matsunaga, Moynihan, Curtis, Hansen, Dole, Packwood, Roth and Danforth.

The Chairman. The Committee will come to order.

Gentlemen, I would hope that today we could agree on some of the key items, at least the part that involves the most money in this tax bill, and if we can agree on that, and I think we ought to, and actually agree on the personal exemption and the tax credit and the rate cuts, have a figure for the earned income credit, we would then have a chance to see about how much we have, and then we would think in terms of how much all of these other items, of which we have about a hundred that are being suggested, 120 maybe, can take their place in line and try to claim priority for what is left.

The first item we have to agree on, as you see on the page

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1 before you, is -- and I hope that the Administration has been
2 provided with a copy -- item number 1 here is the two different
3 approaches. One is the repeal of the general tax credit and the
4 substitution of the \$1,000 personal exemption.

5 Do you mind explaining just what those two columns mean there,
6 Mr. Shapiro?

7 Mr. Shapiro. It may be helpful if I start off by making one
8 point. The current tax, we understand it, with the Budget
9 Resolution, is that they have a tentative agreement, or tentative
10 consensus -- I do not know if it is an agreement -- of allocating
11 an additional \$2 billion for tax cuts that the Finance Committee
12 will have.

13 The Budget Committees, in conference, have not finally agreed,
14 as I understand it, to the remaining issue. There is disagree-
15 ment over a public works figure. As far as the tax cut is
16 concerned, I do not know if it is a tentative agreement or a
17 consensus, but there is \$2 billion additional that has been
18 allocated above the House bill.

19 With that in mind, you can start making some tentative
20 decisions, assuming you may have the \$2 billion, unless that
21 changes. The indication that has been given to the staff is that
22 that is not any point of controversy in the conference. It is the
23 public works issue.

24 On point number one, Senator Long had reference to, as you
25 know, in 1975, the Congress passed the temporary tax cut. It was

1 put in as a general tax credit so every taxpayer got a \$35
2 credit, or 2 percent of the first \$9,000 of their income, which-
3 ever was greater. It was not in that exact form, but it was a
4 temporary cut, and that is the present law today.

5 The thought that that was going to be made permanent, that
6 amount of money that was put in as a temporary tax cut, is to be
7 made permanent. The tax repealed that general tax cut and
8 substituted a \$250 increase in personal exemption, so you have
9 a \$1,000 personal exemption.

10 As you recall, the Administration made its proposal both to
11 the Ways and Means Committee and to the Finance Committee to have
12 a \$240 general tax credit in lieu of the personal exemption.
13 The House chose not to accept that, but to take this \$1,000
14 personal exemption and the Administration made that same proposal
15 to the Finance Committee.

16 This item here is the House bill provision that would have a
17 \$1,000 personal exemption which would be an increase of \$250
18 above present law and it would eliminate the present general tax
19 credit which expires at the end of this year in any event.

20 The Chairman. Let me ask you this question. As I look at
21 the proposal -- and I notice in this case it is the same thing
22 as the fiscal year figure and the calendar year figure in the
23 House bill. You have fiscal tax credit, \$7.3 for fiscal year,
24 minus \$8.2 for that item on that trade-off.

25 Do you arrive at the overall result by simply subtracting

1 one figure from the other?

2 Mr. Shapiro. That is correct, Senator.

3 The Chairman. If I draw a line under \$8.3 billion and come
4 out with a minus .9, that would be the overall impact of the
5 bill. Would that be right?

6 Mr. Shapiro. That is correct.

7 The Chairman. On the calendar year, if I then do the same
8 thing, I would then come out with a minus 1.3. Is that right?

9 Mr. Shapiro. Yes, that is correct.

10 The Chairman. Then I should imagine that the Committee
11 would propose to do that in view of the fact that nobody has
12 told me yet that they should not do it, at least that much. If
13 there is no objection, then we will agree to that part of it.

14 Next we go, then, to the rate cuts. That may be subject to
15 further discussion, but would you mind explaining that, what we
16 could do with those rate cuts and what the House has done?

17 Mr. Shapiro. In the House bill, they restructured the rates
18 by broadening the brackets approximately 6 percent. As you know,
19 in present law there were approximately 25 brackets ranging from
20 \$1,000 to \$2,000 and in some cases, \$4,000 wide that were put in
21 the law some 30 years ago.

22 The House has broadened those brackets, each bracket by 6
23 percent. To give you an example, assume a bracket is \$2,000 to
24 \$3,000 and 6 percent of that thousand dollars difference would
25 be \$18 -- \$2,000 to \$3,000, \$18. Just a 6 percent widening of

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1 each of those brackets.

2 In addition to that, the House bill provided rate cuts. It
3 means, in each of the brackets, the \$2,000 to \$3,000 brackets
4 at the 15 percent rate, they may reduce that to a 14 percent
5 rate.

6 Those are the two features that make up the rate cuts in the
7 House bill and we provided schedules to the Committee members of
8 how present law and the rate and bracket-widening works. You have
9 bracket widening and rate cuts in certain selected brackets.
10 Primarily the benefits of the House bill rate cuts go to the
11 middle-income taxpayers, with the greater benefits in the range
12 of \$17,500 to \$40,000 to \$50,000.

13 The difference in the proposal that you see would say that
14 you have an additional \$2 billion that has been allocated to you
15 by the Budget Committee. If you wanted to allocate that to cover
16 everyone for Social Security and take into account some part of
17 that was referred to as inflation, primarily focusing on the
18 Social Security increases you passed, you would allocate \$1.3
19 billion of the \$2 billion that has been allocated to you for
20 additional rate cuts above the House bill.

21 You would see that the 6.5 fiscal year cut in the House bill
22 would increase by 1.3 to 7.8 under the proposal, under calendar
23 year basis. The House bill is 10.6 under the House bill, and
24 under the proposal it would be an additional \$2 billion.

25 Let me say again, it may be helpful, the difference between

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1 the fiscal and calendar year.

2 The fiscal year begins October 1 and ends September 30th and
3 it is a twelve-month period. The tax cuts will take effect on
4 January 1. That means it will have a three-quarter fiscal year
5 effect, because it starts January 1 to September 30th, and there-
6 fore the fiscal year is roughly three-quarters of the full year
7 effect.

8 That is the reason we are showing this.

9 Senator Curtis. If I may ask a question. You mean these
10 tax cuts would be effective in January?

11 Mr. Shapiro. January 1, 1979.

12 Senator Curtis. As far as the taxpayers are concerned, it
13 would be a full calendar year?

14 Mr. Shapiro. The full calendar year for the taxpayer is
15 reflected in withholding in the first pay period in January. It
16 would be a full-year basis.

17 Senator Curtis. You are talking about a three-fourths year.

18 You are not talking about the taxpayers; only the budget impact?
19 Mr. Shapiro. The budget impact for Congressional and
20 administrative accounting, only. The taxpayers would not be
21 affected at all.

22 Senator Curtis. Do you have a background so that we can see,
23 given income, the percentage of tax reductions?

24 Mr. Shapiro. What we anticipated the Committee may want to
25 do is allocate the money that you may want to spend in a rough

1 range. The suggestion is somewhere in the range of \$1.3 billion.

2 What the staff can do over the week-end -- as I understand
3 it, you do not have a planned session tomorrow -- on Monday morning
4 what we would have to you, and if we have it by tomorrow we will
5 try to get it out of the computer so we can distribute it to your
6 staffs by tomorrow, if we can -- is that we would have four alter-
7 native rate schedules so you can see. It would be rate schedules
8 plus burden tables and the distribution effects, so we will show
9 you the rate schedules that will take account of this, the
10 burden tables to which you have reference to as to how it would
11 affect taxpayers in the different brackets, and the distributional
12 effect as to how it affects classes from \$5,000 to \$10,000 to
13 \$10,000 to \$15,000; \$15,000 to \$20,000 -- those brackets.

14 We would provide all of that information to you for your
15 Monday morning session and the computer was down yesterday.
16 They malfunction from time to time. We were not able to get the
17 data. If it is working and we can get it, we will have it to all
18 of your staffs by tomorrow.

19 Senator Curtis. We want to be cooperative and we are also
20 aware that we should sort of agree on some parameters of what we
21 are going to do and not run into more revenue by taking up
22 individual items. The other extreme is that I do not want to get
23 locked into any particular pattern of tax reduction.

24 Mr. Shapiro. What Senator Long is suggesting for today is
25 that you are making tentative decisions on an individual area, and

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1 when we bring you back some of the schedules, the distribution
2 burden, then you lock those in, when you see it would be. These
3 would be tentative decisions for the purposes of staff so they
4 can bring out the materials to you.

5 Senator Curtis. These figures on the proposal, that is the
6 Joint Staff, is that right?

7 The Chairman. All I am suggesting over the House bill,
8 Senator Curtis, if you look at that column, House bill, calendar
9 year, against Senate bill, calendar year -- all I am really
10 suggesting is that we take that \$2 billion that the Budget
11 Committee has allowed us and add that on top of your rate cuts,
12 your individual reductions.

13 That is what you are suggesting?

14 Mr. Shapiro. That is right, Senator.

15 The Chairman. It may be, Senator, that you are going to want
16 to use that \$2 billion to do something else with, and if you do,
17 you will just have to back off putting the \$2 billion into the
18 rate cuts and put in something else.

19 Mr. Shapiro. That is correct.

20 If the Committee would like to put a portion of that \$2 bil-
21 lion of rate cuts, we can bring you back rate schedules,
22 distributional schedules and burden effects to show you how it
23 would come out. If the Committee chose to do it another way,
24 we would present whatever material you would like for that.

25 Senator Curtis. This is the purpose I am raising the question

1 for. I will be specific.

2 If we go down the line here and approve these general things,
3 suppose it would be the will of the Committee to adopt Senator
4 Roth's tax cut. I do not want to approve anything in our general
5 outline that would exclude that.

6 The Chairman. I am willing to stipulate right now, Senator,
7 if we agree to Bill Roth's amendment -- it has a lot of appeal
8 to it, and a lot of the people are on record for it -- but that if
9 we agree to Bill Roth's proposal that all bets are off. We will
10 have to recompute and start from scratch.

11 As a matter of fact, as far as I am concerned, if the Senate
12 wants to go with that, I would suggest we just strike everything
13 out of the bill and send it down and the President is going to
14 veto it. And if it happens, and that being the case, after we
15 get through trying with the opponents trying to overridg the
16 veto, we will go back to work on this tax cut bill again.

17 Senator Curtis. It was not my purpose to argue the merits or
18 demerits of the Roth bill at this time.

19 The Chairman. It has a lot of merit.

20 Senator Curtis. I do think that a Senator has a standing
21 ahead of the computer, and that we should not let the computer
22 lock us into something so that a member of this Committee, if
23 he feels -- and a majority of the rest of them feel -- that we
24 should knock out three and four and five or whatever else it is
25 and that this is the most important thing and he wants to present

1 it, as a ranking member, all I am insisting on is that he have
2 that opportunity without prejudice by tentative decisions.

3 The Chairman. What you said sounds like many of the things I
4 have been known to say from time to time, and I cannot quarrel
5 with it at the moment.

6 Senator Curtis. I thought you were going to say that you
7 regretted it.

8 Senator Bentsen. If I might ask, what is the ratio in the
9 House bill between individual cuts and cuts to business? What
10 is that ratio?

11 What is the ratio between the cuts that have been made in so
12 far as individuals and the total amount of money for business?
13 Is that about a two-thirds/one-third?

14 Mr. Shapiro. Approximately two-thirds individual and one-
15 third business, roughly that percentage.

16 Senator Bentsen. If we are talking about this amount of cut
17 on the individual and if we were trying to preserve the ratio of
18 two-thirds/one-third, we may have some limitations as you were
19 citing earlier. Is that right, Mr. Chairman?

20 The Chairman. Two-thirds individual, one-third corporate?

21 Mr. Shapiro. The total cut in the House bill, two-thirds
22 cut to individuals, one-third to business.

23 The Chairman. Look. I want you to do one thing for me,
24 because I think -- I am sorry. I do not like the fact that what
25 we have here is a very substantial departure from the

1 Administration's recommendations. I say that as a Democratic
2 Chairman. I do not enjoy trying to feel our way along and
3 recommend something and hope that the President will sign it.

4 That is where we stand at the moment.

5 But I want you to go back, have your staff get out the
6 analysis of that John Kennedy tax bill that we passed here in
7 1963 and 1964 and see what the balance there was in that bill
8 and I would like to compare it to what we have here. I think
9 it would be helpful to us, to see what the relative balance
10 of that one is, compared to what this one is, just from a point
11 of perception, and from the point of how that might appear in
12 the Senate, when we take it out there to them, where we stand
13 now and where we are going to be when we get this package put
14 together. See what it was.

15 Can you tell us right now what the balance was, that bill
16 compared with this one?

17 Mr. Shapiro. We are not exactly sure, Senator. I could
18 have that checked.

19 Mr. Lubick. My recollection is that is two-thirds/one-third:
20 two-thirds individual/one-third business.

21 The Chairman. I want the staff to go check. It seems to me
22 I stood up on that Floor and made a speech on what we submitted
23 and I described it as half and half. Maybe I was talking about
24 half of it being in terms of what we thought would stimulate
25 the economy and half in terms of what we thought would increase

1 consumption. Go back and get the balance of that bill and let
2 us see how this balance compares with that balance, and see where
3 we stand. It will be an interesting comparison.

4 If the Senate is not interested, the Press is.

5 Mr. Shapiro. We will go back and check that and provide that
6 information to you.

7 The Chairman. Senator Roth?

8 Senator Roth. Mr. Chairman, if I may make one observation
9 and question, as you well know, one of my principal concerns is
10 that we have this proper blending between capital formation and
11 doing what is necessary to help the American working people.

12 Now, we have to live, as we all understand, within the budget
13 restraints, whatever that form may finally be, which apparently
14 is going to be \$21.9 billion.

15 Now, one thing that concerns me very much, there is some
16 flexibility behind what we are talking about. That depends how
17 we phase in these various cuts.

18 In other words, they can all be effective January 1st, or
19 they can be effective October 1st, or sometime later in the
20 year.

21 So that, for that reason, I think that we should not definitely
22 decide what the specific date is going to be until we can see
23 how we can blend these in together.

24 Mr. Chairman, I just want to make a very strong observation.
25 I am greatly concerned that we are not going to do what is

1 necessary for the American working people. We are talking about
2 a one-year proposal here and I have heard the idea voiced on a
3 number of occasions that what we are try to keep people whole,
4 try to offset Social Security and the inflation. But there is
5 no way that you can do that in one year.

6 Number one, we are having roughly 7 to 8 percent inflation
7 this year. You are having a very substantial increase in Social
8 Security during this present year. Next year, you are going to
9 have that duplicated again so that what worries me, we are not
10 talking about even holding the American people whole, the working
11 people whole, so that one point that I would like to make very
12 clear, I understand what some of the people want to propose today
13 and want to have the computer work out next Monday, but I want
14 to reserve the right when those proposals come up next Monday
15 to propose a phased-in tax cut.

16 I think, if I may take just a couple of minutes now, Mr.
17 Chairman, that this Committee has a very real opportunity to
18 change the direction of this country. I do not think we are
19 bound by what the President proposes. I do not think that we
20 should develop a tax bill on the grounds that it will be signed
21 or not signed by the President.

22 I adopt what you said to the Press Club some time ago when
23 you said that whatever the Congress comes through with you hoped
24 it would go to the White House and the President would sign it
25 and say it is mine. And I agree with you.

1 The Chairman. If he signs it, he ought to claim credit for
2 it. It should be the Carter tax cut rather than the Roth tax
3 cut.

4 Senator Roth. I would be very happy, but if he does, I would
5 like it to be the Carter-Roth-Kemp.

6 But I think we are missing a very important opportunity of
7 moving the country in a new direction if we do what I think a
8 lot of people are talking about and that is what I call a tinker
9 tax. We really are not going to make any significant changes.

10 I am all for it. I have been a longtime supporter of the
11 capital gains change that Senator Hansen has been a leader on.
12 I am supportive of what you are trying to do on the lower end
13 of the economic scale on the earned income credit. But, Mr.
14 Chairman, I think we have to give a signal to business and to
15 the American worker that we are going to do something more than
16 merely try to keep them whole for one year. We have to, right
17 now, put the American people, if we really want to move this
18 country up and give some help and confidence, I think that we
19 have to do three things as far as the American people are
20 concerned.

21 Number one, I think that it has to be an across-the-board
22 cut in tax rates. I would like to emphasize that I think it is
23 very important that we make the cut in tax rates because that
24 is the way you are going to give an incentive to the American
25 people to save and invest.

1 Secondly, Mr. Chairman, I just want to emphasize very strongly
2 as a goal -- as a matter of fact, President Carter himself
3 discussed it -- of lowering the tax rates to 8 percent on the
4 low side and 50 percent on the high side. That is the direction
5 that this country has to move in if you really are going to free
6 up the economy, and the only way, of course, that you can do it
7 is by phasing it in.

8 If we are just going to talk about a one-year tax cut, we
9 are not really going to have, in my judgment, that much of an
10 impact on the economy and so what I hope is that this Finance
11 Committee would have the courage to do is take those three steps,
12 to take a significant cut in tax rates the first year within the
13 budget restraints, but to set the goal that we are going to lower
14 them to 8 to 50 and to phase it in -- put the American economy
15 on notice, the businessman, the investor and the worker, that
16 they are going to have some significant tax cuts in the future.

17 Otherwise, all we are talking about is trying to protect the
18 American worker from Social Security taxes and inflation for
19 one year and it will not offset more than the current year. What
20 about next year?

21 The Secretary has come in and said he is going to bring a
22 proposal probably for a tax cut next year. If you want to build
23 some confidence and certainty in the private sector, we ought
24 to act now, not only for this year, but for the next year.

25 And we are working under a handicap. The budget restraints have

1 not been finally agreed upon.

2 I would like to make very clear in making these proposals
3 today that I want to reserve the right next Monday or whenever
4 these votes come in that we can have a full-scale discussion of
5 what direction this Congress should move in and how we can best
6 accomplish that.

7 The Chairman. That is fine.

8 Senator Roth. Mr. Chairman, I think this is a very phased
9 question.

10 The Chairman. Senator, I could say you made a good argument,
11 which I do. But I hope you understand that there is more sides
12 to an argument than one and also there are some practical reali-
13 ties we have to contend with.

14 Let's look at the moment of the thing we are talking about
15 is tentative. We can change it. If we want this extra \$2
16 billion, if we want that to be individual items rather than rate
17 cuts, then that is the Committee decision.

18 So let's just look at those as one way we might do business
19 and then we can look at some of the others.

20 I would think, though, that we would want to agree that we
21 would keep at least \$1,000 personal exemption that the House
22 asked us. Is that agreed?

23 I think we can agree on that, and I would hope that we
24 would also agree that the point Gaylord Nelson has been making
25 around here would be covering, that is in any event, we are

1 going to make everybody whole for his payroll withholding on
2 Social Security come January. That is a commitment that was made,
3 and I think it should be kept.

4 Senator Curtis. You are referring to the increase?

5 The Chairman. The increase that would take effect come
6 January when the fellow gets his check. He is either going to
7 have a reduction or increase because of Social Security. I think
8 we should be able to agree that, by classes, that there would be
9 a large enough tax cut so that everybody making \$30,000 or less,
10 or maybe even \$50,000, are not going to see an increase because
11 of the Social Security. I think we can agree on that much of it
12 in here.

13 Senator Roth. Mr. Chairman, I would like to ask one question.
14 What are we going to do about the increases in Social Security
15 taxes for the current year? Every American worker has paid higher
16 taxes this year as well as those anticipated next year.

17 The Chairman. That is a fact. Of course, if we do what
18 you want us to do, Senator Roth, we will give them a tax cut that
19 is a very, very big tax cut over a three-year period. I do not
20 think that that is going to happen, but if we do, that is how
21 it will work out.

22 I am not here to prejudice. I am just talking about where
23 we stand.

24 Senator Danforth. Mr. Chairman, could I ask maybe Senator
25 Nelson a question about this, because he has thought a lot about

1 it and he is Chairman of the Subcommittee. I take it that, if
2 that is the notion, that what we are after is doing rough justice
3 at this point, and that, for example, if you really want to off-
4 set Social Security tax increases, and that is all you would want
5 to do, you would have a credit for a portion of Social Security
6 taxes paid.

7 If you do not do it by credit but do it just by putting it
8 in a total rate adjustment, then that benefits everybody whether
9 or not the individual with a tax cut paid any Social Security
10 taxes.

11 And I know Chairman Miller, before he came to us and talked
12 about putting off the Social Security tax increase, said that
13 in his opinion that kind of a step should only be taken in
14 connection with a total review of Social Security financing, both
15 the tax side of it and the benefit side of it.

16 So that I would hope that if we are doing this that we are
17 not just shutting the door on any further consideration of what
18 is right or what is wrong with Social Security financing right
19 now. I would hope that this is simply a one-year, very rough
20 justice situation, and that it does not preclude any further
21 discussion of this.

22 The Chairman. It seems to me that by way of simplification
23 we may incorporate that Social Security tax in the income tax
24 as far as individuals are concerned so that you do not have the
25 two separate computations. But for now, in terms of simplicity

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1 rather than have a Social Security tax and then an income tax
2 and then a credit on the income tax against the Social Security
3 tax, it is better to just have a Social Security tax and then
4 adjust your rate to take care of the income tax so that the
5 income tax would give enough of a cut to offset the Social Security
6 tax so when you have your withholding statement, you have two
7 columns: one is Social Security and the other is income tax
8 withholding and then the third column is how much you have left,
9 what it adds up to and how much you have left after you get
10 through with that.

11 As far as the average man is concerned, what difference does
12 it make what is in one column, how much it is in the other column,
13 or if you put a third column in there to make a third computa-
14 tion?

15 What counts to him is what the final figure is, how much they
16 are going to take out of my check. All I am saying is, is just
17 cut the income tax enough that in any event we provide enough
18 tax cuts so that the working man has a reduction in the withholding
19 for income tax purposes that exceeds what his Social Security
20 in-rease is going to be.

21 Senator Danforth. Mr. Chairman, it is a very important
22 concept, though, and one that you raised repeatedly as we were
23 going over the Social Security financing bill last year, and that
24 is the notion always has been that Social Security should not
25 be financed out of, as you put it, printing press money, that

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1 you should not have transfers, in effect, of general revenue
2 into the Social Security Trust Fund.

3 If what you are doing is financing, is to have a kind of
4 income tax reduction and the Social Security tax increase at the
5 same time, it is going to be a step transaction for general
6 revenue financing.

7 So that I think it is an important distinction to bear in
8 mind -- and I hope that we are not moving in that direction
9 here.

10 The Chairman. Here we are, in item number one, taking a
11 \$35 tax credit and, by way of simplicity, simply increasing the
12 personal exemption up to \$1,000. Now, we would put an extra
13 calculation here, and say here is your withholding for Social
14 Security and here is a withholding for your personal income
15 tax and here is another one. Here is an item, item one and two.

16 Item one is what you make. Item two is withholding for
17 one purpose. Item three is withholding for the other. Item
18 four, if what we are going to withhold, what you are going to
19 take out from two to three. Item five is where you arrive at
20 after you get through filling out these items one against the
21 other, juggling them around.

22 Why do we not just say we will withhold as much for Social
23 Security, this much for income tax, and here is your total.

24 Why do we want to do the same thing? We are just getting
25 rid of them with the \$35 tax credit we have, both a personal

1 exemption and a tax credit. Why not just say, make it include
2 the tax credit and it works out where the taxpayer is just as well
3 off as he would have been with the tax credit.

4 Senator Danforth. Mr. Chairman, in the name of simplicity
5 we could finance Social Security out of general revenue and not
6 have a separate Social Security tax.

7 The Chairman. To be sure. Do you want to offer that
8 amendment?

9 Senator Danforth. No, sir, I do not. But exactly the point
10 I am making is, what I am hoping we are doing here is simply
11 rough justice for one year and we are not putting our first foot
12 on the slippery slope of general revenue financing of Social
13 Security.

14 Senator Curtis. May I ask the staff a question? How much
15 is the total individual income last year, before taxes?

16 Mr. Shapiro. The amount of income before taxes was \$1.25
17 trillion. The amount of individual income is \$184 billion in
18 1978.

19 Senator Curtis. Individual income taxes?

20 Mr. Shapiro. Yes, individual income taxes is \$184 billion.
21 That is what is expected for 1978.

22 Senator Curtis. That is based upon what?

23 Mr. Shapiro. \$1.25 trillion of individual income.

24 Senator Curtis. I take back everything I said about a
25 computer. We need them when we get to the trillions.

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1 Now, how much income on the individual side, not the
2 employers' side, how much income is subject to the Social
3 Security tax for individuals, either as employees or self-
4 employed?

5 Mr. Shapiro. The estimate is approximately \$1 trillion.
6 Of the \$1.25 trillion income, approximately \$1 trillion is
7 subject to Social Security taxes. That includes the self-
8 employment taxes.

9 Senator Curtis. The taxpayers, in the aggregate, draw
10 a quarter of a trillion, \$250 billion?

11 Mr. Shapiro. Yes.

12 Senator Curtis. There is \$250 billion of personal income
13 upon which there is no Social Security tax?

14 Mr. Shapiro. There are two categories -- either they have
15 income above the level subject to Social Security, or for one
16 reason or another, they are in an exempt category. I would
17 assume that a majority of that \$250 billion represents taxpayers
18 that have incomes above the level that is subject to Social
19 Security.

20 Senator Curtis. There could be spouses or students and
21 retired and many categories that have income that is not earned
22 income.

23 Mr. Shapiro. That is correct. Investment income, or various
24 sources.

25 Senator Curtis. This effort to make people whole, would you

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1 include that \$250 billion?

2 Mr. Shapiro. What you are doing is looking at the income
3 classes. You are looking at all of the income for individuals
4 in the class. We do not necessarily know what is represented
5 by that.

6 Some in the \$15,000 income classes would look at all the
7 income that is represented by all the taxpayers in that particular
8 class. We are not looking at how much is investment income, how
9 much is earned income, or other sources.

10 Senator Curtis. One of the virtues of the Social Security
11 system has been that everyone felt they paid a just share and
12 therefore they should watch what the benefits are, what the
13 benefits are, not only for themselves, but for others. A check
14 and a balance, particularly after taxes got a little higher.

15 It seems to me that this is a backdoor approach to general
16 revenue financing, because what it is saying to the country is,
17 if the Congress votes more Social Security benefits and has to
18 raise the taxes, do not worry, we will just subtract that from
19 the income taxes paid.

20 It seems to me that we are facing the same issue that we
21 faced last year of general revenue Social Security financing.

22 Senator Danforth. Could the tax be practically limited,
23 could the reduction be practically limited to those who pay
24 Social Security taxes?

25 Mr. Shapiro. It could be so structured. You are talking

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1 about a tax to do that, a credit, a tax deduction limited to those
2 who pay Social Security?

3 Senator Danforth. Yes.

4 Mr. Shapiro. That can be done.

5 Senator Danforth. Would that be a complex matter?

6 Mr. Shapiro. Yes.

7 Senator Packwood. Why would it be complex?

8 Mr. Shapiro. You have two factors. One is that you have rate
9 increases and you have bracket increases and you are trying to
10 get some percentage that would match the increase of both the
11 rate and the bracket and it would come to an arbitrary percentage
12 on the one hand.

13 That is to determine the percentage with regard to individuals
14 wages. The individual would have to look at total income from
15 wages that are subject to Social Security, some item on the
16 form that says how much would be subject, and then have to compute
17 that percentage on that, so it would add an additional few lines
18 on the return.

19 I do not want to give you the impression that it is so
20 complicated that it cannot be done, but anytime you add additional
21 lines on the tax return that require additional computation that
22 adds complexity and causes an increase in taxpayer errors. I do
23 not want to overstate the point. It adds to the complexity, but
24 it does not make it so it cannot be done.

25 Senator Packwood. As I recall, from a voter's standpoint Mr.

1 Roper's poll was that complexity was so far down the list of
2 items that concerned the taxpayers it was almost off his list.

3 Mr. Shapiro. I do not know if that is a general statement or
4 applied to the certain types of items presented.

5 Senator Packwood. A general polling statement. Most tax-
6 payers do not seem to care about complexity. They had a lot
7 of questions about taxation and inequity and reform. Complexity
8 was not one of any consequence.

9 Mr. Shapiro. I do not have a clear recollection.

10 Senator Danforth. Does this proposal -- what is called
11 here a proposal -- would that, in fact, offset the effect of
12 inflation putting people into higher brackets and the effect of
13 increased Social Security taxes for one year.

14 Mr. Shapiro. It would clearly be, to cover all the Social
15 Security increases, it would have the effect of taking into
16 account some of the inflation increases in 1978 so it would
17 have the effect of step increase in regard to inflation for
18 1978 and would cover all the Social Security increases that
19 would take effect next year.

20 Senator Danforth. Would it fully offset the effect of
21 inflation putting people in higher brackets plus the increased
22 Social Security taxes for one year?

23 Mr. Shapiro. On the aggregate basis of taxpayer classes
24 it could have that effect. That does not mean that some tax-
25 payes would not have a tax increase as a result of what you would

1 do with other parts of the bill. You may have some taxpayers
2 that would end up with a tax increase, but on the whole, that
3 means taxpayers in a class, that particular class would be
4 covered for the Social Security increases and it could be viewed
5 as covering them for the inflation increases.

6 Senator Danforth. Government employees would be overcovered,
7 would they not?

8 Mr. Shapiro. To the extent that government employees would
9 not have to pay Social Security increases but would be entitled
10 to a tax reduction, they would get that benefit.

11 Senator Roth. Going back to the question of inflation, what
12 rate would you be figuring inflation for next year?

13 Mr. Shapiro. The figure that is being considered is approxi-
14 mately 7 percent.

15 Senator Roth. There is considerable disagreement. Nobody
16 really knows what it would be. But there are many economists
17 who believe that that is low at that stage.

18 Mr. Shapiro. That is true. The early figure that was used in
19 the House was 6 percent. The House widened its brackets by
20 6 percent, trying to focus on inflation with regard to the
21 brackets.

22 The inflation since then has been considered at least 7
23 percent. The figures we are using for purposes of what we are
24 doing now is 7, but I will tell you. You are correct. That is
25 questioned by a number of economists.

1 Senator Roth. Under this proposa, if you consider the impact
2 of this year, both with respect to inflation and Social Security,
3 everyone will be, or most people will be, paying higher taxes
4 next year, if you take the combined impact of inflation for '78,
5 '79 and the increase in Social Security for those two years.

6 Mr. Shapiro. If you are focusing on the fact that it is a
7 form of indexing the tax system by having tax cuts to match the
8 increases, the answer is yes.

9 Senator Roth. What I am saying, when we say we are making
10 people whole, we are making them whole only with respect to one
11 year, and as far as the average person is concerned, we are doing
12 nothing with respect to this year.

13 Could I ask one question on this chart before we get in to
14 some of the other detail?

15 Senator Danforth. We are making them whole for which year,
16 '78 or '79?

17 Mr. Shapiro. It would be for the '79 increase over '78.

18 Senator Danforth. Not making them whole for anything that
19 happened to them in '78?

20 Mr. Shapiro. That is right. Not for '78, or '77.

21 The Chairman. If I might put a word in there, let me suggest
22 that we just dispense with even trying to suggest to people in
23 this country that we are making them whole against inflation with
24 this bill. Since the last tax bill was passed, which has been
25 two years, is that not right? Two years have passed?

1 Mr. Shapiro. That is correct, Senator.

2 The Chairman. So that the Budget Committee did not allow
3 us enough money to make them whole for two years inflation. Is
4 that right?

5 Mr. Shapiro. Is that right.

6 The Chairman. We do not have the money to do it, anyway.
7 Furthermore, even if we did have that much money, all we would
8 be doing is making them whole for more inflation over on the tax
9 part of it. Is that not right?

10 Mr. Shapiro. That is right.

11 The Chairman. We are not taking them whole as to what infla-
12 tion is taking them out of their paycheck otherwise.

13 Mr. Shapiro. No.

14 The Chairman. If you are only making them whole for one year
15 and not for two years and you are only making them whole for what
16 the tax take-out is, not for what the inflation takes out of
17 the paycheck, if you have to explain all of that, you might as
18 well forget about it, and it seems like to me as though you would
19 be better off just to move with the idea that the money we have
20 available here, we are going to try to do the best economic
21 justice we can among taxpayers.

22 Furthermore, when you talk about making people whole for
23 inflation, when you look at the top bracket, those people are
24 getting a break more than the average person is going to get on
25 capital gains, whether you follow either the House or the Senate

1 approach, and they are going to get a break on the preference
2 portion of their earned income and they are going to get a break
3 because that category of taxpayers tends to be those who own
4 corporate stock and the corporations get a break in this bill.

5 As far as those people are concerned, it gives me no problem
6 to tell them, I am sorry, you are not going to get any cut in the
7 rate. There are some other things in this bill that will help
8 you with regard to your income or with regard to your capital
9 gains or with regard to your corporation tax, if you should own
10 some, or in regard to the sale of your home. And, that being
11 the case, I think we have done about as much with what we have
12 to work with, we have done as well as we can by you people
13 already.

14 With regard to the other taxpayers, once you have taken care
15 of the Social Security that the people are suffering as much.
16 To ask those other people to count their blessings. I am
17 inclined to think that as long as we are going to proceed under
18 the old, traditional concept, which has something to say for it --
19 the kind of thing Harry Byrd's father used to talk about on this
20 Committee now, in Depression years, you justified the budget
21 because you look at your budget differently than you do in
22 good years.

23 Let inflation do the taxing for you.

24 But, in either event, but if you go back to the Harry Byrd,
25 Sr. concept -- I do not know if Harry Byrd, Jr. still supports

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1 that, but he has been pretty consistent with that kind of thing --
2 the minute the economy is in good shape, we probably should have
3 a balanced budget anyway.

4 If we are going to do that, I am inclined to think that it
5 is a mistake to tell the taxpayers that we are going to make them
6 whole for inflation when we cannot do it even with this bill.
7 As a matter of fact, the man who first pointed that out to me
8 was Mr. Danforth over there. You were talking about making them
9 whole for inflation and you were talking about one year.

10 Senator Roth. If the Chairman would yield, I do not think
11 anyone argues that. You cannot make your taxpayer whole with
12 what the Budget Committee has given us to work with. But I think
13 that one of the questions that we are raising is making some kind
14 of a phase-in or a commitment, and I would like to ask this ques-
15 tion of the Chairman or of the staff.

16 Can the Finance Committee make firm commitments for tax
17 reductions beyond the coming fiscal year?

18 Mr. Shapiro. You are saying that you will consider it, or
19 actually put it in the bill.

20 Senator Roth. Actually put it into the bill.

21 Mr. Shapiro. That is a question of the budget process.

22 Mr. Stern. The current position of the Budget Committee is
23 you cannot do it in fiscal year 1980 but you can do it beginning
24 in fiscal year 1981.

25 The law itself is a little bit odd in this regard. It has

1 a Section (a) that says you can never do it and a Section (b)
2 that gives an exception, that says you can always do it in the
3 case of reductions.

4 I guess the way they have resolved it is to say they cannot
5 do it in the year immediately following the budgeting year, but
6 can do it the year after that. That would mean you could have
7 a cut in fiscal '79 and no further cut in '80 and then a further
8 cut in '81.

9 Senator Roth. If I may just continue for a moment, Mr.
10 Chairman, it seems to me that this is a very critical point, not
11 only for the immediate question of what we are discussing, but
12 what this Committee can do in the future. And it seems to me
13 that the Budget Committee is construing it in such a way as to
14 extent their authority.

15 As a practical matter, I cannot think there would be many
16 times where you would vote for a tax cut during the next fiscal
17 year, skip one year and put something into effect the following
18 year.

19 I would hope that we could have this researched and considered
20 very carefully, as I think the staff is tending to do.

21 Senator Packwood. If I may follow up further on that, the
22 Budget Committee itself cannot draw a budget for fiscal 1980
23 either, can it?

24 Mr. Stern. That is correct.

25 Senator Packwood. It is a Catch-22. They cannot recommend

1 a budget cut during the next fiscal year, during tax cut. We
2 cannot enact, if they are correct, any tax cut beyond the next
3 fiscal year. So there is no way that this Congress can do any
4 rational and intelligent tax planning beyond one year.

5 Mr. Stern. If you are willing to go out two years.

6 Senator Packwood. If you are willing to skip the second
7 year. But beyond that there is nothing that any Committee can
8 do, including the Budget Committee.

9 The Chairman. I just want to make this point. While I am
10 not going to vote for Mr. Roth's amendment, he makes a good
11 argument for it, and it may be that that is the wave of the
12 future. It may be that if the Congress does not do it now, it
13 will do it next time, and he may succeed now, for all I know.

14 But while I am not in a position to support the amendment,
15 I would be the first to insist that he has a right to offer it
16 and have the Senate vote on it.

17 My understanding is if you want to offer an amendment to
18 follow the concept that Mr. Roth has in mind, even if you do not
19 have that much money in this year's budget, you can make your
20 tax cut fall even more heavily in the following year. By doing
21 that, you can achieve what he is trying to do.

22 It may be the Senate may not want to do it, and I know the
23 President does not want to do it -- at least I am told he does
24 not, and I assume that would be the case -- but there is nothing
25 in the law, in my judgment, that precludes that. I do not think

1 there ought to be.

2 Senator Roth. I think that is a very important point about
3 the effectiveness of this Committee, whether we have that right,
4 whether we do it now or not.

5 Senator Packwood. It is not just this Committee. I think
6 sooner or later -- and I think sooner, Mr. Chairman -- we might
7 as well resolve it. We are going to go out on the Floor with a
8 multiyear budget cut of any kind -- maybe it is corporate -- and
9 have the Budget Committee say you cannot do it, and have to resolve
10 it on a point of order, and there is a normal tendency to sustain
11 the Chair on points of order, regardless of whether they are good
12 or bad. It is an irrational way to go about tax planning.

13 Mr. Stern. You can request a waiver. There are two things
14 rather than challenging a point of order. One is to go through
15 the waiver procedure under the Budget Act; and the other is to
16 simply raise that as a motion under another provision of the
17 Budget Act and just move that the provision be sustained.

18 Senator Packwood. I do not mind going through the waiver
19 procedure. We found that out in the tuition tax credit issue.
20 They are inclined to use the waiver power substantively, but not
21 procedurally. If they do not like what you are going to do, they
22 will not grant you the waiver.

23 Senator Moynihan. I would like to support Senator Packwood
24 on this point. The capacity for forward planning in taxes is
25 perhaps very limited, and perhaps more so in response to the

1 Budget Act.

2 It seems to me it produces a tendency that we ought to resist,
3 it is to be very jerky on tax-rates, very short-term, twelve
4 months, up, down, up, down. It cannot be helpful to people
5 trying to plan economic growth in private industry or anything
6 else.

7 It is something to be taken up next. I agree with Senator
8 Packwood.

9 The Chairman. The Senator would do well to carefully watch
10 the relationship of the Budget Committee and one reason is, if
11 you do not watch out, it is going to be kind of like it was when
12 Alvin Barkely made his second marriage. He married a younger
13 woman and it created some conversation and then people asked him
14 how the marriage was going along.

15 He said, well, it is going just great. We agreed that I
16 would make all the big decisions and she would make all the small
17 decisions and so far we have not had any big decisions to make.

18 If you take it the other way around, the Budget Committee has
19 the job of making the macro, big, decisions and they would leave
20 us the job of making the little decisions and if you let them
21 have their way about it, the first thing you know, there are
22 not going to be any little decisions left to make. It is going
23 to be all big decisions.

24 We have to watch that, because, otherwise, we will not have
25 much to do around here. We would try to find something small

1 enough to think about.

2 Senator Packwood. I think on this bill, first I want to
3 find out what the Budget says, the Budget Act says, for us to
4 review what it says, and I would like to propose to them the
5 waiver and see what they do. And see if they will simply say
6 we do not really like the bill, but we will give you a waiver
7 because the Senate ought to have a right to vote on it.

8 If they want to turn down the waiver on a procedural basis,
9 I think we should have a showdown.

10 Senator Talmadge. My recollection of the Budget Act is by a
11 majority vote of the Senate you can suspend it.

12 The Chairman. You can do that. I do not think we ought to
13 have to do that. If someone wants to propose that you have a tax
14 cut in the following year -- is there anybody here who thinks
15 that we are barred from doing that by the law, from where we
16 stand right now?

17 Mr. Stern. The Budget Committee position is, if you were,
18 for example, to have a corporate cut in 1979 and a further
19 corporate cut in 1980, that that would be subject to a point of
20 order.

21 Senator Packwood. Or individual.

22 Mr. Stern. Or individual.

23 The Chairman. Is that the Budget Committee's position or
24 staff's?

25 Mr. Stern. That is the position of the staff of the Budget

1 Committee.

2 Senator Dole. I am the only member of the Budget Committee.
3 I think that is probably the view of the Committee -- the majority
4 of the Committee, let's put it that way.

5 The Chairman. If Mr. Roth wants to offer an amendment, then,
6 and say you have a tax cut this year and a further tax cut next
7 year and a further tax cut the following year, it would be
8 subject to a point of order on the second and third year.

9 Mr. Stern. On the second year. That would be their point.
10 You could do it in 1979 and start in 1981, but you would have
11 to leave out any staged increase in 1980. That is their
12 position.

13 Senator Curtis. What does the Act provide if a point of
14 order is raised in the House of Representatives? What is the
15 procedure? Is the ruling of the Chair final?

16 Mr. Shapiro. In the House, the Budget Act would be inter-
17 preted the same way, but the judge, as you know, goes to the
18 Rules Committee, and the Rules Committee can raise points of
19 order..

20 So if the standing committee has a position, they can go to
21 the Rules Committee so they can ask for a waiver of a point of
22 order and waive the budget in that position.

23 Senator Curtis. I am talking about the Floor. If a point
24 of order is made, does the Budget Act give it finality?

25 Mr. Shapiro. I think it would be done the same in the House

1 as it is in the Senate.

2 Senator Curtis. In the Senate, it does not mean anything.
3 You can overrule a point of order with a mere majority vote.
4 That is all it takes to pass it.

5 Mr. Shapiro. When that is anticipated in the House, I do
6 not recall it being done. What is usually contemplated in the
7 Committee members' minds on the Ways and Means Committee is to
8 ask for a waiver from the Rules Committee that would foreclose
9 the point of order being raised on the Floor.

10 Senator Curtis. Of course, the Budget Act has statutory
11 status only and subsequent tax bills would overrule it.

12 The Chairman. If you want to change it, you have to refer
13 it to the Budget Committee.

14 Senator Moynihan?

15 Senator Moynihan. Having just heard this, Mr. Chairman, I
16 think I would like to see in writing what is the judgment of our
17 staff on this matter. It is a very serious question that has
18 been raised, one of which we should address ourselves to. It is
19 a larger issue of policy.

20 The Chairman. Senator Roth?

21 Senator Roth. I would point out that as far as the House
22 is concerned, they did vote on the Roth-Kemp which was a three-
23 year bill. No rule was given. It was indirectly voted on and
24 the question was not raised.

25 In any event, Mr. Chairman, as a practical matter it is

1 extremely important that this point be clarified. The reason
2 I raise it is that I think if this Committee is going to be
3 able to act intelligently in the future and have some options
4 available to it, we must have the right to make recommendations
5 with firm action to the following year and to the fourth and
6 fifth years down the road.

7 The Chairman. It does seem to me that my impression was that
8 the way we can make the budget process work is say the Budget
9 Committee will look at how much money we have coming in, how
10 much money we expect to spend, and they will recommend how big
11 of a deficit or surplus we should have and we will agree on that
12 and that is what we will live with.

13 My thought was if we wanted to repeal it, reduce taxes for
14 the future, we would say that that will happen, and my thought
15 was that we could expect to have the Chairman of the Budget
16 Committee make a speech that that is going to give us all fiscal
17 problems for the future and the government will have a horrendous
18 deficit unless we raise taxes, and all of that.

19 And having heard all of that, if the Senate wants to do it,
20 we could do it and so vote. But if they did not want to do it,
21 then we would not want to do it.

22 To be told, mind you, any limitation put on this Committee
23 is a limitation on the Senate; then to be told that the Senate
24 or a Senator cannot offer an amendment without its being subject
25 to a point of order, saying if I cannot vote for the tax cut

1 now, but that this tax would be reduced a year from now or two
2 years from now, to say you cannot do that is news to me.

3 If the Senate agreed to that, it happened at a time when I
4 was not there.

5 Mr. Danforth?

6 Senator Danforth. I would like to address myself to first,
7 the legal question and secondly, the policy question.

8 First, with respect to the legal quystion, it seems to me
9 that there are two possible ways to skin the cat. One is to take
10 it on directly.

11 In the Committee Report, the Rules Committee -- accompanying
12 the Budget Act of 1974 -- the following language appears:
13 changes in the general tax rate, for example, are often graduated
14 over a period of years in order to give predictability and allow
15 for planning by those affected.

16 Therefore, in the Committee Report itself accompanying the
17 Budget Act of '74, exactly what we are contemplating here was
18 raised and was put into the Committee Report. So that it seems
19 that we could possibly --

20 Senator Moynihan. You indicated that they anticipate such
21 forward planning?

22 Senator Danforth. That is right. It is just a question of
23 what happens on the Floor of the Senate. That is just an argument
24 that can be made on the Floor of the Senate.

25 The second thing that could be done is that it could be

1 finessed and that it could be finessed either by omitting
2 1980 or by adjusting reductions on a calendar year, fiscal year
3 basis, which would amount to finessing the issue. I think that
4 could be done.

5 It seems to me that this is a situation of where there is a
6 will, there is a way, and the question before the Committee is,
7 is there a will? Do we want to go that route? Is it our view
8 that we should be looking at a staged kind of tax reduction, if
9 we are considering business rate cuts, which is a matter of
10 great debate.

11 But it is interesting that every witness who appeared before
12 us on business rate cuts indicated that we do not have to do it
13 immediately, that if we had a phased rate reduction and they could
14 plan down the road, that would create the kind of information
15 that they could plan capital investment today, planning on a rate
16 of return later.

17 With respect to the individual tax cuts, the matter at
18 hand, what we are really talking about is not really a tax cut,
19 or how do you keep people whole for unlegislated tax increases.
20 If Congress does absolutely nothing and if you have a 6 percent
21 rate of inflation or a 7 percent rate of inflation, government
22 is going to benefit and the taxpayer is going to suffer, because
23 people are going to be put into higher tax brackets simply by
24 inflation, even though their real income, say, is the same.

25 So I think that the most modest way of stating the

1 question is do we want to have, as a matter of policy, a system
2 where people are not going to have their taxes increased? You
3 can do it by a tax reduction that Senator Roth is talking about
4 ad, if you did that, the figures are that by 1982, 1983, if
5 you have just a sudden rate reduction, people are going to be
6 back up to where they are today in their percent of incomes that
7 are paid out in taxes.

8 Or you can do it by adjusting the brackets over a number of
9 years.

10 But I think, really, the policy question is not are we going
11 to cut people's taxes, but are we going to hold them harmless.
12 And if you have a 6 percent rate of inflation year after year,
13 there is absolutely no way that you can hold them harmless unless
14 tax policy is decided on more than a one-year basis.

15 Senator Talmadge. Senator Roth, do you want to offer your
16 amendment now?

17 Senator Roth. No.

18 Senator Byrd. Mr. Chairman, before Senator Roth offers his
19 amendment, I would like to ask four questions in regard to the
20 bill.

21 Before doing that, I want to express agreement with Senator
22 Moynihan and Senator Packwood and Senator Roth and Senator
23 Danforth that this Committee ought to have a written document
24 from some source, preferably from the Committee staff, as to
25 just what the situation is in regard to what this Committee can

1 do in consecutive years.

2 Mr. Stern. Senator, we will prepare a memo and send it out
3 tomorrow.

4 Senator Talmadge. If the Senator would yield, is my impres-
5 sion correct that the majority voted that the Senate can suspend
6 the Budget Resolution?

7 Mr. Stern. That is correct.

8 Senator Talmadge. That is what I understood and we did that
9 in Agriculture twice last year.

10 Senator Dole. It gives them another argument, it gives
11 somebody another argument against the Roth proposal. They can
12 say I am for it, but it violates the Budget Act. It makes it
13 pretty difficult.

14 Senator Byrd. The questions I want to ask in regards to the
15 bill itself: as I understand it, the House proposal that we
16 are now considering widens the brackets and in widening the
17 brackets has the tendency to reduce the amount of tax owed, is
18 that correct?

19 Mr. Shapiro. That is correct.

20 Senator Byrd. The second thing it does, it provides for a
21 rate reduction, does it?

22 Mr. Shapiro. Yes. Selected rate reductions in certain
23 brackets.

24 Senator Byrd. Is that an across-the-board rate reduction?

25 Mr. Shapiro. No, it is not. Selective rate reductions in

1 certain brackets.

2 Senator Byrd. Which brackets? Where does it start, and
3 where does it stop?

4 Mr. Shapiro. In our summary that was distributed -- maybe
5 we should have all the copies passed out today -- it is on page
6 10. It shows the present law and the House bill and the bracket
7 changes.

8 There is a footnote in the brackets that shows you where
9 the rates were changed and there is a one point reduction on what
10 was previously a 19 percent rate. And the next bracket, which
11 was \$4,000 -- between \$11,000 and \$15,200 -- there is another
12 one point reduction that brings it down from 22 percent to 21
13 percent.

14 Then in the next bracket, which is also \$4,000 wide, \$15,200
15 to \$19,200, the reduction is from 25 percent to 24 percent.

16 Senator Byrd. On page 11?

17 Mr. Shapiro. What I have been doing, Senator, is referring
18 from page 10 under present law to page 11, which shows the
19 House bill, and you will see the brackets on the righthand
20 column, 18 percent, then 21 percent and 24 percent. Each of those
21 brackets have been reduced 1 percentage point.

22 As you know, the effect of that is that everybody above that
23 gets the benefit, because that is not only for those in that
24 bracket. Every taxpayer, even a taxpayer making \$100,000, pays
25 the same amount of tax on the income in that bracket because of

1 the way our progressive system works.

2 The bracket widening is a 6 percent widening in every bracket,
3 however, the rate cuts were in those three brackets that I just
4 pointed out to you.

5 Senator Byrd. It stops at \$20,000.

6 Mr. Shapiro. Taxable income. Someone could have as much as
7 \$50,000 gross income, a little less, a little more, and still
8 have a taxable income of \$20,000. But even those at the \$30,000,
9 \$40,000 and \$50,000 levels would get the same benefits of those
10 rate cuts.

11 Senator Byrd. It is not, in any sense, an across-the-board
12 rate reduction?

13 Mr. Shapiro. That is correct.

14 Senator Byrd. The next question is, if the Congress adopts
15 what is on page 11, which is the House proposal on rates and
16 bracket changes, will that be permanent law, or will that be,
17 in effect, only for the upcoming year?

18 Mr. Shapiro. The House bill makes it a permanent law. The
19 Administration suggested it be made permanent, and the assumption
20 is the bill that Congress passed, that the bill would be
21 permanent. That is a decision that has to be made but the
22 assumption is, whatever is passed this year would be a permanent
23 change.

24 Senator Byrd. It has been mentioned around the table here
25 this morning that it would be a one-year bill.

1 Mr. Shapiro. The discussion there, with Senator Roth's
2 proposal, it would have a phased reduction, the first year, to
3 have a one-third reduction; the second year, the second third;
4 over the third year, the rest of it.

5 Senator Byrd. I am not speaking of Senator Roth's proposal.
6 This bill.

7 Mr. Shapiro. The assumption that has been discussed is these
8 proposals made in this bill would be made permanent.

9 The Chairman. Gentlemen, let me just put the situation,
10 here. If this is agreeable with Mr. Roth, we will vote on the
11 Roth amendment on Monday, so on Monday we will vote on the Roth
12 amendment.

13 I would like to ask the Committee to simply regard what you
14 see on that sheet as the proposal there of the staff, or a
15 suggestion of the Chairman, as to how we might handle these
16 items and it is in no way binding anybody on the Committee.

17 Senator Byrd. Before you leave that item, I have another
18 question.

19 The Chairman. If I might explain one more item, when you
20 look at items number 3 and 3(a), one of them is -- that is what
21 it would take to have the earned income credit on a withholding
22 basis, on a negative withholding basis, for the working people.
23 That is what it costs on a fiscal year, and .2 on a fiscal year
24 basis and 1.8 on a calendar basis.

25 If we phase it out more sharply, if we had a 15 percent

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1 phaseout -- and Mr. Moynihan is Chairman of our Committee on
2 welfare -- that this type suggestion is in the Administration
3 welfare suggestion, as I understand it.

4 Senator Moynihan. Yes, sir.

5 The Chairman. If you phase it out more sharply at 50 percent,
6 that you would have the same .2 in the fiscal year but have
7 .12, because you are roughly saving \$600 million.

8 Mr. Moynihan's suggestion, as I understand it -- and I would
9 hope that we can do it -- just the way it is suggested under
10 item 3, because some of these people have been receiving food
11 stamps, some have been receiving the benefit of subsidized
12 housing, and when you add the phasing out of those benefits to
13 the phasing out of this earned income credit, it can get to be
14 a fairly short marginal rate.

15 Senator Moynihan. May I speak to the general purpose for a
16 moment, Mr. Chairman?

17 I would like, first, to say that without really noticing it,
18 this has become one of the greatest income maintenance programs
19 in this country. We are dealing with one-third of the American
20 population, the people who have the lowest third of income.

21 You might be interested to know that in 1979, we estimate
22 the median family income will be over \$18,000 and for a four
23 person family, the median income will be \$21,472.

24 We have before us several options, but I would like first
25 to say, it seems to me the Committee might usefully declare that

1 it is our intention to revise this program at regular intervals,
2 to keep the maximum credit equivalent to approximately 10 percent
3 of the earnings of the person working full-time at the Federal
4 minimum wage, moving up.

5 This is what moving up to \$6,000 would do. That figure would
6 be \$6,032.

7 I think we should say we are going to stay with this program.
8 It is a good program; we like it.

9 Secondly, I would like to say with respect to this rate
10 schedule, you have, on tables 1 and 2, you can look on the right-
11 hand side and you see those marginal rates of reduction and
12 going down to \$10,000 just goes down too fast, and after \$6,000
13 of income, you are at 40 percent, as high as 55 percent in the
14 reduction, which is what we do not want to do.

15 This is a work-supported program and we do not want that
16 kind of disincentive.

17 By contrast, that one section between \$8,000 and \$9,000 where
18 the food stamps disappear on you, the rate reductions are reason-
19 able.

20 Senator Curtis. If you would yield for a question or two,
21 do you regard this as a welfare provision or a matter of tax
22 law, bringing equity to those people who earned their money?

23 Senator Moynihan. I regard it as the latter, Senator
24 Curtis. It only goes to persons who earned and who have
25 dependent children.

1 Senator Curtis. Does it go to people who have income not
2 earned, such as housing subsidies, food stamps, AFDC payments,
3 and so on?

4 Senator Moynihan. It can go to such persons, but only to the
5 extent that they are employed and have earnings.

6 Senator Curtis. My understanding of the theory back of this
7 and of course, the author would be the best source of evidence
8 on that -- I thought there were people who had to earn every cent
9 they got and I am sure -- I am not attributing this to the
10 author -- I am sure many of those are living on a very modest
11 standard of living and are drawing no subsidy.

12 Senator Moynihan. That is right.

13 Senator Curtis. That this was an award, or recognition, of
14 just due to those who were not placing a burden upon government
15 but were earning their own money and were still on the tax rolls.

16 Senator Moynihan. That is exactly correct, Senator.

17 Senator Curtis. So I think that we should adhere to it.
18 I think that one of the qualifications for this should be such
19 that it is a reward that goes to the self-sustaining.

20 The Chairman. I would like to ask that this Chart 3, crank
21 into it at some point a housing allowance to see how high that
22 tax rate goes, how high the marginal tax rate goes if you have
23 a housing allowance in there. It would go very high at that
24 rate. That is what compels me to feel that it would be better
25 to have the 10 percent that Senator Moynihan advocates rather than

1 the 15 percent phase-out, because when you add that to the rest
2 of the marginal tax rate, it really does become a very discour-
3 aging thing who are working to see that high of a marginal tax
4 rate on the phase-out of welfare-related programs: the housing,
5 the food stamps, then you phase this out and it becomes very
6 discouraging for people.

7 I do think, as Senator Moynihan has said here, you ought to
8 keep in mind that, as far as most of these people are concerned,
9 all that we are really doing for them is to give those people
10 back the Social Security tax income that is generated by their
11 work, by their own work effort when they have these children to
12 support. And while they are supposed to be paying for Social
13 Security benefits, if you look at what they are entitled to draw
14 under the SSI or welfare-type programs, either because they are
15 sick or because they need it when they can no longer work, the
16 difference between what they get under the welfare and what they
17 get under the Social Security is not very much, so there is very
18 little benefit for those people, if you take into account the fact
19 that they would be eligible for the welfare benefits anyway.

20 I can recall at one time what one low-income worker told
21 me. He was working for me at the time. He said, if you are
22 worried about the benefit I am going to get out of Social
23 Security, you can just forget about that. Whatever the minimum
24 is, that is what I am going to get anyway. That is about all I
25 get on welfare, anyway.

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1 If you think in those terms, I think we are well-justified
2 in taking the view that these low-income people, when they turn
3 to and take a job, that they are doing the government a favor as
4 well as benefitting society and hopefully themselves, but they
5 are going to have to work up the ladder some to the point where
6 they are doing a bigger favor to the government than they are
7 to themselves when they turn to and go to work.

8 So I think it has a lot of appeal to it, especially if we
9 can find the money in the budget to do it.

10 Senator Curtis. May I ask staff a question?

11 How much income tax does a family of four with \$6,000 in income
12 make besides --

13 Mr. Shapiro. There would not be any income tax.

14 Senator Curtis. Would such a family be eligible for AFDC?

15 Mr. Stern. Typically, not. Assuming that the head of the
16 family is employed and there was a husband and wife and two
17 children.

18 Senator Curtis. It could be a female head of the family.

19 Mr. Stern. If it is a mother with three children, it would
20 depend on the level of state benefits.

21 Senator Curtis. In some states?

22 Mr. Stern. . . In some states.

23 Senator Curtis. And still have her earnings?

24 Mr. Stern. . Yes, sir.

25 Senator Curtis. How much could she draw?

1 Mr. Stern. You would have to take a specific state and find
2 out what the benefit levels are.

3 Senator Curtis. New York.

4 Mr. Stern. Of the \$6,000, they would take off for work
5 expenses and they would allow \$30 and a third which they would
6 not count at all. The work expenses might not be \$50 a month.
7 That would be \$600. The \$30 would be \$360. That brings you
8 almost to \$1,000.

9 One third of the remainder may be another \$1,800 or so.
10 So that would leave \$3,200 as actual countable income and --

11 Senator Moynihan. That person is likely to receive nothing
12 in New York State, Senator Curtis.

13 Senator Curtis. Receive nothing?

14 Mr. Stern. I think that the levels may be above.

15 Senator Moynihan. Maybe a few hundred dollars.

16 Senator Curtis. If she receives any money, she becomes
17 eligible for Medicaid.

18 Mr. Stern. Yes, Senator.

19 Senator Curtis. And also would be eligible for food stamps?

20 Mr. Stern. Good stamp eligibility for a family of four
21 phases out at slightly over \$9,000.

22 Senator Curtis. How about housing?

23 Mr. Stern. I do not know the answer on housing.

24 Senator Curtis. If she did earn the \$6,000 she would be
25 entitled to a refundable tax credit of \$600?

1 Mr. Stern. That is right, under this proposal.

2 Senator Curtis. I think a tax for rewarding people where
3 their only source of any dollars at all is hard work is a good
4 feature. I have a question in my mind as to whether or not they
5 should receive the same dollar figure if someone earned \$6,000
6 and someone else -- even if AFDC is a small amount, these other
7 benefits flow.

8 It seems to me that we have to be equitable between the two
9 groups -- those who are participants in the major welfare programs
10 and those who have the same amount of money and manage to get
11 along.

12 Mr. Shapiro. Senator, as Senator Moynihan pointed out, this
13 would only be eligible to those who have earned income, so that
14 they are in the work force. In addition to that, one of Senator
15 Moynihan's suggestions that he has is that present law has
16 what is referred to as disregard. Any person who has the earned
17 income credit, that amount is disregarded for any Federal
18 assistance.

19 Senator Moynihan's suggestion, he would have us revise that
20 and treat the earned income credit like other earned income, which
21 would further increase the amount of income an individual would
22 get, that would have the effect of further reducing any other
23 further assistance that individual is otherwise available for.

24 Senator Dole. Would that be enough to offset the cost of
25 this?

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1 Mr. Stern. Do you mean the savings from that provision?
2 I do not think that provision would particularly produce any
3 revenue effect.

4 Senator Dole. It may save some money.

5 Senator Dole. It would save some.

6 Mr. Shapiro. That would have a reduction in outlays, not in
7 the revenues. We are looking into it. Mike's comments are
8 generally correct, but we are looking into it further.

9 Senator Curtis. Would these in-kind or cash and in-kind
10 welfare benefits speed up the phase-out?

11 Mr. Shapiro. The only thing that speeds up the phase-out is
12 income, adjusted gross income.

13 If an individual has -- for example, if someone had \$6,000
14 of earned income but \$15,000 investment income, that individual
15 would be phased-out completely.

16 Senator Curtis. Do only heads of families get earned income
17 credit?

18 Mr. Stern. That is correct.

19 Senator Curtis. What is the head of a family?

20 Mr. Stern. You have to provide 50 percent of the support of
21 your child. If welfare is providing 80 percent --

22 Senator Curtis. The husband and wife?

23 Mr. Stern. It can be a woman with a child, or a man with a
24 child.

25 Senator Curtis. Maybe my question is awkwardly stated. A

1 husband and wife alone?

2 Mr. Shapiro. No, you have to have a child.

3 Senator Curtis. A child.

4 Mr. Shapiro. That is where the support test comes. You have
5 to provide more than 50 percent support for that child.

6 Senator Byrd. Under Senator Moynihan's proposals, at what
7 point would a family of four begin to pay income tax?

8 Senator Moynihan. I show that to you on Table 3, Senator
9 Byrd. AT \$8,000.

10 Mr. Stern. Under the House bill, you have a \$3,400 zero
11 base and then you have \$1,000 per dependent under the House bill,
12 so that brings you up to \$7,400 as an entry point for paying
13 taxes.

14 Senator Byrd. Thank you.

15 Senator Moynihan. Mr. Chairman, I think that this program
16 has worked. I think it has been accepted. It is a work-oriented
17 program for the family and I hope that the Committee will be
18 willing to say that we like what has been done here and we want
19 to make it an aspect of the support of children and families
20 who work in this country.

21 Senator Gravel. Mr. Chairman, Senator Matsunaga and I had
22 a proposal that we were going to get a cost of living differential
23 deduction and we toned down that considerably, because that would
24 have had a cost effect of somewhere around \$50 million.

25 Under this earned income proposal, which is really designed

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1 to be targeted at the heart of people who are unemployed and
2 suffering, as a result of that -- or who are poor -- a person who
3 is poor in a high cost-of-living area is just poor at a higher
4 threshold. So if we are truly after equity on the basis of what
5 a person's quality of life is in a certain area, I would hope that
6 the Senator would accept a slight change, and that would be to
7 just have a cost-of-living differential which is established by the
8 Federal government for Federal income applied to this and the
9 financial effect is probably \$1 million or \$2 million at the
10 very most, which is miniscule in terms of the program. But in
11 terms of the people who suffer the poverty in the high cost
12 area, it is very significant. Because if you are poor and the
13 cost of living is higher, you suffer just as much if you are
14 poor and the cost of living is lower.

15 Senator Moynihan. Mr. Chairman, I think it is entirely
16 reasonable. I think it should be confined to the states non-
17 contiguous, because they do have very different costs of living.

18 The Chairman. That is fair. Without objection.

19 Mr. Stern. Does this include the other things of reflecting
20 it in withholding?

21 Senator Moynihan. Yes, sir, and I would like to make the
22 point that the House made some good, simplified changes and the
23 important change was that this will be what the Chairman, Senator
24 Long has proposed -- what you call negative withholding. This
25 will come regularly in your paycheck or pay envelope and will

1 not come every year at tax time.

2 This becomes part of the income stream of the establishment.

3 The Chairman. Do we agree with that?

4 Senator Curtis. I want to look at some things and want to
5 have staff inform us on that, because we do not want to end up
6 at the end of the year of having them pay something in.

7 Mr. Shapiro. Senator, the suggestion that we have worked
8 out on a tentative basis, that for a taxpayer to elect to have
9 the earned income credit to be taken into account in withholding,
10 then give the Internal Revenue Service the flexibility to provide
11 separate tables to the employer, and we are suggesting a July
12 effective date of withholding be given, to really see.

13 It would probably mean that the withholding tables would have
14 a reflection of 80 percent to 90 percent of the earned income
15 credit so nobody would have to pay in, or try to cover that to
16 the greatest extent possible.

17 It may mean that it would not cover all earned income
18 credit withholding, which means that they would get some small
19 amount, but to make sure that someone does not get hit with a
20 bill at the end, by giving a six-months delayed effective date
21 on the withholding allows the Internal Revenue Service to review
22 the tables extensively. The staffs can work with them and then
23 have an opportunity for the employers to review it as well.

24 We are working that out, to try to cover that.

25 Senator Curtis. The phase-out depends on all income?

1 Mr. Shapiro. That is correct.

2 Senator Curtis. I think a month to month payment might lead
3 to a lot of complications because of taxpayer accuracy.

4 Mr. Shapiro. The tables would adjust to that, because the
5 way it would reflect on the tables, if an individual had higher
6 income, the tables would reflect that. Presumably it is intended
7 to operate that the employee would fill out a form and submit that
8 to an employer. That form would contain the income the employee
9 would have, earned income plus other income.

10 The employer would use the information on that form, use a
11 separate table and provide the separate withholding or make cash
12 payments based on that form that the individual submitted.

13 To the extent that the individual revises that form or has
14 additional information and that would be reflected in the with-
15 holding, that subsequently would be taken into account. But the
16 tables, in any event, would not reflect 100 percent of the credit
17 because it would allow some margin for error by the employee and
18 somewhere between 80 and 90 percent.

19 Senator Curtis. That would be a new departure.

20 Mr. Shapiro. This whole concept of putting the earned income
21 credit into withholding is a new system. The purpose of that is
22 that the present earned income credit is reflected in a lump sum
23 at the end of the year and the general feeling is that would be
24 more appropriate to provide the incentive during the course of
25 the year, while the employee is working to receive the benefit,

1 either by reduced withholding or cash payments.

2 So that, instead of waiting to the end of the year and getting
3 a lump payment, you would get it during the course of the year.

4 Senator Curtis. I understand.

5 It still leads to a variation away from uniformity in with-
6 holding. I recall when withholding was first adopted, many
7 worthwhile fund-raising groups -- that would be a good name for
8 them; churches and others -- where some of their people contri-
9 buted most generously and they had exactly the same amount with-
10 held as someone who did not contribute anything. This was even
11 before the standard deduction.

12 I fought a losing fight at that time for the right of people
13 who consistently had given generously, for them to get their
14 withholding lowered, and the Treasury and the IRS stood firmly
15 against it, that withholding taxes should be uniform for all
16 taxpayers.

17 Does Treasury have anything to say about this?

18 Mr. Lubick. I would like to say one thing, Senator Curtis.
19 Where there is a change in withholding in the middle of a
20 calendar year, the Service gets many objections from employers.
21 They find it very difficult to handle, from the administrative
22 point of view. It would be best if the withholding system were
23 introduced at the beginning of a calendar year, and not in the
24 middle.

25 Senator Curtis. Do you have any objections to a tax credit

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1 reflected in withholding?

2 Mr. Lubick. I am sorry?

3 Senator Curtis. Do you have any objections to reflecting
4 an anticipated tax credit in withholding tables?

5 Mr. Lubick. We think, Senator, that is a desirable idea
6 because it helps carry out the purposes of the credit.

7 Senator Curtis. What you are saying is that this should not
8 be made effective in the middle of the year?

9 Mr. Lubick. Our problem is that there is going to be a
10 change in the withholding rates beginning in January anyway, and
11 another one in July and two in one year, and that gets to be
12 troublesome.

13 Senator Curtis. They could put this new idea into effect the
14 following January.

15 The Chairman. My reaction to all of that is when you get up
16 to just the best you can draw about what the form is going to look
17 like and how it is going to work, everybody here is going to say,
18 we will say you will put it into effect when you can.

19 You may be able to put it into effect in January. If we do,
20 it is going to cost a lot more money against the budget allowance,
21 too.

22 What we are talking about here can work with sufficient ease
23 that it is going to be good for all concerned. Let me just
24 indicate how this thing would work.

25 I once had a fellow working for me that had a wife and ten

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1 children. And here we were withholding for Social Security and
2 they would have been better off on the welfare; with all those
3 children, they would be entitled to a lot of money in the average
4 state.

5 When you look at the amount of withholding for Social
6 Security, if you did what you are talking about here, instead of
7 having 12 percent to Uncle Sam, I would be sending Uncle Sam
8 2 percent and paying that man the other 10 percent. Assuming
9 that he is making \$6,000 a year, that would be adding about
10 \$50 a month to his check, and goodness knows, that poor family
11 needs the money, that they are getting it right along, and look
12 what you overcome.

13 In the first place, the majority of people who are entitled
14 to it are not getting it the way it stands right now. Under this
15 proposal, they would be getting it.

16 In the second place, they do not need -- sure, they need the
17 money at any point, but to wait until next April 15th to apply
18 for it when they need the \$50 right now does not make too much
19 sense.

20 What tends to happen, we have a windfall at one point in the
21 year and they need it all year round, and they are not getting
22 it.

23 So you just crank it in right on that paycheck. How do you
24 do it? Just like the Social Security withholding. Instead of
25 sending the government a check for the whole 12 percent, I would

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1 send the government a check for 2 percent and give the other 10
2 percent to that worker.

3 Senator Curtis. The question I raised is not directed at the
4 main idea of paying it currently, but if you had to take the
5 increase in the amount effective the first year and then apply
6 your other one the first of January, they would still get it, but
7 it would delay it. I was raising that question of Treasury.

8 Mr. Shapiro. If I could make an observation regarding the
9 Internal Revenue Service observation of it. This proposal does
10 not suggest that the Internal Revenue Service submit completely
11 new tables or that they have to change. It is just an additional
12 table only for the earned income credit. The other tables --
13 there would not be any change that the employers would be presently
14 using at that time with respect to the employees.

15 It is just that those employees that choose to submit this
16 paper to the employer that they are on the earned income credit,
17 then a separate, new table would apply to them at that time.

18 The Chairman. Senator Moynihan, how many poor people do you
19 think would be benefitted by that provision?

20 Senator Moynihan. About one-third of the population of the
21 United States, Senator.

22 The Chairman. That many?

23 Senator Moynihan. These are working people with low incomes.
24 Yes. It is about a third of the children.

25 I would make the point that we are trying to keep people from

1 giving up working, from going on welfare, to saying let us see
2 what the government is going to do. That means you have to have
3 that little increment in earnings, 10 percent up to \$6,000 and
4 then phasing it down, available all the time is a part of it.

5 People do not have extra money around. They should have it
6 to pay the rent, buy the clothes, get the carfare.

7 The Chairman. The people we are trying to help here do not
8 have a single witness come before the Committee, but we know
9 about them. We have heard these witnesses before and they made
10 an impression on me, talking about incentive, and we need an
11 incentive for these poor souls for their families' condition, and
12 I will be darned if I am going to deny these people their 10
13 percent of what little we can do for them because the Internal
14 Revenue Service does not want to be bothered, or some employer
15 does not want to be bothered.

16 Invariably, he is a lot better off financially than the person
17 we are trying to help with this.

18 If they want to complain a little bit, let them complain,
19 but that is a small item, it seems to me, compared to the number
20 of people involved and what we are trying to do to help them.

21 It is small, but little though it may be, it is very important
22 to the people you are trying to benefit with this, and compar-d
23 to the inconvenience it might be to the employer -- if I just
24 took my own situation with that man who worked for me, it is
25 worth my bothering; from my point of view, I would be glad to

1 do it to see that that fellow gets the extra 10 percent.

2 Mr. Lubick. We could probably do it January 1st and we would
3 be glad to work on that.

4 The Chairman. If you do it January 1, we are going to have
5 to find a little more dough to do it, I can see that.

6 Senator Moynihan. It would not be much, Mr. Chairman.

7 The Chairman. What is your estimate?

8 Mr. Shapiro. Approximately \$400 million.

9 Senator Curtis. One-third of the population?

10 Senator Moynihan. A third of the families with children.

11 Senator Curtis. How many families are there?

12 Mr. Shapiro. As far as those who filed taxable returns,
13 approximately 67 million and it would mean that those who filed
14 returns is in the neighborhood of 15 percent of terms effective.
15 Senator Moynihan's figure talked about families with children.
16 It may very well be it is one-third, but if you are just talking
17 about tax returns that includes with or without children, if
18 you narrowed it down to how many who filed tax returns had
19 children.

20 Senator Curtis. About half of the population files tax
21 returns. The number of individual tax returns does not equal
22 half of the number of people 18 years of age or over. So your
23 estimate is too high.

24 Senator Moynihan. I do not want to insist on it, but I
25 believe there are 35 million returns who claim dependents. This

1 is about 12 million, about a third of the families who have
2 children.

3 Senator Curtis. Not one-third of the total population of the
4 country?

5 Senator Moynihan. No, I corrected myself. One-third of the
6 families with children. You can only get this if you are a
7 family with children. Families who are working.

8 The Chairman. Senator, this is regarded as income. For
9 AFDC purposes, it is regarded as income.

10 Senator Moynihan. We wish it to be regarded as income. It
11 certainly will be so regarded by the people who can get it.

12 The Chairman. Fine.

13 Senator Byrd. Could the staff give a few examples, work out
14 a sheet giving a few examples as to how an individual would be
15 affected by someone going on the payroll at \$6,000?

16 Mr. Shapiro. We would be happy to do that to you.

17 I would like to make one statement with regard to this. I do
18 not want the Committee to have the impression that the suggested
19 July 1 effective date is only for revenue. We are very legitimately
20 concerned about the way this new system would work, that you have
21 to have employees who would have to file a statement, a whole
22 new table for the employers and if it is not done right, you may
23 have some of these low-income people who may have too little
24 taken out in withholding or too much and the cash payments made,
25 and on April 15, 1980 they are going to be hit with a bill that

1 is \$700 that, at these low-income levels, would be significant.

2 We would rather suggest July 1 to make sure there is
3 adequate time to be given the Internal Revenue Service and the
4 staff would like to work with the IRS to make sure that these
5 people do not get caught in an unintended situation that adversely
6 affects them.

7 The Chairman. I think that we definitely ought to do that.
8 I know that Senator Moynihan and I feel that way about it, we
9 want this to go into effect as soon as we can, but the last thing
10 on earth we want is a great big snafu about this.

11 Senator Moynihan. This is worth doing right.

12 The Chairman. Then everybody would have to calculate and
13 change the form and everything else. If your people will be
14 ready, Mr. Lubick, as far as I am concerned, let's start January
15 1. But the last thing on earth I want is a big foul-up to start
16 the thing going.

17 If you can show us that you can be ready and make it work
18 smoothly, fine. January 1 would be fine.

19 Senator Byrd. That would give you time to do it right, it
20 would seem to me.

21 Senator Moynihan. Do it right.

22 Senator Danforth. Mr. Chairman?

23 Senator Long. Senator Danforth.

24 Senator Danforth. On these two tables, it is surprising to
25 me how little difference there is between the columns entitled

1 "Total Marginal Percentage Reduction."

2 Senator Curtis. What table?

3 Senator Danforth. Well, the question is, the marginal reduc-
4 tion of benefits or the marginal increase of taxes by virtue of
5 people earning an extra dollar of income.

6 Senator Moynihan. May I say to the Senator, in the range
7 between \$10,000 and \$12,000, the earned income tax credit is
8 very low. It finally reaches \$1 for the whole year. You would
9 not expect that sharp of a difference, but we have picked the
10 \$12,000 level because it is lower and it also is symmetric with
11 our existing arrangement.

12 The idea that we are going to keep this program at the full-
13 time earnings at the minimum wage and take it up 10 percent and
14 take it down 10 percent and not change it every two years, it
15 seems to me right.

16 May I say, for the record, this is earned income.

17 Senator Danforth. Which of the two tables do you want?

18 Senator Moynihan. The second; that is on page 3.

19 Senator Danforth. Number 3.

20 Senator Moynihan. \$12,000.

21 Senator Danforth. \$12,000. 10 percent.

22 Senator Curtis. If the Senator would yield for a question
23 there, if you are going to weave this into the withholding,
24 would an individual that just has an earned income tax credit
25 of \$12 or say \$50, would they be entitled to a withholding table

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1 reflecting that?

2 It is rather simple for those who get the full \$600.

3 Mr. Shapiro. Senator, one of the factors that we have with
4 this tolerance level between 80 and 90 percent is several factors.
5 One is to make sure that some of these individuals do not estimate
6 wrongly and get caught and, at the same time, those who have a
7 very little amount would not be affected, either. You just take
8 the case of someone who may have a \$50 credit. The maximum
9 they would get is \$1 a week or, depending on how the tolerance
10 levels would work out in the tables, they may not be covered.

11 Mr. Stern. That would not be a problem because those people
12 do file returns and they do pay income taxes and, in that case,
13 it is not refundable. It is simply a case of lowering their tax
14 by the amount of that credit. So probably \$1 a week or 30 cents
15 a week would not be reflected in any change in withholding.

16 Senator Danforth. The difference between tables 1 and 3 is
17 about \$600 million, right?

18 Senator Moynihan. That is right, for a full calendar year.

19 Senator Danforth. As I understand the whole point of the
20 program is to encourage people to get jobs.

21 Senator Moynihan. To keep jobs, hold jobs, increase their
22 earnings.

23 Senator Danforth. Increase their earnings.

24 Therefore, presumably what you want to do with respect to the
25 phase-out is adjust the phase-out so that people increase their

1 earnings, that they want to increase their earnings. Is that
2 right? The economic benefit will be reflected, so you do not
3 end up losing more than you gain, or losing a very substantial
4 piece of what you gained. Is that right?

5 Senator Moynihan. Exactly.

6 Senator Danforth. What surprises me here is the small
7 difference between the total marginal percentage reduction
8 columns.

9 Mr. Stern. It is a difference of 5 percent in the phase-out
10 rate there for the earned income credit, a 15 percent reduction
11 versus a 10 percent, because as your earned income credit goes
12 down, your food stamps go up. There is a slight offset there.
13 The differential is 4 percent in the range in which the credit
14 is effective.

15 Senator Moynihan. You can only extract a 3, 4 and 5 percent
16 difference.

17 Senator Danforth. You are talking about \$600 million. I
18 am wondering if that large a cost is reflected in any real
19 benefit to the recipient.

20 Mr. Stern. It gives most of the additional money -- between
21 those two proposals, most of the additional money goes to people
22 who are within 25 percent of the minimum wage. It is an attempt
23 not only to give \$6,000 but \$6,000 between \$8,000.

24 The person at \$6,000 under the 10 percent proposal would get
25 a benefit of \$400 as opposed to \$300.

1 Senator Moynihan. May I suggest to the Senator that after
2 about \$9,000 the actual effect of this measure is to cut the
3 taxes rather than to provide a supplement to income because these
4 people are paying taxes.

5 Senator Danforth. There is a difference in so far as the
6 Treasury is concerned of \$600 million, right?

7 Senator Moynihan. That is probably because of the large num-
8 ber of people whose incomes fall between \$10,000 and \$12,000.
9 That is when you get into big numbers.

10 Senator Danforth. You have analyzed this in great depth but,
11 in your opinion, is there much of a difference between tables
12 1 and 3?

13 Senator Moynihan. There is a difference. There is.

14 May I make the point, Senator, that at the most we are in the
15 highest percentage we are involved here is 11 percent, 10 percent
16 and lower than that because, as you see, sometimes the proposed
17 earned income tax credit has an effect of only a 7 percent
18 decrease because of the food stamps cost rise, and you should
19 never expect -- you could not get any larger effect than that
20 in this one column.

21 It is the food stamp programs and the income tax and Social
22 Security that have the big numbers in it.

23 If you look at that, food stamps, you know, early on you
24 lose 27 cents for every dollar earned, then you lose 24 cents for
25 every dollar earned.

1 Senator Danforth. It is the last column, is that not right?

2 Senator Moynihan. The last column reflects the variation --
3 the three columns, food stamps and Social Security, are fixed.
4 They are not in the proposal before us.

5 Senator Danforth. I know that, but as far as the recipient
6 is concerned, what you are talking about is the total amount of
7 benefits of one kind or another that the recipient received
8 and the net effect of an extra dollar of income.

9 Senator Moynihan. Net loss for an extra dollar of income,
10 yes.

11 Senator Danforth. And net gain. You get \$1 extra of income
12 and that is reduced by loss of benefits.

13 Senator Moynihan. Right. That percentage of marginal
14 reduction, that is the percentage of loss.

15 Senator Danforth. Do you think there is a significant
16 difference between the final two columns on these two sheets?

17 Senator Moynihan. There is a difference, Senator. You can
18 find it significant or not significant. Obviously, the biggest
19 numbers in that row are food stamps and Federal income tax, and
20 those rates of reduction are going to be there no matter what
21 we do.

22 Senator Danforth. We are talking here -- is this a part of
23 the budget question?

24 Mr. Stern. With the July 1st effective date of withholding,
25 there is relatively little effect under either of these proposals

1 in fiscal year 1979.

2 Mr. Shapiro. What this boils down to is how much money you
3 would like to put into these income classes. As Mike pointed
4 out, from a budget standpoint, it is the same in both versions,
5 whether it is page 1 or page 3. It would be identical. It would
6 be an identical budget situation.

7 The Committee has to decide how much money you would like
8 to put into the earned income credit for low-income individuals.

9 Senator Moynihan. I would like to say to Senator Danforth,
10 in a slightly different aspect of what Mr. Shapiro has just said.
11 When you speak of these marginal rates, we now have, for better
12 or worse, we have a symmetric up at 10 percent, downward at 10
13 percent.

14 I would like to see that marginal rate be as low as it can
15 be and the 12 percent is the lower of the two.

16 Senator Danforth. \$12,000?

17 Senator Moynihan. \$12,000. It is symmetric. It is what
18 we have been doing.

19 Senator Danforth. Your point is the man thing is the
20 difference between \$10,000 and \$12,000, not the difference between
21 10 percent and 15 percent.

22 Mr. Stern. If you phase it out at 15 percent, you wind up
23 at \$10,000.

24 Senator Talmadge. Gentlemen, it is now about 12:10. Would
25 you like to stand in recess until 10:00 a.m. Monday?

1 Senator Moynihan. I would like to ask whether Senator
2 Danforth is satisfied with the response he has had.

3 Senator Danforth. What would happen on Table No. 1 if you
4 went down to \$12,000. If you carried it to \$12,000, what would
5 the figures be?

6 Senator Moynihan. You would have Table No. 3.

7 Mr. Shapiro. That would be Table 3. The difference between
8 Table 1 and Table 3 is a 10 percent phase-out which is on Table
9 3 and the 15 percent phasedown which is on Table 1.

10 Senator Danforth. What would be the total marginal percen-
11 tage?

12 Senator Moynihan. Could we have order, Mr. Chairman?

13 Senator Talmadge. The Senator's point is well-made. This
14 is a reminder to the guests of the Committee to please refrain
15 from conversation.

16 Senator Danforth. On Table 1, if you carried it on down to
17 the lefthand column of Table 1 down to \$10,000 and then you went
18 to the marginal percentage reduction, what would it be?

19 Mr. Stern. 23 percent, in the case of \$11,000 and one
20 dollar. All you would have is the Federal income tax of 17
21 percent plus Social Security tax at 6 percent. In the case
22 of \$12,000 it would be 24 percent -- 18 percent Federal income
23 taxes and 6 percent Social Security tax.

24 Since your earned income credit would have phased out by
25 \$11,000, there would be no extra 10 percent there.

1 Senator Danforth. For the last one-fourth of \$12,000 would
2 be identical, for the \$11,000 it would be the difference between
3 23 and 33?

4 Mr. Stern. Yes, sir.

5 Senator Danforth. The main point you are trying to
6 accomplish --

7 Senator Moynihan. That is the point.

8 Mr. Stern. Also a lower marginal rate around the minimum
9 wage between \$4,000 and \$6,000 and \$4,000 and \$7,000 -- I mean,
10 between \$6,000 and \$8,000 or \$9,000, which is about the range
11 of low-income working people, it would be about four points

12 **That is one of the objectives.**

13 Not only the case of \$11,000.

14 Mr. Shapiro. Let me make another point. Senator Moynihan
15 put together a table and tried to put some of the bigger items
16 in there. If you added some other features, for example, state
17 or local income taxes and other things, those marginal rates would
18 be bigger.

19 This illustrates the point on the bigger programs.

20 Mr. Stern. Has the Committee tentatively agreed to this?

21 Senator Moynihan. Mr. Chairman, I think it was the under-
22 standing of the Committee that we could tentatively agree to this.

23 Senator Talmadge. Any objection to agreeing to the
24 Moynihan proposal tentatively? Item Number 3?

25 Mr. Stern. As modified by Senator Gravel.

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Senator Talmadge. What effective date?

Mr. Shapiro. It would be effective January 1. With regard to the proposal, the withholding would be effective July 1.

Senator Moynihan. It is modified by Senator Gravel.

Senator Talmadge. January 1, and the withholding will be effective July 1 and the Gravel amendment is attached thereto.

Mr. Shapiro. This includes the House simplification provisions and the disregard.

Senator Talmadge. Without objection, it is tentatively agreed to.

Without objection, we will stand in recess until 10:00 a.m. Monday morning.

(Thereupon, at 12:15 p.m. the Committee recessed to reconvene on Monday, September 18, 1978 at 10:00 a.m.)

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