

OFFICIAL TRANSCRIPT

Bob L

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

MORNING SESSION

Tuesday, August 19, 1980

Washington, D. C.

ALDERSON  REPORTING

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EXECUTIVE SESSION

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TUESDAY, AUGUST 19, 1980

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

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8 The committee met, pursuant to adjournment, at 10:50  
9 a.m., in room 2221 Dirksen Senate Office Building, the  
10 Honorable Russell B. Long (chairman of the committee)  
11 presiding.

12 Present: Senators Long, Ribicoff, Byrd, Nelson,  
13 Bentsen, Matsunaga, Moynihan, Bradley, Dole, Packwood, Roth,  
14 Danforth, Chafee, Heinz, Wallop, and Durenberger.

15 The Chairman. The committee will come to order.

16 Gentlemen, we have had some discussion about what we  
17 might do, and I would like to make a suggestion to the  
18 committee which I think might make it possible for us to  
19 vote this week, and that is this:

20 There are a whole lot of items that we have voted on,  
21 and a lot of which we have reported even. They are items  
22 that we don't call "big ticket" items, but they are very  
23 important to the senator offering them. I would like to  
24 propose, not for the items that we have on this sheet that  
25 the staff has shown us, and not including the matter that

1 Senator Moynihan wants to bring up about the charitable  
2 contributions (we will put the charitable contributions on  
3 this sheet), but with regard to these other items, many of  
4 which have overwhelming merit that we would not vote on  
5 those prior to ordering the bill reported, but that we  
6 would, after having reported the bill, meet between that  
7 time and the time the bill is called up in the Senate, and  
8 such amendments of that sort that we wanted to add would be  
9 agreed to by the committee. As the manager for the bill I  
10 would propose, after having laid the bill down, to simply  
11 modify the committee amendments and add them to the bill.

12 We could provide whatever kind of committee document,  
13 or whatever kind of information we wanted to support it. It  
14 would not be in the committee report, but it would be in an  
15 addendum that would add to the committee report. That being  
16 the case, we would save ourselves all the time it would take  
17 to go through all these items.

18 For example, Senator Packwood has something that I want  
19 to help him with about reforestation. If he wants to bring  
20 it up, and if he wants to suggest that we put it on  
21 subsequently, fine. If it looks like the committee is  
22 disposed to suggest we add it, it will be all right.

23 When we do that there will be a lot of other  
24 meritorious items that will come in, and we could add those  
25 subsequently. But by staying out of that for now, or

1 staying out of it prior to ordering the bill reported, we  
2 would just be able to make a good deal of progress, which  
3 otherwise would be foreclosed.

4 We have talked about it in the Democratic caucus. I  
5 think that it was generally agreed to. I would hope that  
6 our friends on the Republican side of the aisle would agree  
7 with that approach.

8 Senator Dole.

9 Senator Dole. I think that we were meeting at the same  
10 time as the Democrats were meeting. I think that approach  
11 has a great deal of merit. It seems to me that we make more  
12 progress when we meet and you meet, and Mr. Shapiro and  
13 others sort of trot back and forth, and then we get together  
14 on certain areas. It saves a lot of time from the  
15 standpoint of discussing everything in detail in the  
16 committee. We are not opposed to that, but it seems that we  
17 make more progress.

18 We would like to do it this week. We have no quarrel  
19 with that. At the appropriate time, I think Senator Roth  
20 would like to offer the so-called Republican package, and  
21 have that up front. There is a good chance that this will  
22 be adopted, but if not then we would proceed to put the  
23 pieces together.

24 We certainly want to cooperate with the chairman. I  
25 don't know anybody on this side who does not. I think

1 Senator Packwood has a different view on whether or not  
2 there should be anything enacted this year, but he is  
3 certainly willing to cooperate with the chairman and other  
4 members of the committee.

5 Senator Nelson. Mr. Chairman, I think your idea is an  
6 excellent one. I think to further expedite it, I would  
7 suggest that after reporting this bill out that every member  
8 of the committee who has specific proposals to submit them  
9 to the staff. Then the staff can put them together so that  
10 we can all take a look at them. So when you have that  
11 meeting, after the bill has been reported out, and after  
12 Labor Day, we will be familiar with what is before us.

13 The Chairman. Without objection, we will agree to  
14 that.

15 Let's understand this, no one will be precluded from  
16 offering any revenue amendment he wants to offer. It is  
17 just that for those that are not big ticket items, such as  
18 the ones that are listed here, we are going to look at those  
19 after we have ordered the bill reported.

20 Let me just suggest further, if it appeals to the  
21 senators, and this is purely a tentative agreement, that in  
22 looking at the individual tax cut that we are more or less  
23 agree that we are going to confine ourselves somewhere  
24 within the figures that are on that sheet.

25 In other words, the first year costs there is something

1 suggested as low as \$6.4 billion for the first fiscal year  
2 and something as high as \$13.5 billion. The lowest  
3 suggestion on the out years being \$24 billion in 1985, and  
4 the highest figure being \$42 billion.

5 We can go higher, but I think that I would like that we  
6 tentatively agree that we are going to limit ourselves to  
7 that general area.

8 With regard to the business tax cuts, looking at the  
9 high and low figures -- They did not put an estimate in here  
10 for the ESOP proposals, but I think that is \$1.4 billion.  
11 For the business cuts that we think in terms of limiting  
12 ourselves within those figures.

13 In terms of the other proposals, you do not see here on  
14 this sheet the charitable contributions, but with the  
15 exception of that one, I think that we should think in terms  
16 of limiting ourselves within those limits.

17 If we know about what the parameters are, then we know  
18 about where we are going to come down in terms of the  
19 overall cost of the bill, if that is all right..

20 Senator Roth. Mr. Chairman, that, of course, would  
21 eliminate from consideration, as I understand it, I have not  
22 had a chance to consider them carefully these individual tax  
23 cuts.

24 The Chairman. I agree that we will have the  
25 opportunity, whenever you want to, Senator, allowing the

1 right of other senators to offers theirs, to offer the  
2 various proposals that you have offered on the floor and  
3 that you have offered on the committee. You can offer them  
4 at the beginning, and you can offer them at the end, if you  
5 want to, it is all right with me, and I think that most of  
6 the other senators would be willing to agree with that.

7 Senator Roth. That is agreeable with me.

8 I would like to say that I am pleased to see that we  
9 are talking about rate cuts here, as I understand the  
10 option. I think that this is a very important proposition,  
11 and in that sense I am pleased to see that you have proposed  
12 that. But I would like to reserve the right, at the  
13 appropriate time, to bring up the package.

14 The Chairman. Senator Nelson wanted to suggest the  
15 type of things that are in item 1 up here. If prior to that  
16 you want to suggest going ahead and voting on the proposal  
17 you have offered on the floor, it i all right with us, if it  
18 is all right with Senator Nelson.

19 Senator Nelson. Which one are you talking about, Mr.  
20 Chairman, on what chart? Is it on the rate cuts?

21 The Chairman. Yes.

22 In the various rate cuts, you have the suggestion that  
23 Senator Nelson has in mind. I think that Mr. Roth might  
24 want to offer his 10 percent across the board cut either  
25 before or after we agree on this. It is all right with me

1 to vote on it either way.

2 Senator Nelson. I made that motion the other day. I  
3 will ask that it be set aside, if Senator Roth wants to make  
4 proposal.

5 Senator Roth. Mr. Chairman, I think that we have a  
6 vote at 11:00 o'clock.

7 The Chairman. We are not voting yet, though.

8 Senator Heinz. Mr. Chairman, one thing that I think we  
9 should have on our other proposal list is a proposal on  
10 DISC, which we talked about earlier, and which we agreed we  
11 would consider.

12 Senator Nelson. Expand it or reduce it?

13 Senator Heinz. Expand it.

14 The Chairman. How much would that be, Mr. Shapiro?  
15 How much money is involved in the DISC?

16 Mr. Shapiro. I think the estimate that I understand  
17 has been given is approximately \$400 million in the first  
18 year. It goes up, but I don't remember what the out years  
19 are.

20 Senator Heinz. This goes hand and in hand with our  
21 trading company legislation.

22 The Chairman. If there is no objection, then, we will  
23 consider that proposal along with these others.

24 Senator Durenberger. Mr. Chairman, point of  
25 clarification.



1 I am not sure, if I wanted to toss refundable  
2 investment tax credit into the pot, which one of these  
3 kettles it might fall in, and whether it should be brought  
4 up later, or whether it should be under business tax cuts,  
5 or whether it should be analyzed in the mix with 10-5-3,  
6 rate reduction and other things.

7 The Chairman. I am for the refundable tax credit. I  
8 think that it might be better if we save that until after we  
9 have voted to report, just to keep these other things  
10 moving.

11 Senator Durenberger. I just want to be sure which  
12 kettle it falls in.

13 The Chairman. I want you to understand that we are not  
14 cutting off other proposals, but we are simply saying that  
15 we will confine ourselves to what we see here in voting.

16 Senator Byrd. Mr. Chairman, a point of clarification.  
17 Do you propose to vote on this sheet that we have here?

18 The Chairman. I am simply suggesting that we confine  
19 ourselves to the items that we see here, with the additions  
20 that have been suggested. In addition to that, we agree --  
21 this is purely tentative, and it does not take anything but  
22 an agreement by the committee to go beyond it -- that we are  
23 going to limit ourselves to generally the areas that are  
24 spelled out in these figures before us.

25 In other words, between the high and low figures for

1 those areas on which we are going to work, so that if  
2 someone comes up with something such as a corporate rate cut  
3 that is going to cost \$20 billion, we can say that we more  
4 or less agree that we are not planning to go all the way up  
5 to \$20 billion, and that we ought to think in terms of a  
6 corporate rate cut of about \$1.4.

7 Senator Roth. Could I make a suggestion, Mr. Chairman?

8 The Chairman. Yes.

9 Senator Roth. We do have a vote now. We do have these  
10 two sections here. I wonder if it would not be helpful, as  
11 our first step when we come back, to let the staff or  
12 whoever prepared these review what is in mind. I have not  
13 had a chance, really, to look at these. I think if we could  
14 spend the rest of the morning looking over what the various  
15 options are, and then if we are going to be in this  
16 afternoon, as it was my understanding, we can proceed.

17 The Chairman. We will have to meet near the floor.

18 Mr. Stern: We have a room for this afternoon, Mr.  
19 Chairman, S-206 which is off the floor, which will be  
20 available when you meet this afternoon.

21 The Chairman. I suggest that we meet at 2:30 over  
22 there; if that is all right.

23 Mr. Stern: Yes, sir.

24 Senator Roth. Again, what I was going to suggest, if  
25 we could spend the rest of the morning going over what has

1 been prepared when we return from the vote, then this  
2 afternoon we could begin getting down to the business of  
3 voting.

4 The Chairman. Good.

5 Senator Dole. Do you want to offer yours this  
6 afternoon?

7 Senator Roth. Let's wait.

8 Senator Dole. I assume that Treasury is in accord with  
9 what we are doing here.

10 The Chairman. Please don't try to get Mr. Lubick  
11 aboard. He hears you.

12 Senator Dole. I think that it has been helpful. If we  
13 can narrow this as it has been suggested, I don't see why we  
14 could not put it together rather quickly. It seems to me  
15 that if we reach general agreement on the different pieces,  
16 then we can sort of shape the pieces so that they fit into  
17 the puzzle.

18 I think that the process that we have been following  
19 has worked rather well. As I said, we meet on a daily  
20 basis, and so does, as I understand, your side. I think  
21 that if we don't make any progress this afternoon, I think  
22 that we can make some tomorrow morning.

23 Senator Matsunaga. Mr. Chairman, perhaps Treasury can  
24 comment on a disturbing report I heard on the radio this  
25 morning, and that is that they have calculated that there is

1 more money on the market than they had expected, so they are  
2 going to raise the interest rates again. Here we are trying  
3 to increase the supply of money so that we can stimulate the  
4 economy.

5 I wonder what the position of the Treasury is on this.

6 Mr. Sunley. I am sorry, Senator Matsunaga, I have not  
7 heard that report. Are those the money supply figures from  
8 last Friday.

9 I think that adjusting the money supply is more a  
10 function of the Federal Reserve than of the Treasury  
11 Department.

12 Senator Ribicoff. While I was on the phone, I  
13 understand that the committee meets this afternoon. We have  
14 set down, because of a time limitation, to override the  
15 President's vetoing the International Trade Commission on  
16 leather goods manufacture. This has been called at the  
17 request of Senator Heinz, Senator Danforth, and Senator  
18 Moynihan. We did set that down for 2:30 this afternoon.

19 I just wanted to call this to the attention of the  
20 members.

21 Senator Dole. Is that on the floor?

22 Senator Ribicoff. No, we have a hearing on it. A number of  
23 senators are interested in it.

24 The Chairman. Do you want to move this to 2:00  
25 o'clock, then.

1           Senator Ribicoff. We have called the hearing for 2:30,  
2 and we have witnesses coming.

3           The Chairman. You have a 2:30 hearing?

4           Senator Ribicoff. We have a 2:30 hearing this  
5 afternoon.

6           The Chairman. How long do you think your hearing will  
7 take?

8           Senator Ribicoff. I don't know. The Trade  
9 Representative wants to be heard. There will be other side,  
10 the exporters and importers, the manufacturers, the labor  
11 unions. It probably could be a hearing that lasts a number  
12 of hours.

13          The Chairman. I think that we might as well go ahead  
14 with both of them. You just go ahead and hold a hearing,  
15 and those who want to be at the hearing can be there. It is  
16 not unusual, we will just hold a hearing and hold an  
17 executive session simultaneously.

18          Senator Heinz. Mr. Chairman, one last point. I would  
19 like to have the right to bring up, possibly, as a  
20 substitute for some of the items on the list a legislation  
21 to treat pollution control expenditures as an expense. It  
22 is a major item.

23          Senator Dole. What is your substitute?

24          Senator Heinz. Pollution control equipment, and one  
25 year amortization.

1           The Chairman. I would suggest, Mr. Shapiro, that you  
2 add that to the list, and see what the cost of that is going  
3 to be.

4           Let's go vote and come back.

5           (Recess.)

6           The Chairman. It has been suggested to me that one way  
7 to get the job done is to agree on what we are going to do.  
8 So we know the areas in which we are going to vote, and we  
9 can vote either up or down on all that. And we know that we  
10 are going to limit ourselves to the big ticket items, and we  
11 know that we are going to reserve the right to submit some  
12 other amendments on behalf of the committee when the bill is  
13 brought up on the floor.

14           That being the case, it has been suggested, and I think  
15 that it is meritorious, that we do like the Senate does on  
16 occasion, that we agree that at a certain point we are just  
17 going to start voting, and need be we will keep on voting  
18 until we have completed doing our business.

19           Therefore, it is suggested, and I would like to suggest  
20 that we do this, that we agree that we will vote on  
21 reporting the bill no later than 12:00 o'clock noon on  
22 Friday.

23           Senator Dole. I think that it is an excellent idea. I  
24 have discussed it with all the Republican members who are  
25 here, and also Senator Roth. We have no objection. It

1 indicates, too, that we are serious about what we are doing,  
2 and we would like to have it done that way.

3 The Chairman. The Senate does that, and that gives  
4 every Senator who wants to make an argument or something  
5 plenty of time to explain his position and make his argument  
6 between now and then. Anybody who wants to submit any  
7 additional information can submit it between now and then.

8 I am willing to stay around here as late as anybody  
9 wants to stay around, and consider thoughts, and consider  
10 what can be suggested. The staff is willing to work extra  
11 hours, I assume, Mr. Shapiro, because you have worked  
12 awfully hard so far. We will bring the information  
13 together, and we will vote at the conclusion.

14 I think that it might be well if at this point Senator  
15 Bentsen would explain what he has in mind. He has made a  
16 speech on the floor of the Senate, but I think that it would  
17 be good if he would explain what he has in mind with his  
18 2-4-7-10 depreciation suggestion.

19 Senator Dole. Have we agreed on the 12:00 o'clock,  
20 then.

21 The Chairman. Is there any objection?

22 (No response.)

23 The Chairman. If we have not reported it by 12:00,  
24 then I would suggest that at 12:00 o'clock we just vote  
25 without further debate, if that is all right, on what we

1 have out there, just as we do in the Senate when we say that  
2 we are going to vote at a certain time.

3 Senator Chafee. Mr. Chairman, as I understand it, at  
4 12:00 o'clock, we are going to vote on some final package  
5 that we have arrived at. Prior thereto, we presumably would  
6 have a series of votes, say, just taking business cuts a, b,  
7 and c, and at some point we would vote which way we want to  
8 go.

9 The Chairman. That is right.

10 Senator Chafee. To do that, of course, we have to have  
11 a series of meetings, scheduled meetings.

12 The Chairman. My thought is that when senators know  
13 that we are going to do something, they will make their  
14 plans to be here, and they will make their plans to be in  
15 town or represented by proxy, and then we will do business.

16 Senator Roth. Mr. Chairman, could I just raise a  
17 question?

18 The Chairman. Yes.

19 Senator Roth. As I said earlier, I do hope that we  
20 will have a chance to go quickly through your various  
21 options, so that this early this afternoon I can decide what  
22 to do about the Republican tax cut. But I would also like  
23 to retain my right, whatever I do on that day, that if we  
24 vote on whatever is developed, to raise the Republican tax  
25 cut at that time.



1           The Chairman. I think we ought to have it understood  
2 that within these parameters that any senator, and  
3 particular the Senator from Delaware, has the right to offer  
4 a substitute for the whole bill, or for any part of it. Is  
5 that all right.

6           Now, let's hear from Mr. Bentsen, because I would like  
7 him to explain to those present the difference between his  
8 suggestion of the 2-4-7-10, and the 10-5-3.

9           Senator Bentsen. Mr. Chairman, let me say first that I  
10 was one of the original sponsors of 10-5-3, and I agree with  
11 the objective. The more we studied it, the more we found  
12 serious distortions in the allocation of capital. So what  
13 we have had the benefit of is a study of that, and I propose  
14 one that is a simplified cost recovery.

15           That would put assets in four different classifications  
16 where they could be written off in two years, four years,  
17 seven years, or 10 years. The general thrust of it is that  
18 it improves the depreciation by approximately 40 percent  
19 faster than the present law.

20           In addition to that, we go to open-end accounting, and  
21 that has been proven under the Canadian system. It  
22 simplifies the job substantially in keepig up with assets.  
23 You get away from the vintage accounting that you presently  
24 have.

25           The second part of it would be on structures. Instead

1 of 10 years on structures, we go to a 20-year straight-line  
2 with Section 1250 recapture on it. I think that that is  
3 much more realistic than the 10 years that they were talking  
4 about under 10-5-3.

5 Then we have one that I believe helps to address the  
6 concerns of a lot of people in the Middlewest. They are  
7 concerned that under an accelerated depreciation schedule  
8 that a lot of industries might get up and move, and go to  
9 the Sunbelt.

10 First, I think, they are under a misapprehension if  
11 they think we want them all down there. We would like a  
12 little breathing room ourselves. I believe that you have  
13 something substantially more than just a loss on the  
14 corporate ledger when you move industry.

15 You have a situation where all of a sudden your utility  
16 lines are stopped, serving no one. You have mass transit  
17 systems that are dead-ended, and no longer serving people.  
18 You have churches and schools that are half empty. You have  
19 an incredible distortion and disruption in the lives of  
20 people.

21 You have unemployment compensation. You have TRA. All  
22 of those things are not just going to be paid for by the  
23 Ohio Valley and the Midwest. They are going to be paid for  
24 by people around this country.

25 What I have proposed is a 25 percent investment tax

1 credit for buildings that are 20 years or older for the  
2 rehabilitation of those buildings. On the equipment, they  
3 would have the advantage of the 2-4-7-10.

4 The next point, I had originally set a \$50,000 write  
5 off as an option for small business. I have come to the  
6 conclusion that we probably should cut that to \$25,000  
7 because of the amount of money we are talking about trying  
8 to spend here.

9 The Chairman. I wish you would do that.

10 Senator Bentsen. I will be happy to do that, Mr.  
11 Chairman.

12 The Chairman. The cost are getting very heavy there.

13 Senator Bentsen. You are very persuasive, Mr.  
14 Chairman, and I will agree to do that.

15 They would, then, have the option of going under the  
16 2-4-7-10 with the investment tax credits, or they could go  
17 to the \$25,000 write off on equipment for the first year.  
18 With the 2-4-7-10 -- on two they would have a 2.5 percent  
19 investment tax credit. On four they would have a 6 percent  
20 investment tax credit. On 7 and 10 they would have the full  
21 10 percent investment tax credit.

22 Some people have said, why does yours level out after  
23 the third year. It levels out pretty well after the third  
24 year because this one is not phased out. This goes into  
25 full effect, where the other examples you have seen are a

1 phased in effect.

2       So you are seeing an original cost that will be  
3 somewhere between \$4 and \$5 billion, and then you are seeing  
4 at the end of 1985 a figure that runs up to around \$18  
5 billion, as I recall.

6       Once again, what we have tried to do is to establish  
7 some neutrality in the investment of capital to get away  
8 from some of the distortion. When you get to 10-5-3 that  
9 heavily favors long-life assets. For example, take the  
10 electronics industry, the semi-conductor industry there does  
11 nothing for them. If it was mandated, actually it would be  
12 a penalty for them.

13       I believe we have evened out, and we have been able to  
14 get away from some of the distortions in some of the other  
15 approaches. I would yield, Mr. Chairman, to any questions  
16 that might be asked.

17       The Chairman. I think that the Senator's proposal has  
18 a lot of merit. One thing that appeals to the Senator from  
19 Louisiana in connection with this is that this holds down  
20 the cost in the out years, in 1984 and 1985, when the costs  
21 of the 10-5-3 become so great.

22       I would ask the Senator if this is correct, but if we  
23 assume for the sake of argument that after we have thought  
24 about it for a year or two that maybe we should go ahead  
25 with the 10-5-3, would it still be possible, based on the

1 phase in schedule of the 10-5-3, for the Congress to then  
2 vote whether we wanted to be more elaborate with the  
3 depreciation arrangements, and then go for the thing that  
4 costs more money, if we wanted to do that in the out years?

5 Senator Bentsen. Well, of course, we could, Mr.  
6 Chairman.

7 What we have done here is to try to give an early  
8 impetus to the early purchase of equipment, so that we can  
9 start down the road of trying to improve the productivity.  
10 Let me also state, when we talk about supply side economics,  
11 we are not talking about turning this productivity around  
12 overnight. It is going to take time.

13 We did not get into this mess overnight, and it is goin  
14 to take a while to work out way out of it. It is time that  
15 we did some of the long term planning in this country that  
16 is necessary so we can offer hope, and we can talk about  
17 meeting this problem with production lines and not  
18 unemployment lines. This is a step down that road.

19 When they talk about this being a business tax, I must  
20 say that it is fully as much a tax for American labor, to  
21 keep jobs in this country rather than exporting those jobs.

22 Senator Byrd. Would the Senator from Texas give an  
23 example. Let's assume that a piece of equipment has a  
24 12-year life at the present time, how would that 12-year  
25 life be regarded under your proposal?

1           Senator Bentsen. That proposal would drop down to the  
2 next one. It would go to the seven because you have a  
3 minimum of the acceleration and depreciation. So it would  
4 drop to seven.

5           Senator Byrd. You have a minimum of 40 percent, is  
6 that it?

7           Senator Bentsen. Yes.

8           Senator Byrd. Every rate would drop at least 40  
9 percent.

10          Senator Bentsen. That is correct.

11          Senator Byrd. Thank you.

12          Senator Chafee. I would like to ask Senator Bentsen  
13 one question.

14                 Did I understand that if you have a piece of equipment  
15 on the two or the four that the investment tax credit, you  
16 would not get your entire investment tax credit?

17                 Senator Bentsen. That is correct. If you had it on  
18 two, you would get 2.5.

19                 The problem you run into, Senator, is that if you give  
20 the full investment tax credit, you could actually have a  
21 negative that occurs, where they would actually have a  
22 profit in that situation.

23                 Senator Chafee. One of the problems that I encountered  
24 in discussing this -- I had a proposal originally on the  
25 10-5-3, where at the three or even at the five they would

1 not get their full investment tax credit. The small  
2 business people I met with were disturbed with that because  
3 they felt that once again that threw them into the problem  
4 of going to accountants to figure which way they are going  
5 to come out the better.

6       Actually, if you don't get your full investment tax  
7 credit now, you don't get it until seven, I believe. If we  
8 kept that so that you would not get it until seven, you  
9 would not win by depreciating a piece of equipment in five  
10 years with 60 percent of the investment tax credit. You are  
11 thrown into a decision-making process that is expensive and  
12 cumbersome.

13       So I would suggest that you might take a look at the  
14 problems that are arise by reducing the percentage of the  
15 investment tax credit that a person can take full advantage  
16 of.

17       Senator Bentsen. Senator, we have, and we get into the  
18 immediate problem of someone actually having a negative tax,  
19 or making a profit off of buying the piece of equipment if  
20 you give them the full 10 percent investment tax credit, and  
21 yet a write-off in two years.

22       Senator Chafee. Let's take the four, for example. At  
23 your four, what percentage of the investment tax credit do  
24 you get?

25       Senator Bentsen. On the four, it is 6 percent.

1 Senator Chafee. As opposed to the 10 percent.

2 Senator Bentsen. Yes. Of course, you would not get 10  
3 now. You have to go to seven years to get 10.

4 Senator Chafee. I think that does present some  
5 problems because a person may not win under your proposal.  
6 They may prefer to wait the seven years, or not take  
7 advantage of the four year depreciation because they lost in  
8 the investment tax credit.

9 Senator Bentsen. We only let them go one step up to  
10 the seven.

11 Let me say, Senator, you are really never going to get  
12 away, I don't think, from their having to make a choice, or  
13 get their pencil out. They are going to have to. We have  
14 given them the alternative that they can go to a \$25,000  
15 first year write-off and not have to keep track of the  
16 asset, in effect. You cannot get much simpler than that  
17 one.

18 Senator Chafee. Thank you.

19 Senator Danforth. It seems to me that making choices  
20 always has been at the heart of depreciation. As a matter of  
21 fact, this proposal is significantly simpler than existing  
22 methods for depreciation.

23 Now, let's suppose you have three pieces of equipment  
24 that you acquire in year one, and it is in the seven-year  
25 category. Then you acquire in the second year another piece



1 of similar equipment. What would happen to that?

2 It is my understanding that under method they would be  
3 aggregated.

4 Senator Bentsen. That is correct. They go into an  
5 open account and be aggregated, and not have to go to  
6 individual following of that asset.

7 Senator Danforth. So as far as the accounting costs of  
8 the business were concerned, they would much less. It would  
9 be a much simpler process as far as the businessman is  
10 concerned than under the present depreciation.

11 Senator Bentsen. The Senator is absolutely right. It  
12 is a major simplification in accounting, and it is not some  
13 new idea that has been dreamed up that has not been tested.  
14 It has already been tested in Canada, and is working out  
15 very well.

16 Senator Danforth. Some of the initial acquisition  
17 costs, they would also be permitted to expense those in the  
18 first year; isn't that correct?

19 Senator Bentsen. Initial acquisition costs?

20 Senator Danforth. Some of the initial interim  
21 financing.

22 Senator Bentsen. That is an option.

23 Senator Danforth. It is an option?

24 Senator Bentsen. Yes.

25 Senator Danforth. Mr. Chairman, I think that there has

1 been a general consensus on the part of the committee that  
2 in this tax bill, if we are going to have a tax bill, this  
3 is the year of capital formation, and trying to rebuild our  
4 competitiveness as a country. There has been a very broad  
5 consensus that accelerated depreciation is the way to do  
6 that.

7         The basic problem with accelerated depreciation has  
8 been the cost. A simple look at this chart across the  
9 10-5-3 in out years becomes out of this world. Senator  
10 Bentsen has come up with a proposal which certainly gets  
11 around that problem, and also get around one of the  
12 criticisms of the 10-5-3, and that is its effect on  
13 encouraging people to build shopping centers and also to  
14 relocate industrial plants in other parts of the country.

15         I think that in this proposal, Senator Bentsen has  
16 solved a number of the problems that existed with 10-5-3,  
17 and has created something which seems to me to be both  
18 workable and very economical.

19         Senator Bentsen. Thank you, Senator.

20         Senator Moynihan. Mr. Chairman.

21         The Chairman. Mr. Moynihan.

22         Senator Moynihan. I would just like to put something  
23 on the record which follows from the remarks that Senator  
24 Danforth has made, and Senator Bentsen first.

25         This is called "Simplified Cost Recovery," and it seems

1 to that we have a major tax reform here, which goes to a  
2 different question than just tax rates, with the question of  
3 simplifying these decisions.

4 If I understand, at the present time -- Mr. Lubick  
5 could tell us -- I believe there are about 130, or in the  
6 range of 130 categories of equipment and structures for  
7 purposes of scheduled rates of depreciation, life use, and  
8 the time.

9 Senator Bentsen. The Senator is correct. There are  
10 130.

11 Senator Moynihan. We reduce the 130 categories to four  
12 categories.

13 Senator Bentsen. That is correct, and five with  
14 structures.

15 Senator Moynihan. Five with structures.

16 Senator Bentsen. Yes.

17 Senator Moynihan. This seems to me to be an important  
18 change. This is the Lawyers and Accountants Relief Act of  
19 1980. This might even cause distress in the world of  
20 accountancy, but let's not talk about that.

21 To get the categories from 130, which obviously is the  
22 result of the accumulation of one decision on top of  
23 another, year in and year out, and cut it down to five, this  
24 seems to me to streamline the tax code, and this is what we  
25 have been talking about. It seems to me that it would be

1 very important.

2 The Chairman. You would still leave 20 for buildings.

3 Senator Bentsen. Yes, I would. Buildings, I would  
4 leave the 20 in straight-line plus recapture, and that would  
5 be substantially faster than you are seeing on some  
6 buildings now.

7 The Chairman. I think I heard from the real estate  
8 people to the effect that they would hope that the recapture  
9 part would not be in.

10 It is not there now, is it, this recapture?

11 Senator Bentsen. Yes. Under the present law you have  
12 a recapture if they go to a depreciation schedule beyond  
13 straight-line. You certain have that. What this proposes  
14 is 20 years where you have industrial structures normally 35  
15 years, and apartments normally 30 years, and 40 years for  
16 commercial structures.

17 This would include the components, so they would have  
18 the option of going straight-line for 20 years, including  
19 the components.

20 Senator Bradley. The recapture provision of your  
21 approach is the same as in present law.

22 Senator Bentsen. That s correct.

23 The Chairman. Are there any further questions about  
24 this at this moment? I would rather not vote, but I wanted  
25 the senators to discuss it so that they understand it, to

1 the extent that they can.

2 Let me suggest that we talk about the capital gains  
3 provision. Isn't this what the Senate voted, Mr. Shapiro?

4 Mr. Shapiro. That is correct. This is the provision  
5 that the Senate voted in the last tax cut in 1978. It is a  
6 70 percent exclusion, which means that you would include 30  
7 percent of your capital gains in income. It would reduce  
8 the maximum tax on capital gains down from the present 28  
9 percent level to a 21 percent level, and possibly lower to  
10 the extent that the tax rate is reduced.

11 The Chairman. It seems to me that this is what the  
12 Senate voted. I think all the evidence indicates that we  
13 were right. In fact, I have not seen those who voted  
14 against it complain about it since that time. I think the  
15 evidence all tends to support it. To the extent that we did  
16 move in this area, we were right. I just think that this is  
17 something that is unfinished business that we ought to take  
18 care of.

19 Senator Danforth. Am I correct that there is no  
20 revenue loss?

21 The Chairman. Mr. Lubick might argue about that. He  
22 might contend that there is some.

23 What is your position, Mr. Lubick?

24 Mr. Lubick. Mr. Chairman, I don't believe we are able  
25 to say, until the returns for last year, which was the first

1 real year of operation, have been collated. We just don't  
2 have the data yet. We had indicated at the time it was  
3 considered that we thought the reduction would produce an  
4 initial unlocking of a substantial amount of realizations,  
5 which would then level off.

6 Again, it is very difficult to judge just on the basis  
7 of one year, but we don't have the one year of evidence at  
8 this time.

9 The Chairman. On the other hand, you don't have and  
10 you never are going to have the evidence to show the  
11 feedback. This is something we discussed before.

12 Here is a person with an old building, and here is  
13 someone else who can use the building. Let's say that it is  
14 sitting there idle, the person who can use the building buys  
15 it. He refurbishes it. It fixes the thing all up. He  
16 spends a lot of money doing all that, but then it is a good  
17 building.

18 That provides jobs. It brings income. It does all  
19 kinds of things that we ought to be trying to encourage  
20 these days. That just does not show in the estimates. They  
21 don't have any way to estimate the fact that the person who  
22 buys the building had a higher use for it than the person  
23 who is selling it.

24 The result is that it brings about a transaction that  
25 creates a lot of additional employment. It creates wealth

1 because people pick up these structures. Otherwise, it is  
2 not a good deal to make those transactions.

3 There are all types of situation where if it were not  
4 for the tax, people would engage in putting property into  
5 commerce which would increase the gross national product,  
6 increase the income.

7 So I am convinced that while the Treasury will insist  
8 that there is a loss that is reflected here, that this 70  
9 percent exclusion will benefit all taxpayers, isn't that  
10 correct, Mr. Shapiro, because you only pay on the 30  
11 percent. Now, of course, there are some people who benefit  
12 by not taking capital gains, I guess, in the low tax  
13 brackets.

14 Mr. Shapiro. That is correct. All taxpayers would  
15 benefit generally to the extent of the exclusion. The ones  
16 that have a distinction are in the corporate area. Some of  
17 the corporations are better off at the lower corporate  
18 income tax rate rather than the capital gains rates. As far  
19 as individuals are concerned, though, all individuals that  
20 have capital gains would benefit.

21 The Chairman. It seems to me that this is something we  
22 have done before, and we ought to do that. I would like to  
23 let Mr. Chafee explain something about Section 911 because  
24 he has been active in that, and I think that he is right  
25 about it. I am not saying that you could not improve on it

1 in one respect or the other, but I think he is fundamentally  
2 correct.

3 Senator Chafee, do you feel that you could explain it?

4 Senator Chafee. Yes, Mr. Chairman.

5 We have had considerable hearings on this, and the  
6 problem is as follows. Up until a few years ago, we have  
7 had the same system that every other industrial nation we  
8 know of, anyway, has, and that is that their citizens who  
9 are working abroad, and you can choose some period that they  
10 can stay abroad, will not have their income taxed by their  
11 native country.

12 Then we changed the law in 1976, I think, and applied  
13 the full U.S. income tax to the income earned abroad by  
14 Americans. The result of this has been that the American  
15 companies pay the American an additional amount in order to  
16 compensate for the fact that he is now paying taxes abroad.  
17 Frankly, somebody does not want to work in Saudi Arabia if  
18 they are going to be taxed like they are in the United  
19 States.

20 So the American companies that hire Americans over  
21 there have to pay an additional amount for those Americans  
22 working there. The result of this is that the costs to hire  
23 Americans abroad become so substantial for these companies  
24 that they do not hire Americans, but instead they hire a  
25 third country national, that is, from Great Britain, or from



1 Germany, or wherever it might be.

2 This has had a doubly deleterious effect. First, it  
3 has reduced the number of Americans that are on the payrolls  
4 of American companies abroad very, very dramatically. We  
5 have a whole series of testimony principally from  
6 construction companies, and other companies as well.

7 The other effect which is less directly calculable is  
8 the fact that you do not have an American working for an  
9 American construction company abroad, or some other company  
10 abroad, and that the person who serves in the American's  
11 place tends to order the equipment from his native land, not  
12 because he is trying to do in America, but instead he is  
13 ordering equipment that he is familiar with.

14 We had a great deal of testimony on that as well, that  
15 the British tend to order British equipment. They know it.  
16 They are familiar with it. They rely on it. The West  
17 Germans do the same, and whoever it might be.

18 We had a presentation of a Chase econometric study that  
19 was very dramatic in the loss of jobs to America. I thought  
20 that it was a little over-dramatic. Mr. Lubick went even  
21 further than I did. Nonetheless there is no question but  
22 that this is a real loser.

23 The astonishing thing is that if we required no tax at  
24 all on earned income -- we are only talking about earned  
25 income, not unearned income -- abroad, the loss in revenue

1 would be, I believe, something like \$350 million a year  
2 above what we now permit in exclusions.

3 What I have proposed is that the first \$50,000 of  
4 earned income abroad will be excluded from the U.S. income  
5 tax. If the individual serves more than two years, then his  
6 exclusion would rise to \$65,000.

7 In the really industrialized countries, such as  
8 Switzerland, th U.K., Canada, or wherever it is, the person  
9 is hit with very steep taxes from that country anyway. So  
10 you are not going to have the example of somebody living in  
11 Canada and getting away with paying no tax. He is going to  
12 pay a very steep Canadian tax.

13 Where you are really going to help out is in the lesser  
14 developed countries. This is where you are going to  
15 encourage the presence of Americans. It would be in the  
16 Philippines. It would be in the Middle-East. It would be  
17 in Africa. It would be where those countries do not have  
18 heavy native income taxes themselves.

19 The Chairman. Actually, the fact that we have a high  
20 income tax would encourage these developed countries to tax  
21 our people at a higher tax rate because if our treasury does  
22 not get their money, their treasury does because of the tax  
23 credit, which I think is a sound principle, where one nation  
24 credits the other nation for the taxes paid in that  
25 country.

1           It is amazing to me that some people have not  
2 understood that. They want to look upon the tax paid in a  
3 foreign nation as a deduction. That is completely contrary  
4 to all principles of taxation. As among equal sovereigns,  
5 the principle is that you always credit for the tax paid  
6 elsewhere.

7           For example, between one state and another state, if  
8 you pass a sales tax, to the extent that you paid it, let us  
9 say, in New York, you don't owe it in Louisiana, or vice  
10 versa. Or, to the extent that you paid an income tax in New  
11 York, you don't owe an income tax in Louisiana. They have  
12 tried to work it out on that basis.

13           They have tried to work out a formula that is based on  
14 the amount of business you did in one state, you pay a share  
15 of it there and a share of it here. But they don't view it  
16 as a deduction. As between equal sovereigns, you credit for  
17 the tax paid to the other sovereign.

18           When you look at the situation applied to these less  
19 developed countries, it has the effect of precluding  
20 Americans from doing business there.

21           Someone told me that the purchasing agent for ARAMCO,  
22 Arabian-American Oil Company, used to be an American, but  
23 now he is an Englishman. Think of all the business that  
24 gives to the United Kingdom. They have a fellow there whose  
25 loyalty is to England.

1           Senator Bentsen. Mr. Chairman, we had nine days of  
2 hearings in the Far-East, and they substantiate what Senator  
3 Chafee has stated. I strongly support that. I have a  
4 comparable bill. It varies somewhat, but it is trying to  
5 get to the same objective he is.

6           Time and time again, we listened to accountants who are  
7 making out tax returns of third country nationals and  
8 American national abroad, and then we were talking to the  
9 people who were hiring them. They said, "Frankly, it is so  
10 much cheaper to hire a third country national under these  
11 tax provisions, so that is where we are moving."

12           Senator Bradley. Mr. Chairman, I have heard the same  
13 stories.

14           I am curious, why did you select the \$50,000 and  
15 \$65,000 exclusion, instead of excluding all the income?

16           Senator Chafee. Frankly, I did it because I thought we  
17 had a better chance of getting it passed. There are some  
18 senators who launch into dissertations on rich movie  
19 actresses going abroad and lolling on the Riviera with  
20 ermines and pearls, in the winter that is, and that this is  
21 just a big give-away.

22           (Laughter.)

23           Senator Chafee. Why shouldn't they be subjected to the  
24 tax. Therefore, I took the \$50,000, and increased it to  
25 \$65,000 in two years. I thought that there would be less of

1 a dispute, less hassle.

2 Senator Bradley. I think that there is a strong  
3 argument for it being greater, frankly. I don't know if  
4 there are 51 senators who would make the argument about  
5 ermines and pearls, but I certainly can support \$50,000.

6 Senator Chafee. We had some very interesting hearings,  
7 and I asked those who were from abroad which they would  
8 prefer, and oddly enough they went with your view.

9 (Laughter.)

10 Senator Chafee. I don't know. I would have to leave  
11 it to the judgment of others as to whether we would get to a  
12 lot of trouble with excluding it completely. I would be  
13 satisfied myself to take this step, conscious that if  
14 inflation causes problems we would increase it in future  
15 years to some degree.

16 How do you feel, Lloyd.

17 Senator Bentsen. I think that we probably ought to  
18 keep some limitation on, so that we don't run into that kind  
19 of an argument. Actually, I have a \$60,000 exclusion, but  
20 there is not that much difference. I did the housing 16  
21 percent of the GS-14s, and there is some modest difference  
22 in residency.

23 I really don't want to see us charged with someone  
24 making a very high income and paying no tax.

25 Senator Chafee. I feel more comfortable with this,

1 too.

2 Senator Bentsen. Yes.

3 The Chairman. Mr. Lubick, do you want to comment on  
4 that?

5 Mr. Lubick. Mr. Chairman, we have been studying this  
6 issue a great deal, and we had numerous conversations with  
7 Senator Bentsen and Senator Chafee. Indeed, we think that  
8 there is a fundamental principle involved that American  
9 citizenship does carry with it the obligation to pay some of  
10 the costs of government. To that extent, we have an income  
11 tax that is applicable to people in the United States, and  
12 we think that our citizens abroad do get protection from the  
13 Federal government that ought to be compensated.

14 Having said that, we do recognize that there is a very  
15 serious problem, in particular the examples of Middle-East  
16 construction countries. The difficulties of getting people  
17 to go to live in undesirable situations at the same  
18 compensation that they would get for working in the United  
19 States does create a problem.

20 It appeared to us, however, that you have a very  
21 different situation with Americans who have earned income  
22 derived from the Bahamas, or European countries. We have  
23 heard no complaints in that area.

24 So we have testified before you, Senator Chafee, that  
25 you might very well give some serious consideration to an

1 expansion of the exclusion along the lines that you have  
2 been talking about in these targeted areas where it is  
3 appropriate to encourage American export policy and where  
4 there may be overriding reasons to dispense with the  
5 citizenship basis of taxation.

6       So we think that an appropriate way to handle that  
7 might very well be to allow an expanded exclusion in  
8 hardship countries, which is pretty much all of the third  
9 world, all the Middle-Eastern countries, and the African  
10 countries, and a number of others, and to retain the  
11 existing system of allowing deductions for the extraordinary  
12 expenses of living in the European countries or Japan --  
13 excess housing costs, and costs of return trips -- that were  
14 in the bill that you passed in 1978.

15       It seems that that combination would satisfy the  
16 problems which you have in dealing with our ability to  
17 compete in these Middle-Eastern countries, and in the  
18 developing world. We don't seem to have that same problem  
19 in the highly developed European countries and in the resort  
20 areas. Therefore, we could see a reconciliation of the two  
21 objectives: One, to encourage expansion of our export, and  
22 to get Americans to go where it is unpleasant to go, and  
23 where it is a hardship to live; and to protect those in the  
24 developed countries, where you don't have the same need for  
25 it, and preserve the same citizenship basis, but allow for

1 their extraordinary expenses.

2 The Chairman. Let me turn to this, and see if we can  
3 help give the staff some additional suggestions.

4 I just don't know of anybody, on these proposal things  
5 for the tax cut, who would support this number V, which  
6 says, "Same as No. 2, except the smaller ZBA." What is  
7 that?

8 Mr. Shapiro. That is the standard deduction amount.

9 The Chairman. "... except the ZBA and smaller rate  
10 cuts." I don't know of anybody who is for that. I would  
11 like to suggest that we just drop that option. It helps to  
12 narrow what the staff is going to do.

13 Basically, IV, that is the Roth-Kemp proposal, I would  
14 think that we would be considering that one. If Senator  
15 Roth wants to offer it, he will muster his evidence for that  
16 one.

17 Mr. Shapiro. Senator Long, that No. IV is not the  
18 Roth-Kemp as such. No. IV is rate cuts only, meaning that  
19 it does not have any change in the personal exemption, or in  
20 the standard deduction.

21 The Chairman. That is rate cuts only.

22 Mr. Shapiro. That is right.

23 The Chairman. It seems to me that we are not going to  
24 do that. We can talk about it if we want to, but I believe  
25 that we are going to take the view that somebody -- For



1 example, Mr. Moynihan is going to make a strong fight for  
2 something about the marriage penalty. I think that we will  
3 do something for the marriage penalty, but even if we don't,  
4 we are going to do something to take into account the Social  
5 Security tax. It seems to me that by putting it all in rate  
6 cuts, we are not going to do that.

7 This would limit you, then, to where you are going to  
8 be looking at the options in the top three. That is, the  
9 rate cuts, the exemptions, and the zero based amount, and  
10 the increased in earned income tax credit. You are going to  
11 be looking at how much of a rate cut you want. It seems to  
12 me that this is basically what we want to be thinking about  
13 here.

14 Mr. Shapiro. That is right, Senator.

15 As I understand, it seems like from talking to the  
16 members, both on the Democratic side and Republican side,  
17 there is a general agreement to support some reduction of  
18 the marriage penalty, also taking into account the  
19 charitable contribution, maybe provide alternatives with and  
20 without. As far as rate brackets in general, to have  
21 general reductions in rates across the board.

22 The Chairman. Yes.

23 I believe that we could pretty well agree here, and  
24 from talking to other senators I gained the impression, that  
25 at least to some extent that they want an across-the-board

1 rate cut. Maybe we cannot go as strong as 10 percent.  
2 Senator Byrd said that he thinks we ought to cut the rates  
3 for all.

4 I think that everybody is going to get something.  
5 Those in the starting brackets, we are going to increase the  
6 zero base and we are going to give them a 100 percent tax  
7 cut, and I think that we could take this into account.

8 I hope that when you get your chart together, you will  
9 pick some figure, whether it be five, seven, or eight,  
10 somewhere in there, and say: "This is what this amount of  
11 tax cut will do across the board, and then here are these  
12 other people who are going to get more than that much  
13 because we are going to give them the adjustment which will  
14 take care of them in order to offset the Social Security tax  
15 increase. These people are going to get a better break  
16 because they are hard-squeezed by the inflation." So taking  
17 all that into account, we will then look at what we can do  
18 for the rest of them.

19 I would think that as far as the people who are making,  
20 let us say, \$40,000 and above, as far as people in that  
21 category, the rate cut will do the same thing for them that  
22 the cost of living increase does. At least you can see when  
23 you start putting the table together.

24 I really hope that you can show us enough, and that  
25 with the help of the Treasury you can muster enough chart

1 and blackboard material that you can give us, so that we can  
2 see how this would tend to work out because in some cases it  
3 might be that in a given tax bracket, at \$40,000 for  
4 example, it might be more to the fellow's advantage to take  
5 it all in the rates, rather than to take it partly as some  
6 gimmick to try to make him whole for inflation.

7 Obviously, you are going to have some theory for all  
8 that in working it out, but hopefully by tomorrow you are  
9 going to be able to give us a pretty good suggestion as to  
10 how we can do this.

11 Senator Matsunaga. Mr. Chairman, the rate cut, as I  
12 understand it, is intended to compensate for the  
13 inflationary rate which would take wage earners into the  
14 upper bracket whenever they are given wage increases to  
15 compensate for inflation. Am I right?

16 The Chairman. That is right.

17 You can either do it by a rate cut, or by increasing  
18 the exemption. There is more than one way to do it.

19 Senator Matsunaga. So, if I am correct, then the staff  
20 would need to take into consideration the impact upon  
21 particularly the lower income brackets.

22 The Chairman. The lower income people are going to  
23 have to get something extra to take care of their Social  
24 Security increase, and also the inflation that has hit  
25 them. Is that right?

1 Mr. Shapiro. That is right. The earned income credit,  
2 as well as some of the other options, are a way to deal with  
3 those in the lower income brackets.

4 The Chairman. If there is no further discussion at  
5 this point, we will meet this afternoon.

6 Mr. Stern. Yes, at 2:30 in room S-206 of the Capitol.

7 The Chairman. S-206 is the reception room?

8 Mr. Stern. It is right off the Senate floor.

9 (Whereupon, at 12:30 p.m., the committee adjourned, to  
10 reconvene at 2:30 p.m., the same day, in Room S-206, The  
11 Capitol.)

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