

EXECUTIVE SESSION

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TUESDAY, SEPTEMBER 26, 1978

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

The Committee met, pursuant to notice, at 10:25 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (Chairman of the Subcommittee) presiding.

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

The Chairman. Let me call the Committee together.

Gentlemen, when we have more Senators here I would like to seek a decision on a couple of big items in the bill. I would like to bring them up. There are a couple of big items left to vote on.

For the moment, perhaps we could settle the matter that Gaylord Nelson has brought up. If no one has any objection to it, we can settle that.

Why do you not bring it up, Senator Nelson?

Senator Curtis. May I first ask a question on procedure?

There are a few items that really are not revenue items very much. Many of them have been taken up with the Treasury and with

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1 the Joint Staff, and in most of the cases, there has been
2 agreement on them. They are, more or less, technical.

3 I do not like to scatter our thoughts all over the map and
4 bring them up at a time, one thing or another, and many of them
5 may be brought up by staff.

6 What would be a satisfactory procedure? Should we do that
7 after we complete all of these other items, and so on?

8 Senator Percy called me this morning about one that is highly
9 technical and it would take a lot of time here. On the other
10 hand, I think -- although the Treasury and the staff are
11 agreeable to it -- would there be a later time when some of these
12 things are brought up for staff to dispose of them in a group or
13 something?

14 The Chairman. What do you think, Mr. Shapiro?

15 Mr. Shapiro. Senator Curtis is indicating, in view of the
16 Committee's intent to finish the bill tomorrow, and there is a
17 series of technical provisions that many Senators may have. His
18 question is, what would be the right time?

19 What I would like to suggest is that it may be helpful, and
20 it is done most times, that the Senators and staff can make copies
21 of these provisions and we can have a list, the technical types
22 after we complete the bill, that we go to Treasury and just list
23 them for the record and they can be agreed to as technical-type
24 changes.

25 Senator Curtis. At the end.

1 Mr. Shapiro. At the end. I think it might be helpful to
2 you to try to use as much time as you can to take care of some
3 of the big items.

4 Senator Curtis. I think so, too. That is why I did not
5 want to intrude. Would that apply also to some of these matters
6 that the staff has worked up, either for the Committee Report
7 or for proposals in your own right?

8 Mr. Shapiro. Yes.

9 If a Senator has asked the staff to work out a proposal,
10 we can bring it up. What the staff does not do is bring up
11 provisions that someone outside asks us. If a Senator asks us,
12 we could bring it up, if a Senator wishes to.

13 Senator Curtis. If there is something under your own motion,
14 you would bring it up yourself?

15 Mr. Shapiro. Yes.

16 The Chairman. It seems to me -- and I would like to have
17 all Senators hear this -- it seems to me, since the Senate is
18 anxious to act on this bill, that we could agree among ourselves.
19 Maybe if a majority on the Committee wants to view some matter as
20 technical or clarifying, that if it has some substance to it.
21 Basically, it is something to clear up a technicality or ambigu-
22 ity or something of that sort, such as the amendments that we
23 are talking about on the employee stock ownership plan, for
24 example, to say whether they can vote for stock or not vote for
25 stock, something like that. Something to protect the employees

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1 from being exploited, in the case of an unscrupulous employer.

2 While there is some substance to it, if we want to agree to
3 call it technical, we can, for the purposes of having it included
4 when this thing comes up.

5 I do not have in mind anything that is earth-shaking in
6 nature, but these relatively minor things where we have something
7 in the bill and we are trying to change it, to make it more
8 satisfactory to the whole Committee, I think that we will more or
9 less agree that we will give ourselves some latitude on whether we
10 are going to call it a technical amendment. As long as the
11 majority on the Committee wants to do it, we will do it that way.

12 We are talking about the kind of thing that staff would
13 suggest that falls in the area of discretion, that you might want
14 to do a little more of this way, or a little more that way.

15 Suppose you explain, Senator, about how you targeted your tax
16 credit?

17 Senator Nelson. Mr. Chairman, we worked out a targeted tax
18 credit for structurally unemployed which, I believe, that the
19 Administration supports. There are a couple of modifications
20 over which, the proposal over which that they had originally agreed
21 to support -- it is my understanding that they support this
22 proposal.

23 Senator Moynihan was involved. We adopted part of the
24 Moynihan-Cranston-Long proposal. It is also basically -- this
25 proposal is in conformity with the definitions that we included

1 in the CETA Act, so that we do not have two types of basic,
2 different categories of people involved under various standards
3 to quality for the program.

4 The targeted employment tax credit would establish a tax
5 credit to be available to all employers that employ persons 18
6 to 24 and Vietnam era veterans who are from economically disad-
7 vantaged households, handicapped individuals, persons who are
8 recipients of General Assistance payments, and recipients of
9 disability payments under SSI. And the credits given to the
10 employer would be one-half the employee's FUTA wage to a maximum
11 credit of \$3,000 for the first year; one-third of such wages up
12 to \$2,000 for the second year; and one-fourth of such wages up to
13 \$1,500 for the third year.

14 We described the people who are eligible; I have mentioned
15 them.

16 Next, a determination of what the employer may receive.
17 Credits may not be claimed against wages in excess of 20 percent
18 of an employer's wage base for Federal Unemployment Insurance.
19 Credit may not offset more than 90 percent of the tax liability
20 in any year.

21 The credit would be enacted for a three-year period. Employ-
22 ers may not simultaneously claim an employment tax credit and
23 receive on-the-job payment for the same employee. On-the-job
24 payments are in the CETA bill.

25 The employee would have to elect whether he would want a

1 payment for the training of the employee, or whether he would
2 want the credit.

3 I understand. Senator Long had a proposal which, it seemed
4 to me, was a good one for an additional category to be involved
5 here but, before I mention that, the House, in their program,
6 included in-school 16 and 17 year olds. That creates kind of a
7 tough problem. We dealt with it at some length and did not
8 include them in the CETA program.

9 The House does include them, if they are in school. They
10 have to be in school. We do not want to induce drop-outs. That
11 provision is in the House bill, and I would think it advisable
12 to leave our side blank so we have an opportunity to negotiate
13 some changes if necessary in the House proposal rather than lock-
14 ing it in with a proposal of our own.

15 That basically is the proposal, Senator Long.

16 The Chairman. Well, I think it is a fine proposal. Let me
17 just bring up one thing that concerns me about this. I attended
18 the showing of the show "Born Again" at the Kennedy Center. Mr.
19 Colson introduced about twenty or more men who are in prison.

20 These people are religious people and they hope to rehabil-
21 itate themselves to become good citizens. One of these persons --
22 a black man -- made a speech there. He is doing fifteen years.
23 He recited this beautiful old hymn, "Amazing Grace." It was
24 very touching.

25 He indicated that he hopes that he is going to be able to do

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1 something for humanity, that he will be able to serve out his
2 time and be a good citizen some day.

3 When that man comes out of that penitentiary, he is going
4 to find that all doors are closed to him. When a person applies
5 for a job, on most questionnaires are, "Have you committed any
6 crime?"

7 If that person has to answer yes to that question -- I have
8 talked to people who have had that problem. They can go from
9 one end of this country to another. Unless that employer has
10 some personal interest in that person, he is not going to get a
11 job, not unless that employer for some reason, such as perhaps a
12 very strong religious reason or something of that sort, feels a
13 compelling reason to hire him.

14 The result is that 80 percent of those people in those
15 prisons are people who have been there before. When they come
16 out, people will just not take them. They will not hire them
17 under any circumstances.

18 I understand that, but somebody ought to try to give people
19 a break, give them a chance to go straight.

20 I do not want to provide a tax credit for anyone who is in
21 any business on the fringe of the law. I want somebody to be
22 working in some area where they have a handbook or a gambling
23 device. I do not want to give a tax credit in any area where
24 they may be susceptible to crime.

25 These people are all to susceptible to being dragged into

1 crime because they have noplacel else to go anyway. But for
2 proper, legitimate employment, I would like to see them have
3 the opportunity to be among the targeted group that we are trying
4 to find jobs for.

5 It would seem to me that it would serve a purpose, too.
6 Otherwise, what we would find -- the poor things, they just find
7 their way back into jail again.

8 Senator Bentsen?

9 Senator Bentsen. Mr. Chairman, I very enthusiastically
10 support this amendment and would like to cosponsor it if it is
11 possible, if you would allow me. I think the most difficult
12 social problem we have in this country today is structural
13 unemployment. You see, in some of our minority groups, young
14 people, as much as 40 percent of them, unemployed. I do not
15 th-nk there is a more denigrating thing you can do to an
16 individual than to tell them that they have no productive role
17 in society that they can fill, and you let them go for three or
18 four years not participating in the economic mainstream, not
19 having any kind of a job, and they develop a lifestyle, a way of
20 life.

21 This country pays a long-term political, economic and
22 social cost for that.

23 We have been trying to overcome that, and we have not been
24 very successful. This targeted unemployment approach is a new
25 approach. It says that we will try to find jobs that are not

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1 dead-end jobs, not make-work jobs, that hopefully can lead to
2 further promotion and growth by that individual, and I am
3 delighted to see it done and very strongly support it.

4 I hope I may be listed as a cosponsor.

5 The Chairman. I have had a little bit of experience with
6 the problem. I can recall a time when a fellow could not find
7 anyplace else to find a home, or a time when I was looking for
8 one and getting ready to participate in a political campaign and
9 located out, and about five miles outside the city limits, and
10 my nearest neighbor had a criminal record. He had served some
11 time in the penitentiary, and I must say that my wife felt
12 insecure when she was left at home at night with him being
13 the next-door-neighbor. You can understand that.

14 But, at the same time, somebody is going to have to give
15 these people a chance, otherwise, they have no alternative.
16 They go back into crime.

17 Senator Gravel?

18 Senator Gravel. I join with Senter Bentsen here, and also
19 I want to join with you on the convict facet. I would like to
20 be a co-sponsor on that facet of it and on the targeted.

21 Senator Nelson. Mr. Chairman, that would simply add one,
22 and I think it is a good category to add, because if anybody is
23 structurally unemployed, I would guess you could say that these
24 people are. So I would ask the staff to make note of this
25 addition for the appropriate language so we are including Vietnam

1 era veterans and prisoners and 18 to 24 year-olds that are
2 from economically disadvantaged families, which are described
3 as having an income of less than 70 percent of the lower income
4 wage; persons receiving disability benefits under Supplementary
5 Social Security, handicapped persons referred from vocational
6 rehabilitation, persons who have been receiving General Assis-
7 tance for more than thirty days, and those who have been dis-
8 charged from confinement as the fifth category.

9 This targeted one applies only to trades and businesses,
10 not to service -- persons who are in services.

11 The Chairman. For the purpose of a tax credit, it would
12 seem to me that it ought to apply to all jobs.

13 Senator Nelson. I would wonder about it. You do have the
14 provision of Senator Talmadge. I would wonder about broadening
15 off this so that you could hire any of these eligible at \$3,000
16 tax credit. The CETA program is confined to the public service
17 employment or the private employment, and that is structurally
18 targeted to the unemployed, as is this.

19 I would be skeptical.

20 The Chairman. You have about 1,400,000 people right now
21 who are working at jobs that are not in a trade or business. If
22 any of those people, in a targeted area -- you can pay them a
23 lot more if you get a tax credit.

24 Senator Nelson. Let me say I never anticipated under any
25 circumstances were we going to broaden it, or I would have taken

1 a better look at it. Nobody seriously proposed that. Nobody
2 has proposed it at all when we dealt with the CETA program.

3 I wonder, Mr. Chairman, if we could not leave the bill as
4 it is unless we get some cost estimates and evaluate that
5 question and if, in fact, it is a compelling idea, let's mount
6 it on the Floor. I would not want to send it out to the Floor
7 that way.

8 Senator Gravel. Mr. Chairman, I think we are getting trapped
9 into a box here on this. It should be broader. The reasons
10 why we do not is for political reasons, because the way it is
11 treated in the media, by and large, that we are fixing it so that
12 wealthy people get servants. That is the way it is going to be
13 characterized. That is the wrong characterization of it.

14 You have a situation where there are a lot of women who
15 can upgrade their status and want to do that if they can get
16 somebody to take care of the house. There is no question that,
17 by and large, that does not take a great deal of training to do --
18 housework -- and there are a lot of people who are overtrained
19 for that task who move on to higher and more productive jobs in
20 our society.

21 To automatically say because, you know, we are going to be
22 accused of subsidizing our own maids, let's just put in an
23 exclusion for all members of Congress, and then our ties will at
24 least be clean on that score, but let us set it in motion.

25 There are thousands and millions of jobs available to people.

1 We would like to say, well, why do we not keep our cities cleaner?
2 Why do we not keep our neighborhoods cleaner?

3 One of the reasons is that there are no jobs to do that that
4 we are prepared to target in that area. I think it is a very
5 tragic mistake, because we could have a lot of upward mobility in
6 our society and a lot of people would then pick up jobs, that
7 that is all they are qualified to do.

8 You can try to take some of these people and try to train
9 them all you want. They are not going to be able to come up with
10 a job. In this area, I think that they can.

11 Mr. Lubick. We would like to express our support for Senator
12 Nelson's proposal, which is a part of the Administration's urban
13 program. We also agree with Senator Nelson on the limitations
14 to the trade or business.

15 Essentially, the program is designed to take these persons
16 who are structurally unemployed and give them the skills to
17 engage in productive employment and that objective is better met
18 by confining it to the trade or business where they will pick up
19 these skills and become permanently employed.

20 I think basically Senator Nelson's proposal does move in
21 the correct direction in that distinction.

22 Senator Gravel. May I ask one question?

23 The Chairman. Let me just make this suggestion. It is
24 all right with me to report this out as Senator Nelson is sugges-
25 ting, but I personally would be inclined to offer an amendment on

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1 the Floor to say that this applies to any job. The fact of the
2 matter is that there are a lot of good jobs compared to what
3 the alternative is.

4 I am not talking about it is a better job than being a
5 United States Senator, or better than being Chairman of the
6 Board, but compared to the alternative, there are a lot of good
7 jobs available to a lot of mothers, for example, and a lot of
8 children.

9 Let's take a mother with a sixteen-year-old child. Both of
10 those people could get a job, if they are willing to take a job
11 working as a gardener, working in a home, they could get a job.
12 And a lot of people would like to hire them, if you had a tax
13 credit available.

14 They are not going to hire them if they have to pay so they
15 do not get a tax credit.

16 Here you have a bunch of people you would like to get into
17 jobs. You have jobs that would go begging if you applied the
18 tax credit to it, a million of them. But no, sir. We do not
19 want to apply this.

20 What do you get into? Labor has not been able to organize
21 those people, and I understand why they have not been able to
22 organize them -- most of them do not have a job to begin with,
23 so they could not pay the dues if they wanted to.

24 When they get them organized, then they will want them to
25 get a much higher wage. At that point, maybe they will be

1 willing to have a jobs credit to help some of these people, to
2 help people provide more jobs to them.

3 Here was a study done on welfare a shore time ago by someone
4 who said you are on the wrong track in the welfare thing. You
5 are trying to take these mothers and trying to make industrial
6 workers out of them. There is one thing they know how to do --
7 they know how to do some housework. Why do you not let them do
8 the one thing that they know something about. They know how
9 to look after some children, they know how to do housework.

10 Why do you not let them do something they are capable of
11 doing? They know how to handle a broom, or to operate a dish-
12 washer or a vacuum cleaner, something of that sort. Why do you
13 not let them do the only thing they know how to do -- be a mother,
14 be the head of the household?

15 To me it is sort of ridiculous to say, all right, we are
16 going to let these people take jobs doing all these things that
17 they are not qualified to do but the one thing that they do have
18 the qualification to do, oh, no, that is out. That just does
19 not make sense to me.

20 Senator Curtis. Mr. Chairman, there are, no doubt, count-
21 less persons of advanced age who are self-sustaining who would
22 put somebody to work, but the way it is, they get neither a
23 deduction for the wages or, under the proposal, a tax credit.

24 And the longer, the more chance that they are able to hire
25 help, the less chance there is that they will be knocking on the

1 door of some health-care institution maintained by taxes or
2 otherwise, to take care of them.

3 Senator Hansen. Mr. Chairman, I would endorse most
4 heartily what you said.

5 I wonder if I might have the attention of my colleagues?

6 I would like to endorse what our Chairman has said. I have
7 talked to a number of people, and you know what the main problems,
8 the main obstacles are that have to be overcome by people who do
9 not have a job. Knowing how to set an alarm clock, understanding
10 that it is important to be on the job at 8:00 o'clock in the
11 morning, knowing what bus to get on to go from where they live
12 to where their job is. These are things that we do not even
13 think about, but they are big obstacles to a lot of people.

14 I talked to a contractor in my home state of Wyoming who
15 addressed the high school graduating class. He said, do any of
16 you want to be a foreman? He runs a construction job. He is a
17 construction man.

18 He said, I will tell you how you can become one. Get to
19 work ten minutes before the job starts and stay until quitting
20 time, and then gather your tools up and take them back to the
21 shop. And he said, if you will do that, if you will just do
22 something that simple, before the summer is over, you will be a
23 foreman. And, by gosh, it works.

24 It may sound awfully simplistic, but I think what Senator
25 Long has said is absolutely true. It does not matter where a

1 person starts or what kind of a job he has. Some of the things
 2 that are important for someone to understand -- first, that you
 3 have got to be dependable -- and that does not mean in the sense
 4 of a young kid who answered the ad and said he was dependable
 5 and the boss said, how do I know you are dependable? He said,
 6 how do I know you are responsible?

7 He said, I have been out on five jobs this summer and every
 8 time I have gotten fired, the guy who fired me said, you are
 9 responsible.

10 That is not what I mean. That I mean is that the training
 11 that a person can get, no matter what kind of job he takes, if
 12 it is in the private sector, I think it is a real plus and a lot
 13 of these people who may start out doing housework or doing
 14 gardening or doing something else find that work is not all that
 15 bad but it is the first job they have ever had, and that is an
 16 important hurdle that they have cleared.

17 I would hope that we can expand this concept to encourage
 18 wider employment, to get a lot of people working in the private
 19 sector, and I think you will be amazed, as Senator Gravel said,
 20 to see the upward mobility that will result from that first
 21 experience in the real world.

22 Senator Nelson. Let me say, Mr. Chairman, I never very
 23 often have been blind-sighted by the big spenders. I find
 24 myself defending the program.

25 Let me point out, the CETA program is \$11.6 billion

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1 addressed to structurally unemployed and cyclical unemployment.

2 Senator Hansen. I am not endorsing that, if you have any
3 illusions.

4 Senator Nelson. All you are doing is just bending it rather
5 dramatically that it fits exactly with the CETA program except
6 it is much more liberal. Because, in the CETA program, we over
7 there in the Labor Committee who are kind of crazy with the things
8 we do with money, where we in the Finance Committee pay for the
9 cost of training, over here we are going to pay the salary.

10 Senator Hansen. If you would let me interrupt for just a
11 moment, Senator, I think there is one important difference as
12 far as this Senator is concerned. A lot of the CETA programs
13 are cued into government-organized jobs where you really do not
14 get the experience in the private sector.

15 I think that the difference between some of those jobs and
16 this concept, as I understand Senator Long would be making, this
17 is the real world and some of the CETA jobs, as I understand it,
18 are not quite that much.

19 Have I been misinformed about that?

20 Senator Nelson. The objective on the CETA public-service
21 jobs is that they be useful work that the municipality needs to
22 have done.

23 Senator Hansen. A big difference.

24 Senator Nelson. Number two, they may not stay longer than
25 a year with a program directed towards taking them from that job

1 experience, which I agree with you and Senator Long, it is very
2 important, if you have never had a job experience, just the
3 simplest job experience in the world. And the continuity of
4 going to work is important, but once they have done that, we are
5 now trying to move them into private employment.

6 All I have been saying is we have been looking at these
7 things, not that we have all the information or all the knowledge
8 or imagination in the world over there on the Human Resources
9 Committee, but we have been listening to people in the field for
10 several years.

11 What I am suggesting to you is one, we should not include
12 it here.

13 Two, you should recognize the fact that we are at \$11.6
14 billion a year on the CETA program now, targeted fairly substan-
15 tially to the structurally unemployed.

16 Nextly, one of the problems that you get into if you say
17 this applies to personal services is that there are a lot of
18 hard-working poor out there who are now working and now have
19 exactly the job that this person will qualify for. they will
20 not qualify. They will not qualify to get this subsidy. Those
21 people who are doing personal services now, they are getting more
22 than 70 percent of the low-income wage.

23 All of a sudden you have someone who is working his or her
24 fingers to the bone and they employ or fire someone, and says,
25 I can get 60 percent of the salary paid. We do not want to get

1 into that. If we want to debate this on the Floor fine, and I
2 would like to see the cost estimates, but, for heavens sake,
3 do not, off the top of your head, amend this proposal to include
4 personal services.

5 Senator Hansen. I am just trying to help make it better.

6 Senator Gravel. Let me say, Mr. Chairman, that CETA
7 fundamentally is making the government the employer of last
8 resort. I think many of us have problems with that from a
9 philosophical point of view. I vote for the programs, I support
10 the programs, but I do not think that that is the best way to
11 approach the problem, and I think to say people are going to
12 fire their maids in order to get a subsidy for someone less
13 qualified, there is more to it than that, and I would think that
14 if we write some very strong regulations we can handle those
15 regulations within certain time frames.

16 You are talking about a much lower, and getting into this
17 unemployed class of people, and making it available. It is a
18 notch lower than what they are getting in government, if they are
19 getting anything meaningful in government.

20 It is tied to being an impediment many times to what could
21 be very constructive in the private sector. I see no reason why
22 this should not be expanded to go into the private area.

23 We en put on the necessary regulations and we can put on
24 the necessary exclusions for Congress so that we are not subject
25 in any area to any criticism in this regard.

1 To miss the opportunity to do this in the private sector
2 and affect the millions we are talking about, I think, is a shame.

3 Senator Nelson. You will have the opportunity on the
4 Floor.

5 Senator Gravel. If it is going to cost some money, I would
6 be prepared to deduct it from CETA so we are targeting it
7 properly.

8 Senator Nelson. Let us not misstate what this is about.
9 The public is not the employer of last resort in CETA. The fact
10 of the matter is, they are of last resort in the structural
11 section of CETA is the private employer. That is what we are
12 seeking to do, but we get a good many of them started in the
13 public sector and move them from there over to the private
14 sector.

15 The Chairman. It seems to me, if we are ever going to get
16 where we need to go as far as making work more attractive than
17 welfare and making work the answer to the problem, we are going
18 to have to dispense with this idea that there is something
19 demeaning about starting at the bottom.

20 Awhile back I spoke at Southern University. They had a
21 large meeting there of outstanding people. One man there, a
22 great educator, a black man, highly admired and recognized by
23 educators throughout the entire state, sent word to me that he
24 used to carry a golf bag for my father as a young man.

25 I understand that I was about the same age as he was. He

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1 said, I would like to make reference to the fact that people
2 have to start at the bottom and work their way up. He would have
3 no objection whatever -- he is proud of it, that he started off
4 as a caddy, carrying golf bag for, among other people, for my
5 father. And he was proud of the fact that he started at the
6 bottom of the ladder at a menial job and worked up.

7 Most people I know of have worked hard for the success they
8 have made out of life and are proud of the fact that they had a
9 humble beginning. I do not know of anybody who has really been
10 made a self-made person who did not start at the bottom and is
11 not proud of every menial chore he did in life.

12 To start taking the attitude that the welfare do, that
13 I am not going to clean no blinds, you clean your own blinds.
14 I am not going to cut your grass, cut your own grass.

15 That is fine. But at least in the situation where the only
16 job available, you have to start somebody out paying them \$2,000
17 a month otherwise. They should not be expected to take jobs at
18 all.

19 It is something I have difficulty buying, but I would just
20 as soon have it on the Floor.

21 I would like to vote on it.

22 All those in favor, say aye?

23 (A chorus of ayes.)

24 Senator Nelson. Of what?

25 The Chairman. Your amendment.

1 Senator Nelson. I wanted to be sure it was not the other
2 one.

3 The Chairman. I would like to improve on it. We will try
4 it on the Floor. I would like to vote on one thing, and the
5 Senators can vote how they want to. It seems to me we ought to
6 vote.

7 Those opposed to the Nelson amendment?

8 Senator Moynihan. Mr. Chairman, it is my amendment, too.
9 Are we talking about the whole of the amendment, or just one
10 provision?

11 The Chairman. The whole amendment.

12 Senator Moynihan. Before we do it, could I just ask one
13 thing, Mr. Chairman? The provision that I had not seen this
14 in writing before -- it was put together after a general agree-
15 ment -- the Vietnam era veteran approach division excludes
16 persons with dishonorable discharges.

17 Senator Nelson. It does?

18 Senator Moynihan. It does. I do not think either of us
19 has this in writing, and I would like to strike that, Mr. Chair-
20 man. I think Senator Nelson would agree. I think Senator
21 Cranston would agree that those people have enough trouble.
22 They are going to have to work for a living, and this is not a
23 benefit to people.

24 May I make the point --

25 Senator Gravel. You are striking the ones who have

1 dishonorable discharges, or leaving them in?

2 Senator Moynihan. Leaving them in. The language before
3 you strikes them.

4 Senator Gravel. We have added the converse. We have gone
5 a step further.

6 Senator Moynihan. Is that all right?

7 Senator Nelson. The reason it got in there is that the
8 Chairman of the Veterans Affairs Committee made that proposal
9 on the CETA bill and this language was taken from the CETA bill.
10 Myself, I would leave it open, but that is what happened.

11 Senator Hansen. Does the Senator from Wisconsin want to
12 amend his amendment? Is that what he is saying?

13 Senator Moynihan. It is my amendment, too. I want to
14 amend it.

15 Senator Hansen. I thought he was surprised to find it in
16 there.

17 Senator Moynihan. I think we were both surprised to find
18 it in there.

19 Senator Nelson. No. I recall, on reflection, it was
20 offered by Senator Cranston. It was not in the original draft
21 that I was working with as Committee Chairman. It was accepted
22 at the full Committee, not the Subcommittee level, but I had
23 forgotten that.

24 The Chairman. It is all right with me to vote on that.
25 Let's vote on the Moynihan amendment.

1 All in favor, say aye.

2 (A chorus of ayes.)

3 Senator Hansen. To strike this?

4 The Chairman. Yes.

5 Opposed, no.

6 (A chorus of nays.)

7 The Chairman. Let's make it clear that it applies to all
8 veterans, whether they have a bad conduct discharge, or whatever.

9 Senator Moynihan. I want to make a point. The Vietnam
10 veterans have a lower rate of unemployment than persons of
11 comparable age.

12 Senator Nelson. This is disabled Vietnam veterans.

13 Senator Moynihan. No, it is not.

14 Senator Nelson. Is this language disabled Vietnam veterans?

15 Mr. Shapiro. No, it is not, Senator. Any Vietnam era
16 veterans.

17 Senator Moynihan. Mr. Chairman, if I may make one last
18 point. If there is somebody in the Department of Labor who is
19 here -- I am sure there is somebody from the Department of
20 Labor -- is there a Secretary of Labor representative here?

21 That is curious.

22 The thing that we have had, a credit for employment of this
23 kind for some years now and it has not shown any success, and I
24 hope that this Committee would be on record as saying we are
25 making a truly heavy and quite unusual proposal here. We are

1 saying that for WIN recipients, 85 percent of wages are deductible
2 as a credit, are free. We are saying for this large category,
3 for persons under our proposal, 73 or 70 percent plus.

4 I would hope that the Labor Department is going to take this
5 and try to see what can be done. If it does not work, then I
6 would not like to find in three years' time that we really did
7 not get around it too much, but maybe we might, or who knows.

8 I would hope they really put up a good faith effort to see
9 if this is a problem or if this technique would produce some
10 response.

11 This is not an ordinary event, to make wages practically
12 free for a rather large group of people, and we would hope in
13 end, the Secretary of Labor can tell us something about how it
14 worked and, indeed, we hope he can tell us that it did work.

15 The Chairman. Let me make one point about this. I read
16 awhile back about some ladies who got together and they organized
17 themselves in a little business of going around as a group on a
18 contract basis -- I want Senator Nelson to hear this.

19 I read about some ladies who started themselves in business
20 as a group. They would go around and, on a contractual basis,
21 they would contract to do someone's housework for them. That
22 is, a trade or business. They were contracted to go in as a
23 group, three or four people together, clean the place up, take
24 their own equipment with them, do a good job, a very efficient
25 job, and move on to the next place.

1 That is a trade or business, and I think that it ought to
2 be clear that what they are doing is just as much so as if they
3 were cleaning a hotel room.

4 Senator Nelson. There is no question that is a trade or
5 business and, under this provision, they could pay not to exceed
6 20 percent of the employer's wage base. If they had \$100 wage
7 base, \$20 could be covered by this.

8 The Chairman. Keep in mind that they are the employer.

9 Senator Nelson. I understand that. They are an employer
10 who would be eligible as a trade or business under the provisions
11 of this Act.

12 The Chairman. Right.

13 Senator Nelson. No question about it.

14 The Chairman. Now, I would like --

15 Mr. Shapiro. Could we clarify one point? When you added
16 that those who have been convicted of certain crimes, I would
17 like to make it a little more specific for Committee decision.
18 Would it be appropriate to say, for purposes of this provision,
19 it would include a person who was convicted of a felony and had
20 served at least six months in a penal institution?

21 The Chairman. That is fine.

22 Senator Gravel. No, do not limit the amount of time.

23 Senator Nelson. What if he has served only five months and
24 cannot get a job.

25 Mr. Shapiro. It is your decision. We are trying to get

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1 some guidance from the Committee.

2 The Chairman. You are talking about a felony. Leave off
3 the six months -- "who has been convicted of a felony and has
4 served time."

5 Mr. Shapiro. "Convicted of a felony and served time." It
6 is the Committee's decision how long a time you would like.

7 The Chairman. Suppose he was convicted of a felony and
8 pardoned?

9 Mr. Shapiro. It depends.

10 The Chairman. What I'm thinking about -- I am thinking
11 about the question, you need to look at see how these application
12 forms read when a person applies for a job. Assuming that the
13 question is asked, "Have you ever been convicted of a felony."

14 Mr. Shapiro. The forms say that. "Have you been convicted
15 of a felony."

16 The Chairman. That is to whom it should apply.

17 Assume, for the sake of argument, that he was convicted of
18 a felony, he pled guilty and he got a suspended sentence. At
19 the same time, if he answers the question honestly, it is going
20 to be "yes." "Have you ever been convicted of a felony?" "Yes."

21 Those who have been convicted of a felony --

22 Mr. Shapiro. It would just be any person who has ever been
23 convicted of a felony?

24 Senator Gravel. Right.

25 The Chairman. Yes. Frankly, it seems to me that it should

1 include, if he has been convicted of a felony and frankly admits
2 that is the case. It should not be somebody who has been convic-
3 ted of a felony and is lying about it, but somebody convicted of
4 a felony which is right down there on the form.

5 Mr. Shapiro. That would be the result, because an
6 employer would have to know that in order to get the credit.
7 There would have to be an admission.

8 The Chairman. Convicted of a felony and be employed with
9 the employer knowing that.

10 Mr. Shapiro. We will draft it that way.

11 The Chairman. All right.

12 I would like to vote. We have been talking about this for
13 some time. I would like to vote on this earned income credit.

14 You have some different options, and I would like to show you
15 what the various options are.

16 Mr. Shapiro. They are being passed out right now.

17 The Chairman. There you see the various options that are
18 available to us in terms of the earned income credit. All of
19 them would have the same first-year cost. They would all cost
20 \$200 million for the fiscal year, but they would phase out in
21 different ways.

22 Now, here is what I would think would be the one, to me,
23 I would like best; others may look at it differently. If you
24 started out with a 12 percent credit up to \$6,000 that would
25 phase out at \$11,000 so that there would be somewhat less the

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1 number of people available for it, it would cost \$1.7 billion
2 compared to \$1.8 that we had discussed initially. It would
3 save about \$100 million a year. It would meet at least some of
4 the objections that Senator Byrd had in mind, concerned about
5 taking some people off the tax rolls, but it would also benefit
6 some of the people below \$5,000 or below \$4,000.

7 Otherwise, the people below \$5,000 just do not reflect any
8 benefit out of this tax bill. That is very little.

9 Mr. Shapiro, that would indicate some benefit to people in
10 the less than \$5,000 category, would it not?
11 Mr. Shapiro. Yes, it would. We have a figure that approxi-

12 mately 283 million would be in the category between 0 and \$5,000.

13 The Chairman. Just in terms of what the balance of the
14 bill would reflect, that would benefit those people in that
15 category, recognizing that they are only absorbing the Social
16 Security tax, it is reaching them in the price of the product,
17 and the employer on the withholding is going to be paying at
18 least that much in taxes.

19 If he is paying his Social Security tax, it is at least
20 that much tax that he has paid and he has that much that he can
21 withhold against to pay for them. What it means is that instead
22 of paying the Social Security tax to the government, he just adds
23 that to the workers' salary and just sends it in. He has paid
24 that much.

25 It would fit with the negative withholding. It helps the

1 people in the lower bracket a little more than the other one.
2 It also phases it out a little quicker, at \$11,000.

3 I have not had a chance to discuss it with Senator Moynihan
4 who was concerned about it and has an interest in it, but it
5 would seem to me that there is really not much benefit to people
6 who make more than \$11,000. If you did extend it, if you did
7 phase out it at \$11,000, and this would be moving the phase-out
8 point to the present law from \$8,000 to \$11,000.

9 If you look at the effect that it would be doing more for
10 people who need it more, about 20 percent more, then I think it
11 would be better to do it that way.

12 That is what I suggest.

13 Senator Moynihan. Certainly. We lose 3.7 percent of
14 families in that interval between \$11,000 and \$12,000, but you
15 would be surprised the proportion of American families who are
16 covered here. We are going to have about -- we have -- forgive
17 me. A good quarter of our American families are going to be
18 covered by this.

19 Senator Curtis. May I ask, though, those at the top, if
20 you have a phase-out of \$11,000, just how much credit in dollars
21 will someone who makes between \$10,000 and \$11,000 receive?

22 Mr. Shapiro. Senator, that is \$53 million.

23 Senator Curtis. No, as an individual, how many dollars?

24 Mr. Shapiro. Someone at \$10,000 would receive a \$120
25 credit.

1 The Chairman. How much taxes do those people pay -- a family
2 with two children, how much income tax?

3 Mr. Shapiro. At a minimum, the Social Security tax is a
4 little over 6 percent; about \$600 in Social Security taxes.

5 The Chairman. In income tax?

6 Mr. Shapiro. In income tax --

7 The Chairman. What would their income tax be, a family with
8 two dependents?

9 Mr. Shapiro. Under the present law it is in the range of
10 \$450 and in the House bill it is in the neighborhood of \$380.

11 Senator Laxalt. On what amount of money?

12 The Chairman. \$380. That would reduce their tax to how
13 much?

14 Mr. Shapiro. This would reduce it by an additional \$120.

15 The Chairman. That would cut their tax from \$380 down to
16 \$260.

17 Senator Curtis. If I may say so, Mr. Chairman, I think
18 your proposal has considerable virtue. My own feeling about
19 the tax reduction is that, in the balance between past tax acts,
20 there should have been a balance across the board. That was
21 lost in Committee.

22 Let me point this out. The earned income credit, regardless
23 of how you weave it into your tax figures, is just the opposite
24 of a guaranteed annual income. Under the guaranteed annual
25 income, the less you earn, the bigger check you get.

1 Here, the more you earn, where it starts to break, the
2 bigger the tax credit you would get. It places the reward on
3 people who are earning it. It draws the distinction between the
4 individual who has to earn his money the very hard way as
5 compared to the individual whose earnings come a little easier,
6 or his income is lower.

7 I think the Chairman has struck upon something very sound.

8 The Chairman. Senator Dole?

9 Senator Dole. I suggested earlier on that we have a \$4,000
10 to \$8,000 phase out at the rate of 15 percent which would really
11 do a great deal more for people in that category and would
12 cost an additional \$500 million. The President's program is
13 \$1.1 billion. It would add \$500 million to the cost, but I
14 assume that that is not deemed to be satisfactory.

15 The Chairman. Senator, let me say this, that your sugges-
16 tion runs afoul -- and I think you would want to reconsider it.
17 When you are looking in the area of between \$4,000 and \$8,000 you
18 are getting into the area where the Food Stamps phase out, and
19 most of the people who are eligible for this are also -- that
20 is, up to \$8,000, they are also eligible for Food Stamps.

21 Mike, can you tell us how that works out when you are phasing
22 out the Food Stamps, because when you put in this phase-out,
23 especially when you are talking about phasing out at as sharp
24 a rate in the area that we would be phasing down in Food Stamps,
25 we have a real problem on the marginal tax rates.

1 Mr. Stern. Yes, sir.

2 If you have your maximum benefit at \$4,000 and a phase-down
3 from there, you will have your maximum benefit at two-thirds of
4 the minimum wage, so that you would be picking at the ideal person
5 to which you would be giving the greatest amount, the person who
6 is working at \$25 a week.

7 The reason for the other proposals having a maximum benefit
8 at the \$6,000 level is so that a person who is working full-time
9 at the minimum wage would be the person you would be giving the
10 most money to.

11 That is the rationale.

12 The Chairman. If you go to \$6,000 -- \$6,000 is the minimum
13 wage -- you would encourage the person to work full-time rather
14 than work part-time. You would gear it to the minimum wage,
15 and then, of course, your phase-out would be the same as ours.
16 You phase out as you phase down.

17 You have not discussed Food Stamps.

18 Mr. Stern. Food Stamps have marginal rate that amounts
19 to 24 percent on earned income. They do phase out at \$9,000
20 for a family of four, lower amounts for smaller families.

21 If you phased out between \$4,000 and \$8,000, that entire
22 range, you would be adding your 15 percent to the 24 percent on
23 Food Stamps.

24 The Chairman. There may be some other benefits that you
25 are running afoul of at that point.

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1 Mr. Stern. Of course -- Social Security taxes; about
2 \$7,400 under this bill, you would start out with income taxes.
3 I think the main point is that your entire phase-out range would
4 still be within the phase-out range of Food Stamps, or else we
5 would be giving a maximum benefit to a part-time worker rather
6 than a full-time worker.

7 Senator Bentsen. Mr. Chairman, I am very supportive of
8 your proposal. I think that the area you are talking about, the
9 working poor, is overlooked in the Food Stamp program, yet there
10 the people are having a tough time putting meat and potatoes
11 on the table and making their budget, and I believe this makes
12 a major contribution in adding some balance back to this bill.
13 I want to enthusiastically endorse it.

14 The Chairman. Call the roll.

15 Senator Byrd. If I may ask a question, let us take an
16 example. A single individual is employed at \$500 a month, paid
17 on a monthly basis. \$500 a month. When he gets his check at
18 the end of the month, does he have any withholding or is he given
19 credit?

20 The Chairman. This does not apply to him.

21 Mr. Shapiro. Senator, in order to be eligible for the
22 earned income credit you have to be a head of household.

23 Senator Byrd. I am getting to that later.

24 Mr. Shapiro. The case you just gave, the credit would not
25 apply to that particular individual.

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1 Senator Byrd. Give me the figures, then, on a single
2 person earning \$500 a month. How much is withheld from his pay?

3 Mr. Shapiro. Under present law, that individual -- it is
4 approximately \$38 of withholding plus Social Security that would
5 apply to that.

6 Senator Byrd. I am speaking of only withholding. \$38 will
7 be withheld.

8 Mr. Shapiro. That is correct.

9 Senator Byrd. Now let us take a married individual with
10 two children earning \$500 a month. Under the proposal now
11 before the Committee, what does he receive, or what would be
12 withheld?

13 Mr. Shapiro. That individual under present law pays no
14 tax. There is no Federal withholding.

15 Senator Byrd. Under the proposal advocated by Senator
16 Long, what would be the procedure?

17 Mr. Shapiro. First of all, let me tell you, in present
18 law, that individual is eligible for \$200 in income credit, so
19 in present law, there is no Federal withholding. At the end of
20 the year, that individual would get \$200 back.

21 Senator Hansen. \$200 back?

22 Mr. Shapiro. Under the proposal that is being discussed
23 now, that individual gets \$600 back. However, he would get it
24 at \$50 each month.

25 Senator Byrd. He would get a check for \$550 if he is

1 employed at \$500 a month?

2 Mr. Shapiro. \$550 less Social Security or state taxes.

3 Senator Byrd. So far as the withholding Federal, he would
4 get \$50 added to the \$500?

5 Mr. Shapiro. That is right.

6 Senator Byrd. The single person would have \$38 taken out?

7 Mr. Shapiro. Yes.

8 The Chairman. Call the roll.

9 Senator Byrd. Mr. Talmadge?

10 Senator Talmadge. Aye.

11 Mr. Stern. Mr. Ribicoff?

12 Senator Moynihan. Aye, by proxy.

13 Mr. Shapiro. Mr. Byrd?

14 Senator Byrd. Present.

15 Mr. Shapiro. Mr. Nelson?

16 Senator Nelson. Aye.

17 Mr. Shapiro. Senator Gravel?

18 Senator Gravel. Aye.

19 Mr. Shapiro. Mr. Bentsen?

20 Senator Bentsen. Aye.

21 Mr. Shapiro. Senator Hathaway?

22 (No response)

23 Mr. Shapiro. Mr. Haskell?

24 (No response)

25 Mr. Shapiro. Mr. Matsunaga?

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Senator Matsunaga. Aye.

Mr. Shapiro. Mr. Moynihan?

Senator Moynihan. Aye.

Mr. Shapiro. Mr. Curtis?

Senator Curtis. Aye.

Mr. Shapiro. Mr. Hansen?

Senator Hansen. Aye.

Mr. Shapiro. Mr. Dole?

Senator Dole. Present.

Mr. Shapiro. Mr. Packwood?

(No response)

Mr. Shapiro. Mr. Roth?

Senator Roth. Present.

Mr. Shapiro. Mr. Laxalt?

Senator Laxalt. Aye.

Mr. Shapiro. Mr. Danforth?

(No response)

Mr. Shapiro. Mr. Chairman?

The Chairman. Aye.

Senator Dole. I might say that some of us want to look at it now that it is passed, and see.

The Chairman. The ayes are eleven and three present. We will ask for the absentees to have an opportunity to record themselves. I hope that their offices will be contacted.

Mr. Stern. May we assume that there is no change in the

1 other things that the Committee tentatively approved, Senator
2 Gravel's amendment for Alaska and Hawaii and simplification,
3 they were tentatively agreed to before. This would not change
4 that?

5 The Chairman. What you are going to have to do, I want
6 the staff to take a good look at see, inform us, if we have
7 one provision that runs into another provision in this bill,
8 because it might. You have some tax credits here. You also
9 have a minimum tax, and I believe that the Committee would like
10 to work -- I think your suggestion, Mr. Shapiro, was you can
11 work on the basis that a person could claim a tax credit -- I
12 would think that you would not let a credit against the minimum
13 tax on the theory that they should pay some tax.

14 Mr. Shapiro. One of the basic goals that the Committee
15 was trying to shoot for was to make sure that individuals pay
16 some tax, at least from a statistical standpoint. As that is
17 the case, I would assume that you would want any credits that
18 they would be entitled to, other than the foreign tax credits
19 in the current year, that you would just say they do not lose
20 that benefit, it would be a carryover to the next year.

21 Senator Dole. What about an additional year. Just a one-
22 year carryover?

23 Mr. Shapiro. The regular rules would apply. For example,
24 in the investment credit, you would have a carry forward and
25 some of the other provisions you have a carry forward. They have

1 a number of years they could carry it forward to.

2 The Chairman. The jobs credit you might have a problem,
3 but you would not have a problem on this one, I think. The
4 earned income credit.

5 Mr. Shapiro. No problem.

6 The Chairman. Senator Curtis?

7 Senator Curtis. I would like to call up something that has
8 been discussed --

9 Senator Gravel. Could we clear something up?

10 Senator Moynihan. If I may ask for a brief moment, Mr.
11 Chairman, when we initially discussed earned income tax credits,

12 Senators Gravel and Matsunaga requested that there be a cost of
13 living differential for Hawaii and Alaska and we agreed to that,

14 and can it be understood that that earlier agreement was unstated
15 but a part of the agreement we have? The earned income tax
16 credit that we just approved? The jobs tax credit and the
17 earned income credit?

18 Mr. Shapiro. We are assuming that decision was incorporated
19 in your vote.

20 The Chairman. This one.

21 Mr. Shapiro. Having a cost of living increase on the
22 earned income tax credit for Alaska and Hawaii.

23 Senator Gravel. Based on cost of living. We are not
24 singled out, it just happens.

25 Mr. Stern. I think you agreed that it was noncontiguous

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1 areas.

2 The Chairman. Without objection, that will be agreed.

3 Mr. Stern. That includes these other things, simplification
4 and the negative withholding that you tentatively agreed on.

5 The Chairman. I have a note here to record Senator Hathaway
6 as voting aye on the tax credit.

7 Senator Curtis?

8 Senator Curtis. I have an item I would like to get the
9 attention of the Committee on -- deferred compensation. I think
10 that we ought to approve what the House has done. I favor that
11 with one addition, if I may have the attention of the Committee.

12 The House bill provides rules for taxing deferred compensa-
13 tion plans with public and private employers but it does not
14 provide any rules for virtually every other tax-exempt organiza-
15 tion.

16 What I would like to approve is approval of the House
17 language, but treat tax-exempt organizations the same as private
18 sector.

19 Here is the problem. A hospital very much in need on top-
20 flight managers can go out and get an administrator, or they
21 can get a doctor that will work for what they can afford to pay
22 if they can have some of it deferred. That lessens the burden
23 on the hospitals. They would be treated just like the private
24 sector, not any better.

25 Colleges find themselves in the same fix. The colleges

1 and particularly the small ones are having a hard time surviving
2 and it depends upon their ability to get top leadership, and
3 they can hire college presidents, for instance, at a not-too-high
4 sum, one they can weave into their present budget, if they can
5 do it on arrangement of the deferred compensation.

6 My proposal, which is in the nature of a motion, if that
7 is in order, that we approve the House language.

8 Senator Talmadge. If Senator Curtis would yield at that
9 point, how about private compensation plans under the same
10 basis? The House bill, I understand, includes one or two --
11 the Revenue Act of '78 passed by the House provides that under
12 the law, on February 1, 1978, concerning the taxation of
13 deferred compensation is to be applied to participants in private
14 deferred compensation plans.

15 Senator Curtis. I think they are included now, is that not
16 correct?

17 Mr. McConaghy. The House bill does take care of it.

18 Senator Curtis. My proposal is to approve the House bill
19 but include that tax-exemption for the same treatment that the
20 private sector gets.

21 Senator Talmadge. That is what I was going to suggest.

22 The Chairman. What is the revenue impact?

23 Mr. Shapiro. There is really very little revenue effect
24 right now. This is, in effect, present law and there is some
25 question with regard to it because of the changes in Treasury

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1 regulations. This would be effective in continuing present
2 law, with certain limitations.

3 The Chairman. Is this about the tax-exempt -- does that
4 fall in the area of a refundable credit? Or is it a tax on which
5 the credit can be taken?

6 Mr. Shapiro. It does not apply to the organization. It
7 would apply to the employee, the individual.

8 Senator Curtis. The college president or hospital
9 administrator, he would be taxed when he gets it. The employer
10 does not pay it.

11 The Chairman. Mr. Lubick?

12 Mr. Lubick. There are some very serious problem with
13 extending this benefit to the exempt organizations. In the
14 private sector, you have a different situation.

15 The employee who gets deferral in the private sector gets
16 it only at the price of his employer foregoing a tax deduction
17 for compensation. The employer's tax deduction is deferred
18 until payment is made to the employee.

19 That puts a check, a tension, on the amount of deferred
20 compensation that an employer and employee will be able to
21 negotiate at.

22 In the governmental sector and in the tax-exempt sector,
23 you have a different situation. There is no question of a tax
24 exemption involved at all, so the result could very easily
25 be, as far as the employer is concerned, to give 100 percent

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1 deferral, and we have seen cases of 100 percent deferral of
2 compensation for employees.

3 These are cases where the money is set aside and invested
4 in annuities for employees.

5 As far as the college presidents and hospital administra-
6 tors, they always have very favorable treatment under Section
7 403(b). They are entitled to funded plans which have all the
8 benefits of qualified plans without imposition of the nondis-
9 crimination amendments.

10 Basically, the purpose of the rules in this area was to
11 encourage the provision of retirement income for a broad
12 spectrum of employees. The deferred compensation plans we are
13 talking about here under the House bill are not subject to the
14 nondiscrimination requirements, to assure this broad coverage.

15 Therefore, certainly as to the tax-exempt organizations,
16 they should not be put on the same basis as the privates. They
17 are really more closely analagous to the governmental organiza-
18 tions where no deductions are involved.

19 Senator Curtis. Without this amendment, what would be the
20 situation for a hospital run for profit and one in another city
21 that is a tax-exempt hospital? They are both competing for the
22 same administrator, and one of them says that we will pay you X
23 dollars a year and we will continue it with that amount, or a
24 lesser amount, for an extended period?

25 The tax-exempt hospitals, as far as providing for the tax

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1 rules for the Administrator involved could not do it.

2 Mr. Lubick. The tax-exempt organization would be able to
3 provide a funded, tax-deferred annuity under Section 403(b)
4 subject to the overall limitations.

5 Senator Curtis. They are doing this because they have
6 limited budgets. If the college could provide a fund for pay-
7 ment, they would go ahead and bid up with the well-endowed
8 larger institutions.

9 Mr. Halperin. Senator Curtis, one problem is the private
10 organization has to pay tax so that if the private hospital wants
11 to pay out or put aside \$10,000 in deferred compensation for
12 their executives, they would have to take in \$20,000 in fees
13 from their patients in order to pay the tax at the 50 percent
14 rate and then have \$10,000 to put away.

15 The public hospital only has to take in \$10,000 to be
16 able to put aside \$10,000 because it does not have a tax-deducti-
17 ble problem. So if you change the situation and give the
18 publics the same treatment, as the private, you will create a
19 discrimination in favor of the publics.

20 Senator Curtis. How about as far as municipal and public
21 employees are concerned?

22 Mr. McConaghy. With respect to deferral on the salary plans,
23 it can be a monthly election rather than an annual election.

24 Senator Curtis. In other words, municipal employees get
25 this?

1 Mr. McConaghy. Yes. The salary reduction plans do have
2 a ceiling of \$7,500 or 33-1/3 percent of the compensation.

3 Senator Curtis. What is the staff recommendation?

4 Mr. Shapiro. Senator, we do not have a staff recommencation
5 on that, but it is something the Committee is going to have to
6 make a decision on. I will tell you when it was discussed in
7 the House, one of the concerns that came up and they did not
8 meet it squarely, they did not have a significant discussion
9 when it was discussed, there is a problem that you have a taxable
10 entity, whether it is what it is referred to as a tension, mean-
11 ing that in order for the employee to get this benefit, this
12 deferred compensation, the employer who is denied the deduction
13 currently until the time that the employee takes the income,
14 and therefore, you have a tension between the employer and
15 employee to bargain on this because the employer loses.

16 In the case of a tax-exempt organization, the tension is
17 not there. The organization is not taxable, so it does not
18 matter to that organization whether or not the income is deductible.
19 The wages are deductible, in which case you can have a much
20 freer bargaining discussion with the employee as to deferred
21 compensation.

22 When this came up in the House as a result of that, they
23 only extended this provision only to the rural electric co-ops,
24 the REAs.

25 Senator Curtis. They can do that, but a college or a

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hospital cannot?

Mr. Shapiro. Under the House bill, that is correct. It was not a significant discussion, but when it came up this was a concern that was mentioned and the Committee decided not to extend it.

In addition, they had not heard.

Senator Curtis. I will not take too much more time, if I could have a show of hands --

Senator Talmadge. All in favor of the Curtis amendment, please hold up your hands.

(A show of hands.)

Senator Talmadge. Contrarywise?

(No response)

Senator Talmadge. It is agreed to.

I take it that also carries with it the House language which is agreeable to the Treasury, Section 122?

Mr. Lubick. Senator Talmadge, are you talking about the general language on salary reduction?

Senator Talmadge. The private employers, where taxes are paid.

Mr. Lubick. We agree to private employees.

Senator Talmadge. It is agreed to.

Senator Dole is the next to be recognized.

Mr. Shapiro. One thing I would like to ask right now,

Senator Curtis, you brought deferred compensation salary reduction

1 plans up. There are also two other areas in the House bill that
2 have not been included under the deferred comp -- the cafeteria
3 plans, and the cash deferred profit-sharing plans.

4 The question is, does the Committee want to take this up
5 at this time, to include it in the bill? They are on the House
6 bill.

7 Senator Talmadge. Is there any objection to them?

8 Mr. Shapiro. There are some modifications that need to be
9 made.

10 Mr. Lubick. I would like Mr. Halperin to talk about cash
11 and deferred payment.

12 Mr. Halperin. On the question of cash and deferred profit-
13 sharing plans, the issue that came up on the House side on which
14 we disagreed is a test for determining whether these plans
15 discriminated in the favor of high-income employees and we thought
16 that the test adopted by the House, which essentially codifies
17 a revenue ruling issued 22 years ago is too liberal because it,
18 in effect, allows twice as much deferral for high government
19 employees as low-income employees.

20 The people who are mainly interested in that provision,
21 the three witnesses who testified in front of this Committee,
22 supported a compromise change in that House bill which would
23 require only that the amounts set aside for the higher income
24 could only be 150 percent of the amount set aside for the low
25 income, and we are agreeable to that.

1 The witnesses in front of this Committee were agreeable
2 to that, and we assume there is no objection to adopting it.

3 Senator Talmadge. Taxes were paid on that deferred
4 compensation?

5 Mr. Halperin. This is a qualified profit-sharing plan they
6 are talking about where the employee has a choice of whether to
7 take the money currently in cash or to have it put aside in a
8 qualified plan.

9 Senator Talmadge. You are agreeable to that?

10 Mr. Halperin. We are agreeable to that, as long as there
11 is substantial participation by low-income people in the plan.

12 Senator Talmadge. Is that the same as the House language?

13 Mr. Halperin. We would like to see the House language
14 changed.

15 Senator Talmadge. Do you want to comment on that?

16 Mr. McConaghy. Senator Talmadge, these modifications have
17 been worked out from the House bill and are agreeable, we
18 think, to most people, including the Treasury Department.

19 Senator Talmadge. Any discussion on the part of the
20 Committee?

21 If not, it is approved.

22 Now, Senator Dole.

23 Senator Dole. Mr. Chairman, I think I touched base with
24 Mr. Shapiro. I submitted three items yesterday, one that I had
25 introduced with Senator Hathaway and two other very minor

1 proposals.

2 One was in reference to clarifying the law regarding Section
3 357(c), the Internal Revenue Code. It deals with the tax-free
4 corporation of business and one that the Administration supports.
5 I would simply like to add that to the bill. I do not think there
6 is any objection to it.

7 Mr. Shapiro. It is a technical change. The Administration
8 does support it. If I recall correctly, the Committee has
9 taken this one up previously and had tentatively agreed to it,
10 but was waiting for a bill to put it on.

11 Essentially what it does is say that where you have a cash
12 basis taxpayer transferring property to a controlled corporation,
13 the liabilities for certain currently deductible items, accounts
14 payable, would not be considered as liabilities for determining
15 whether that transaction is taxable or not.

16 It does not conform to a technical modification.

17 Senator Talmadge. Is there any objection?

18 (No response)

19 Senator Dole. The other item that has already been dealt
20 with by the Committee, it is the independent contractor issue.
21 The amendment was attached by a vote of 14 to 1 to H.R. 7320.
22 The Ways and Means Task Force has recommended a proposal similar
23 to mine, and it would seem to me that it would be in the
24 interests of orderly procedure to add it to this bill.

25 I do not know of any objection to that.

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1 Senator Talmadge. Is there any objection? I believe that
2 was agreed to in previous bills.

3 Mr. Lubick. We do not like the entire proposal.

4 Senator Dole. You did not like it the other time.

5 Mr. Lubick. Substantively, we object, so I suppose
6 procedurally we should too.

7 The Chairman. You are the meanest man in the whole darned
8 town. If somebody is going to get something out of this
9 session, it is not going to be with Don's help, I can tell you
10 right now.

11 Senator Dole. I am ready to act on it.

12 The Chairman. Those in favor, say aye.

13 (A chorus of ayes.)

14 The Chairman. Opposed, no?

15 (No response)

16 The Chairman. The ayes have it.

17 Senator Talmadge?

18 Senator Talmadge. What I would like to know, within the
19 constraints of the budget limitations, which I believe is on
20 the order of \$21.9 billion -- is that right, Mr. Shapiro?

21 Mr. Shapiro. That is correct.

22 Senator Talmadge. The maximum that we can reduce all
23 taxes?

24 Mr. Shapiro. That is right.

25 Senator Talmadge. What I would like to know, we have done

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1 a great deal for poor people -- the earned income tax credit --
2 and we have helped the other with the tax credit and reducing
3 the taxes, the basic zero-based bracket.

4 We have done a great deal for people with substantial
5 incomes in the areas of capital gains. Now, what have we done
6 and how much money do we have left, to take some action to
7 relieve the mid-income taxpayer -- and, by middle income, I would
8 say from \$15,000 to \$50,000?

9 Mr. Shapiro. When the Committee first talked about this
10 awhile ago, we had assumed that you would want to put in approxi-
11 mately \$1.3 billion on a fiscal year into the categories just
12 a little bit below \$15,000 running up in the neighborhood of
13 \$40,000, to go above \$40,000 which is added into those brackets,
14 which we are roughly working with is \$1.3 billion. And, on a
15 calendar year basis, that goes into \$2.1 billion. For the
16 fiscal year budget, that would fit within that, and that was
17 the figure we had been working with and which was submitted
18 to the Committee.

19 Senator Talmadge. Reducing the tax brackets?

20 Mr. Shapiro. Widening.

21 We are going to present to you tomorrow two kinds of
22 rate schedules, one to reduce the brackets from 25 now to the
23 neighborhood of 15, which widens them significantly; or,
24 alternatively, keep the same bracket structure and just make
25 the modifications in that bracket structure.

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1 Senator Talmadge. That seems to me to be the next step
2 we should take, Mr. Chairman. I think we ought to take a look
3 at those tables.

4 The Chairman. Let me just say this. It seems to me that
5 we ought to take a look -- I think you showed me some sort of a
6 paper. Do you have copies of it? It looked like, it puts in
7 the items which I think will be subject to the fiscal squeeze.

8 The important thing is, I think that we need to recognize
9 that we agreed to more and more tax cuts. These small ones are
10 not going to do it, but the big ones would squeeze out what we
11 would hope to do for the middle-income people. Get some copies
12 of that, and we will see.

13 We are going to have to do some of these things. Not a
14 doubt in the world about it. As priorities go, the type of
15 thing that the Hart amendment addressed itself to, a big amend-
16 ment, talking about \$1 billion, that type thing would have to
17 be done. I think that would claim a priority even over the
18 middle-income people.

19 We go into conference Thursday on the tuition tax credit --
20 \$600 million.

21 Mr. Shapiro. We think it would be about \$500 million.
22 \$600 million in both bills, because the bills are so different,
23 it would probably end up in the neighborhood of \$500 million.

24 The Chairman. I would think that we must assume that is
25 going to become law, and that is until we run into some other

1 result. I think we have to assume that the Congress would pass
2 it, unless Senator Roth is willing to move that forward to a
3 future year, we are going to have to save room in this bill for
4 it.

5 Senator Roth. That is correct. As a matter of fact, we
6 intend to offer that as an amendment to this bill, Mr. Chairman.

7 The Chairman. All right, now.

8 So that we have to keep -- we have no right to assume anything
9 other than the fact that it will become law. You have to say
10 \$500 to \$600 million, until that is resolved one way or the other,
11 either up or down.

12 This is something that Bob Shapiro showed me this morning
13 and I think you ought to know about it. Maybe you ought to put
14 it up in that chart.

15 Mr. Shapiro. That is not the same thing. We have made
16 some assumptions, and they are staff assumptions, that have
17 not been approved by any member of the House or Senate as to what
18 the figures are that you may come out in conference, for the
19 purposes of budget estimating.

20 The Chairman. I would like the media to have what you have
21 here, if you would make more copies.

22 Mr. Shapiro. What Senator Talmadge had reference to was
23 the last item on the page, the Second Concurrent Budget
24 Resolution, \$21.9 billion.

25 The Chairman. \$21.9 billion.

1 Mr. Shapiro. Total.

2 The Chairman. All that we have to work with in this fiscal
3 year.

4 Mr. Shapiro. That is correct.

5 The Chairman. All right.

6 You have estimates here of things that we are going to have
7 to be thinking about. Look at the energy bill, the other
8 legislation on the energy bill. I think we might as well recog-
9 nize we are not going to pass a crude oil equalization tax.

10 Mr. Dole, raise your hand. Put both hands up.

11 Mr. Dole wins. He, and those who felt like it, went about
12 the crude oil tax. They just went. It might be a little early
13 to say that, but it seems to me that those in the Senate
14 normally committed that they do not want to vote for the crude
15 oil tax are winning. You cannot count that revenue.

16 That being the case, what we do on revenue, what we have
17 down here, the \$1.1 billion, that is little more than enough to
18 take care of that Hart amendment.

19 Mr. Shapiro. That is the problem. \$900 million was for
20 the Hart amendment. In other words, the House version, the Hart
21 amendment is \$1.3 billion. That includes the Senate-passed
22 version.

23 We are assuming, when you are talking about the energy bill,
24 you will have somewhere around \$900 million and \$1 billion for
25 the residential credits, and that means that you have very little

1 money for any business credits in any fiscal year. To the
2 extent that you have any business credits, they would be phased
3 in. You may not have the room to take account of it in the
4 budget.

5 The Chairman. The tuition credit, .5. Income earned
6 abroad, that has passed the House and passed here.

7 Mr. Shapiro. That has been put into the Senate-passed bill.
8 Senator Ribicoff's amendment, so that passed the House last
9 night. That is ready for conference right now.

10 The Chairman. What is the difference between the House
11 and Senate?

12 Mr. Shapiro. The House provision is .5 and the Senate is
13 .2, and we have just assumed .4.

14 The Chairman. You come out between -- either between .4
15 or .3, somewhere around in there?

16 Mr. Shapiro. .4 for this purpose.

17 The Chairman. .4. That is a reasonable assumption.

18 The noisy aircraft is here for \$400 million. We always
19 assumed that would just go sailing through without any signifi-
20 cant opposition, but it ran into more opposition than people
21 thought over there on the House side, and you have miscellaneous.

22 Senator Dole. Are you going to pass that, report it out
23 this year?

24 The Chairman. I have been moving under the assumption that
25 when we get through on this bill, we would go on to the noisy

1 aircraft thing and report that out. That is down here for
2 .4; miscellaneous, .1. How much does that total up to?

3 Mr. Shapiro. That total is 2.5, and you only have about
4 1.6 for that whole category.

5 The Chairman. So we are \$900 million short in that category,
6 that is assuming that you increase your \$18.3 billion up to what?

7 Mr. Shapiro. \$20.3 billion.

8 The Chairman. \$20.3 billion. That is assuming the Budget
9 Resolution gave us \$2 billion, or \$1.9 billion, to work with.

10 In one respect, we have indicated that there is about \$300
11 million in that House bill that we are not ready to vote for.
12 If we do not go along with the rehabilitation of structures,
13 you would save \$200 million there.

14 Mr. Shapiro. That is a calendar year. In the fiscal year,
15 that is \$100 million. That is included in that list that we
16 had Committee tentative decisions on -- investment credit for
17 rehabilitations. It picks up \$100 million in the fiscal year,
18 and that is a \$300 million in that calendar year.

19 The Chairman. What I want to know is this. I need some
20 guidance. Let's look at what we have got -- \$1.1 billion energy
21 credits. I think that is a fait accompli. I think you have got
22 to do that. I think the Senate is firm on that.

23 .5 for the tuition credit, I think they are firm on that.

24 .4, it might be .3 rather than .4 for those abroad.

25 Add that up, it is \$2.0 billion right there.

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1 Now, what did you say we had to work with?

2 Mr. Shapiro. \$1.6 billion.

3 The Chairman. \$1.6 billion. We are \$400 million over
4 already just on other legislation. If that is the case, we have
5 to squeeze it out up here on this bill.

6 Mr. Shapiro. One assumption you may have which we ask you
7 to consider, there have been indications that if the tuition tax
8 credit bill is somewhat of a substitute for a tax credit in the
9 middle brackets, so that the tuition tax credit is enacted or
10 included in this bill, in conference, that you may want to adjust
11 the rate cuts for the middle-income levels in the rate cuts, so
12 that if the \$500 million tuition credit could be reflected in a
13 \$500 million reduction in the tax bill, if that is what you need
14 to do to balance it -- the point being that the tuition tax
15 credit, if it is not enacted, if it is sent to the White House
16 and the President vetoed it and the veto is not overridden, then
17 you would leave the tax cuts as if.

18 If, however, the tuition tax credit is signed, or a veto is
19 overridden or included in this bill, then you may want to make
20 an adjustment in the tax cuts in the tax bill to reflect the
21 Budget Resolution.

22 These are the options you can consider.

23 Senator Roth. Mr. Chairman, the thing that concerns me
24 about the whole shape of the legislation emerging is that we are
25 not doing anything anywhere for the middle class and I think it is

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1 all very fine to help people on either end of the economic
2 scale, if there are justifiable reasons for it; but as I see it,
3 even if you make some changes in the middle-class tax rates, the
4 brackets, they are the only group that are really coming out of
5 this legislation with substantial increases. So that, number
6 one, I do not find the tuition tax credit an alternative for
7 the middle class.

8 The Budget Committee -- we do have \$.6 billion for that
9 purpose, and I think that has been approved a number of times by
10 the Senate, so I do not see how that can be taken as a partial
11 pay-off to the middle class. That bothers me.

12 The Chairman. If we only have \$2 billion to work with in
13 this fiscal year, we give \$1.3 billion out of \$2 billion to
14 that middle class, it seems to me we are doing pretty good by
15 the middle class, if you give them two-thirds of what you have
16 for this fiscal year. If you compare it to the story of the
17 widow's mite -- which you might not be familiar with -- I know
18 Bob here is very familiar with it, these New Testament people --
19 she was blessed and rewarded because she gave all she had. She
20 did not give much, but she gave what little she had, and that
21 was all she had to give.

22 So if we have \$2 billion and give the middle income people
23 \$1.3 billion, if you think of it in those terms -- I would like
24 to have given a lot more, but we only have \$2 billion to work
25 with. If we give them \$1.3 billion, that is pretty good.

1 Why, Mr. Shapiro is saying that is correct.

2 If the President will sign the tax credit bill, that is it,
3 and that is a great tribute for those of you who have fought that
4 battle, but I would think that if he sees fit to veto that bill,
5 we certainly have a right to override if we can, but I know
6 what my attitude would be if I were the President, if I vetoed
7 that bill, and you tried to override it -- I would cheerfully
8 welcome you to override it; that is your privilege -- but if
9 you did this, I would take the view that if you send it back
10 down here and anything else, you can anticipate that I am going
11 to veto that, too.

12 I do not think that is a minor item. It is a major item.
13 If he courts the displeasure of all of those who dislike the
14 provision by vetoing it, his attitude would be -- I have vetoed
15 it, do not send it down here on something else unless you want
16 that vetoed also.

17 So I think we would hve to recognize that is a fact of
18 life. If that is the case, we should put that in there for the
19 rate cut for those individuals, the same general class of
20 taxpayers, just spreading it over all of them, the whole bunch,
21 rather than providing it for those who have a particular
22 problem.

23 We are trying to provide as much of a tax cut as we can.
24 We ought to claim that \$600 million for the middle-income people
25 if we cannot get the tuition credit.

1 Senator Roth. Mr. Chairman, I just find that not acceptable.
2 Of course, I have only one vote, but one is making the assumption
3 that the President is going to veto the first bill or, secondly,
4 necessarily veto the broad tax cut. I do not know that is true,
5 and I do not think we should make that assumption.

6 Both the House and the Senate have overwhelmingly passed
7 the tax credit legislation. It has not even been close. And to
8 move forward on this tax bill on the assumption that it will not
9 become law, it seems to me to be directly contrary to what the
10 Congress wants.

11 I am very anxious to do more for the middle class and I feel
12 that we should, and that is what the Roth-Kemp bill does. We
13 know that is not going to be adopted here in the Finance Committee.

14 I do not see how you can move ahead and say to the middle
15 class, we are going to broaden your ranges here, because that
16 money has already been committed to the tuition tax credit.

17 The Chairman. Here are a couple of items that we have to
18 think about. One of them is, we can still have -- we can take
19 care of the tuition tax credit and still have some money for
20 the middle-income people. Is that right, Mr. Shapiro?

21 Mr. Shapiro. You can still have some.

22 The Chairman. Not much.

23 Mr. Shapiro. The Committee is going to have to make some
24 adjustments somewhere. It is up to the Committee to make that
25 decision. You have \$1.3 billion that you are adding to the

1 House bill and, by all accounts, the House bill is slanted towards
2 the middle-income levels, so the Committee would be putting the
3 \$1.3 billion on top of the House bill and therefore, because of
4 what is referred to as crowding out here, you have \$21.9 billion
5 to work with, if all of these measures are taken into account,
6 something has to be adjusted.

7 If the tuition tax credit is adopted separately, or included
8 in this bill, something has to be adjusted. That is the
9 Committee's decision, to make that determination.

10 The Chairman. On capital gains, you have an estimate of
11 .6. That awaits whatever negotiatio-ns we can work out with
12 the Treasury and what the Committee itself wants to do about
13 the matter, and also it involves a potential difference of
14 opinion with the Budget Committee about where that estimate ought
15 to go, does it not? How much feedback do you estimate?

16 Mr. Shapiro. That is correct, Senator. This arrow is
17 from nothing up to the static estimate of .6, and therefore the
18 Committee has to make a decision in between that as to what the
19 estimate is as regarding the capital gains reductions.

20 The Chairman. That .06, we are talking about the next
21 fiscal year. I would have to assume -- is that assuming that
22 the cut in the capital gains rate is going to cost us revenue?

23 Mr. Shapiro. That is in this fiscal year, November,
24 Decemter. It is in the fiscal year, essentially taking into
25 account the items of the November-December sales of capital

1 gains, the tax which would be paid on April 15, 1979, and the
2 second is any kind of personal residences.

3 The Chairman. I do not see how you are going to lose any
4 money on that. It seems to me that it is very easy to see why.

5 Let us assume that I am correct in saying that when this tax
6 effect goes into effect right now, people are holding back on
7 making sales. When that tax cut goes into effect, if we make
8 enough effort, there will be enough flurry of sales between
9 then and the 1st of the year.

10 Is that reasonable to anticipate?

11 Mr. Shapiro. It is reasonable to assume there will be a
12 significant increase in sales.

13 The Chairman. If that is the case, on the volume of sales,
14 you are going to have a big revenue pick-up. If you have, let's
15 say, twice as many sales as you would have otherwise had, and
16 I do not think that is an unreasonable assumption if you cut
17 that tax rate down to where it is about halfway, far below what
18 it is, the more you cut the rate, the more you are going to
19 increase the sales.

20 When you increase the sales, not only -- that gets you more
21 revenue. Suppose you do not get 100 percent sales. Suppose
22 you get a 50 percent increase.

23 However you do it, you are not only going to pick up a
24 lot of additional money, but you are going to pick up more money
25 with the minimum tax, because the minimum tax would apply to twice

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1 as many transactions of 50 percent more.

2 So if you look at the pick-up, one on the sales themselves
3 and two on the minimum tax, it seems to me that between the two
4 you would have a positive impact.

5 Mr. Wetzler, you did what you could. I do not think you
6 fully agree with me or Treasury. I do not know where you stand
7 with this right now. What can you give us on that subject?

8 You are our economist. What can you tell us?

9 Mr. Wetzler. When you start from a problem, the House
10 estimated its provision using a static revenue estimate because
11 it did not take effect until January 1st. It just assumed no
12 revenue effect in the fiscal year.

13 If they wanted to estimate, the House really would have had
14 to assume a revenue loss in fiscal year 1979 because the House's
15 January 1st effective date -- it means that people will postpone
16 their sales from calendar '78 until '79.

17 The Chairman. There is no way that you can duck that. You
18 would have to assume that if the tax rate -- if there is going
19 to be a cut in the capital gains rate strating in January, that
20 you are going to lose money between now and January on sales.
21 People will postpone sales, and they are doing it right now.

22 Mr. Wetzler. By going to the November 1st date, the
23 Committee has probably avoided all the revenue loss you would have
24 had in the House bill by delaying the effective date until
25 January 1st.

1 Now, you know, there is a wide difference of opinion of
2 how much additional feedback you get, additional sales in the
3 last two months of the year relative to what would have happened
4 if you never brought up the subject of capital gains at all,
5 so you would not have had any effect in delaying.

6 Professor Feldstein of Harvard did a study that there will
7 be a very substantial amount of feedback, although there has
8 been some criticism of some of his statistical techniques. I
9 think the Treasury has been doing some work to try to come up
10 with their estimates. Perhaps they may want to comment.

11 The Chairman. A friend of mine called me -- and he is a
12 friend of many people here. I am not going to call his name,
13 because you should not do that unless you are authorized to do
14 that.

15 He has heard about my proposal to cut the capital gains
16 rate. Well, you tax 30 percent this year and 35 percent next
17 year on the theory that that would have to induce a lot of
18 sales.

19 He called me and said, do not make that mistake. He said,
20 if you do that, you are liable to have more than just an increase
21 in sales. You are likely to cause so much selling on the market
22 that there will be a panic and it will be known as the Long
23 Panic, induced by your amendment.

24 If you are going to do it, just cut the rate and make it
25 November, or whatever you think it should be made, but there will

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1 be a tremendous stimulative effect, then do not make the mistake
2 of saying there will be an increase of taxes in January. If
3 you do that, you may actually have that. You may have exactly
4 that, and they will blame you for it.

5 Mr. Sunley. May I make a couple of comments at this point?
6 First, if I understand what Mr. Wetzler was saying, that the
7 House underestimated the cost of the capital gains portion of
8 their bill --

9 The Chairman. For the fiscal year.

10 Mr. Sunley. For fiscal year '79, they are carrying a
11 revenue loss of \$265 million. That is from the retroactive feature
12 of the \$100,000 exclusion on gains. But there is no way, when
13 you cut the tax rate, to say that that increased sales of houses
14 is going to get you much more revenue. Even Art Laffer agrees
15 with that.

16 What Mr. Wetzler is saying is that this delay in the realiza-
17 tion from '78 to '79 costs revenue, so if you make that proper
18 adjustment, the cost of the House bill is not \$18.3 billion, it
19 is something higher than that, that they have underestimated the
20 cost of the House bill in the Committee Report that was put out
21 on the House bill.

22 We agree that there are significant feedback effects that
23 ought to be taken into account but, as I understand it, at this
24 point, assuming at this point that static revenue estimates for
25 fiscal year '79 is about \$600 million, and about \$300 million of

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1 that is still the retroactive effect of the housing change, and
2 again there cannot be any feedback. What I am saying now, we
3 are really talking about the \$300 million, the other \$300
4 million. You get enough increase in realizations to fully offset
5 that \$300 million.

6 It is not a big item. We are not talking about billions of
7 bucks when we are talking about the fiscal year '79, and
8 obviously this does have a significant effect when you get out
9 into the out years, because there are suddenly significant factors
10 that we ought to take into account.

11 Thank you.

12 The Chairman. There is an awful lot of transactions that will
13 occur in property other than houses -- farms, property, offices,
14 shopping centers, you just name it, all kinds of real property
15 that will change hands if that is the case.

16 Now, why do we not just agree with this, with regard to
17 Senator Talmadge's suggestion, that we would like to do more for
18 the middle-income brackets and, in so far as we have something
19 left, that is where it is going to go.

20 Is that all right with you, Senator Talmadge?

21 Senator Talmadge. That is all right with me.

22 The Chairman. Senator Danforth?

23 Senator Danforth. I think there is a way out of the woods
24 which will provide some relief to middle-income people and will
25 not do violence to the budget process, and it is relief -- it is

1 not a tax reduction.

2 But I think one thing we could do for a limited period of
3 time is hold them harmless, or at least partway harmless, from
4 the effect of inflation's putting them into higher and higher
5 brackets. That is what we could do.

6 We are not doing that. Nobody has proposed doing that except
7 for Senator Dole when he was talking about indexing. But it is
8 very interesting for a family of four with a \$15,000 income,
9 the average, he would pay an average of 12 percent of his income
10 in Federal taxes from 1950 to 1958 -- 12 percent. Today, he is
11 paying 15 percent of his income, even under the proposal that
12 was circulated about a week ago by the staff on what we could
13 do. He would be paying 16 percent three years from now.

14 So we are constantly pushing these people into higher and
15 higher brackets.

16 What we could do is widen the brackets an extra year and
17 at least hold them harmless one more year. The House has done it
18 once. The compromise in the House was to widen the brackets one
19 year by 6 percent -- is that not right?

20 Mr. Shapiro. The House bill widens the brackets, essentially,
21 by 6 percent.

22 Senator Danforth. If we did that for one more year, just
23 6 percent -- not true indexing, it is not indexing, it is a 6
24 percent figure -- just one more year for calendar year 1980 plus
25 increase the standard deduction plus increase the personal

1 exemption, plus increase the earned income tax credit by 6
2 percent for calendar year 1980, we will be providing some relief
3 for these middle-income people.

4 It is quite true, as Senator Talmadge has indicated, we
5 have not done anything for them, and it is embarrassing to pick
6 up the paper everyday to find out what we have done.

7 The Chairman. Now you are talking about a difference of
8 approach, and I really think it would be good if you had the
9 Secretary here to back you up. Maybe he can be here with us
10 tomorrow, Mr. Lubick. It would be good to have him with us
11 tomorrow, because tomorrow would be a big day.

12 I would suggest he be here tomorrow. He might think the
13 International Monetary Fund is more important, but if so, I
14 predict that he will change his mind later on.

15 For the moment, without the Secretary you have to do the
16 best you can -- which I think you are doing admirably now. Let's
17 get the Administration's position straight on this.

18 Is it the Secretary's position -- he made it clear to me in
19 no uncertain terms, and I think you ought to speak for him at
20 this point -- the Administration's position that next year you
21 want to consider doing all of that, and you want to work out a
22 bill that does more to stimulate investment and proposes a
23 further tax cut and to consider all of these things that we are
24 talking about in general, to think about all of it and give us the
25 best revenue bill you can, and hopefully a tax cut, and you want

1 to do all of that and hopefully try to move in the direction
2 of a balanced budget all at the same time, which means you are
3 going to see what you can try to do about reducing expenditures.

4 Your position is that we are mortgaging the future without
5 doing this, without looking at what the economic conditions of
6 the country are going to be, what the spending requirements are
7 going to be, what the various other problems are going to be that
8 arise; that it is a mistake to vote to cut all of this now,
9 because you will know a lot more about what the problem is and
10 what you can do about it, if you would move this down the road
11 a few months than if you do it now.

12 There is a few months difference, but it could be signifi-
13 cant, is that correct?

14 Mr. Lubick. I think you stated the position very well. We
15 may not need the Secretary.

16 The Chairman. No, he explains better than I can. He
17 expressed grave concern about what we are doing on the out years
18 already.

19 Senator Danforth?

20 Senator Danforth. We know what the problem is, Mr. Chairman.
21 The problem is inflation. The problem is what inflation does
22 by putting people into higher and higher tax brackets.

23 The Chairman. I have an amendment about inflation. I have
24 one to offer, but I want to get rid of the Talmadge thing first.

25 The Talmadge proposal is that we plan on a tentative basis --

1 at least I am trying to suggest this -- that we plan tentatively
2 that what we have left over, what we can find the room for, that
3 we put that in there for the middle-income people.

4 Senator Danforth. Mr. Chairman, first of all, I guess that
5 means no corporate rate cut, right?

6 The Chairman. No, the corporate rate cut is in the bill.

7 Senator Danforth. At what?

8 The Chairman. 46.

9 Mr. Shapiro. The Committee has agreed to the House-passed
10 graduated schedule.

11 The Chairman. We agreed to that.

12 Have we agreed to the 46?

13 Mr. Shapiro. My impression is that you agreed to 46 percent
14 as well, the entire schedule, as the House had passed it.

15 The Chairman. All right.

16 Senator Danforth. How about 44 in 1981?

17 The Chairman. We have not agreed to that, but we have
18 agreed -- we have agreed to the 46.

19 Mr. Shapiro. 46 percent, and you have not made any other
20 agreements for any tax cuts in out years.

21 The Chairman. All I am trying to do now, I am assuming
22 the corporations get roughly 5 percent of a cut in taxes and I
23 am just trying to say that we ought to agree that what we have
24 over and above this will go to the middle-income people.

25 We have done something for the low-income people, we have

1 done something for the relatively high-income people, In so far
2 that we have something left over, and hope that it will be nearer
3 the \$1.3 billion than the \$.5 billion, what we have leftover will
4 go into the cuts in the middle-income brackets.

5 Senator Danforth. Mr. Chairman, what you can do for middle
6 income people without doing anything about rates in this bill is
7 to widen the brackets and increase the personal exemption in
8 calendar year 1980, and that is the best we can do for them.

9 The Chairman. Some folks will not be herein calendar '80.
10 I am trying to do something for people in calendar 1979. I am
11 talking about the bill we have right here, what takes place
12 starting in January.

13 It seems to me, the first thing to do is say, all right
14 in so far as we have the money to do it, we are going to do some-
15 thing for the middle-income people in addition to what the House
16 did.

17 Senator Danforth. I am not sure it is doing very much for
18 them. We are telling them we are doing these wonderful things
19 for them, then when they look at it two years from now, they will
20 be in a higher rate than they are now.

21 The Chairman. That is what you said. You are privileged
22 to have that opinion. It may not work out that way. I may be
23 we will do better than that, because the Administration is going
24 to have their recommendation, and you can have your suggestion.
25 The Administration feels, and I am inclined to agree with that

1 approach, we ought to look at this thing year by year, see what
2 inflation is doing and all of the other things, in so far as
3 we have the opportunity to do so, reduce taxes.

4 I think we are going to be able to have enough of a tax cut
5 here to where we will take care of the Social Security tax
6 increase and even make taxpayers whole against this year, this
7 year's inflation.

8 Mr. Shapiro. That is correct. You have covered the Social
9 Security increases and come close to making everybody whole in
10 the aggregate, bracket by bracket.

11 Senator Danforth. Which year?

12 Senator Dole. Do you call that a tax cut?

13 Senator Talmadge. A standstill.

14 The Chairman. I call it the best we can do. I wish I could
15 do more. If I had \$10,000 in my pocket and gave you the whole
16 \$10,000, I do not know why you would be complaining that I did
17 not give you more. I gave you all I had.

18 We have \$2 billion to work with and we are trying to put
19 some of that in there for middle-income.

20 Senator Dole. Will there be a chance to offer the Archer
21 amendment later on?

22 The Chairman. You can offer anything you want to offer --
23 that, and everything else.

24 Senator Roth. Mr. Chairman, may I make one comment? When
25 we are talking about making them whole, the question mark is

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1 whether we will be able to do that, and you are talking about
2 one year, you are talking about 1979, as I understand it. We
3 are totally ignoring 1978 and the tax increase that the working
4 people are facing.

5 The thing that bothers me the most about this technique is
6 that we have said we are going to do this for the affluent, we
7 are going to do this for the poor. If we have anything left over,
8 that is what we are going to do for the middle class. That is
9 what I think the tax revolt is all about.

10 I think that if you look, you will find that every person
11 above \$15,000 is going to be paying substantially larger taxes,
12 even though we try to wash out the impact of next year. I think,
13 by some of your own figures, the result of the earned income tax
14 credit, the guy making \$8,000 is going to be roughly \$156 better
15 off. Not only is he having his taxes offset, increased taxes,
16 but he is actually going to be \$156 better off.

17 Whereas, a guy who makes \$17,000 is going to be paying
18 \$141 more in taxes; \$20,000, he is going to be paying \$195 in
19 taxes; so I really do not feel that we are answering the concern
20 of middle America.

21 The Chairman. It is like any other bill. It may not solve
22 all the world's problems, but it is a good bill in so far as it
23 goes, and that is about all you can say for any bill.

24 I have not seen any one yet that is going to solve all our
25 problems. What we are saying here is in 1979, the middle-income

1 people will get a tax cut. Hopefully we can add something to
2 it. The bill has been criticized that we do not do enough for
3 these people. We ought to just vote on these things one by one
4 rather than try to pile decision on top of decision. I would just
5 like to get it agreed that, since the point came up, that what
6 we have, what we can have left, that we are going to try to put
7 that in the middle-income brackets for those people.

8 You can either widen the brackets or reduce the rates, but
9 in any event, that is the category of taxpayers that ought to be
10 in that area.

11 Is it all right to vote on that?

12 All in favor, say aye?

13 (A chorus of ayes.)

14 The Chairman. Opposed, no?

15 (No response)

16 The Chairman. The ayes have it.

17 Senator Dole?

18 Senator Dole. The reason I want to raise the amendment is

19 both Senator Moynihan and Senator Matsunaga are interested. It
20 is an amendment I have been asked to submit by Senator Goldwater
21 that has to do with exemptions from conventions held in North
22 America, you would exempt them from present restrictions on tax
23 deductions for attending foreign conventions.

24 I understand that there may not be any big disagreement with
25 the exception -- my understanding is that the Senator from New

1 York may have an amendment that would defer implementation for a
2 period of six months in so far as Canada is concerned. Is that
3 correct?

4 Senator Moynihan. That is correct.

5 The Chairman. Mr. Lubick?

6 Mr. Lubick. Mr. Chairman, at the present time, we have
7 been engaged in treaty negotiations with Canada. There are a
8 number of issues that involve us and Canada.

9 Canada has objected to the restrictions on foreign conven-
10 tions contained in the 1976 Act which impose some limits on the
11 number of conventions for which deductions can be allowed by any
12 person going to Canada. At the same time, we have been pointing
13 out that there are a number of problems in the Canadian system
14 that we are concerned with.

15 We would hope that you could leave this matter awhile longer
16 until these negotiations which are in a delicate stage, and the
17 Canadians are going to be here in a few days, and we do have a
18 general provisions with respect to conventions which would loosen
19 up, in some respects, the rules of 1976 to provide deductions for
20 conventions held abroad where it is more reasonable than not to
21 hold it abroad that would substantially help the situation.

22 But as far as having a specific North American exemption
23 which presumably would include Caribbean areas and a lot of those
24 where specific problems arose, we would suggest that you drop that
25 and not have that, and as far as having any specific provision

1 with respect to Canada in the statute, that would cause us some
2 serious difficulties with respect to our negotiations. I would
3 hope that you would leave that problem until next year.

4 By that time, hopefully, we would have had time.
5 The Chairman. You say that they are going to be here in a
6 few days. Maybe you could reach some conclusion with the Canadi-
7 ans between now and the time we finish with this bill.

8 Mr. Lubick. We will certainly try.
9 The Chairman. I would like to accommodate the Canadians,
10 provided it is reciprocal. I am tired of doing things for people
11 who will not do anything for us in return.

12 If they say, all right, if they can work out something --
13 if it is reciprocal and mutually advantageous, that is fine.

14 Senator Matsunaga?
15 Senator Matsunaga. On this matter, Mr. Chairman, as Chairman
16 of the Subcommittee on Tourism and Sugar, we have not had any
17 hearings on it and I am just raising the question. I do not know
18 whether hearings were held in other Subcommittees, but on that
19 basis, I would suggest a hold on this.

20 Senator Dole. Just let me suggest that not only does it
21 apply to Canada, we are talking about Mexico and other areas.
22 It has been passed by the House Ways and Means Committee.

23 I was asked, in a letter from Senator Goldwater, to raise
24 the amendment, and I am very pleased to do that. I am certain he
25 will be offering it on the Floor. I thought I would, at least --

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1 I wanted to raise it in the Committee. If there is no support
2 for it, of course, I would be happy to withdraw it. What he is
3 concerned about is the recordkeeping requirements and replacing
4 per diem limit on expenses.

5 As I understand it, present law limits the amount of expenses
6 which can be deducted for tax purposes for the same per diem
7 amounts allowed U.S. civil servants; government employees are not
8 subject to per diem rates. They may be reimbursed for their
9 actual expenses in foreign areas.

10 It seems rather strange that you would have one rule for the
11 private taxpayer and another for the government employee. That is
12 just one area of contention.

13 Mr. Lubick. We have some proposals to liberalize all those
14 requirements, to eliminate the record keeping. It should be
15 done in conjunction with a restatement of the rule with respect
16 to which convention deductions are permitted, and to have a
17 number of conventions, two conventions a year. That means that
18 in some cases you are allowing too many, and in some cases you are
19 not allowing enough, and that has been a bit harmful.

20 So we suggest that a reasonable test would be better and
21 with the reasonable test, we also propose relaxing the limitations
22 on the amount of deductible on a per diem basis and to eliminate
23 the record keeping provisions.

24 The Chairman. Let me just say this about this. I know that
25 people complain about what we did about these conventions abroad.

1 Some folks do not like it.

2 But I have been talking to a lot of American convention
3 hotels, such as one in your state, Senator Byrd, to think of what
4 we can do to keep some of these conventions in the United States,
5 because they have a lot of business, and they have this associa-
6 tion that wants to encourage people to take all of these trips
7 abroad, and it is nice for them to make a lot of money by getting
8 a fee out of selling these trips.

9 But they have a conflict of interest with the Treasury because,
10 in so far as the people have a convention at home, they spend
11 the money here and that helps American business and they pay
12 taxes to this government. The money they spend in those foreign
13 hotels, that does not bring any revenue into the Treasury. That
14 costs us dough.

15 It gets to be kind of complicated, I know, but awhile back
16 the Louisiana Bar Association thought it would be nice at some
17 point to have a real soiree, a real party, so they found the
18 150th anniversary of the Code of Napoleon or some such thing and
19 they said, what we owe to the French for Napoleon, or whatever,
20 and they went over there and held the Louisiana Bar Association
21 meeting in France. \$100 a meal; \$100 a meal.

22 The man got home and he has worked a lifetime to save all
23 of this money and he said it just made him sick to think about
24 all the money he spent over there, to think how hard he worked for
25 all of this money -- not that he could not afford it, but he never

1 thought he would be so frivolous as to fritter all that money
2 away on that kind of activity when he had worked so hard for it.
3 It would have been better to give it to charity than go spend all
4 of that dough over there, living it up on \$100 a meal and all of
5 that.

6 So if we have time for Senator Matsunaga to hold a hearing,
7 that bill is not going to pass the same day it is called up.
8 Even while the bill is on the Floor, you can have a hearing and
9 get Treasury's recommendations and you might give us a provision
10 you can all agree on.

11 Mr. Lubick. I do not know whether the bill -- the bill was
12 to be taken up the Ways and Means Committee this morning. It has
13 not passed the House. I am not sure what the outcome of this
14 morning's deliberations was.

15 The Chairman. Somebody invited me to attend some meeting
16 in Acapulco to talk about all of these problems that plague
17 the world and so forth, and how we need to have better friendship
18 and save the Hemisphere, and all of that, and I was interested
19 in going until they found out what they wanted me to talk about
20 was this particular thing. They wanted to get me down to Mexico
21 among those Mexicans and talk about their convention trade down
22 there.

23 So I decided not to go. That would be a very expensive
24 trip, from my point of view. Better to stay home. Could not
25 afford it.

1 If Senator Matsunaga would hold a hearing, maybe you could
2 work it out.

3 Senator Matsunaga. It is a matter which I would like to hold
4 hearings on. We could do it right away.

5 On the other hand, Mr. Chairman, it is a matter which was
6 taken up on the Floor last year. We decided against the
7 Canadians.

8 Senator Dole. I am not certain what the decision was. Let
9 me point out that there are about 13 million Canadians who
10 visited this country this year and 2 million from Mexico. It is
11 not all one way.

12 They are staying in hotels here and having conventions in
13 our country.

14 Senator Matsunaga. If you take Hawaii as one example,
15 there was fear of some retaliation, but, as a matter of fact, we
16 have had no retaliation at all.

17 Senator Dole. I will have Senator Goldwater talk to you.

18 The Chairman. Maybe you would like to hold a hearing on
19 it. Meanwhile, the Treasury can talk to the Canadians and see
20 if we can get this together.

21 Senator Matsunaga. Mr. Chairman, I was next in line. I
22 have been waiting. I know it is 12:30 already. It will not
23 take more than two minutes, I do not think.

24 Just one -- as I understand it, on the redeemable coupons,
25 Treasury has already offered a substitute which is acceptable and,

1 although it is not on this bill, it is on H.R. 3050. Mr. Shapiro
2 has an understanding of this, and Treasury has agreed to substi-
3 tute and the House is ready to accept the substitute as offered.

4 I ask that the substitute be approved as an amendment to
5 H.R. 3050, which is still pending in this Committee.

6 Mr. Shapiro. When the Committee took up H.R. 3050, you
7 made a decision with regard to coupons which, in effect, suspended
8 the obligations of dealing with this prospectively, in dealing
9 with the issue with respect to the past and the future for a two-
10 year period.

11 In the meantime, that bill was not reported to allow the
12 staff and Treasury and the taxpayers to work out a compromise, and
13 a compromise was worked out that seemed to be appropriate for
14 resolution of the matter, which the Treasury agreed to, and the
15 taxpayers agreed to, and the Ways and Means Committee agreed
16 to this provision, and what Senator Matsunaga is suggesting is
17 that will be substituted for the Committee provision, and that
18 bill can be reported by the Committee.

19 The Chairman. How does Treasury feel about that?

20 Mr. Lubick. At the risk of losing our reputation, we will
21 endorse the provision.

22 The Chairman. I do not understand it, but if Treasury is
23 for it, it means it must have passed a real tough test.

24 Senator Matsunaga. Thank you, Mr. Chairman.

25 The Chairman. All in favor, say aye?

1 (A chorus of ayes.)

2 The Chairman. Opposed, no?

3 (No response)

4 The Chairman. The ayes have it.

5 Senator Matsunaga. On the bill itself, we have given so
6 much capital gains tax credit to the users of virgin material that
7 we have neglected those engaging in recycling, and I think this
8 is something we can readily accept in order to encourage those
9 who are in the recycling business -- recycling of solid waste,
10 to sort out and prepare solid waste for recycling, an additional
11 10 percent investment.

12 This is something we adopted for the energy tax bill. I do
13 not whether we should bring it up on this bill.

14 Senator Dole. What does it cost?

15 Senator Matsunaga. This is something that will encourage
16 recycling. As you know, recycling uses only one-third of the
17 energy that is normally required to process.

18 The Chairman. That is a good amendment. We have to get
19 the cost factors.

20 Mr. Shapiro. This is presently in the energy bill. It
21 provides an additional investment tax credit of 10 percent above
22 the existing 10 percent. There are no provisions in present law
23 other than those being proposed under the energy tax bill.

24 In the fiscal year, it has a \$30 million revenue effect for
25 fiscal '79, but as of now, you have not taken any provisions in

1 the energy tax conference. You have a conference this coming
2 Friday.

3 The Chairman. Senator, I would hope that we can get that
4 agreed to in that conference on Friday and, if we can, then you
5 would not have to offer it on here. In other words, if we cannot
6 get that agreed to, I would suggest you go ahead and offer it
7 on the Floor, but I think that if you want to press for it, we
8 might be able to get it agreed to on there.

9 It is not a big item, and you are estimating when the
10 energy bill comes back we are going to have \$1.1 billion.

11 Mr. Shapiro. That would include approximately \$900 to
12 \$1 billion of residential credits and gives you between \$100 and
13 \$200 for business credits. This is \$30 billion, so there is
14 room in what we assume the limitation.

15 It is up to the Conference Committee to make those decisions.

16 The Chairman. Why do you not talk to the conferees about
17 it.

18 Senator Matsunaga. Fine.

19 The Chairman. It is 12:30.

20 Senator Byrd. May I ask two brief questions?

21 The Chairman. Let me make this statement. I am going to
22 suggest that we come back here at 2:30 this afternoon and go
23 along until about 4:30 and agree to the things we cannot agree
24 to, and hopefully we might wrap this thing up tomorrow.

25 Senator Byrd. Just two questions.

1 Senator Moynihan. I have the fiscal relief matters this
2 afternoon.

3 The Chairman. Go ahead.

4 Senator Byrd. The staff submitted a table 2 on September
5 18th setting forth the tax rate schedule. Do I understand that
6 to be changed, or is that the one we will be working on?

7 Mr. Shapiro. That is the 25-bracket schedule. We are
8 working on a revived schedule of that, and a reduced schedule
9 of about 15 brackets which we will have available to you either
10 today or tomorrow.

11 Senator Byrd. The second question is, what would be the
12 revenue differential if the capital gains changes were made
13 effective January 1, instead of November 1?

14 Mr. Shapiro. The problem there, Senator, the way the feed-
15 back estimate would work there, you would have a loss of revenue
16 because everyone has held their assets until January. Any other
17 revenues you would be picking up under present law would be fore-
18 stalled until next year.

19 Senator Byrd. What would be the revenue, the estimated
20 effect of doing that?

21 Mr. Shapiro. We do not have the exact figure on that, but
22 it would be a negative figure. We will try to have that for you
23 this afternoon.

24 Senator Byrd. That is what was in the House bill?

25 Mr. Shapiro. The House estimated that, on a static revenue

1 basis, the House made all estimates static. What we are saying
2 is if the House had made a dynamic estimate, that would have
3 been a big revenue loser, meaning that any other revenue that
4 would have been picked up this year would not have been picked
5 up.

6 The Chairman. Let me ask one question of Treasury, since
7 Mr. Shapiro made that last statement. I have heard certain
8 statements from Treasury officials, including some this morning,
9 that lead me to believe that Treasury is trying to move towards
10 more towards the actual estimate and wait to modify a modifica-
11 tion of the static estimate to take into effect some of the
12 feedback that we have been talking about here for weeks, and to
13 try to come to terms with the Committee on what we believe to be
14 a more realistic estimate that takes into account what would be
15 the anticipated effect and what the taxpayer response would be
16 to some of these changes, particularly in the capital gains
17 area.

18 Is that correct, Mr. Lubick?

19 Mr. Lubick. That is correct, Mr. Chairman. Mr. Sunley has
20 prepared an economic analysis and has a paper on the subject, and
21 he has some copies here which we would be very pleased to make
22 available to you.

23 The Chairman. I wish you would let our staff look it over,
24 let us see it before you publish it. We may be able to offer a
25 few useful suggestions to you. So I would like to talk to you

1 and have you talk to our staff about it and see what you have.
2 I have not seen it.

3 I do want to commend you for at least thinking in those
4 terms, because I am positive that we are right about it. Last
5 time, I discussed with some of you about that matter. You said
6 that you did realize that you have to shoot across to a duck
7 when he flying across the pond. Now, we are talking about
8 whether you shoot at a mallard or a teal. One moves slower and
9 one moves fast.

10 In any event, we are together, in that the taxpayer response
11 and feedback should be taken into account. Is that correct?

12 Mr. Lubick. With respect to capital gains, if you are
13 talking about macroeconomic feedback from tax reductions generally
14 that has been taken into account, as Mr. Sunley explained earlier,
15 in connection with the estimation of the total revenues in the
16 budget. But I think you are discussing the specific problem of
17 the induced realizations from the reduction in the capital gains
18 rates, which is a different phenomenon.

19 The Chairman. I understand more how you do business now
20 than I did before, but I also appreciate the fact that you
21 see the point we are making on capital gains.

22 Thank you very much, gentlemen. We will meet at 2:30.

23 (Thereupon, at 12:40 p.m. the Committee recessed, to reconvene
24 at 2:30 p.m. this same day.)

25 - - -

AFTERNOON SESSION

(2:52 p.m.)

2
3 The Chairman. While we are getting organized here, let
4 me just ask, because I think the Committee understands this
5 because we had this sheet before us, but in view of the fact
6 that this is an open meeting, the media didn't have this chart
7 and these figures, and I really think that now that they have
8 this chart, we ought to run through it and show what this problem
9 is about the revenue.

10 All right, now, I would hope that if anybody with the media
11 wants a copy of this, I'll be glad to provide them with a copy
12 of it so they can go with this.

13 When you arrived at that \$21.9 billion down there, Mr.
14 Shapiro, did you do that by adding the high figures or the
15 low figures on that? The example of the zero to six, on
16 the rehabilitation -- I'm sorry, capital gains minimum tax,
17 zero to six, did you, when you ran up your total, did you take the
18 minus six or did you take the zero?

19 Mr. Shapiro. Senator, that \$21.9 billion is not a total.
20 What that is what the second concurrent budget resolution has
21 provided to the Committee for tax reductions.

22 The Chairman. All right, now, that is \$21.9 billion.

23 Mr. Shapiro. That is correct.

24 The Chairman. Now, would you mind telling me, of the
25 items that you have got on that sheet there, what they add up to.

1 Mr. Shapiro. Okay, where you stand is that the House bill
2 has \$18.3 billion, that's the first column, the first number.

3 The Chairman. Right.

4 Mr. Shapiro. The Budget Committee has given you \$2 billion
5 more than the House budget resolution, and that has been assumed,
6 for purposes of the Committee's mark-up sessions on the tax cut
7 bill, that that would be allocated to the tax cut bill.

8 The Chairman. \$20.3 billion.

9 Mr. Shapiro. So that would mean \$20.3 billion for the
10 tax cut bill.

11 The Chairman. Right.

12 But now, that has to include all other legislation, right?

13 Mr. Shapiro. \$21.9 billion is what you have total. If
14 you have \$20.3 billion --

15 The Chairman. \$21.9 billion is --

16 Mr. Shapiro. Subtract the \$20. -- go down to the bottom of
17 the page and take the \$21.9 billion and subtract from that
18 \$20.3 billion, and that gives you \$1.6 billion.

19 The Chairman. \$1.6 billion.

20 Mr. Shapiro. It is the \$1.6 billion that is for all other
21 legislation.

22 The Chairman. All other legislation, and for all other
23 legislation down here in that category, you have got a figure
24 of \$1.6 billion, and you are looking at things that you would
25 think are rather minimal of what you would think the Committee

3
1 would want to do if it could have its way, and how much does that
2 add up to?

3 Mr. Shapiro. That adds up to \$2.5 billion.

4 The Chairman. \$2.5 billion. So in that area, we are short
5 \$900 million from what we would like to do, right?

6 Mr. Shapiro. That is correct.

7 The Chairman. Okay, now, in order to get that \$900 million
8 to do all the things that are in the other legislation, we would
9 have to take it out of the tax reduction, is that right, or else
10 amend the budget resolution.

11 Mr. Shapiro. That is correct. If you were to take every
12 item on that list, you would have to either amend -- exactly what
13 you said, either amend the budget resolution or reduce the tax
14 bill.

15 The Chairman. All right, now, so now, over on the tax bill
16 part, we had \$1.6 billion, is that right, to work with in the
17 tax part of it.

18 Mr. Shapiro. You have \$2 billion above the House bill. In
19 other words, you take the \$18.3 billion and the Committee can
20 add \$2 billion to that figure.

21 The Chairman. But now that is assuming that you can cut
22 those other items by \$900 million, right?

23 Mr. Shapiro. That is correct.

24 The Chairman. Okay.

25 Now, what do these items add up to that we have been

4

1 talking about here, what we have done and what we are talking
2 about doing on the tentative decisions?

3 Mr. Shapiro. Okay, we do have a total there, when you see
4 at the bottom of the list it says Committee tentative decisions --

5 The Chairman. Where is that now?
6 Mr. Shapiro. That's right, where you see House bill, and then

7 right below that it says Committee tentative decisions, and you
8 have got a list of items.

9 The Chairman. Wait a minute, is that on this sheet right
10 here?

11 Mr. Shapiro. That is correct. It is the line right above
12 the other legislation. It says subtotal --

13 The Chairman. Change from House subtotal, change from House
14 bill?

15 Mr. Shapiro. Right.

16 Now, that is the total of your tentative decisions that
17 you firmed up already, and that is a range of \$1.8 billion to
18 \$2.4 billion, and that range would depend on the Committee's
19 decision with regard to the revenue from capital gains.

20 The Chairman. All right, now, so let's us assume, then,
21 that for example, for the sake of argument, we agreed then on
22 the minus \$.6 billion, then we would be over.

23 Mr. Shapiro. That's correct.

24 I should also point out, Senator, these are tentative revenue
25 estimates. As you know, we are trying to keep up on a daily

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1 basis when the estimators have to take things into account, and
2 some of these could change, hopefully just slightly, but these
3 are tentative estimates just so you have something in front of you
4 to see where we stand.

5 The Chairman. So that the point is that -- and I don't know
6 the answer right now but I am just trying to raise this with
7 the Committee and the media can speculate on it just like we
8 can, but we are up against this situation right now. If we are
9 going to do the kind of thing that we are thinking about doing for
10 the middle income people, and as I understand it, all along, from
11 the the very beginning we have been looking at a figure thinking
12 about what we might be able to do for middle income people to give
13 the bill better balance, and we're thinking about \$1.3 billion.

14 So, if we are going to do that, we have got real problems of
15 squeezing...out. That's where we stand right now.

16 Mr. Shapiro. That's correct.

17 The Chairman. And it would be nice if we could just, if
18 we did not have to worry about that, but we have definitely
19 a squeezing out problem to come within the budget resolution.
20 We should all recognize that because compared to what I would
21 like to do and what I think most Senators would like to do
22 here, how much squeezing out do we need?

23 Can you just give me some idea as to -- assuming, for
24 example, we take the \$0.6 billion, which is a static estimate,
25 is that right? That's a static estimate on the capital gains.

1 Mr. Shapiro. That is a static estimate.

2 The Chairman. Now, suppose we take the \$0.6 billion, and
3 that puts us in at \$2.4 billion, and we take those items that are
4 in other legislation listed here, all of which would be nice, if
5 we can do it. How much squeezing out would we need to do at that
6 point? What would you add to the \$2.4 billion?

7 Mr. Shapiro. You would have to take away that \$0.4 billion.
8 You would have to get down to \$2.0 billion.

9 The Chairman. Well, but that is up here, but how about
10 down here.

11 Mr. Shapiro. Down there you have got \$0.9 billion, so you
12 have got, if you took the statis estimate you would have --
13 starting with \$0.9 billion, given if you can fit everything in
14 your bill on a \$20.3 billion basis -- that's the tax cut bill,
15 and then it means you are starting off with \$900 million that
16 has to reduce from that list of items that says other legislation.
17 Now, if you take a statis estimate on capital gains, you have to
18 also reduce the \$400 million.

19 The Chairman. All right, now, if we could take a zero
20 estimate on capital gains and the minimum tax, and I am not
21 sure we would be safe in doing it, but if we could do that, then
22 at that point, then, that would solve a lot of problems, wouldn't
23 it? That would solve about half of it.

24 Mr. Shapiro. Yes, it would solve some of the problems, but
25 clearly not all of them.

1 If you use the zero figure, that means you would be below
 2 the \$2 billion and you would have some to work with, so it would
 3 cover your tax bill problem, but it would not cover your problem
 4 about the other legislation.

5 The Chairman. About the energy bill.

6 Mr. Shapiro. The energy bill and the tuition credit, the
 7 Section 911 and the noisy aircraft bill.

8 The Chairman. Right.

9 Well, I'm not trying to provide the answer right now. I'm
 10 just trying to highlight the problem. For example, I want Mr.
 11 Roth to win on his tuition credit, and if he can prevail and make
 12 his tuition credit the law, that takes care of part of the
 13 problem, at least that narrows the problem. We can talk about
 14 a little more precisely what the remaining problem is. But
 15 every time we solve one problem, it tends to highlight the next
 16 one.

17 Senator Dole. Mr. Chairman.

18 The Chairman. Yes, sir.

19 Senator Dole. I think the Treasury Department, I have been
 20 talking about a pension plan deduction. I know that adds to the
 21 problem, but it does address a problem, and I understand that
 22 the Treasury might be prepared to offer some compromise insofar as
 23 voluntary plans are concerned, is that right, Mr. Lubick?

24 Mr. Lubick. That's right. Senator Dole is talking about
 25 an amendment which would permit a deduction to IRAs for up

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1 to \$1000 for employees who are covered by qualified plans. At
 2 the present time, if an employee is a participant in a qualified
 3 plan, he is not eligible for an IRA, and that means if an
 4 employee has as much -- as little as one or two dollars under
 5 a qualified plan, he is disqualified from participating in an
 6 IRA.

7 Senator Dole's amendment would permit deductions generally
 8 for employees in those situations.

9 Senator Dole. I think the point is a lot of the plans are
 10 collapsing and if we do this, we might preserve that plus give
 11 them that option.

12 Mr. Lubick. One of the things we are concerned about is that
 13 we not give the encouragement to a diminution of existing qualified
 14 plans. We would not want to encourage existing plans to be
 15 made mandatorily contributory, to drive more plans in the
 16 direction of contributory plans. The cost of such an amendment
 17 is between \$700 million and \$800 million.

18 It is our view, however, that if we have permitted deferral
 19 in the cash deferred situation, which is at the election of
 20 the employee, as we have done this morning, and if we have
 21 permitted salary reduction arrangements, as we have done this
 22 morning, that employee contributions on a voluntary basis are
 23 pretty much in the same ballpark. If you can forego an increase
 24 and put it on a deferred basis, what difference does it make if
 25 you make a voluntary contribution to the plan?

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

2 As I understand it, there are a number of company plans that
3 do not have as much benefit as if someone took full advantage
4 of the IRA.

5 Is that correct?

6 Mr. Lubick. That is true.

7 Senator Curtis. Now, is the proposal before us to let them
8 take advantage of the difference under the IRA plan, or is it for
9 a specific amount of \$1000?

10 Mr. Lubick. It is just a specific amount for \$1000, but we
11 would suggest that it is important that Senator Dole's provision
12 be modified to permit the IRA contributions only if they are made
13 through the employer to the IRA so the thing would --

14 The Chairman. Gentlemen, let me suggest we go vote and
15 come back because we need to have more people in the room.

16 Senator Curtis. Shouldn't the amount be held down so that
17 everyone would topple off at the equivalent of the \$1500 a year?

18 Mr. Lubick. I think our suggestion will address that problem.
19 We would treat them as employer contributions, and then they are
20 subject to the nondiscrimination rules, and I think that will
21 do it.

22 (A brief recess was taken.)

23 The Chairman. Senator Nelson, do you want to bring up your
24 amendment right now?

25 Senator Curtis. Mr. Chairman, I don't want to delay

1 anything, but I would like to ask the Treasury if the Treasury and
2 Senator Dole arrived at an agreement on his proposal?

3 Mr. Lubick. We have a recommendation, Senator Curtis, we
4 think makes sense in this area, and that is to accept Senator
5 Dole's proposal permitting voluntary contributions to employer --
6 through the employer to the IRA, to an employer-sponsored IRA
7 which would then be treated for nondiscrimination purposes as
8 employer contributions up to \$1000 in the case of voluntary
9 plans, and \$100 in the case of mandatory contributions by an
10 employee to a qualified plan.

11 Senator Curtis. Mr. Pritts, is that your understanding that
12 Senator Dole agreed to that?

13 Mr. Pritts. Yes, yes it is, Senator.

14 Senator Curtis. Well, I move for Dole his amendment, then,
15 so we can go on to something else?

16 The Chairman. Any objection?

17 Without objection, agreed.

18 Senator Moynihan.

19 Senator Moynihan. No, sir, I was just agreeing.

20 Senator Packwood. Mr. Chairman, an unrelated question, I
21 am curious whether this Committee plans to ask for jurisdiction
22 of that tax bill on aircraft retrofitting that the Commerce
23 Committee now has that came from the House.

24 The Chairman. Well, we have, we have before us in our
25 Committee, we have a matter of -- explain what we do have, Mr.

1 Shapiro.

2 Mr. Shapiro. Well, as part of that noisy aircraft bill, the
3 tax provision is approximately \$400 million. The House has
4 its proposal that it provided for that tax title, and the
5 Commerce Committee has suggested an alternative way of dealing
6 with it, and I think it has been referred to this Committee --

7 Senator Packwood. The House bill has not, though. The
8 House bill went straight to the Commerce Committee without a
9 re-referral to this Committee.

10 Mr. Shapiro. The Senate Commerce Committee bill has been
11 referred here, and you are correct, the House bill has not.

12 Senator Packwood. I just want to make sure this Committee
13 gets a shot at it.

14 The Chairman. Well, my plan is to call that matter up
15 immediately after we act on this bill. Now, I don't want to
16 set aside a bill that is going to benefit everybody in the country
17 for the benefit of the airlines, but I am willing to take up
18 the airline bill after we get through with this bill.

19 I think we will be criticized for setting this bill aside
20 to go to this one.

21 Senator Packwood. Well, I just wanted to make sure that
22 we don't have it slip by this Committee and onto the floor, out
23 of the Commerce Committee with no, without taking a shot.

24 That's fine. That's the only point I have on that.

25 I do have two amendments to offer.

1 The Chairman. Well, I would think immediately after we
2 dispose of this bill, we will take up that one.

3 Now, the time when you were not in the room, I suppose,
4 just before, when we first met in this afternoon's session, I
5 asked that the staff explain what is involved here about those
6 figures on this chart, because that, the item in that bill, you
7 notice, comes under other legislation. That is one of the big
8 items. You have got three big items there, and in that area,
9 we are \$900 million in the red, you might say, assuming that
10 we are going to take the tax cut authority available to us under
11 this, what we are thinking about taking with this bill. And we
12 have got a squeezing out situation here, and that is one of the
13 items, that, the investment tax credit, the individual tax cuts
14 for middle income people, all that is involved in the squeezing
15 out process. So we have to look at that in connection with what
16 we are trying to do.

17 Now, I am not saying how we will work it out. All I'm saying
18 is we need to work it out.

19 Okay, now, the floor is open, gentlemen.

20 Senator Packwood. Mr. Chairman.

21 The Chairman. Well, let me just recognize Senators in
22 the order that their raise their hands.

23 Senator Packwood, Senator Danforth --

24 Senator Nelson. You called on me five minutes ago and I
25 was interrupted by Senator Curtis.

1 The Chairman. Well, we'll put you at the head of the list,
2 and then Senator Bentsen and then Senator Matsunaga. We'll get
3 to all of you.

4 All right, Senator Talmadge, we'll put your name in here.
5 I want to make sure we didn't leave anybody out.

6 Senator Moynihan. Mr. Chairman?

7 The Chairman. Just a minute.

8 Danforth, and Senator Moynihan.

9 Senator Matsunaga. Do you have me down, Mr. Chairman?

10 The Chairman. All right, Senator Matsunaga after Senator
11 Bentsen, and then we will put, Senator Nelson goes back to the
12 head of the list.

13 All right, now, here it is how it comes back down.

14 Senators Nelson, Packwood, Danforth, Moynihan, Bentsen,
15 Matsunaga and Talmadge. That's a good hour's work.

16 All right, Senator Nelson.

17 Senator Nelson. Well, I will offer tomorrow, so I will
18 save time today, a capital gains proposal which, the way I
19 calculate it, will have a net feedback of about \$1 1/2 billion so
20 we can fit everybody's bill in here, but I will offer one
21 tomorrow, and I will offer another one tomorrow, and Mr. Chairman,
22 I'll just mention it today and pass it out because I want
23 everybody to have a chance to read this one sheet, and I'll take
24 two minutes to do it and cede the floor.

25 I intend to call up tomorrow a proposal to eliminate what

1 the estate tax lawyers call the widow's tax. Under the present
2 law, even if a farm or a small business is jointly held by both
3 the husband and the wife, and the wife contributes substantially
4 to the enterprise, the entire value is deemed to be in the
5 husband, so that when he, even though the wife may have worked
6 in that business every single day for 40 years, when he dies, it
7 is assumed that the whole estate is his, so she ends up paying a
8 tax on that half of the estate that she has contributed to as
9 an individual over the years. This proposal will say that in
10 those cases where the spouse, in most cases it is the wife, has
11 made a contribution to that business over the years, she will
12 get credit of 2 percent of that estate per year, so if she
13 worked for 20 years in the grocery store or on the farm, she
14 ends up with owner of 40 percent of that estate. You would
15 subtract first any dollar contribution that the husband may
16 have made. The inequity that occurs here is that if they are
17 wise enough and know the law, all they have got to do is create
18 a partnership when they get married and half that estate belongs
19 to the woman, and if she is a surviving widow, she only pays a
20 tax on half of it.

21 Last year -- this year on June 14th, in the Federal District
22 Court in South Dakota, they had a case in which a deceased farmer,
23 the IRS collected an additional \$40,000 in estate taxes, even
24 though the wife had been a full participant in the enterprise for
25 43 years. The U.S. District Court in South Dakota overruled IRS

1 in Craig v. U.S. on June 14th of this year and deemed that a
2 family partnership in fact did exist, even though not in law.
3 This is an inequity that ought to be corrected, and I will pass
4 this sheet out that explains the detail in it all and call it up
5 tomorrow along with a capital gains tax proposal.

6 Mr. Chairman, that's all.

7 Senator Talmadge. Are you completed on that point? I
8 believe the next name on the list is Senator Packwood.

9 Senator Packwood. Mr. Chairman, I have two amendments. They
10 are both supported by the Treasury. One relates to health insurance
11 and the other relates to employer-paid educational expenses, and
12 I think the sheets have been passed around, or Mike, are you
13 passing them around now?

14 Let me tell you what the bills do, the amendments do.
15 One, in the area of health insurance, and specifically in the
16 area of self-insured medical and accident reimbursement, there
17 has been a history of discrimination in favor of higher paid
18 employees, shareholders. These are the self-insured plan, not
19 the broad, company based plans. So the first amendment -- and
20 again, I say it is supported by Treasury -- would say that we
21 would have the same nondiscriminatory provisions for self-
22 insured medical and accident reimbursement plans that we have
23 in the law today in most of the other employer fringe benefit
24 plans, and that in a nutshell is that amendment, to knock out
25 a relatively small abuse, a lawfirm would be an example, where

1 they have a very high insurance for -- and take it as of course
2 a partnership deduction for health insurance for the partners or
3 the associates but not for the lower paid employees of the firm.

4 Senator Talmadge. Any discussion?

5 Senator Curtis. Yes, I want to be heard.

6 Senator Talmadge. Senator Curtis.

7 Senator Curtis. May I ask the Senator, does your plan
8 include only the self-insured?

9 Senator Packwood. It includes only the self-insured, that
10 is correct.

11 Senator Curtis. Well, I have had fears expressed that the
12 adoption of it might lead to a nondiscriminatory rule of plans that
13 were not self-insured.

14 Senator Packwood. No, I don't intend that. You can never
15 tell what a future Congress might do, but in reviewing this and
16 in talking with Treasury -- and they may want to express their
17 opinion -- there is no great evidence of abuse in other than
18 the self-insured plans, so there is no point in extending it
19 beyond that.

20 Mr. Lubick. Normally in the insured plans, to get favorable
21 rates you have to buy it on a group basis, so I don't think as a
22 practical matter you are ever going to face that problem.

23 Senator Curtis. Would the Senator agree to a clarifying
24 statement, even though he feels it is not necessary, but just
25 out of an abundance of precaution, say that this is not intended

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1 to be extended to anything other than the --

2 Senator Packwood. Oh, yes, self-insured, yes.

3 Senator Curtis. All right, no objection.

4 The Chairman. Okay. Well, let me ask, I came in while
5 the discussion was going on, so let me ask Mr. Lubick to explain
6 what this is about, what the Treasury position is.

7 Mr. Lubick. Well, we are in favor of this proposal, Mr.
8 Chairman. It would deal with some --

9 The Chairman. Well, what is the revenue cost of it?

10 Mr. Lubick. This will enable you to do a lot more, Mr.

11 Chairman. It has a pick up --

12 The Chairman. It gains revenue?

13 Mr. Lubick. It gains perhaps \$5 million.

14 The Chairman. What?

15 Mr. Lubick. Perhaps \$5 million gain.

16 The Chairman. Well, say no more, as far as I am concerned.
17 I know enough.

18 (General laughter.)

19 The Chairman. Glad to see somebody gain us a few bucks
20 in this thing that the Treasury can support with no objection.

21 All in favor say aye.

22 (A chorus of ayes.)

23 The Chairman. Opposed, no.

24 (No response.)

25 The Chairman. The ayes have it.

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1 Senator Packwood. Mr. Chairman, I have a second amendment.

2 The Chairman. Well, Senator, I really think in fairness,
3 we ought to make the round and let everybody else come in here with
4 theirs, and I'll come back to you because otherwise '--

5 Mr. Lubick. This was sort of an entry, Mr. Chairman.

6 The Chairman. Do you have another one on the same subject?

7 Senator Packwood. It relates to employer paid, in this case
8 educational expenses, but it was a dual arrangement with the Treasury
9 on both amendments.

10 The Chairman. This is one Treasury can take?

11 Senator Packwood. Yes.

12 The Chairman. All right, bring it up then.

13 Senator Packwood. I brought it up before about employers
14 paid education --

15 The Chairman. Senator, if you are going to have two bites
16 at the apple, you have got to have somebody else come in.

17 Senator Packwood. I have eight or nine amendments, but
18 these two we worked out with the Treasury together, but I'll
19 wait on the other eight or nine until my turn comes around and
20 around and around again.

21 The Chairman. All right. That's right. Go ahead.

22 Senator Packwood. More and more employers are paying
23 for educational benefits for their employees, only the problem is,
24 under the present law, if the education is not found by the IRS
25 to relate to the job that you have, it is taxable income to the

1 employee. If it does relate to the job that you have, it is not
2 taxable income to the employee. In any event, it is a deduction
3 to the employer. The upshot of this is that the higher up you
4 get in the company and the more money you make, and the more your
5 responsibilities, there is hardly any education the employer can
6 pay for that is not theoretically related to your job, but if you
7 are a 19 year old lug nut tightener working on the assembly line
8 and you dropped out of high school at age 16, the only course
9 you can take is how to improve yourself in that job, that is
10 tightening lug nuts, but if they want to advance you in your
11 job and pay your educational expenses, it is income to you and
12 the employer has to deduct withholding on income for them and for
13 you and it is a mess.

14 When I first brought it up, there were all kinds of fears
15 that somebody was going to put their son on the payroll and send
16 them to medical school and what not so the Treasury and I have
17 worked out the following qualifications which I think will
18 eliminate any possible abuse.

19 One, it doesn't apply to sports, games and hobby courses.
20 Two, the discrimination rule which exists generally in employer
21 fringe benefit plans would be broadened to apply to dependents
22 of members who are shareholders, officers and highly compensated
23 employees. Three, the exclusion would not apply if the employee
24 is given a choice between tuition assistance and cash, and the
25 argument that was raised there, you are making \$15,000 a year

1 and you say to the employer, pay me \$10,000 and send me to
 2 school and I won't have to pay any taxes on it. If you are given
 3 that option, then it is treated as if it were a cash payment and
 4 you pay taxes, and so that eliminates that abuse.

5 Not more than 5 percent of the benefits of the plan can
 6 go to persons with an ownership interest in excess of 5 percent.
 7 The employers have to maintain a written plan but they don't have
 8 to ask for advance IRS approval. They have got to make the
 9 benefits widely known to their eligible employees, and a broad
 10 class of employees must be eligible for the benefits.

11 Now, I am frankly trying to encourage employers and unions
 12 to bargain to upgrade and to educate their lower income and
 13 middle income employees. Higher income employees already have
 14 all of the benefits anyway. The bill has 30 co-sponsors, and as
 15 I say, it has Treasury's support.

16 Senator Nelson. Let me ask a question.

17 In Item 7 you refer, a broad class of employees must be
 18 eligible for the benefits of the plan. I think there is an IRS
 19 rule that I recall from a year or so ago about it, a particular
 20 plan like this that bothered me. This particular company had
 21 very, very high academic requirements to qualify, and everybody
 22 in the company was eligible to apply, but everybody also knew
 23 that if you weren't in the, you know, top 5 percent of your
 24 class or whatever, very high, there was no use in applying. The
 25 company didn't encourage people to apply who didn't have very

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1 high academic standing --
 2 Senator Packwood. You mean apply to even go to work for
 3 the company?
 4 Senator Nelson. Pardon?
 5 Senator Packwood. You mean apply to even go to work for the
 6 company?
 7 Senator Nelson. No, no, no, I am talking, this was a plan
 8 for the children of employees of the company who were eligible
 9 for a scholarship plan of some kind. The IRS rules were that there
 10 weren't a broad enough application or rather put it this way,
 11 not enough people, not a high enough percentage of the children
 12 of the employees applied. Therefore they weren't eligible. Their
 13 response to IRS was well, we don't want, we don't go out and
 14 encourage somebody to apply who we know, you know, we don't want
 15 to -- we could get any percent to apply, but we would have to
 16 throw them all out because we are only taking top people. It
 17 has nothing to do with who their parent is, just a very high
 18 academic standard in order to get the scholarship. The IRS
 19 disqualified the plan, which seems to me to defeat the objective
 20 we are seeking. If a company wants to say you have to have very
 21 high grades, straight A or A minus to qualify, and whoever does,
 22 does qualify, for IRS to say well, you didn't have enough appli-
 23 cants, and the company says well, we didn't have as high a
 24 percentage of applicants as your rule requires because there
 25 aren't that many who got that high an average, I wonder if the

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1 IRS, the Treasury could comment.

2 Do you know the point I am talking about?

3 Mr. Lubick. I believe, Senator, you are dealing with a
4 different situation which deals with the private foundation rules
5 and --

6 Senator Nelson. Well, I guess that is right. I think it
7 was a foundation.

8 Mr. Lubick. Whether there is eligibility for scholarships,
9 and this is a different problem here, and what we are talking
10 about on a broad class of employees, for example, would be that
11 you couldn't set up a classification that said only those who
12 have had experience as chief executive of the company would be
13 eligible for the course.

14 Senator Nelson. Well, would this be different? As I recall
15 it, this was a foundation established by a company to provide
16 scholarships for the children --

17 Mr. Lubick. But this is for employees of the company and
18 this is not --

19 Senator Nelson. This is for employees of the company, too.

20 Mr. Lubick. Yes.

21 Senator Nelson. I am talking about a case, but I believe
22 it was a foundation they created. All I am saying is the rule
23 that adversely affected them for their claim for deductibility
24 was that not a high enough percentage of the children of employees
25 applied, and not a high enough percentage applied because the

23

standards were so high that only a small percentage would qualify in any event. IRS thought they were protecting themselves against something, but I don't know what it is they are protecting themselves against.

Mr. McConaghy. Senator Nelson, I think you are referring to a regulation the Service put out that said that if more than 25 percent of the eligibles receive company scholarships or foundation scholarships, then it would not be, it would be considered compensation and includable in income. Since that kind of problem arose that you raise, that is, that there just aren't that many eligible people in a lot of these companies, the Service has, I understand, published something that says that we will look at the facts and circumstances and perhaps not abide by that 25 percent test in all cases. That doesn't solve all of the problems, but some of the cases such as yours I think are assisted under that facts and circumstances test.

Senator Nelson. I think this was a case when it wasn't above the 25 percent; not a high enough percentage applied under what rules were established in order to qualify for the plan.

Mr. McConaghy. Yes, it would work the same way, more than 25 percent, in other words, of those that did apply would get the scholarship because there weren't enough people to apply to bring it down, you are absolutely right.

Senator Nelson. You say they are looking at that question.

Mr. McConaghy. They are looking at it. They have come out

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1 with a facts and circumstances test to alleviate it. It is not
2 going to solve all the problems.

3 Senator Packwood. In case it will influence your vote on
4 this amendment, Gaylord --

5 Senator Nelson. No, I think I am a cosponsor, although don't
6 let that fool you. I have voted against lots of things I
7 cosponsored when I found out what was in it.

8 Senator Packwood. I have nothing more to say, Mr. Chairman.

9 The Chairman. Now, tell me, what is the cost of it?

10 Mr. Shapiro. The cost of it is approximately \$23 million
11 for 1978. It is \$26 million from 1979.

12 Mr. Lubick. I had assumed that all of these were to be
13 effective January 1st, '79. Is that reasonable?

14 Senator Packwood. Yes, that's fine.

15 Mr. Shapiro. Your effective date is next year. At any rate,
16 what it would mean is that we don't have the exact fiscal year
17 effect, but it would be in the range, my guess is between \$10
18 million and \$20 million, somewhere in that range.

19 Senator Packwood. That assumes, however, that Treasury would
20 otherwise enforce the provisions of the present law that at the
21 moment they are not enforcing very well because there is at the
22 moment no revenue gain from even programs that should perhaps be
23 taxed, because they are too hard to figure out whether they
24 relate to your employment or don't relate to your employment, so
25 they don't force it.

1 Mr. Shapiro. That's correct. I would think it is closer
2 to \$10 million than the \$20 million on the fiscal basis, at the
3 lower end of that scale.

4 The Chairman. Treasury favors the amendment?

5 Mr. Lubick. Yes, sir.

6 The Chairman. All right, 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 We will now hear from Senator Danforth.

12 Senator Danforth. Mr. Chairman, the House reduced the
13 corporate rate, the maximum corporate rate from 48 percent to
14 46 percent in 1979. I would offer an amendment which would do
15 what the House did, namely, reduce it to 46 percent in 1979,
16 with a further reduction to 44 percent in Calendar Year 1981.
17 Every, almost every witness who appeared before the Finance
18 Committee talked about the problem that we have about productivity
19 and capital formation. It is a serious problem for our country.
20 We rank well behind other countries in the competing countries
21 in both productivity and capital formation, in percentage of
22 gross national product that is invested, in average annual
23 increase in productivity, and in average annual percentage
24 increase in real GNP between 1962 and 1977. The United States
25 has ranked well behind Japan, France, the Netherlands, Belgium,

1 and Germany. Our performance has not been good. We asked witness
2 after witness who appeared before the Finance Committee what
3 would be the most helpful thing we could do for them, and most
4 witnesses, with a few exceptions, stated that the most helpful
5 thing we could do would be to reduce the corporate rate.

6 At a meeting on September 6, not a Finance Committee meeting,
7 but a meeting some Republican Senators had with a group of
8 economists and business leaders, there were about nine or ten people
9 present, and we went around the room asking them what they would
10 prefer, ADR, investment tax credit, or corporate rate reduction.
11 Every single one of them stated that he would prefer a corporate
12 rate reduction.

13 Included in that group were Herb Stein, Allen Greenspan,
14 Paul McCracken, Wright Jones and so on. And therefore, it would
15 seem to me that if we really want to do something for the economy,
16 to expand the economy for the American people, to provide the
17 kind of job opportunities for people which we are going to have
18 to have in the future, the best thing we can do is to reduce the
19 corporate rate.

20 Now, what the witnesses told us is that the rate reduction.
21 doesn't have to come immediately. It can be phased over a couple
22 of years, so long as it is possible to look down the road and
23 to see that the rates are going to be reduced down the road, that
24 in itself, would engender the kind of confidence in the economy
25 and the kind of predictability of rate overturn after taxes to

1 trigger investments today.

2 It has been argued that we want to make our decisions on
3 taxation one year in advance. I don't happen to agree with that
4 argument. I don't agree with that argument because when you have
5 a very high rate of inflation then if you make it just one year
6 at a time, you are desperately trying to catch up with what
7 happened the last year rather than to provide for the kind of
8 predictability which I think the economy needs which which
9 more importantly economists and people who are in the business
10 community think the economy needs.

11 So if you provided an additional 2 percent from what the
12 House did, and you provided it in 1981, you would not fall afoul
13 of the Budget Act. We would not have any problem at all with
14 the Budget Act. We would be able to get around that completely,
15 and we would provide the kind of inducements to economic
16 activity today which I think would be very advantageous for the
17 economy and for the American people.

18 It seems to me that the challenge should be to increase the
19 pie, not just to provide a little relief, but to try to expand
20 the economy for the people of our country. And that is what I
21 think this would go farther than any other proposal in doing
22 this.

23 Senator Packwood. Mr. Chairman.

24 The Chairman. Now, it seems to me, if we do that we will
25 almost be compelled to do something else that you have recommended,

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1 and that is to have a further tax cut for individuals because if
2 we are going to put this second step in here for corporations,
3 the bill has been criticized as being overloaded for investors
4 already, and if we don't put this tax cut for individuals in in
5 addition to that, then it would be subject to more of the same.

6 Now, if we put in -- what would it cost to do the kind of
7 thing that has been discussed about, let's say, another across
8 the board cut for individuals.

9 Mr. Shapiro, you know, a meaningful cut for individuals.

10 Mr. Shapiro. If you were to have a 6 percent tax cut for
11 individuals only in rates, in other words, not with the personal
12 exemption or the earned income credit or the standard deduction,
13 it would be approximately \$5 billion.

14 The Chairman. That would be \$5 billion, and this \$2 billion,
15 this two points, what would that cost, about \$3 billion?

16 Mr. Shapiro. \$3.3 billion.

17 The Chairman. \$3.3 billion. Now, that is about \$8 billion,
18 \$8.3 billion. Now, if you are going to do that, I think, in other
19 words, I think that most people, if they are going to vote for
20 it, would want to vote to do the cut for individuals also, and
21 that then gives Treasury some problems, and I think Mr. Lubick
22 ought to speak to it. That is the area I thought probably the
23 Secretary himself would speak to.

24 He is not here, Mr. Lubick. Suppose you speak for him and
25 give a reaction to that.

1 Senator Packwood. I have a solution to that problem. You
2 could obviate that and the corporations don't care when it
3 comes, by keeping the present 48 percent tax rate until 1981, and
4 just cutting it to 44 percent in 1981. Then it is only a one
5 step corporate rate reduction and you don't have to have any
6 multiyear individual cut reductions.

7 And then you also obviate your present revenue problem with
8 a cut from 48 to 46 percent.

9 The Chairman. I fear they would be very disappointed to
10 find they don't get any cut between now and 1981 though --

11 Senator Packwood. Given the --

12 The Chairman. I mean, 1981, not until 1981, I think they
13 would be disappointed.

14 Senator Packwood. Well, I prefer 46 now, and 44 then, but
15 given a choice, if they had 46 straight along, or 48 now and
16 44 in 1981, and knew they would have it in 1981, they would
17 rather have the latter.

18 The Chairman. Well, now, if that were me, I don't think I
19 would trade you a bird in the hand for two in the bush.

20 Now, what is your reaction to that, Mr. Lubick?

21 Mr. Lubick. Our problem, Senator Long, is that as we
22 compute it, the out year revenue effects are already many
23 billions of dollars beyond what the President thought appropriate
24 as far as his budget problems are concerned for the next several
25 years. We would regard it as very, very difficult to accept

1 any, what you referred to this morning as mortgaging of the future
2 revenues.

3 It should be pointed out that the inflation problem, as
4 far as corporations are concerned, is not a real problem compared
5 to that for individuals because corporations are basically, once
6 you get past the initial graduation, taxed at a flat rate. It
7 is the individual's problem of creeping upward in brackets is
8 a very different one. You don't have that problem for individuals.
9 So it is really quite important to stabilize the corporate rate
10 within the revenue framework that you have already set, and to
11 permit us under the appropriate circumstances next year and the
12 year after, to determine what our economic situation is, what is
13 the best way of furnishing the stimulus to corporate expansion and
14 corporate investment that we need, and there is plenty of time
15 to consider the best method of doing that. So that this, it
16 would be very unfortunate if this particular amendment were
17 adopted at this time.

18 Senator Danforth. Mr. Chairman, the fact is that corpora-
19 tions are being taxed on inflation. As a matter of fact, in 1966
20 the effective tax rate on corporations was 40.8 percent. Now it
21 is 51.4 percent. It is also true that as far as the individuals
22 are concerned, they, too, are being taxed on inflation, and that
23 is the whole argument. We have an unacceptable rate of inflation
24 and what the Administration's position is is that they are going
25 to do fine with inflation. It will increase the revenues for

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1 the Federal Government, it increases the effective tax rate when
 2 we have a high rate of inflation. Therefore, the percent of
 3 gross national product consumed by federal taxes continues to
 4 go up, and therefore the percent of gross national product
 5 represented by federal spending continues to go up, and it is
 6 going up quite rapidly and quite markedly, and that is the whole
 7 issue that is before this Committee. The issue is what percent
 8 of gross national product will government concern and what
 9 percent of gross national product will the American people be
 10 able to keep.

11 Now, with respect to the taxpayers and that I will in due
 12 time offer that amendment also, which will be 6 percent widening
 13 the brackets and increasing the personal exemption and standard
 14 deduction for just one year, with respect to individuals, they
 15 feel that in being able to make ends a week and how many days a
 16 year they have to work for Uncle Sam just to pay their federal
 17 taxes so that we can spend it for them.

18 But the people themselves, even as individuals also feel it
 19 from what happens with respect to corporate taxes because they
 20 have a stake in the health of the economy. Their potential
 21 growth depends on the growth of the economy. The only way that
 22 the American people are going to have a higher standard of living
 23 in the future, the only way that people who now are at the
 24 short end of the stick, minorities, people who are not able to
 25 keep up, the only way that they are going to be able to improve

1 their standard of living is for the gross national products to
2 increase, or the size of the pie to increase, and the way to
3 accomplish that kind of an increase is to have a tax bill which
4 is reported out of this committee which does something to expand
5 productivity and which does something to encourage capital
6 formation.

7 Now, we have done it to some extent with capital gains taxes,
8 but that is a little bit of a round about way to encourage capital
9 formation, to assume that, well, people are going to go out and
10 buy stock or they are going to save and events, and it does
11 help capital formation, but what is also involved in the total
12 picture is the ability of those who are in business to be able to
13 invest in plant and equipment, and the way that they make that
14 decision is to look at the return rate down the road after
15 taxes. That is what is involved, is the economic health of the
16 country. It is the ability of our country to grow. And it is
17 the relative piece of the economy kept by the private sector or
18 consumed by government. That is the issue before us.

19 The Chairman. Well, let's vote on it. We will have to get
20 in touch with the absentees because I think this will be a
21 close vote, and we won't know the outcome, I believe, until we
22 hear the absentees.

23 But let's call the roll.

24 The Clerk. Mr. Talmadge.

25 Senator Talmadge. No.

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The Clerk. Mr. Ribicoff.

(No response.)

The Clerk. Mr. Byrd.

Senator Byrd. No.

The Clerk. Mr. Nelson.

This is a vote on the reduction of the corporate rate to 44 --

Senator Nelson. No.

The Clerk. Mr. Gravel.

(No response.)

The Clerk. Mr. Bentsen.

Senator Bentsen. No.

The Clerk. Mr. Hathaway.

(No response.)

The Clerk. Mr. Haskell.

(No response.)

The Clerk. Mr. Matsunaga.

Senator Matsunaga. No.

The Clerk. Mr. Moynihan.

Senator Moynihan. Mr. Chairman, I would vote no, but I

would like 30 seconds to explain my vote afterwards.

The Clerk. Mr. Curtis.

Senator Curtis. Aye.

The Clerk. Mr. Hansen.

Senator Hansen. Aye.

The Clerk. Mr. Dole.

1 Senator Dole. Aye.

2 The Clerk. Mr. Packwood.

3 Senator Packwood. Aye.

4 The Clerk. Mr. Roth.

5 Senator Roth. Aye.

6 The Clerk. Mr. Laxalt.

7 Senator Laxalt. Aye.

8 The Clerk. Mr. Danforth.

9 Senator Danforth. Aye.

10 The Clerk. Mr. Chairman.

11 The Chairman. No.

12 We can go ahead on the next thing. The answer is that
13 the ayes are 7 and the noes are 6, but we will have to hear
14 from the absentees.

15 Senator Moynihan?

16 Senator Moynihan. Mr. Chairman, I voted as I did at this
17 stage in our consideration of the tax bill, although originally
18 I joined with Senator Danforth in this measure, and I would like
19 to state that I agree with his point that we ought to have
20 much longer term understandings of what our tax rates will be
21 for corporations.

22 The Chairman. Senator Hathaway votes no. That adds one
23 more, so that will be seven yeas and eight nays, and we have
24 Senators Haskell, Senator Ribicoff, Gravel, Haskell yet to hear
25 from.

1 All right, now, let's take Senator Moynihan.

2 Senator Moynihan. Mr. Chairman, I have two matters of
3 essentially Committee business to bring up, having to do with the
4 provision of fiscal relief in welfare and extending and increasing
5 the social services financing under Title XX. I can make this
6 as long or as short as anyone may desire. Why don't I desire the
7 short way first.

8 Senator Curtis. May I ask, which proposal was it? Is it
9 the reform bill or is this just the Title XX?

10 Senator Moynihan. It is both, sir, as I would like to
11 combine them as the proposition before us, obviously both, one
12 and the other, but the first point I want to make is that the --
13 we, Senator Long, Senator Cranston and I have introduced a
14 measure which would have the effect of beginning to treat the
15 payments of -- the provision of assistance under AFDC in much
16 the same way that we now treat Title XX funds, which are the
17 provision of social services.

18 Senator Curtis. You mean a block grant.

19 Senator Moynihan. That's right, sir.

20 The basic problem I think we have had in financing in
21 welfare has been the decision to pay for these services -- the
22 decision to provide these services is not located in the same
23 place as the responsibility to pay for them, and that has just
24 meant the extraordinary acceleration of costs which we saw
25 in the Title XX program, put on a cap, and I would now like to

1 suggest that that cap does need to be adjusted for cost of living
2 changes, and we have not made those adjustments.

3 In 1977 we arranged for there to be an increase of \$200 million
4 above the cap of \$2.5 billion which we had imposed earlier on,
5 and if I can get my papers together here, we would like now to
6 propose -- well, let me say we have now got a temporary provision
7 of \$2.5 billion plus \$200 million which is in place for 1979.
8 We agreed to that in H.R. 7200. The Administration has proposed
9 a one time increase of \$185 million above that to be scaled
10 down over a four year period to where we are back in 1983 to
11 \$2.5 billion. That does not make any sense to me. The House
12 has proposed to begin a steady increase which would roughly,
13 which would go from the present \$2.7 billion up to \$3.45 billion.

14 It seems to me that what makes sense here is to put this
15 on a basis where social services are increased to reflect
16 increases in the cost of living, population, and variations in
17 the employment rate. In any event, we had hoped to propose a
18 five year provision in Title XX along with a five year provision
19 in the AFDC side of this, of welfare, which would follow in
20 effect the pattern of our Title XX proposals.

21 Now, you have this measure before you. I have passed it
22 out as a large general thought which some of us have here, and
23 which I think it is the case that the committee may not be ready
24 to consider as a five year experiment. If that is not so, what
25 I am prepared to propose is that we make a one year adjustment

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1 on both, and subject to what anyone might want to bring up on
2 the floor, of course, and in harmony with the administration's
3 proposal that next year we start all over again and see if we
4 can't bring about welfare reform.

5 Senator Curtis. Would the distinguished Senator yield for
6 a question or two?

7 Senator Moynihan. I would be happy to yield.

8 Senator Curtis. So far as Title XX is concerned, I favor a
9 one year provision.

10 In reference to AFDC there are several points in your
11 proposal that I like very much, principally, the idea of the
12 block grant so that the states could get this money and tailor
13 their own AFDC program to meet the needs of that particular
14 state.

15 Do I understand that you are not proposing we do that at this
16 time?

17 Senator Moynihan. Not at -- if the Committee wishes to
18 take up the larger proposal, I will. I don't believe there is
19 that desire right now, and therefore I am not unless someone --

20 Senator Curtis. I was going to suggest that if you did that,
21 you give the block grant authority on the expenditure side as
22 well as on the revenue side, and take out of existing law
23 the so-called incentives for the States to raise grants because
24 they can adjust them according to their own needs. But if we
25 are not taking that up, that's all right.

1 Senator Moynihan. I think we are not this afternoon.

2 Senator Curtis. And what you are proposing is just a one
3 year cost of living increase.

4 Senator Moynihan. In effect, the proposal, Senator Curtis,
5 will be that in fiscal 1979, we provide an increase, in effect,
6 a fiscal relief based on the exact same formula we agreed to
7 for fiscal '78k of \$400 million.

8 Senator Curtis. For which program?

9 Senator Moynihan. For the AFDC.

10 Senator Curtis. Now how much for Title XX?

11 Senator Moynihan. For Title XX we propose what is in fact
12 the actual, at a rate of 6.5 percent cost of living increase,
13 it would come out to \$286 billion. I propose we round it to
14 \$2.9 billion, which is exactly what the House has, and make it
15 a one year proposal.

16 Senator Curtis. Give it the same increase the House --

17 Senator Moynihan. That's right, and that is an increase
18 of \$200 million over the existing authorization.

19 Senator Curtis. Not the -- \$2.9 billion is not an increase.

20 Senator Moynihan. Well, yes, sir, the authorization for
21 fiscal '78 is \$2.7 billion.

22 Senator Curtis. So your increase is just \$200 million, not
23 over \$2 billion increase.

24 Senator Moynihan. Yes, sir, \$200 million. Forgive me.

25 It is purely cost of living increase. There has been no cost of

1 living increase in six years now.

2 Senator Curtis. Well, so far as I am concerned, I am ready
3 to accept your reform elements, but I also realize that in a
4 tax bill, we do have so many details here that it should be
5 undertaken when a workman like job can be done, and I would have
6 no objection to the one year proposal.

7 The Chairman. Let me just get a thing or two straightened
8 out.

9 In the first place I want to talk about, I want to get
10 clear the reason why the Senator is offering the amendment on this
11 bill.

12 We have a substantial welfare bill out there on the calendar.
13 It has hold orders on it, and there is enough controversy in
14 it so that it is doubtful that we can pass that bill this year.
15 I would like to pass it, but the question of whether we can or
16 not is subject to considerable doubt. It is not scheduled, and
17 so the possibility of taking care of what is in that bill looks
18 rather dismal at this moment.

19 All right, now --

20 Senator Matsunaga. Mr. Chairman, is that H.R. 7200?

21 The Chairman. That's right, and I would like to pass it, I
22 would like to see it pass, and I would be glad to help, but as
23 of now it is not scheduled to be passed in this Congress, and
24 maybe if we can get some part of it solved, maybe we can pass it.
25 There might be some hope, but it looks like it is the kind of

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1 debate that it would drag into, it is time that leadership doesn't
 2 have scheduled and I doubt can schedule now. So if you are
 3 going to do anything about the Title XX problem, that has been
 4 sitting here a long time and it needs to be taken care of. You
 5 need to find a good strong horse to put your rider on because
 6 otherwise it will probably get bogged down on the same thing that
 7 you have in H.R. 7200.

8 Now, in addition to that, we passed what was the Moynihan
 9 amendment, you might say, last year, and that was to provide
 10 fiscal relief, and generally the feeling was that a comprehensive
 11 welfare bill would be passed this year and therefore it wouldn't
 12 be necessary to continue the fiscal relief provision that the
 13 Senator offered last year. Well, now, that is just not in the
 14 cards. It is not going to happen this year. And so the
 15 states will be without, not only would they be without anything
 16 to take care of the increase in costs that has occurred and the
 17 increase in the erosion of the dollar, but they would not be with
 18 the funds to even continue what they have been doing even allowing
 19 for inflation, they couldn't even take care of that, they
 20 couldn't even do what they have done without allowing for
 21 inflation, put it that way. So that at a minimum we ought to
 22 extend what we have done last year and we ought to seek to
 23 adjust that for the increase in the cost of living.

24 Is that in the Senator's amendment?

25 Senator Moynihan. Yes, we haven't made any real increase.

1 Last year we were budgeted at about \$350 million. Now we are going
2 to go to \$400 million. We did not get the whole of it last year.
3 We got only half of it. The other half is stuck in H.R. 7200.

4 But it continues what was part of the expectation that would
5 be provided in fiscal relief this year.

6 Senator Nelson. Mr. Chairman.

7 The Chairman. Yes, sir, Senator Nelson.

8 Senator Nelson. I think it is wise at this time to go along
9 with the one year extension and have some hearings on the block
10 grant question, and I certainly am prepared to vote for that.
11 If you are going to add something to Title XX, I would like to
12 suggest an amendment that may affect more than one state.

13 In Title XX, the federal law requires that the state use
14 either the federal fiscal year. Wisconsin state statute
15 requires that the counties use the county fiscal year. I would
16 only wish to add one amendment which would then read in full that
17 the state must use either the federal fiscal year or the state
18 fiscal year, or at the state's option, the county fiscal year.

19 You looked at that question, I believe, Mr. Humphreys, is
20 that correct?

21 Mr. Humphreys. Yes, there doesn't seem to be any good reason
22 why a state couldn't pick any year it wanted.

23 Senator Moynihan. That is entirely agreeable, and the
24 subject having been raised, it would be a technical but important
25 amendment, Mr. Chairman. I would like to propose an amendment which

1 Senator Moynihan. Right, and as I say, that chart was
2 designed to confuse everybody, and it is the one unmitigated
3 success we have had.

4 That means that if we went to 75 percent funding under the
5 block grant plan, that minus should be read to mean the amount
6 that Georgia, for example, would be over 100 percent financing.
7 That plan would be --

8 Senator Talmadge. In other words, it is just the opposite
9 of what the letter said.

10 Senator Moynihan. Yes, and that is -- well, you do follow
11 that, don't you?

12 Senator Talmadge. I accept the Senator's answer.

13 The Chairman. It is the same thing like voting on a
14 motion to table. When you say yes, you mean you are against the
15 amendment.

16 Mr. Stern. Mr. Chairman, there are several provisions that
17 were included by the House in their Social Services bill that do
18 relate to an October 1st deadline, and I would hope that after
19 the Committee is done with the tax bill, that at perhaps another
20 mark-up session, that you could consider those.

21 They concern things like postponement of dates during
22 which childcare requirements would have to be met and some things
23 like that that would need to be postponed.

24 The Chairman. Are you willing to modify that?

25 Senator Moynihan. Yes.

1 Mr. Stern. I am not suggesting we modify that, but at
 2 some point when you are done with the tax bill, you take those
 3 up.

4 Senator Moynihan. If would be very helpful if we could.

5 Mr. Chairman, that is my proposal, and it seems to me it
 6 takes care of the next year, and then next year we can start
 7 all over again on welfare.

8 Senator Byrd. May I ask a question?

9 Senator Moynihan. Yes.

10 Senator Byrd. This chart that was submitted just a few
 11 minutes ago --

12 Senator Moynihan. Yes, sir.

13 Senator Byrd. Estimated distribution of fiscal relief.

14 Now, is that your proposal at the moment?

15 Senator Moynihan. Yes, sir. That describes exactly the
 16 formula we agreed to last year when we distributed money, some
 17 fiscal relief on a bill we passed a year ago. We made it a
 18 combination 50-50 of a state's share of general revenue sharing
 19 and a state's share of AFDC expenditures. This meant that the
 20 high, the states that have high welfare costs got less than
 21 they otherwise would.

22 Senator Byrd. Well, the way I read this chart, 28 percent
 23 will go to two states, California and New York, and 45 percent
 24 will go to five states, California, New York, Michigan, Illinois
 25 and Pennsylvania.

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1 Senator Moynihan. That's about right. I don't have the
2 actual thing here. That's where the expenditure is. A quarter
3 of the AFDC population of this country is in New York and California

4 Senator Byrd. Now, this provides also for the indexing,
5 does it?

6 Senator Moynihan. No, sir, we haven't -- this does not
7 provide for anything more than one year. Therefore it doesn't
8 permit us to do anything -- this commits you to no principle
9 about changing the welfare arrangements. This is a one time
10 fiscal relief in precisely the pattern we agreed to last year.

11 Senator Byrd. Well, the fact sheet says in subsequent years,
12 block grants will be adjusted in the following ways: A, increase
13 to keep pace with changes in the consumer price index.

14 Senator Moynihan. That is right.

15 Senator Byrd. So that is an indexing of the program.

16 Senator Moynihan. But Senator, we are not presenting that
17 proposal at this time.

18 Senator Byrd. But it is the same proposal except you are
19 presenting it only for one year, is that it? Except for the
20 block grant aspect of it.

21 Senator Moynihan. Well, it doesn't change the present
22 arrangement. It just provides a one year bit of fiscal relief,
23 and any real change in the system we think should await discussion
24 next year, unless someone wants to raise it on the floor.

25 Senator Byrd. But apparently the program has in mind

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1 an indexing.

2 Senator Moynihan. That's what we have in mind, but you are
3 not committed to anything like that if this -- this measure
4 doesn't commit you to anything about this proposal.

5 The Chairman. Pure fiscal relief proposal.
6 Senator Moynihan. Pure fiscal relief.

7 Senator Dole. Mr. Chairman?
8 The Chairman. Senator Dole?

9 Senator Matsunaga. Well, I had a question.
10 Senator Dole. I had a question.

11 I apologize for being late. We were offering a motion to
12 recommit the natural gas bill, which I'm certain you'll want to
13 support.

14 But just precisely what does, what, you are not bringing up
15 the block grant, the welfare relief bill?

16 Senator Moynihan. We are not at this moment. It seems to
17 be, as the Chairman said, that the tax bill is complicated
18 enough, and we just don't feel we are ready to debate or
19 decide.

20 Senator Dole. What do you do about Title XX?

21 Senator Moynihan. We are providing a one year increase
22 that precisely matches the proposal of the House of Representatives
23 \$2.9 billion, which is an increase over the \$2.7 billion authorized
24 for this year.

25 Senator Dole. And is there anything other than Title XX

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1 in your proposal?

2 Senator Moynihan. Yes. We have a one time, \$400 million
3 fiscal relief, which is exactly the amount that was contemplated
4 for this year when we acted last year, and by the exact same
5 formula that we agreed to last year.

6 Senator Packwood. You are assuming, Pat, it is one time,
7 assuming that there will be a welfare reform bill passed next
8 year.

9 Senator Moynihan. Well, that we would do something --

10 The Chairman. Well, we will assume the country will still
11 be here next year.

12 Senator Packwood. Can we vote on them separately, Mr.
13 Chairman?

14 Senator Moynihan. They are separate measures.

15 Senator Packwood. All right.

16 The Chairman. All right, all in favor of the social
17 services.

18 Senator Packwood. Wait a minute.

19 Senator Matsunaga. I just want for the record to raise a
20 question. Your amendment would include Puerto Rico, Virgin Islands
21 and Guam also?

22 Senator Moynihan. It would do so in precisely the proportion
23 they now share.

24 The Chairman. All in favor of the social services amendment,
25 raise your hand.

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1 Mr. Stern. That is not true in fiscal relief, at least
2 the formula you did last year did not affect --

3 The Chairman. All in favor of the Social Services amendment,
4 raise your hand.

5 (A show of hands.)

6 The Chairman. Those opposed.

7 (A show of hands.)

8 The Chairman. The ayes appear to have it. The ayes have it.

9 Now, those in favor --

10 Senator Danforth. Mr. Chairman, could I be heard on that?

11 I would just like to state my reasons for opposing the AFDC

12 part of it.

13 First, I think that if we are going to keep the heat on for
14 any kind of meaningful reform, which I think we are going to have
15 to have, I just don't see doing it by extending for one year what
16 we are doing now, and secondly, it is a little bit difficult,
17 I think, to explain to people why distributions are made on any
18 basis other than where the poor actually are, and that is not
19 where the distributions are made under this proposal. New York
20 has 7 percent of the nation's poor, and under this it is getting
21 what?

22 Senator Moynihan. I'm sorry, sir.

23 Senator Danforth. About 15 percent of the distribution and
24 it has 7 percent of the nation's poor.

25 Senator Moynihan. We have 16.4 percent of the AFDC

1 population, or roughly thereabouts. New York and California
2 combined have 25 percent of the AFDC population.

3 Senator Danforth. Well, let me check my figures here.

4 (Pause)

5 Senator Danforth. As I understand it, what you are talking
6 about is what the state does by way of who they cover.

7 Senator Moynihan. That's right.

8 Senator Danforth. Some states cover with both unemployed
9 parents at home, some don't but the question is, the relevant
10 question seems to be where the poor people actually live, and it
11 would seem to me that if we are going to have even a one year
12 extension, the distribution should be made on the basis of
13 where the poor live, not on the basis of state effort or anything
14 else, because otherwise you are to a block grant approach instead
15 of subsidizing people, you are indeed subsidizing states which
16 may or may not use it wisely on the basis of how they deal with
17 their impoverished. So the generous get to be more generous
18 and those who have more modest programs to deal with the poor
19 get the short end of the stick.

20 Senator Bentsen. Mr. Chairman.

21 The Chairman. Senator Bentsen.

22 Senator Bentsen. I share the concern of the Senator from
23 Missouri. The argument that had been made earlier about putting
24 the cap on this I found rather appealing, and I was ready to
25 go part way with the Senator from New York if we had that kind of

1 a result. But I don't see that in a one year approach to it,
2 and I am in the position of having more poor than New York has.

3 Now, the problem is that we do not handle that situation as
4 generously as New York. We have more severe limits on how we
5 expend the funds for AFDC. Again, I thought if we were resulting
6 in a cap on the whole program where we would have some incentives
7 for the state to try to bring about more efficiency, better
8 utilization of the funds, then I would give credit to that argument
9 that was made previously, but the one year deal, I don't see the
10 cap, and I just have to support the position of the Senator from
11 Missouri in that regard for my own state.

12 Senator Talmadge. Any further discussion?

13 Senator Moynihan. We haven't voted on it, but I would just
14 like to respond briefly, Mr. Chairman, which is that this is the
15 program Aid to Families with Dependent Children. Last year we
16 agreed to a distribution formula which did not reflect the burden
17 the states pay but precisely to take account of those states that
18 don't have many people on the program or don't pay them much and
19 so forth, we made half of it the general revenue sharing and
20 half of it to reflect actual AFDC expenditure. And what else am
21 I to say? The expenditure is there in some states disproportionately
22 to others. I mean, the State of New York has never very much
23 complained that irrigation projects and dams are in the Southwest.
24 That's where the desert is. And we are where the AFDC population
25 is. We haven't asked much.

1 Senator Danforth. Senator Bentsen is right, though. Texas
2 has 7 1/2 percent of the nation's poor families and would receive
3 3 percent of the new money. New York has 7 percent of the nation's
4 poor families and would receive 13.8 percent of the new money.

5 Senator Moynihan. Now, Senator, I mean, listen. We have
6 to keep our data in order here. What proportion of the dependent
7 families has which state? I mean, this is with respect to the
8 program of Aid to Families with Dependent Children.

9 Texas does not have 7 percent.

10 Senator Danforth. You were arguing who was on your
11 welfare rolls and not who is poor. That is different.

12 Senator Moynihan. And this has to do with financing
13 fiscal relief for welfare, that is right.

14 Senator Danforth. No, for states.

15 The Chairman. Can we vote on it? I really have to go.

16 Senator Talmadge. Ready for a vote?

17 All in favor please say aye.

18 (A chorus of ayes.)

19 Senator Talmadge. Opposed, no.

20 (A chorus of noes.)

21 Senator Talmadge. It appears in doubt.

22 Do you want a roll call?

23 Senator Moynihan. Yes, I would like a roll call .

24 Senator Talmadge. The clerk will call the roll.

25 The Clerk. Mr. Talmadge.

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1 Senator Talmadge. No.
2 The Clerk. Mr. Ribicoff.
3 (No response.)
4 The Clerk. Mr. Byrd.
5 Senator Byrd. No.
6 The Clerk. Mr. Nelson.
7 Senator Nelson. Aye.
8 The Clerk. Mr. Gravel.
9 (No response.)
10 The Clerk. Mr. Bentsen.
11 Senator Bentsen. No.
12 The Clerk. Mr. Hathaway.
13 (No response.)
14 The Clerk. Mr. Haskell.
15 (No response.)
16 The Clerk. Mr. Matsunaga.
17 Senator Matsunaga. Aye.
18 The Clerk. Mr. Moynihan.
19 Senator Moynihan. Aye.
20 The Clerk. Mr. Curtis.
21 (No response.)
22 The Clerk. Mr. Hansen.
23 Senator Hansen. No.
24 The Clerk. Mr. Dole.
25 Senator Dole. No.

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1 The Clerk. Mr. Packwood.

2 Senator Packwood. No.

3 The Clerk. Mr. Roth.

4 Senator Roth. No.

5 The Clerk. Mr. Laxalt.

6 (No response.)

7 The Clerk. Mr. Danforth.

8 Senator Danforth. No.

9 The Clerk. Mr. Chairman.

10 The Chairman. Aye.

11 Senator Moynihan. Mr. Nelson will want to be recorded as
12 aye.

13 The Clerk. He is recorded as aye.

14 The Chairman. Four yeas and eight nays.

15 Senator Talmadge. We will poll the absentees to see how
16 it is carried.

17 Do you want to recess now to 10:00 a.m., Mr. Chairman?

18 Senator Gravel. Mr. Chairman, could I bring up one thing
19 very quickly?

20 The Clerk. Mr. Gravel, do you want to be recorded?

21 Senator Gravel. No, I don't want to be recorded.

22 Senator Talmadge. Well, we had a list of items here, and
23 if we follow the list, Bentsen, Matsunaga.

24 Senator Gravel. No, it is not. A decision was just made.
25 I and Senator Dole, and I really don't know what happened, we

1 were pushing, is it a one year extension or a three year
2 extension? The whole object of the three year extension was to
3 be able to do some planning at the state and local level. Now
4 we have vitiated that whole ability for them to do anything and
5 his plan does not impact on that, so I don't understand why we
6 would back down to a one year extension when we had already
7 agreed to a three year extension to permit the planning.

8 Was there any debate as to why that was necessary?
9 I know we both had a problem. I know you were on the floor
10 and I was tied up.

11 Senator Dole. Maybe we can reconsider in the morning.

12 Senator Gravel. I would be prepared to do that.

13 Senator Talmadge. Then without objection we will stand

14 in recess until 10:00 a.m. tomorrow morning.

15 (Whereupon, at 4:44 o'clock p.m., the Committee
16 recessed, to reconvene at 10:00 o'clock a.m., Wednesday,
17 September 27, 1978.)

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