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EXECUTIVE SESSION

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TUESDAY, SEPTEMBER 19, 1978

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

The Committee met, pursuant to notice, at 10:20 p.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Talmadge, Byrd, Nelson, Haskell, Matsunaga, Moynihan, Curtis, Hansen, Dole, Packwood, Roth and Laxalt.

The Chairman. The Committee will come to order.

I want to explain one thing to the members that I do not think is clear to all of us, and that is what we have done here, at least what we are talking about doing in regard to the earned income credit, in this fiscal year it only costs \$200 million. At least, what I am going to suggest that we do, I do not think that they can be ready on the withholding thing until July and if we do it that way, it only costs \$200 million in this fiscal year.

It would cost substantially more in the next year, but that is not what we have to worry about as far as the budget problem is concerned. It is only \$200.2 million this year, and we need

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1 that balance as far as the balance in the bill is concerned.

2 There is a chart which was shown to Senators which is on
3 their desk. I did not know just what that was yesterday. That
4 is the money we are talking about by trying to see as the middle-
5 income people would do about as well, as far as a balance on the
6 bill was concerned, as the people who are higher up in the brackets,
7 and that is the item that would cost a substantial amount of money --
8 is it not, Mr. Shapiro?

9 Mr. Shapiro. That is correct, Senator.

10 Senator Byrd. Mr. Chairman, I am not certain that that is
11 correct, because the sheet shows the proposed tax cut that was
12 distributed by the staff yesterday. It shows that 50 percent goes
13 to those who have less than \$10,000 of income. That is not the
14 middle economic group.

15 The Chairman. Let us take a look at it and see.

16 Is this the one that you are talking about?

17 Mr. Shapiro. That is the one Senator Byrd has reference to.
18 That shows the 50 percent he has reference to, the amount that is
19 on top of the House bill.

20 Senator Byrd. It is almost \$4 billion involved, and almost
21 \$2 billion goes to the group I just mentioned, so that this
22 proposal that the Senate is considering does not do what was
23 indicated a moment ago, the bulk going to the economic middle
24 group. It does not do it.

25 Mr. Shapiro. Let me rephrase that, Senator.

1 The House bill has almost \$10.4 billion of tax reduction
2 going to individuals, not counting capital gains. Just counting
3 tax reductions.

4 The table that I am referring to is in your pamphlet headed
5 "Description of H.R. 13511," page 65, Table 5B. It shows \$10.4
6 billion of individual rate reductions.

7 The Chairman. Where is that?

8 Mr. Shapiro. This pamphlet, the description of H.R. 13511.
9 Senator Byrd. What page?

10 Mr. Shapiro. Page 65.

11 This is the House bill --

12 Senator Byrd. I thought we were talking about the Senate
13 bill?

14 Mr. Shapiro. We are talking about what the Senate is going
15 to add to the House bill.

16 Senator Dole. What page is that?

17 Mr. Shapiro. Page 65, the table at the bottom, 5B.

18 The first column there, the amount in millions. You can see
19 that the total is \$10.4 billion at the bottom and you can see the
20 distribution is essentially going from \$15,000 all the way up to
21 \$50,000 where maybe almost 70 percent of that tax cut is between
22 \$15,000 and \$50,000. That is the House bill.

23 The criticism of the House bill was that most of the tax
24 benefits and tax reductions went to the so-called middle-class
25 and very little went below \$10,000. For example, you can see in

1 the House distribution there is almost 14 percent that went under
 2 \$10,000 with over 70 percent between \$15,000 and \$50,000. That
 3 was one of the criticisms, that very little of the House-passed
 4 reductions went to any taxpayers below \$10,000.

5 What the Committee discussed with staff is to increase the
 6 earned income credit and add additional reate cuts to make the
 7 distribution in the House bill a little more evenly balanced, and
 8 the earned income credit is the feature that puts most of the
 9 revenue below \$10,000 so that the figure of 3.8 that is being
 10 discussed on the separate sheet that Senator Byrd has reference
 11 to, where 50 percent of that 3.8 goes to taxpayers under \$10,000
 12 that would be in addition to the tax cuts under the House bill.

13 That would not change any of that distribution, which of the
 14 10.4, the large majority of that goes between \$15,000 and \$50,000.
 15 The Chairman. What you are talking about is the full calendar
 16 year. What you are talking about here is the calendar year basis.
 17 Is that right?

18 Mr. Shapiro. That is correct.

19 The Chairman. For this fiscal year, and that is the part
 20 that we are talking about. That is where the budget problem is
 21 concerned.

22 This fiscal year, the earned income credit, if you start with
 23 a negative withholding in July -- which I do not think they can
 24 be ready before that -- if that is the case, if you start in July
 25 then for this fiscal year, the earned income credit would cost

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1 .2. Is that correct?

2 Mr. Shapiro. Yes.

3 The Chairman. That is only \$200 million. You might say
4 the \$2 billion that we have to work with unless you want to take
5 something else out. The part that we think is going to cost
6 substantial money, if you want to think in terms of putting some
7 better balance in the bill, is what you do and what comes with
8 the other things of the earned income credit.

9 I know what I think we should be trying to do, about the rates
10 in the so-called middle-income brackets, that is with people who
11 are not benefitting with the income credit, if any -- not many.
12 The level just above that.

13 What falls below there, for example, on the \$15,000 to \$20,000
14 bracket, the 393 and the \$28,000 to \$30,000, the 763 and the
15 \$30,000 to \$50,000 the \$359 million -- does not most of that fall
16 within this fiscal year, or does it?

17 Mr. Shapiro. Yes, Senator. The entire amount in the fiscal
18 year would be approximately \$1.3 billion.

19 The Chairman. \$1.3 billion.

20 That would be in terms of the money that we have to work with
21 in this fiscal year, that would be the way the staff is thinking
22 in terms of trying to put some balance in the bill, where you
23 balance it up and down the line. That would be the big item,
24 the part that takes care of these people between, let us say,
25 \$12,000 and \$50,000, the brackets in that area.

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1 That is where the big part of the money would go if we are
2 trying to achieve a balance up and down the line. It may be that
3 the Committee will not want to do that much, but in terms of how
4 much money we have to work with, that is where the large amount
5 would go, if you are thinking in terms of what the staff suggested
6 that we might do.

7 At this moment, it seems like a pretty good approach. We may
8 have to take some of that out to squeeze some of the other things
9 in, but the earned income credit is not the part that is squeezing
10 us on the budget. That is only .2.

11 Senator Byrd. The earned income credit is a new program
12 which will be tremendously costly in the future, and we have to
13 take that into consideration, it seems to me, Mr. Chairman -- not
14 just what it is going to cost for a part-year. The House bill
15 proposal, the earned income credit the way the House has it, is
16 \$17 million. Is that not correct?

17 Mr. Shapiro. The House continues present law.

18 Senator Byrd. Right. \$17 million is the cost.

19 Mr. Shapiro. \$1.1 billion. The \$17 million takes into
20 account some of the simplification changes that the House made.
21 The House continues present law, which is \$1.1 billion, and the
22 \$17 million is just on top of that \$1.1 billion.

23 Senator Byrd. That \$1.1 billion, it compares with \$1.8 billion
24 in the Senate bill?

25 Senator Dole. That is additional.

1 Mr. Shapiro. That is additional.

2 Senator Byrd. Additional to the \$1.1 billion? More than
3 double what the House has done. It may be a fine thing to do --
4 I am not saying that it is not -- but we have to be sure what we
5 are doing now.

6 The Chairman. My colleague has just gone through the
7 uncomfortable situation of saying he got elected all right, but he
8 could have by a bigger margin than he could, the discomfort of
9 being accused by his opponent all through that campaign of voting
10 for \$220 billion of taxes. That was the Social Security tax
11 increase, and we voted and it goes into effect in January. And
12 the Social Security tax does not have to be all that regressive
13 if you balance it with the earned income credit, but if you do not
14 balance that with the earned income credit, that is a very regres-
15 sive tax.

16 And this would be a better way, in my judgment, to crank some
17 progressivity into the burden of the Social Secur-ty tax than do
18 it the other way, that is, provide a credit against the Social
19 Security tax.

20 Senator Dole. It does more than that. Is that all they get
21 back, the Social Security tax?

22 The Chairman. We are talking about, with regard to the
23 Social Security tax, doing a lot more for low-income people to ease
24 the burden that we offer the people up the ladder. We are talking
25 about reducing the tax by at least to where the tax cut on their

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1 income ought to be offset by the rate cut that they would get
2 otherwise. We cannot work it out where it does it perfectly,
3 and in most cases they would get a tax cut that would very much
4 exceed what the increase in their Social Security tax would be
5 in January.

6 Senator Byrd. If I may ask this question, Mr. Chairman, if
7 this proposal is adopted as has been outlined by the staff, how
8 many individuals will be eliminated from paying any income tax
9 at all?

10 Mr. Shapiro. We have that information. We will get it for
11 you in just a second, Senator.

12 (Pause)

13 We are going to have to make a call, but we do have that
14 information and will have it for you.

15 Senator Byrd. Another question is, should we not have
16 another table made? You referred to the table on page 65 showing
17 the same information that we have got in regard to the House bill,
18 showing that in regard to this new proposed bill so we will know
19 how to compare it.

20 Mr. Shapiro. What you are suggesting, Senator, is to take
21 the House bill, add to that this proposal, and show you the total
22 distribution under both combined.

23 Senator Byrd. Show how it is distributed.

24 Mr. Shapiro. We can have that for you in a little while.

25 Senator Byrd. Another aspect of this, the Chairman mentioned

1 those between \$12,000 and \$50,000 would get the larger reduction
2 under this supplementary proposal, whatever we want to call it.
3 But I notice that of those, first off, for those earning \$29,000
4 or more, they pay one-third of all the income taxes in this
5 country. What we do to that group is, as compared to the House
6 bill, we raise, beginning at \$28,000 we raise those taxes from
7 a 36 percent tax rate to a 37 percent tax rate. And then the
8 next bracket, \$33,000 to \$37,000, we raise those from the House-
9 passed tax rate to a 40 percent tax rate.

10 I think this thing should be examined in somewhat greater
11 detail.

12 Mr. Shapiro. Senator, the tax cuts at the low levels are
13 available for all taxpayers and taking into account some of the
14 effects on the higher levels, there would be increases to reduce
15 some of the benefits that were given below to those at the higher
16 levels. They would keep what they had in the House bill, but they
17 just would not get anything additional.

18 They will not have anything taken away. They are just above
19 where they are being given -- for example, they may be getting
20 4 percent at the lower level and 3 percentage points at the higher
21 level, but they still get to keep what they got at the lower
22 level, so they will not have an increase on this table.

23 Senator Byrd. With the Committee's permission, I would like
24 to have an opportunity -- I do not have it drafted now because I
25 had not expected it to come up, but I would like to have an

1 opportunity to present to the staff some questions that they
2 could answer in a table form so we could understand -- or at
3 least this Senator could understand a little better.

4 Having been in politics one or two years, I have learned to
5 count and I realize that most votes are down at the lower level,
6 but I think in working out a tax bill we ought to be fair to
7 everybody, and I am not sure that this tax bill is being fair to
8 everybody.

9 The Chairman. Senator Packwood?

10 Senator Packwood. I would like to ask a question. One of
11 the arguments used against the perpetual bills I put in for
12 treating singles and heads of households equally is that it is a
13 marriage penalty. As I look at this head of household provision,
14 you have a man and wife and two children. The man and wife are
15 making \$6,000 apiece. They are not entitled to an earned income
16 credit. Is that right?

17 They have a combined income of \$12,000.

18 Mr. Shapiro. That is correct.

19 Senator Packwood. If they get divorced and each takes
20 custody of one child and have a \$6,000 income apiece, they would
21 be entitled to a maximum earned income credit?

22 Mr. Shapiro. That is correct.

23 Senator Packwood. To the extent that people say my bill is
24 a marriage penalty, this is also a marriage penalty.

25 Mr. Shapiro. It could be looked at in that way.

1 Senator Packwood. I do not think people get married or
2 divorced for tax reasons, but after all the years of trying to get
3 those bills passed and having the marriage penalty used against
4 me, I think it is fair to say that the same penalty applies in this
5 kind of philosophy.

6 I have no further comment at the moment.

7 The Chairman. Senator Haskell?

8 Senator Haskell. I have a couple of items. The first
9 relates to capital gains.

10 I would like to ask Bob, it is my understanding, Bob, or
11 I am told, that nonresident aliens can avoid capital gains taxes
12 on land holdings, capital assets.

13 I guess my first question is, am I correct?

14 Mr. McConaghy. Yes, that is correct. It is not considered
15 to be business property at the present time, and it is not taxed.

16 Senator Haskell. I would like to propose -- because, at
17 least in my state there are some nonresident aliens acquiring
18 land. I read in the paper that in the Senator from Georgia's
19 state the same thing was going on.

20 I would like to propose an amendment that would tax the
21 holders of land, be they citizens or be they non-resident aliens,
22 in the same manner.

23 Bob, do you have any comments on that?

24 Mr. McConaghy. I guess, Senator, the problem today is
25 obviously one of enforcement. Foreign investors can generally

1 avoid U.S. taxes on real estate if they get their investments in
2 a form that is not in a trade or business but investor property,
3 there would be a problem in enforcement under your provision.

4 Senator Talmadge. If you would yield for a question at that
5 point, is there a treaty involved on that?

6 Mr. McConaghy. Yes, there is. I think what Senator Haskell
7 has in mind would override the treaties.

8 Senator Talmadge. It would override the treaty? I thought
9 the treaty would precede.

10 Mr. Shapiro. Subsequent legislation can override a treaty.

11 Senator Haskell. My suggestion is that it is really not
12 proper for nonresident aliens to come in to any part of the United
13 States and make a capital gain on a land transaction, to take 100
14 percent of their gain free from United States income tax.

15 Does the staff have any comment?

16 Senator Dole. Is this the same comment that Senator Wallop
17 introduced?

18 Senator Haskell. Yes.

19 Senator Packwood. Did we ever have any hearings on this
20 particular subject?

21 Senator Dole. No.

22 Senator Talmadge. We have had, I might say, for the informa-
23 tion of the Committee, during the heat of the AMA movement in the
24 late winter, early spring, we had many complaints from farmers
25 that the Arabs were buying up land throughout the country and paying

1 exorbitant prices, much higher levels than the going rate. I
2 asked the GAO to make a study and the GAO reported that they had
3 made spot investigations in five states and 25 counties. Georgia
4 was one of the states where they made the spot checks.

5 The average parcel that foreigners had bought in that area
6 was 1.3 of the land in the last three years. The highest percen-
7 tage of land acquisition was in Johnson County, Georgia -- 6.3
8 percent of the land involved in the whole county.

9 We found that it was not Arab money that was buying up farm
10 land, but it was European money from Germany, France, Austria,
11 Italy, Holland and other areas. It was very difficult to determine
12 who was buying the land. Sometimes it was bought under a trust.
13 Sometimes we could not identify the purchasers.

14 I know of two purchasers in my own state, one where the
15 Germans a couple of years ago bought a very productive irrigated
16 farm and paid \$1,000 an acre. I know another farm, which was one
17 of the best livestock farms in southwest Georgia, where some
18 Austrians bought some land and paid \$1,500 an acre. That is well
19 above the going rate in Georgia, and well above what anyone could
20 possibly expect to earn in any reasonable return.

21 I presumed that the land was the hope of preserving the
22 capital, but we were not satisfied with GAO's report so we asked
23 other agencies of the government to get involved-- the Department
24 of Commerce, the Department of Agriculture, the GSA offices, and
25 we hope to have reports at a later date. They are undoubtedly

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1 buying up some land. I do not think it is as near as serious as
2 some of the allegations that are made.
3 Americans abroad have probably bought up a lot more land than
4 the foreigners in this country.

5 We have a bill -- I do not think the House has acted upon it
6 yet; I think it was passed on the unanimous consent calendar --
7 requiring every foreign purchaser of agricultural land in this
8 country be registered with the Department of Agriculture. That
9 is the pending situation as far as the foreign investors and what
10 we have been able to obtain in the Agriculture Committee.

11 Senator Haskell. Perhaps there are ramifications that we
12 are not aware of, but I do know this, that there is a great fear
13 and there is some evidence to support the fear. Perhaps it would
14 be better, rather than to go ahead announcing all the ramifica-
15 tions of our investments overseas, to put in the bill asking the
16 Treasury to give us a report, saying that within six months, of the
17 pros and cons of being sure that land transactions are subject to
18 a capital gains tax.

19 It could be that we have purchases overseas ourselves and it
20 could be that it would cause too many treaty problems. On the
21 other hand, it might prove to be feasible and proper and right
22 to impose a capital gains tax.

23 Mr. Chairman, I would amend my motion along the lines that I
24 just suggested, asking the Treasury Department to look into the
25 pros and cons of it and give this Committee a report, if they can,

1 within six months of enacting the bill.

2 I think that it is a real problem. It may be that we do not
3 have enough information to act now.

4 Mr. Shapiro. If I understand what the Senator has suggested,
5 that the Committee agreed to have Treasury make a report studying
6 the matter and this proposal and submit their report in six months
7 after which the Committee could review the report and decide what
8 action to take.

9 The Chairman. Senator Dole?

10 Senator Dole. I want to say first, Senator Wallop -- I do
11 not know whether you discussed this first with Senator Wallop -- he
12 has a great deal of interest in this. He may want to offer some
13 amendment on the Senate Floor. In fact, he had asked me to pursue
14 it in the Committee.

15 But I think based upon the discussion we have had since there
16 is some interest expressed and Senator Haskell has raised it and
17 since there has been some agreement, let him decide whether he wants
18 to offer the amendment on the Floor. But he apparently has had
19 some experience in Wyoming -- not good experience -- and wants to
20 pursue it, I think.

21 What would happen after the study? What do we do?

22 Mr. Shapiro. Presumably the Committee would review the study
23 and would take affirmative action.

24 Senator Curtis. What does Senator Wallop's bill do?

25 Mr. Shapiro. It would call for taxing the capital gains and

1 in respect to the nonresident aliens when they sell real estate.
2 The same proposal that Senator Haskell is bringing up here, Senator
3 Wallop had a bill on the same matter.
4 Senator Curtis. This determines the arrangement from gain
5 and loss?

6 Mr. Shapiro. Such -- the test would be an exemption.
7 Senator Dole. As I understand present law, if a nonresident
8 foreigner invests in agricultural land and does not farm it, he
9 is exempt from capital gains taxes. Is that correct?

10 Mr. Shapiro. There are ways to get around that.
11 Senator Dole. All you suggests is that you change the law
12 and he indicates -- I do not know. Floyd probably has the same
13 information, that last year foreign investors purchased \$800
14 million' in U.S. farmland, which totaled about 30 percent of all
15 direct foreign investments. So it is a substantial amount, and
16 if they can just purchase it and have a passive interest in it,
17 then they avoid any capital gains tax, so they can afford to pay
18 a little more for it because they know they are not going to have
19 to pay a capital gains tax later on.

20 Senator Haskell. I would agree with you. Of course, Malcolm
21 would be free to offer it on the Floor. I think, in view of the
22 ramifications of the treaties it would be helpful for us to have
23 a Treasury Department report.

24 The Chairman. All in favor, say aye?

25 (A chorus of ayes.)

The Chairman. Opposed, no?

(No response)

The Chairman. The ayes have it.

Senator Haskell. Mr. Chairman, the next item is basically a tax simplification study. On hearings held here in Washington and in Colorado, it is quite clear that many of the items affecting low-income people -- including averaging, which occasionally it does affect them -- and affect the elderly, it was very difficult for them to take advantage of it.

We had a hearing which I think would interest the Chairman and the Senator from Georgia, that people entitled to the earned income credit through their apparently -- disposed of their withholding forms sent in would entitle them to the earned income credit and I, rather than try and devise for this, for averaging, for some of the elderly credits, a more simplified form, I have asked that the Treasury come with recommendations to this Committee to be sure that those people who are entitled to those particular types of credit, including the retirement credit, that means would be devised to be sure they could get it.

This is the nature of the study and I would add to it a bill of Frank Church that I think provides \$3 million for assistance to the elderly in filing their income tax returns. The study also would look into the feasibility of allowing the elderly to file at a later date in order that they could avoid the bad weather in the winter, and that kind of thing.

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1 So, Mr. Chairman, this would be my proposal, this study
2 together with Senator Church's bill.

3 Are you familiar with this, Bob?

4 Mr. Shapiro. I am familiar with part of the study. I do not
5 have a real clear recollection of Senator Church's bill. Is it
6 just in the form of a study?

7 Senator Haskell. Senator Church's bill would actually
8 appropriate \$3 million for additional assistance by the IRS in
9 preparing the tax returns for the elderly.

10 The other part of it, I guess you are familiar with.

11 Mr. Shapiro. Yes.

12 What Senator Haskell is suggesting -- there are two parts to
13 this proposal. One is to study to provide ways to assist the
14 Internal Revenue Service so they can assist the elderly. And
15 Senator Church's bill which provides a \$3 million authorization
16 to provide direct assistance to the elderly.

17 Senator Haskell. The study also would have the Treasury
18 Department address the matter to have income averaging less com-
19 plex. It would also address itself to the problem of making the
20 retirement credit, if possible, less complex. Because right now
21 people -- at least according to the hearings -- they are having a
22 difficult time figuring out how to do it.

23 Mr. Shapiro. I also understand that the Church bill was
24 adopted as an amendment to the 1976 Act, but it was not agreed to
25 in conference, but it has been approved by the Senate in the last

1 Congress.

2 Senator Haskell. I see.

3 Mr. Chairman, I would move this particular item.

4 The Chairman. Is there any objection?

5 All in favor, say aye.

6 (A chorus of ayes.)

7 The Chairman. Opposed, no?

8 (No response)

9 The Chairman. The ayes have it.

10 Senator Haskell. Mr. Chairman, the next item that I have
11 relates to industrial revenue bonds. In 1976, a provision was
12 adopted whereby certain types of bonds could be issued up to a
13 \$1 million limit, other types of bonds up to a \$5 million limit.

14 The House, it is my understanding, had raised the \$5 million
15 to \$10 million. My proposal would raise the \$1 million to \$2
16 million and the \$2 million to \$12 million.

17 I have a list, and I am sure it is available for all members
18 as to their states. Obviously, inflation has taken place since
19 1969, and I have a list here, for example, of Colorado industrial
20 revenue bonds. By and large, they are availed of all the smaller
21 cities and counties of Colorado.

22 I would assume that the same pattern exists in many other
23 states -- in fact, most other states -- and I would merely say
24 that what was the proper limit in 1969 is not a proper limit in
25 1978 and since the municipalities -- at least the Colorado

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1 municipalities -- have indicated that they would like the ceiling
2 raised to meet inflation. I am making the assumption that cities
3 in other parts of the United States would feel the same way.

4 Therefore, I move that the limit be increased.

5 Senator Nelson. The House went from \$5 million to \$10
6 million?

7 Senator Haskell. Yes.

8 Senator Talmadge. There are many folks in Georgia who are
9 interested in this proposal.

10 Senator Curtis. Mr. Chairman, I will support the Senator
11 from Colorado's motion. I just want to mention on a total differ-
12 ent phase of industrial bonds, I will have a matter, but I real-
13 ize the distinguished Senator has a schedule that he has to keep,
14 so I will wait my turn to raise that part. But I thought I should
15 mention at this point, when we are talking about industrial
16 development bonds, and I support you.

17 The Chairman. I suspect Treasury is opposed, and they ought
18 to be heard.

19 Mr. Lubick. I think there are two different aspects to this
20 proposal. The \$1 million limitation applies without any capital
21 expenditure restrictions. In other words, if you build a \$100
22 million plant, you can finance \$1 million of it out of industrial
23 development financing and indeed I think the Committee, to the
24 extent that it is looking to the limitations as a benefit for
25 small businesses, I think that the restrictions with respect to

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1 the present 5 -- which is raised to 10 in the House -- are more
2 relevant to small businesses. They do include capital expenditure
3 restrictions.

4 So the total cost of the project must be within the \$5 million
5 limit. And we think, first of all, that the tax exemption feature,
6 the financing of private industries through industrial development
7 financing is really an unsound way to go about it. I think
8 basically it impinges on the ability of the state and local
9 governments to issue their general obligations bonds to finance
10 their governmental functions by increasing the amount of such bonds
11 that are outstanding. It raises interest costs. It raises the
12 borrowing cost for state and local governments.

13 The industrial development bonds are really nothing more than
14 a lending of the tax exemption to private industry. They are
15 really not concerned with the needs of state and local governments
16 to borrow on a tax-exempt basis, to be free of taxation in order
17 to carry on their normal financing.

18 And the result, I think, has been that any benefits that
19 particular areas may have derived from being the first to offer
20 low-cost financing have been cancelled out by the general availa-
21 bility of this. Now that industrial development bond financing
22 has spread within these limits to localities across the country,
23 the benefit, the inducement for a lower rate of financing is
24 available universally and that has cancelled out the advantage of
25 a particular locality in attracting industry.

1 At the same time, the proliferation of this is a standard
2 tool of financing business development. I think we have come to
3 a situation where we, in effect, have increased the cost of
4 financing across the country.

5 The Administration had a proposal which was to eliminate the
6 small issue exemption altogether, except with respect to distressed
7 areas. Indeed, we have come to the conclusion that there is a
8 special need to induce industry to locate in some of the distressed
9 areas and by targeting the limitation to those areas, we think
10 that it may be an appropriate solution to achieve that.

11 As long as we have a universal application of industrial
12 development bond financing, you are not helping any one particular
13 area. All you are doing is impeding the ability of state and
14 local governments to carry on this financing.

15 Senator Haskell. Mr. Chairman, if I may respond, this list
16 of Colorado -- I do not suppose Colorado is any different than
17 anybody else -- of this list of I do not know how many of it would
18 be, say 25, I only see three in Denver. I see them in small
19 towns and distressed areas of the state.

20 I do know, because I did check with some of the financial
21 officers of the small towns and counties, and they feel that this
22 is an excellent way to bring business to the town, to provide
23 for employment. They feel that this is a very useful mechanism
24 and this is why I am making this proposal.

25 Mr. Lubick. They would probably qualify, would they not, under

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1 the distressed area definition?

2 Senator Haskell. I do not know what your distressed area
3 definition is. It is the first time I have heard of it, as a
4 matter of fact.

5 Mr. Lubick. We had a number of factors that were geared to
6 employment rates and rate of growth and we did put out a list of
7 the counties throughout the country that would qualify. I would
8 be very pleased to get in touch with your office with respect to
9 the counties in Colorado.

10 The Chairman. This chart that I have here, if it is
11 correct, it makes me wonder what is the matter with Louisiana.
12 Kansas has \$413 million. Louisiana only got \$64 million. I hate
13 to see Louisiana always bringing up the rear on something. I
14 wonder how Kansas could do so much and Louisiana so little.
15 What do you estimate the revenue cost of this would be, Mr.
16 Shapiro?

17 Mr. Shapiro. The figure we have is on a calendar year basis.
18 It would be a little under \$3 million for calendar year 1979,
19 building up by 1983 to \$50 million. On a fiscal year, it is a
20 very small amount, the first fiscal year, because most of the
21 bonds would not have been issued, or it is a small interest --
22 less than \$1 million on a fiscal year basis and it goes from less
23 than \$3 million up to \$50 million between '79 and '83 on a calen-
24 dar year basis.

25 The Chairman. Is there any more discussion?

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All in favor, say aye.

(A chorus of ayes.)

The Chairman. Opposed, no?

(No response)

The Chairman. The ayes have it.

Senator Haskell. Mr. Chairman, the next item that I have to bring up is the item that I brought up the other day where we just had a slight discussion. That would be an extension of the jobs credit.

I would propose that we have a ceiling of 102 percent of employment to cut down the revenue impact. I believe that would cut it down, I believe, to \$1.4 billion. Am I correct? If we raised it to 102?

Mr. Shapiro. The original proposal had no ceiling, therefore, it went to 2.1. Putting the ceiling back in -- I cannot recall. Is that what staff figured? I do not have it right here.

Senator Haskell. That is what I am told.

Mr. Shapiro. Approximately 1.4.

Senator Haskell. Really, gentlemen, the reason I propose this is that we have all the evidence that we need that the investment tax credit is a boon to large business. There are other items that are a boon to large business, and small businesses, labor-intensive, the testimony both by the large business association and Small Business was that small business has accounted for 80 percent of the jobs increase in this country in the past year

1 and 18 months and I think that it is only proper that small
2 business should have its equivalent of the investment tax credit.
3 This was enacted last year with an expiration date of December
4 31.

5 The IRS, at the hearings -- it was brought out, I am sorry to
6 say, they did not see fit to give this the publicity it should
7 have had. The Labor Department testified that they had not given
8 it any publicity. The Governor of Vermont was so upset that he
9 sent out his own publicity on this to all small businesses in the
10 state of Vermont.

11 I think that it is a fair counterpart for small business to
12 what the investment tax credit is for large business and I would
13 hope that the Committee would support me in a two-year extension
14 with the 102 percent.

15 Senator Dole. Is this in addition to targetting?

16 Senator Haskell. This is separate and apart from targetting.
17 Small business has testified they could not avail themselves of
18 targetting because they do not have the facilities to train the type
19 of people that the targetting proposal was aimed at.

20 The Chairman. This item that confronts us very much with the
21 squeezing out problem -- this costs about how much, compared to
22 the House-passed bill, Mr. Shapiro?

23 Mr. Shapiro. The total calendar year cost with the 1.4 and
24 1.5 on a fiscal year basis is in the neighborhood of \$500,000 --
25 one-half million.

1 The Chairman. Would you explain to us why the Chairman of
2 the Ways and Means Committee who is the sponsor of this proposal
3 when it came to us last time is suggesting that in this bill
4 a targetted jobs credit instead of the old way?

5 Mr. Shapiro. In 1977, Chairman Ullman of the Ways and Means
6 Committee had this in his proposal because, at that time, this was
7 during the cold winter and unemployment was very high and this was
8 one of the means of targetting the tax credit to bring unemployment
9 down. It was a new program and it was put in for a two-year
10 period to see how effectively it would be used by businesses to
11 reduce unemployment.

12 It will expire at the end of this year, and when the Ways
13 and Means Committee considered it, the thinking then was that the
14 unemployment had come down. There were very degrees of comment as
15 to how successful the general jobs credit had worked. The data had
16 not come out yet. That information was not available. But it
17 seemed like the concern that Chairman Ullman had on the House side
18 was more for the structurally unemployed.

19 His intent, at that time, was to take this proposal which had
20 been the law for two years as a general proposal, and to target to
21 the structurally unemployed, feeling that the general credit, the
22 cost of that had the effect of reducing unemployment, but the
23 problem now is the more structurally unemployed.

24 So the House revised the jobs credit and made it a targetted
25 credit towards the structurally unemployed.

1 The Chairman. Mr. Lubick, what is the Treasury's attitude
2 about this matter?

3 Mr. Lubick. Mr. Chairman, the targetted credit is in
4 accord with our position. We think that is a sounder way to
5 go.

6 We agree with Chairman Ullman that since the overall unemploy-
7 ment rate has been reduced significantly, perhaps we could declare
8 a victory as a result of the general jobs credit and move on to
9 the targetted credit.

10 There were some structural defects with the general credit.
11 Those credits did tend to favor those regions that are already
12 experiencing growth because of the measurement factor. The
13 targetted credit does avoid that, and I think we would very much
14 prefer to go along with the House provision in this regard.

15 The Chairman. The House has taken the view that now we have
16 unemployment down to 6 percent that we ought to try to target on
17 the particular people you are trying to get into jobs now, so that
18 they pick out these people, like certain Vietnam veterans, the
19 disadvantaged, and say all right, these are people -- and people,
20 actually AFDC cases, people on welfare. I have my doubts that we
21 should make this available to target the people on food stamps.
22 We can decide that later on.

23 The point is that the House is targetting on the people who
24 are chronically unemployed and if we invoke this, it takes a major
25 portion of the amount of money we have available unless we are going

1 to take other things out of that bill. We have \$2 billion to
2 work with. It will take a part of it, even the first fiscal year.

3 I really do not think we can afford to do both.

4 Senator Dole. Phase it in.

5 The Chairman. Right now it is being phased out.

6 Senator Haskell. It will expire December 31 unless we do
7 something and I have no quarrel with the targetting credit, as
8 such. I just point out that it is no help whatsoever for small
9 business. They just cannot handle the training of the people who
10 are the targets.

11 I would also point out, gentlemen, that this is very much
12 supported by small business, that large business has its benefits
13 through the investment tax credit which gives them the credit for
14 the purchase, if they are capital intensive. Small business does
15 not get the advantage of it, and I think that this merely puts
16 small business in a somewhat par situation with large business that
17 has the investment credit.

18 It just seems to me, in fairness, that this should continue,
19 and, in view of the lack of publicity on it, we do not know really
20 even yet what the full effect might be if there was adequate pub-
21 licity given.

22 I would move this amendment, Mr. Chairman.

23 The Chairman. Tell me, Mr. Shapiro, what is the small
24 business attitude towards what we have in the bill now? How did
25 small business people react on the House side to what the House had

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1 in the bill now compared to what we had, that they had some
2 advantages in the bill that they get while they lose this.

3 How did small business people react to that?

4 Mr. Shapiro. The major item in the bill for small business
5 is the graduated corporate rate schedule and that was the point
6 that they advocated very strongly on the House side. The Small
7 Business Committee members, the House small businessman as well
8 as those of the Ways and Means Committee, were very supportive
9 of the smaller business interests and pushed very hard for the
10 graduated rate schedule.

11 I am not sure it is fair to characterize the priorities, but
12 it appeared from the small business people that the staff took
13 and the information that we got from the members and the staffing
14 on the House side that that was a high priority on the graduated
15 rate structure, and the House endorsed that, and this was all
16 the way through the representatives of that industry. The higher
17 priority was the graduated rate schedule, but, as we understand
18 it, they have come before this Committee advocating the fact
19 that in the House bill, they would like to have the general jobs
20 credit as well.

21 Senator Dole. What is the targetted credit? Is it going
22 to cost \$500 million?

23 Mr. Shapiro. On a calendar year basis, a half a billion.

24 Senator Dole. Is there any way you can blend these?

25 Mr. Shapiro. You have to have two separate programs. You

1 have some of the same employees that would be covered. To get
2 a double credit, you have to have some offsets that would cause
3 some complexity, but could be worked out.

4 At any rate, the point Senator Long is making, that we have
5 so much revenue we have to allocate it.

6 Senator Dole. We have to reduce the costs. In the targetted
7 credit, there are seven different categories.

8 Senator Moynihan. You should know that I have worked out a
9 somewhat tighter proposal which appears to cost \$300 million.

10 Senator Dole. The general?

11 Senator Moynihan. Yes.

12 The Chairman. For targetted?

13 Senator Moynihan. Yes.

14 Mr. Shapiro. What Senator Moynihan is saying, he is going
15 to propose a targetted jobs credit in lieu of the House's

16 targetted credit. This does not cover all the categories the
17 House does and revises the formula to a certain extent and reduces
18 the cost which the House bill has, which is the \$500 million, to
19 a neighborhood of \$300 million.

20 Senator Dole. We could reduce the cost of the Haskell

21 proposal too. Is it 1.2 now?

22 Senator Haskell. 1.4. It has been reduced already. It could

23 be reduced. What was it at the beginning of the fiscal year?

24 Mr. Shapiro. In the fiscal year, it is approximately \$500

25 million.

1 Senator Haskell. In this coming fiscal year.

2 The Chairman. Senator Nelson.

3 Senator Nelson. I will first ask, in the targetted employ-
4 ment tax credit, I have an amendment, or whatever you want to do
5 with it, for the proposal that Pat Moynihan is making, which would
6 include age groups 18 to 24 which, from our extensive hearings in
7 the Human Resources Committee is the highest unemployment, the
8 most serious problem we have got, those who are out of school,
9 unemployed, and structurally unemployed.

10 But my proposal -- I do not want to get into any detail now
11 but I would simply add to what Senator Moynihan has to expand it
12 to 18 to 24 and would strike a couple of things in there. I do
13 not particularly want to get into the detail unless we are going
14 to move to a discussion of the targetted tax credit.

15 Let me say what the House adopted on the corporation graduated
16 tax was developed by the staff of the Small Business Committee over
17 a year's period of time, and they took that proposal that the
18 staff of the Small Business Committee developed based on hearings
19 we had and modified it a bit, reducing its costs. It is a very
20 good proposal.

21 I think that Small Business is overwhelmingly for it. I
22 cannot speak about what all of their priorities are, because there
23 are some divisions among them. However, there is an accelerated
24 depreciation question, an ADR proposal by Senator Bentsen. Small
25 business is very interested in one that would impact on them, and

1 if they had to make a choice between the tax credit not targetted
2 and that one, I am not sure which one they would do.

3 It would be nice to have them all.

4 My own view is that if we are going to have a targetted tax
5 program, it ought to be targetted in the same way as the CETA bill
6 that passed overwhelmingly in the Senate and sets the standards,
7 age groups and standards, for qualification under the CETA pro-
8 gram and ought to be the same under this tax program. It should
9 not be running different structurally targetted programs.

10 The Administration does support a proposal that would
11 include the AFDC children. It would include a person receiving
12 disability benefits under SSI. It includes handicapped persons
13 and Vietnam war veterans and aged 18 to 24 structurally unemployed
14 as defined. The definition we used was that 70 percent of the low
15 income household families -- let me see the exact definition --

16 Senator Moynihan. That is right. 70 percent.

17 Senator Nelson. If we are going to do targetted, and I
18 think that we should, I will be arguing later for an accelerated
19 depreciation provision for small business which would cost money
20 too. If I had to take my choice, I would take the targetted
21 credit, including small business, and accelerated depreciation
22 provisions which would be helpful to them.

23 Senator Talmadge. Mr. Chairman?

24 The Chairman. Senator Talmadge?

25 Senator Talmadge. You know I have long had a great interest

1 in getting people off the welfare rolls and putting them back to
2 work. Towards this end, I proposed seven years ago the so-called
3 WIN amendments of 1971. This proposal was enacted into law and
4 became effective in mid-1972. This program has, as you know,
5 proven very successful.

6 For example, in the fiscal year '73, the first full year
7 of WIN, the WIN tax credit being in place, the program took
8 34,000 families off the welfare rolls and allowed a reduction in
9 AFDC grants to 31 million families.

10 In fiscal year '76, 87,000 families went off welfare; 95,000
11 were able to receive a reduced AFDC grant.

12 In fiscal year '77, 136,000 families went off welfare and
13 135,000 family grants were able to be reduced because the family
14 had a breadwinner.

15 As I said, these programs have proven themselves. In fact,
16 the testimony before the Senate Finance Committee, the Honorable
17 Ernest Green, Assistant Secretary of Labor for Employment testi-
18 fied that for every training dollar the Federal government spent
19 on WIN, \$2 was saved.

20 The Finance Committee, in its consideration of the Revenue
21 Act of 1978, will, in all likelihood vote on some kind of a tar-
22 getted tax credit for different groups. Many such proposals are
23 certainly worth exploring. However, I am most anxious that a
24 proven program that has saved the taxpayers dollars and gets
25 people off the welfare rolls such as WIN, and that WIN welfare

1 tax credits not be combined with these temporary, experimental
2 credits and programs.

3 Therefore, I would oppose any effort to combine the WIN
4 welfare tax credits with any to-be-proven ideas.

5 I do have some refinements I would like to make at the
6 appropriate time to fine-tune the WIN welfare tax credits. For
7 those proposals based on the experience learned from an ongoing
8 successful program.

9 On the other hand, I do not oppose those new targetted tax
10 credit proposals per se. in fact, I believe that we ought to take
11 a hard look at the employment tax credits for youths in school or
12 youths willing to go back to school between the ages of 16 and 19.
13 This is a high unemployment group, we all know, and such credits
14 should be of great help to the great number of minority youths
15 who need a real chance to uplift incentives.

16 The Chairman. Senator Bentsen?

17 Senator Bentsen. Mr. Chairman, if I recall, I believe I
18 was the author of the amendment in the Finance Committee in 1976.
19 I think Senator Haskell amended that on the Floor.

20 I have been a strong supporter of the employment tax credit
21 and now we find ourselves faced with a limited amount of tax
22 cut that we can make, and trying to phase these competing priorities
23 into it.

24 As Senator Nelson has stated, I am going to be proposing
25 an accelerated depreciation for all machinery and equipment to

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1 try to increase productivity in this country and try to change
 2 some of the requirements to make it more attractive to small
 3 business.

4 So, with that in mind as a competing objective, I am going to
 5 go, I believe in my support, in trying to exempt the accelerated
 6 depreciation and an expanded, targetted employment tax credit along
 7 the lines of some of the things that Senator Talmadge and Senator
 8 Nelson have been discussing, in order that we can fit it in to
 9 the amount of money that we have available to us.

10 The Chairman. Let me just make a point that appeals to me
 11 as of now. I was one of those who voted for the so-called, the
 12 credit that we had that Senator Haskell likes. I just have in mind
 13 a young person who is graduated from college and has the right kind
 14 of an attitude towards life -- and towards everything, for that
 15 matter -- and that young person has a job, and there is not the
 16 slightest doubt that that young person, having the right attitude
 17 towards work and a good education and something to offer an employer
 18 is going to get a job. There is not the slightest doubt.

19 We have a lot of experience in these areas, but when you get
 20 down to it, in terms of what we need this year, we do not need to
 21 give anybody a jobs credit or a tax advantage. What we need to do
 22 is get one of these poor things who has never had a job in his
 23 life, whose family was not able to give them the kind of inspira-
 24 tion and kind of attitude towards life and towards work, who tended
 25 to take an I don't give a damn attitude towards matters and seemed

1 to be frustrated -- anyhow, those are the persons who need to move
2 into jobs somehow.

3 For example, you take an embittered Vietnam veteran who feels
4 that he went out there and did his part and he was not appreciated
5 and was not recognized and somebody owed him something and people
6 resented him taking that attitude. To get that person a job is
7 sort of tough. But those are the kind that we have to put into
8 jobs.

9 We have some of these young people who are disadvantaged in
10 one respect or another. Those are the ones that we are going to
11 have to move into jobs.

12 Senator Matsunaga?

13 Senator Matsunaga. Thank you, Mr. Chairman.

14 Last year, at the time that the unemployment tax credit was
15 enacted into law, I was proud that I was a principal co-sponsor of
16 that amendment. Now we have reduced the unemployment rate to
17 5.9 percent.

18 Of course, we do not know whether the unemployment tax credit
19 works, but in my state, at least, I find a number of small business-
20 men telling me that had it not been for the unemployment tax
21 credit they would not have been employed.

22 In fact, Mr. Chairman, you made a survey of your own business-
23 men in your own state. As I recall, 5400 said that there would
24 be 5400 new jobs in your state alone from the small survey and it
25 was a fast survey that you made.

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1 The Chairman. I do not think it worked in my state, because
2 we still have 8 percent unemployment, I regret to state. I am
3 sure it worked for somebody.

4 Senator Matsunaga. The lack of publicity, as was stated
5 by Senator Haskell, has something to do with it. Of course, I do
6 not know whether I can rely upon that survey which says only 6
7 percent of those who say they hired because of the investment
8 tax credit. At least the 6 percent who knew about it may have
9 hired more. Perhaps we did not get to those who did, in fact,
10 hire because of the tax credit.

11 I have a feeling that this is working. The small business-
12 ment want it, and if we could continue this for another two years-
13 because we are still at 5.9 percent, still in a high unemployment
14 rate -- 8 percent in Louisiana, 7 percent in Hawaii, 10 percent
15 in Alaska.

16 Maybe if we continue this for a few years and postpone the
17 targetted investment tax credit we might be able to do better,
18 and when reach 4.5 percent and then we will have reached the
19 hard core, those who are unemployed because of handicaps and
20 et cetera, maybe we could then shift over and concentrate on
21 them -- assuming, of course, Mr. Chairman, as you have said, we
22 cannot afford both. I think we should go now, at least because
23 of the still high unemployment rate, with one that covers that
24 wider scope, and that would be the unemployment tax credit as it
25 is on the books now.

1 The Chairman. Senator Hansen?

2 Senator Hansen. Mr. Chairman, when I was Governor of Wyoming
3 I recommended that we raise the minimum wage in that state. It
4 was then 75 cents an hour and it was raised to \$1 on my recommenda-
5 tion, and I have come back here and heard lots of talk about the
6 need to put a floor under wages to be sure that every person earns
7 a living wage..

8 We have done that, and I see now that the Administration is
9 is giving consideration to postponing that next step up and raise
10 it, because of the admitted and recognized inflationary aspect of
11 it. Then we are talking about an employment tax credit.

12 What we are really saying is that we have raised the legal
13 minimum that can be paid people in this country high enough as
14 to exclude-a lot of people who have no jobs skills and have never
15 been in the work force.

16 There have been speeches made on this; I know my distinguished
17 colleague from New York several years ago pointed out that, as the
18 minimum wage is raised, it is going to make it increasingly diffi-
19 cult for young people with no jobs skills and for minorities, as
20 well, to find jobs. The same point has been made by the distin-
21 guished Senator from California, Mr. Hayakawa. There is no doubt
22 about it at all.

23 I think that what business needs today is a little better
24 break on taxes, a little better consideration in some of the tax
25 laws that it has, and not more burdens that are placed on it,

1 such as the minimum wage. I have to believe that if we were to
2 go in that direction, we would be better advised of the conse-
3 quence, the suggestion that we look at the priorities and see how
4 much money we have and then consider where we can best take
5 advantage of that possible \$2 billion tax credit in there, would
6 insure that our efforts were successful, or more likely to be
7 successful than to take on an additional program here that, at the
8 very best, has not been all that successful.

9 Senator Nelson. Mr. Chairman, I would like to make one
10 comment. I understand the testimony of the small business groups
11 here, and I had testimony before the Small Business Committee.
12 If we had the money, I would be inclined to go for both, but let
13 me say something about what we will be proposing.

14 The Administration has now agreed -- we have been discussing
15 it over a period of time -- that they would support a tax credit.
16 They were talking one-third the first year. They would support
17 a credit to the employer of 50 percent of the FUTA wage for the
18 first year, that being the maximum amount of \$3,000. So if you
19 did hire somebody for \$6,000 that employer would get subsidized
20 for \$3,000 of it.

21 In the second year, for 25 percent of it as a maximum,
22 which would be \$1,500.

23 Now, that is a strong inducement to seek out and get ahold
24 of some young people who do not have jobs skills and job exper-
25 iences, because they are going to pay them half as much as they

1 would have to pay any other employee to perform the same job.

2 In a good many instances, depending on the employer and all
3 the rest, to get an employee out of it after training, they will
4 get a subsidy of 50 percent of the wage the first year, 25 percent
5 of the wage the second year.

6 In the CETA bill that passed overwhelmingly, 65 to 10, in
7 the CETA bill, we had a business labor group that had the
8 responsibility of seeking jobs for the structurally unemployed
9 and taking those and make it a job in the public sector which
10 cannot last more than a year, pulling them out, finding an
11 employer to hire them. And the business community and labor
12 community has been enthusiastic about this.

13 In that program, you are going to have an instrumentality
14 for finding the structurally unemployed, seeking them out and
15 getting an employer who will take them.

16 This program of a 50 percent subsidy for the first year
17 would be in effect, if it is adopted by Congress, and 25 percent
18 the second year. If they do not want to go under this program,
19 the CETA bill provides for training money, for the cost of train-
20 ing a structurally unemployed person, but they cannot get
21 both. They can get this one or the other one.

22 So that, if we took a proposal that targetted the same
23 people and the same definition and then used the tax credit
24 device, we would have a unified program running right along with
25 CETA which, it seems to me, has a big benefit for small business,

1 too.

2 You have a small business in rural Georgia or Wisconsin or
3 what have you and you have the structurally unemployed and the
4 businessman hires them and gets a 50 percent subsidy for that
5 wage the first year. If we are going to do a targetted one, I
6 would like to see it reconciled with what we have already done.

7 I would like to vote against Floyd. I do not like to vote
8 against him.

9 Senator Haskell. Mr. Chairman, we have discussed this at
10 length and I wonder if we could have a vote on my proposition,
11 and I would hope that we could poll the absentees. I know
12 Senator Laxalt is a co-sponsor and he is not here.

13 I wonder if we could have a vote? I think we discussed my
14 proposition long enough.

15 The Chairman. Senator Moynihan?

16 Senator Moynihan. I do not want to prolong this. Let me
17 just add an observation, for what it is worth.

18 It seems to me that there is no evidence that the tax
19 credit, as such, has stimulated employment. We are now in the
20 13th quarter of a recovery. We have added 11.5 million jobs.
21 We have only cut unemployment by 1.4, but it has been there most
22 of this decade.

23 We have added 11 million people to the labor force. It
24 seems to me that the evidence is that when you are in a up
25 cycle in business, you are climbing the business cycle, jobs are

1 added, and I just do not see that there is any increase or slow-
2 down when the job tax credit came in. The evidence is that
3 employers did not make decisions based on it.

4 I agree with Senator Nelson but would make a further point.
5 We are still very much in an experimental mode. We have a 20
6 percent tax credit now for WIN and AFDC recipients and it has no
7 effect, and we are making an estimated \$300 million revenue
8 loss from the 50 percent tax credit -- that is wishful. With
9 any luck, we will have that. There may not be any effect on that
10 either. We do not know much about this.

11 That is why I am cutting the tax on small business, but I
12 thought we did that in our rate schedules.

13 Senator Haskell. Mr. Chairman, I think everything has been
14 said about this. I would hope that we could go ahead and vote.

15 Senator Byrd. Mr. Chairman, I was called to the telephone
16 twice. I am sorry.

17 As I understand this is to expand the jobs credit.

18 Senator Haskell. No, this is to extend for two years the
19 existing jobs credit.

20 Senator Byrd. Could I ask Treasury its position on this?

21 Senator Haskell. They are against it.

22 Mr. Lubick. Well-spoken, Senator.

23 Senator Curtis. Did your proposal not go beyond extending
24 the time?

25 Senator Haskell. It extends the time and it simplifies

1 considerably by eliminating one test, and it also reduces the
2 maximum amount that you can take from \$100,000 to \$25,000 and to
3 get within decent revenue parameters.

4 Senator Curtis. What percent?

5 Senator Haskell. The credit is 35 percent of the first
6 \$6,000 of wages. You just use the FUTA wage base.

7 Senator Talmadge. Does that include any new employee?

8 Senator Haskell. In other words, it includes any new employee
9 above the 102 percent of the people you employed the previous
10 years.

11 Senator Talmadge. Regardless of educational and social
12 status?

13 Senator Haskell. Yes.

14 The Chairman. Call the roll.

15 Mr. Stern. Mr. Talmadge?

16 Senator Talmadge. No.

17 Mr. Stern. Mr. Ribicoff?

18 (No response)

19 Mr. Stern. Mr. Byrd?

20 Senator Byrd. No.

21 Mr. Stern. Mr. Nelson?

22 Senator Nelson. No.

23 Mr. Stern. Mr. Gravel?

24 Senator Haskell. Aye by proxy.

25 Mr. Stern. Mr. Bentsen?

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- 1 Senator Bentsen. No.
- 2 Mr. Stern. Mr. Hathaway?
- 3 (No response)
- 4 Mr. Stern. Mr. Haskell?
- 5 Senator Haskell. Aye.
- 6 Mr. Stern. Mr. Matsunaga?
- 7 Senator Matsunaga. Aye.
- 8 Mr. Stern. Mr. Moynihan?
- 9 (No response)
- 10 Mr. Stern. Mr. Curtis?
- 11 Senator Curtis. No.
- 12 Mr. Stern. Mr. Hansen?
- 13 Senator Hansen. No.
- 14 Mr. Stern. Mr. Dole?
- 15 Senator Dole. No.
- 16 Mr. Stern. Mr. Packwood?
- 17 (No response)
- 18 Mr. Stern. Mr. Roth?
- 19 (No response)
- 20 Mr. Stern. Mr. Laxalt?
- 21 (No response)
- 22 Mr. Stern. Mr. Danforth?
- 23 (No response)
- 24 Mr. Stern. Mr. Chairman?
- 25 The Chairman. No.

1 Mr. Stern. Mr. Moynihan?

2 Senator Moynihan. No.

3 Mr. Chairman. I have a note here from Senator Hathaway.
4 He says, "against general credit and for targetted credit." I
5 take it that would mean that he would vote no.

6 Four yeas, nine nays.

7 Senator Nelson. Mr. Chairman, I have a written proxy from
8 Senator Ribicoff. He would vote no.

9 The Chairman. Ten nays.

10 Senator Nelson. Wait a minute. In consultation with my
11 staff on targetted tax credits, I had better withhold that.

12 Senator Curtis. Mr. Chairman, I am very much committed to
13 the idea of using the private sector to promote employment and
14 the wishes of the small business organizations. I think, however,
15 that you cannot put everything on one bill and there are other
16 sections of this bill that will be quite beneficial to them,
17 and therefore, I would go along with them at this particular
18 time.

19 Senator Bentsen. I face the same dilemma and I would like
20 to offer one of those amendments now, if I might.

21 Senator Nelson. Mr. Chairman, Senator Ribicoff will be
22 recorded as voting no on the last vote.

23 The Chairman. Senator Bentsen?

24 Senator Bentsen. Mr. Chairman, I would like to offer an
25 amendment to increase the option on accelerated depreciation from

1 20 percent to 30 percent. Frankly, I would like to offer it
2 from 20 percent to 40 percent, but because of this narrow window
3 that we have in the amount of funds available on the tax cut, I
4 am suggesting that it be 20 percent to 30 percent.

5 As you look at this bill as it came out from the House,
6 you have seen substantial tax cuts for individuals and you have
7 seen some corporate tax cuts. The one problem that has not been
8 addressed, one of the most difficult problems facing this country
9 today, is our loss in productivity.

10 The increase in productivity in this country has dropped to
11 the lowest level of any of the seven major manufacturing nations.
12 We have even dropped below Great Britain in that regard. We have
13 to do something to direct the investment and the modernization
14 of the manufacturing in this country. We have been putting a
15 smaller amount of capital dollars back in for each new employee
16 that Senator Moynihan was talking about over the last 15 years,
17 we have put a smaller amount each year back into investment for
18 machinery for each new employee.

19 That means nothing but a lowering in productivity in the
20 country. We face a very substantial trade deficit, and that is
21 not just the oil, that is manufacturing products, too.

22 Last year, we had a \$9 billion trade deficit with the Japanese.
23 This year we are going to have a \$13 billion trade deficit with
24 the Japanese.

25 They have modernized their manufacturing capacity. Their

1 production per man hour is substantially beyond us and one of
2 the reasons is because of their enormous investment and new
3 manufacturing capacity, with the newest types of machinery.
4 Nothing in this bill addresses this problem.

5 I know some people in business would rather just have the
6 corporate tax cuts because they have the option of increasing
7 dividends, buying another company, buying machinery, or using
8 it to lower their debts. But here is a way where I think we
9 can get the greatest correlated result in a tax cut in moderniza-
10 tion of the manufacturing capacity of this country.

11 I think it is particularly important to the northeast and it
12 is important to the entire country. So what I am proposing is
13 that where at the present time they can take an accelerated depre-
14 ciation up to 20 percent, that this be increased to the 30 percent
15 level.

16 Senator Dole. What would be the revenue effect?

17 Senator Bentsen. The revenue loss in 1979 would be \$200
18 million. It would go to 40 percent and it would be about \$475
19 million. In addition to that, on the recommendation of the staff
20 who has made quite a study of this point, in trying to see if
21 we cannot help small business and get them to utilize accelerated
22 depreciation more, that you do away with the affirmative action
23 proposal that is now required to use accelerated depreciation,
24 do away with the complicated Federal report that has to be filed
25 each year that I understand has not really been effective anywhere

1 but because of its complications, small business has been
2 reluctant to use the accelerated depreciation route.

3 So I would strongly urge that this Committee take advantage
4 of this.

5 Bill Miller, Chairman of the Federal Reserve, was testifying
6 before us and he said that he felt that this was where you get
7 the greatest correlative effect in a tax cut, in trying to modern-
8 ize.

9 Senator Curtis. What this amounts to, an increase in
10 depreciation is just a postponement of the tax.

11 Senator Bentsen. You are absolutely right. Treasury finally
12 gets their money anyway.

13 Senator Curtis. This is just money they will charge off
14 anyway, they just need it a little faster.

15 Senator Bentsen. To get their cash flow up. That helps them
16 on their investment and helps them get a recoument of the costs
17 earlier.

18 Senator Curtis. If they sell, it is a greater capital gain.

19 Senator Bentsen. That is correct. That is absolutely
20 right.

21 The Chairman. Senator Moynihan?

22 Senator Moynihan. I would like to, very much, support
23 Senator Bentsen and I would put to him a question. Is there
24 any reason why we should not go to 40 percent?

25 Senator Bentsen. I would be delighted to go to 40 percent.

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1 The Chairman. Let me tell you about that.

2 Suppose you give us, Mr. Shapiro, what the first year estimates
3 and the second and third year estimates are, if you go to 40
4 percent.

5 Senator Bentsen. I can give you that.

6 The Chairman. I want to have it from the staff.

7 Mr. Shapiro. The 30 percent level, I think, as measured on
8 a calendar-year basis, the 30 percent would be an additional
9 \$513 million.

10 The Chairman. The fiscal year?

11 Mr. Shapiro. The fiscal year would be \$200 million. In the
12 40 percent, it would be a little over \$1 billion, almost \$1.1
13 billion at 40 percent.

14 Senator Bentsen. You are on a calendar year?

15 Mr. Shapiro. On a fiscal year. It would be a little below
16 \$500 million.

17 By 1983, the 30 percent would be approximately \$3 billion
18 at the 30 percent level and approximately \$6 billion at a 40
19 percent level, both on a calendar year.

20 On a fiscal year, it would be a \$2.8 billion at the 30
21 percent level and approximately \$5.5 billion at the 40 percent
22 level.

23 Senator Bentsen. I must say to you, Mr. Chairman, that that
24 is a static analysis. I know how strongly you feel about static
25 analyses.

1 The Chairman. I think, Senator, that you are entitled to
2 have a dynamic analysis. Even so, it is going to mean a lot of
3 money.

4 Senator Bentsen. That is correct, Senator.

5 Senator Moynihan. If I may say one word, I want to say,
6 just to support Senator Bentsen, that I think that we have not
7 taken the measure in this country of the problem of productivity.
8 The Senator said something that easily goes by you. We continue
9 to think of competitors from the Far East, for example, as having
10 the advantage of low wages. They do not. They have the advan-
11 tage that they are more productive workers.

12 Somewhere around 1967, the Japanese output per man hour in
13 iron and steel passed ours. That has, for two centuries, been
14 the leading indicator of who is the most productive.

15 Since 1967, we have had the unit labor costs in this
16 country doubled from 194.7 on the basis of 100 output per man
17 hour has gone up 17.9 percent.

18 This is where the essential problem of American industry is
19 right now. We are not as productive as our competitors.

20 Senator Bentsen. Mr. Chairman, let me give you some numbers
21 along that line.

22 Since 1967, the productivity rate has surged 105 percentage in
23 Japan, 54 percent in Italy and France, and 24 percent in the
24 United States.

25 Barry Bosworth from the Council on Wage and Price Stability

1 says we are going to almost no productivity growth. Manufacturing
2 output per man hour in the United States, 3.3; in Japan, 10.5.

3 How do you compete with that unless you modernize the
4 manufacturing capacity of this country?

5 The Chairman. Well, I am just seeking a situation where you
6 get a chance to prove yourself right, and if so, you can come
7 along and suggest more later on, but I hope that the Senator
8 would see that, as he offered his amendment could vote for that,
9 but I cannot go along with this.

10 Senator Bentsen. You make a compelling reason. We will
11 compromise, along with your commitment.

12 The Chairman. Shall we call the roll?

13 Those in favor, say aye.

14 (A chorus of ayes.)

15 The Chairman. Opposed, no.

16 (No response)

17 The Chairman. The ayes have it.

18 Senator Bentsen. I have one other small one.

19 The Chairman. Texas-style.

20 Senator Bentsen. This is on OSHA.

21 In the present bill, coming over from the House, you have
22 a provision on NEPA where, if they choose the five-year deprecia-
23 tion schedule, they get the full utilization of the investment
24 tax credit, and I am proposing an amendment that on those things
25 that are add-ons by government regulation that are required for

1 OSHA, that you get a five-year write-off and you get your full
2 investment tax credit.

3 The Japanese, for example, have stated that now is the time
4 to shift things into the United States on textiles because of
5 these added costs that have been added on OSHA and NEPA. If you
6 are doing that for EPA, you ought to be able to write these
7 things off on OSHA as well.

8 That is about a \$60 million cost the first year, if I
9 remember what staff said. Is that \$60 million?

10 Mr. Shapiro. It is in that neighborhood. We have ours
11 based on the three-year depreciation, one of the original
12 suggestions. Structuring it to five, it would probably be in
13 that vicinity.

14 The Chairman. What would be the first year cost?

15 Mr. Shapiro. On a fiscal year basis? We do not have this
16 exactly yet. As Senator Bentsen said, about \$16 million. We
17 are guessing that it may be in that range.

18 The Chairman. Is there such a provision in the bill or in
19 the law?

20 Mr. Shapiro. In the House bill, it expands the investment
21 credit for certain pollution control facilities. Under present
22 law, the pollution control facilities are eligible for a five-
23 year amortization. They can depreciate their equipment over
24 five years in a pollution control facility.

25 In addition, they are allowed to take a 50 percent investment

1 tax credit, not the full investment tax credit.

2 What the House bill does is expand that by saying they can
3 get the full investment credit rather than 50 percent, as long
4 as they do not finance their facilities out of industrial develop-
5 ment bonds.

6 So there is no change in the depreciation, just an increase
7 in the investment tax credit from one-half to 100 percent.

8 Senator Bentsen's proposal would only deal with the deprecia-
9 tion. What he would do, he would provide a five-year deprecia-
10 tion write-off similar to what is available under present law
11 for pollution control facilities, for equipment requiring OSHA,
12 the Occupational Safety and Health Administration Act, and he
13 would be allowed that for a five-year write-off.

14 Senator Curtis. May I ask, does your amendment deal with
15 investment credit or just the write-off?

16 Mr. Shapiro. The investment credit under a five-year life
17 would be a two-thirds investment credit under present law.

18 Senator Bentsen. Actually, it ought to be the same as EPA.
19 I do not see how you justify the difference.

20 Mr. Shapiro. If you want the same that the House bill gives
21 the pollution control facilities, you would require a full invest-
22 ment credit and a five-year write-off.

23 The Chairman. That would raise the cost, would it not?

24 Mr. Shapiro. I think the cost was included in that. It
25 would raise it if it did not include it.

1 The Chairman. Senator Dole?

2 Senator Dole. The only question I wanted to raise -- I do
3 not have any quarrel -- are we going to develop a situation where
4 the corporation is going to wait to be cited by OSHA before they
5 do anything in order to get a tax benefit?

6 In other words, I do not know how you take care of that.
7 I do not have any quarrel with what you intend to do, but he may
8 be better off in not providing the safety features for his employ-
9 ees until he gets his special tax treatment.

10 I do not think that is the intent of the amendment.

11 Senator Bentsen. That certainly is not the intent.

12 Senator Dole. How do you address that?

13 Senator Bentsen. I would like to see if we cannot give some
14 discretion to Treasury there.

15 Senator Dole. When somebody willfully waits.

16 Senator Bentsen. We do not want that, obviously.

17 Senator Curtis. If OSHA issues some standards that they are
18 going to rely upon and move against people who do not meet them,
19 certainly an expenditure to reach those standards would require
20 both.

21 Senator Bentsen. Why do we not do this. In trying to meet
22 this, why do we not direct staff to see if they cannot find some
23 language that says those things that have been, in fact, mandated
24 by OSHA in the way of new equipment?

25 Senator Dole. Some things ought to be mandated.

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1 Senator Bentsen. Absolutely.

2 Senator Nelson. How do you define it? What kind of equip-
3 ment do you cover?

4 Senator Bentsen. Any equipment.

5 Senator Dole. Maybe Treasury has a comment.

6 Mr. Lubick. We have worked on this problem over the last
7 several weeks, when Senator Bentsen first raised it, and we have
8 found that it is just not possible to separate out those things
9 that are safety-related, that are tied in to OSHA, and those that
10 are not.

11 Much of this equipment would be that which the employer would
12 provide in any event. It is simply impossible to distinguish
13 that which is a normal safety-related feature to equipment.

14 When you buy equipment -- new equipment in particular -- you
15 buy it with these features on it, and we find that this type of
16 distinction is inadministerable and we also think that probably
17 it is unsound, because the newest equipment that employers would
18 be putting in would, in the normal course, contain safety-
19 related features to meet these standards.

20 We think it is considerably different from the pollution
21 control equipment which was limited to retrofitting, your pre-
22 1976 plant. This is an open-ended thing, and the normal tendency
23 in the development of new machinery and equipment which would
24 be included in any way is to have the safety features in it.

25 Senator Bentsen. Why do we not do it this way, Mr. Chairman,

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1 because that was not my intent obviously either, and there are
2 clear cases and then there are a lot of gray cases, too. We have
3 seen it on the question of cotton dust.

4 Let us make this, then, a study where Treasury does try to
5 come up with a definition of those cases that are clearly attribu-
6 table to that. There is no question that you are going to have
7 some gray areas and if we can try to delineate it, fine. But it
8 is an area that deserves attention.

9 Can we call on the Treasury to come back with a study in a
10 set period of time, six months, when they do not have the pressure
11 of the tax bill on them? Maybe clearer heads will prevail over
12 there.

13 The Chairman. How will it work between now and then.

14 Mr. Shapiro. The way it would work now, the way Senator
15 Bentsen proposed it, if they are required to put on certain
16 equipment under the OSHA standards, they would be eligible for
17 this.

18 The concern is this: if someone does it voluntarily without
19 being required, they would not be better to do it, and that is
20 what Senator Bentsen is requiring a study.

21 The Chairman. Those who would require it, you would not
22 get those until Treasury has some regulations?

23 Mr. Shapiro. I think Senator Bentsen's suggestion is those
24 that are mandated to do it would get it under the bill and
25 Treasury is to study those that would anticipate and would carry

1 it out ahead of time.

2 Senator Bentsen. No, let's put the whole thing to study.
3 let's do the whole thing in study now. But I do want them to
4 study it and have a report in six months.

5 The Chairman. Fine.

6 All in favor, say aye.

7 (A chorus of ayes.)

8 The Chairman. Opposed, no?

9 (No response)

10 The Chairman. The ayes have it.

11 Senator Matsunaga. If this is the appropriate time, I would
12 like to offer an amendment to reduce from seven years to three
13 years the eligibility period to provide full investment tax
14 credit for assets.

15 As you know, at the present time, the investment tax
16 credit is provided for assets that have useful lives of seven
17 or more years, and if an asset, such as a tractor or a machine
18 tool only has a useful life of three or four years, it receives
19 only one-third of the present 10 percent credit. If it has a
20 useful life of five to six years, it has two-thirds of that
21 present 10 percent tax credit.

22 This existing limitation of short-life property clearly
23 discriminates against users of farm implements, trucks, food
24 processing machinery, processing machinery, machine tools, fish
25 processing equipment, weld drilling and servicing implementing

1 tools, communications equipment, computers, office business
2 machines and wholesale and retail equipment.

3 All of these tools and equipment have useful lives of less
4 than seven years. Indeed, the seven-year useful life requirement
5 often has a negative economic effect.

6 Trucks or computers, which are the most efficient in the
7 early years, are retained long afterwards to obtain the full
8 investment tax credit. The adoption of a three-year useful life
9 requirement would not only remove the present disincentive to
10 use short-lived property, but also stimulate the purchase of new
11 equipment and lead to more efficient services and reductions.

12 This is the point that was earlier made by the Senator from
13 Texas.

14 Not the least benefit of this amendment is the simplification
15 of the individual corporate tax forms. I am told that four out
16 of eight lines and three out of four columns in the investment
17 tax form would be eliminated.

18 All the complexities that fall from the recapture provision
19 would also be eliminated.

20 Senator Dole. What does it cost?

21 Senator Matsunaga. I am coming to that.

22 Moreover, the recapture provisions under the ESOP provisions
23 would also be corrected, a problem in which the Chairman is
24 extremely interested and sensitive about. Mr. Gerard Brannon,
25 a former economist with the Joint Committee on Taxation staff,

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1 and the Treasury Department, has estimated that the revenue
2 expenditure for this provision would be \$.9 billion in fiscal
3 year 1979 and \$1.4 billion in 1980.

4 However, in later years, there is a feedback effect of
5 approximately 50 percent.

6 Senator Dole. Like Roth-Kemp feedback?

7 Senator Matsunaga. This is more direct. As has been fre-
8 quently pointed out by the Chairman and others on this Committee,

9 liberalization of the investment tax credit has always produced
10 more revenue. In addition, Mr. Brannon also estimated that

11 nearly one-third of the additional revenue loss from this amend-
12 ment would benefit unincorporated businesses, particularly farmers
13 and fishermen, who use property having less than a seven-year
14 useful life.

15 In addition, much of the remainder would benefit small-sized
16 businesses involved in retailing and wholesale, as well as in the
17 transportation.

18 For these reasons, Mr. Chairman, I move the adoption of
19 my amendment.

20 The Chairman. It sounded great until I heard the cost.
21 Tell me, Mr. Shapiro, what the staff view towards this is.

22 Mr. Shapiro. On a calendar year basis, the cost is between
23 \$1.2 and \$1.3 billion. On a fiscal year, it is a little over
24 \$500 million. That is the first year basis. That would present
25 the type of problem the Committee has been concerned about this

1 morning, about the \$2 billion level being allocated to your
2 additional increases for individuals and corporate.

3 The Chairman. What is the Treasury position?

4 Mr. Lubick. We realize there is substantial merit in the
5 Senators' proposal. We have been conducted a complete review
6 of the capital recovery allowances, both the depreciation and
7 investment credit provisions.

8 We are concerned, as you well know, not only with the
9 immediate revenue impact in this fiscal year but with the out-year
10 impact of various proposals that the President has made projections
11 as to what the budgetary situation is going to be for the next
12 four or five years, and we think it is very important that we stay
13 within those constraints.

14 As far as this provision is concerned, we recognize that
15 the investment credit today may operate in a way that is unfavor-
16 able to short-lived assets. We think that it would be tentatively
17 important that if we went to a uniform investment credit like
18 this that we would revive the proposal that was originally spon-
19 sored by you, Mr. Chairman, in 1962 which would call for a basis
20 adjustment in the assets, which would produce the effect of
21 avoiding the discrimination among various-lived assets.

22 I would like to suggest that this proposal has considerable
23 merit. We can produce considerable simplification, and that you
24 permit us to study this proposal as a part of our general review
25 of capital cost recovery, on which we had hoped to report to you

1 early next year, along with some suggested changes in the
2 depreciation area.

3 We think that as we look at the cost recovery allowances
4 and at both depreciation and investment credit, as a unit, to make
5 sure that we arrive at a sensible, integrated operating ratio
6 we can provide a more equitable and efficient and simpler proce-
7 dure for you. We would oppose it at this time because we have
8 not perfected it.

9 We have not adjusted those compensating adjustments that
10 are in the recapture provisions. We do not want to say that it
11 is not a very forward-looking and sensible suggestion, because
12 it has a good deal of merit, if we can work out some of these
13 technical compensating provisions that have to be done with it.

14 So, we are, of course, concerned about the revenue concerns.

15 Senator Matsunaga. Mr. Chairman, I am surely glad to know
16 that Treasury finds merit in my proposal. I think it is long
17 overdue.

18 Will the Treasury be prejudiced if I put it to a vote anyway
19 now, as to look forward to your making a study at the proposal
20 at another time?

21 Mr. Lubick. Excuse me?

22 Senator Matsunaga. Would it prejudice you for this Committee
23 to take a vote?

24 Mr. Lubick. No, Senator.

25 Senator Matsunaga. If not, while I fully appreciate the

1 representations on the part of the Treasury, this I think is
2 something that has been too long delayed and, as the Treasury
3 admits it has merit, I will call upon the Committee to decide
4 this on its merits and come to the relief of farmers, truckers
5 and those who are forced to purchase short-lived assets.

6 Mr. Lubick. Senator, does your proposal include the basis
7 adjustment which I think is essential to the merits?

8 Senator Matsunaga. No, it does not.

9 Senator Dole. Maybe you can amend it.

10 Senator Matsunaga. As I understand it, the basis adjustment
11 was even considered by the Chairman and deleted in 1964.

12 Mr. Lubick. I think the reason for that was we got all
13 tangled up in some complications on the recapture and I think
14 essentially Senator Long's proposal was correct, and I would
15 think with the basis adjustment, we could consider the complete
16 elimination of recapture if we could solve the very minor problem
17 which is that of used property.

18 But essentially, if we can induce investment into new
19 machinery and equipment, I do not know that it matters particularly
20 if the machinery and equipment is sold within a given period of
21 time. We have induced that new investment.

22 We do not want the purchase of new equipment with someone
23 claiming a credit one day and selling it to someone else two
24 days later who would claim it as a used property credit, with a
25 doubling up. Aside from that, I do not think that we have the

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1 same view that we had towards recapture in 1962 and 1964.

2 Senator Matsunaga. What I fail to understand is this, Mr.
3 Chairman. One who has an asset which has a life of seven or more
4 years gets the full credit. One who has the life of only six
5 years, two-thirds; less than three years, nothing -- no, that is
6 not right, one-third.

7 The purpose of this type of investment tax credit is to
8 stimulate the manufacture of the equipment to be purchased and
9 by accepting my amendment, we would stimulate the production of
10 short-lived equipment which is necessary because we can have seven
11 year trucks which operate efficiently, seven years of farm
12 equipment, and think that the farmer has less benefits than one
13 who has purchased the machinery which lasts seven years, is
14 beyond my comprehension of equity.

15 Mr. Lubick. You are essentially right, but we do not want
16 to disturb it so there is a great incentive to invest in short-
17 lived equipment as opposed to heavy industrial equipment. I think
18 that is where the basis adjustment provides the equalizer between
19 the two.

20 If you give a full investment credit with only a three-year
21 life and recover your entire cost in three years, there is a
22 much greater benefit which you get tax-wise, and the inducement
23 is to buy three items with a three-year life rather than one
24 item with a nine-year life, and I think that would create some
25 real serious distortions in the economy at the expense of that

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1 heavy plant and industrial equipment needed for the productivity
2 of the economy.

3 I think the basis adjustment does equalize that.

4 Senator Matsunaga. I think that your concern is with bigger
5 business, but my concern here is with smaller businesses, farmers
6 included, who can never look towards buying the longer-lived
7 equipment that you are concerned about.

8 I think we are dealing with big business and your represen-
9 tations that they will go ahead and invest in longer-lived
10 equipment anyway.

11 The Chairman. Let me ask you, how much would it save if
12 we made the basis adjustment that we are talking about?

13 Mr. Lubick. I do not think we have those figures yet,
14 Senator Long. I can get them for you tomorrow.

15 The Chairman. Why do you not bring that in tomorrow?
16 I must confess I guess I have supported so many things through
17 the years, this is identified as something that I offered on a
18 previous occasion and I do not fully relate to it.

19 Mr. Lubick. The famous Long Amendment of 1962.

20 The Chairman. Memory fades. I have had other amendments
21 since that time.

22 Mr. Lubick. Which we opposed at that time.

23 The Chairman. Which you opposed at that time. Compared to
24 the Matsunaga amendment, mine was a good amendment.

25 Senator Matsunaga. Mr. Chairman, as a compromise, I would

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1 be willing to phase it in in order to reduce the initial impact.

2 Mr. Lubick. That gives us problems. The whole problem of
3 phasing in and pushing large revenue costs to the out-years is a
4 very serious concern to us, because we are concerned with the
5 budget restrains over about a five-year period.

6 I think that the basis adjustment would not significantly
7 affect the initial revenue cost because the credit is allowed
8 up front. The basis adjustment does result in some recovery
9 later on as depreciation reductions are reduced, but the immediate
10 revenue reduction from the basis adjustment would not be
11 significant.

12 The Chairman. There are a lot of things that will will vote
13 on in view of this. We ought to vote when we have a quorum.
14 We ought to vote on it tomorrow.

15 I hope the staff, or someone, will refresh my memory as
16 to what that Long amendment was. I do not want to be completely
17 at odds with myself in later years. I want to see what my situa-
18 tion was then, compared to what this amendment is now, and see
19 the difference.

20 Senator Dole?

21 Senator Dole. I assume there is not a quorum present because
22 most Republicans are off on a tax blitz. I think they have already
23 been blitzed by Camp David. But I would like to offer today and
24 have a vote on it tomorrow an amendment that would index the
25 personal income taxes, the dollar amounts contained in the existing

1 law, effective January 1, 1980 would be indexed and the relative
2 amounts under existing law would be increased by the ratio of
3 the CPI in the third quarter of the preceding year to the CPI in
4 the third quarter of 1979, provided the CPI in the third quarter
5 of the preceding year is higher than the CPI of the third quarter
6 of any previous year.

7 The only items we are talking about indexing -- and I offer
8 this amendment for Senator Griffin and others -- would be the
9 tax rate brackets, the zero-bracket amounts, found in Section
10 63(d) and the deduction for personal exemption found in Section
11 151.

12 It gets back to what the Chairman mentioned yesterday. He
13 referred to it as taxflation and, according to the estimates, it
14 would cost the American taxpayer about \$9 billion in '79. A
15 taxpayer who earns \$15,000 for example in '78 will have to earn
16 \$16,279 just to stay even with inflation, but his tax liability
17 increased \$260.

18 An individual earning \$30,000 would have to increase his
19 income to \$33,400 but his tax bill will rise \$850, and I think
20 everybody is familiar with the concept. It does not stop the
21 cycle of illusory tax cuts. It still permits the Congress to
22 engage in real tax-cutting.

23 It has been adopted in the state of Colorado, in modified
24 form in the state of California. I think that perhaps there will
25 be widespread acceptance in the next few years. All we do is

1 make inflation adjustments for two years, effective in 1980.
2 We do not affect what happens in '79, and we adjust the personal
3 exemption.

4 If we have a 6 percent inflation rate in '79, the personal
5 exemption would increase by \$60. For example, if we assume it
6 is going to be \$1,000, we are only completing work on this
7 proposal. It will hold down Federal expenditures.

8 Canada has adopted indexing and has experienced a decline
9 in government spending. I do not think it complicates the tax
10 laws.

11 We have some precedent for it in the so-called Archer
12 amendment in the House-passed bill. We index about 63 percent,
13 about all Federal expenditures that are completely indexed.

14 It would seem to me that it is a matter that would deserve
15 some consideration. There is opposition to it, but there is
16 also considerable support for it.

17 Maybe that, on that basis, if I could be recognized in the
18 morning to have a vote on it and pass it and go on to something
19 else. Would that be all right?

20 The Chairman. We will certainly offer you the opportunity
21 to vote on it tomorrow, Senator.

22 Senator Nelson. Do you have it spelled out on a piece of
23 paper?

24 Senator Dole. I have that information. I will get it to
25 you.

1 The Chairman. That being the case, I suggest we now stand
2 in recess.

3 Senator Byrd. Before we do that, may I make a brief state-
4 ment?

5 The Chairman. Yes.

6 Senator Byrd. For the record, I understood while I was
7 making a telephone call that the Committee agreed to expand
8 industrial development bonds? It took action in regards to
9 industrial development bonds?

10 Mr. Shapiro. Senator Haskell proposed increasing the present
11 \$1 million level, which exempts any industrial development bonds
12 to the first \$1 million, so that would be tax-exempt. That would
13 be increased to \$2 million. The present \$5 million level, which
14 means that the entire issue has to be less than \$5 million, that
15 was increased by the Committee to \$12 million.

16 Senator Byrd. I have been opposed to industrial development
17 making those bonds tax-exempt for a long time. I opposed it
18 before I came to the Senate, when I was Chairman of the Virginia
19 Industrial Development Commission. Virginia got along well without
20 them.

21 I have opposed them since I have been in the Senate ,but
22 I would like to show my opposition to my proposal.

23 Now, on another matter. The earned income credit, as passed
24 by the House, would cost an additional \$17 million over what it
25 costs now to continue the program at a reasonable rate, it would

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1 cost an additional \$17 million.

2 The Senate Committee proposal would cost an additional
3 \$1.8 million over what it now costs and it would greatly expand
4 the earned income credit. That leads me to my question which I
5 asked earlier -- how many will be eliminated from the tax rolls
6 by the Committee proposal?

7 Mr. Shapiro. Senator, by the earned income credit alone,
8 approximately 1.4 million taxpayers will be taken off the tax
9 rolls. By the additional rate cuts that are being added to the
10 bill, there would be an additional 800,000. So that means with
11 the earned income credit, 1.4 million; with the tax rate cuts,
12 an additional 800,000; so approximately 2.2 million taxpayers
13 would be taken off the tax rolls because of the income tax
14 reductions.

15 Senator Byrd. If the Committee approves the proposal now
16 before it, more than 2 million persons will be eliminated from the
17 tax rolls. 2.2 million will be removed from the tax rolls.

18 Mr. Shapiro. That is correct, Senator.

19 Senator Byrd. One other question.

20 What would be the revenue loss if you maintain the present
21 law, the one that we are operating under today, and reduce each
22 bracket by 2 percentage points? In other words, the 70 bracket
23 would be 68; the 50 percent bracket would be 48; the 20 percent
24 bracket would be 18, and so forth?

25 What would be the revenue loss under such a proposal?

1 Mr. Shapiro. On a calendar year basis, approximately \$16
2 billion.

3 Senator Byrd. How much is the personal tax reduction passed
4 by the House, not counting capital gains?

5 Mr. Shapiro. \$10.4 billion.

6 Senator Byrd. How much is the personal reduction under the
7 staff proposal, under the Committee proposal?

8 Mr. Shapiro. An additional \$3.8 billion. That ends up
9 to approximately \$14 billion, between \$14 billion and \$14.2
10 billion. It means that your suggestion would be almost \$2 billion
11 between \$1.8 and \$2 billion over what is being discussed in the
12 Committee.

13 Senator Byrd. How firm a figure is that \$16 billion? How
14 well has it been developed?

15 Mr. Shapiro. We will bring it back to you. That was to give
16 you a quick estimate. We will have to find that out and bring
17 it back to you.

18 Senator Byrd. Thank you.

19 The Chairman. 2.4 million people, you are talking about
20 the 2.2?

21 Mr. Shapiro. 2.2 million.

22 The Chairman. Are they not the same poor people that we
23 put off the rolls with the tax cut and then they come back on
24 with inflation and then we put them back off with a tax cut and
25 then inflation puts them back on?

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1 Mr. Shapiro. That is correct, Senator. Each year the
2 Congress makes an effort to take taxpayers off the rolls and
3 inflation puts them back on so, in effect, you are taking off
4 most of the same taxpayers that were off previously but have
5 gone back on.

6 You are not adding additional people that have never been
7 on the rolls.

8 Senator Dole. That is another argument for indexing.

9 The Chairman. Thank you.

10 We will meet tomorrow at 10:00 o'clock.

11 (Thereupon, at 12:20 p.m., the Committee recessed, to
12 reconvene Wednesday, September 20, 1978 at 10:00 a.m.)

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