

OFFICIAL TRANSCRIPT

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COMMITTEE ON FINANCE

UNITED STATES SENATE

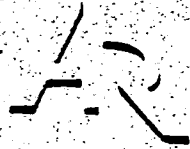
EXECUTIVE SESSION

MORNING SESSION

Thursday, August 21, 1980

Washington, D. C.

ALDERSON



REPORTING

400 Virginia Ave., S.W. Washington, D. C. 20024

EXECUTIVE SESSION

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THURSDAY, AUGUST 21, 1980

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

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

Present: Senators Long, Ribicoff, Nelson, Moynihan,
Boren, Bradley, Roth, Danforth, Chafee, Heinz, and Wallop.

The Chairman. I would like as the first order of
business for Mr. Shapiro just to explain what these rate
cuts are so that the people understand. I am not sure that
he has enough copies for all the senators.

Mr. Shapiro. Yes, we do, Mr. Chairman. They are being
distributed right now.

The Chairman. Mr. Shapiro, would you explain what the
rate cuts are?

Mr. Shapiro. Mr. Chairman, the sheet that is being
distributed to you includes the committee's decision
yesterday. The only item that you did not see yesterday was
the actual rate schedule which is set forth in the middle of
the page. You will see on the left-hand side the present

1 law rate, and on the right hand side the reduction in
2 rates.

3 The lowest bracket was reduced to 12 percent. As you
4 can see the second rate, 16 to 14 percent. As you go up the
5 rate brackets, you see each of the changes. That was the
6 only thing that you did not see yesterday, how actually it
7 was broken in each of the brackets.

8 At the bottom of the page you will see the revenue
9 effects, and the estimate of the staff yesterday was pretty
10 close to being accurate. We said, \$22 billion in the
11 calendar year, and as you can see in the last column at the
12 right-hand side at the bottom of the page for calendar year
13 1981 the full revenue effect is \$22 billion.

14 On a fiscal year, you will see that 1981 is
15 approximately \$10.8 billion, but it goes in 1985 to \$42
16 billion. It is \$24.4 billion in rate cuts.

17 The reason why the rate cuts are a little more in the
18 total than the earlier package in 1985 is that rate cuts
19 tend to increase as a faster pace than do increases in the
20 personal exemption or the zero bracket amount. As you make
21 modifications by shifting some of the zero bracket amount
22 increase to rate reduction, you will find that that 1985
23 figure is at a higher level.

24 The Chairman. Let me ask that we hold up temporarily
25 because I think we have got enough people here to do

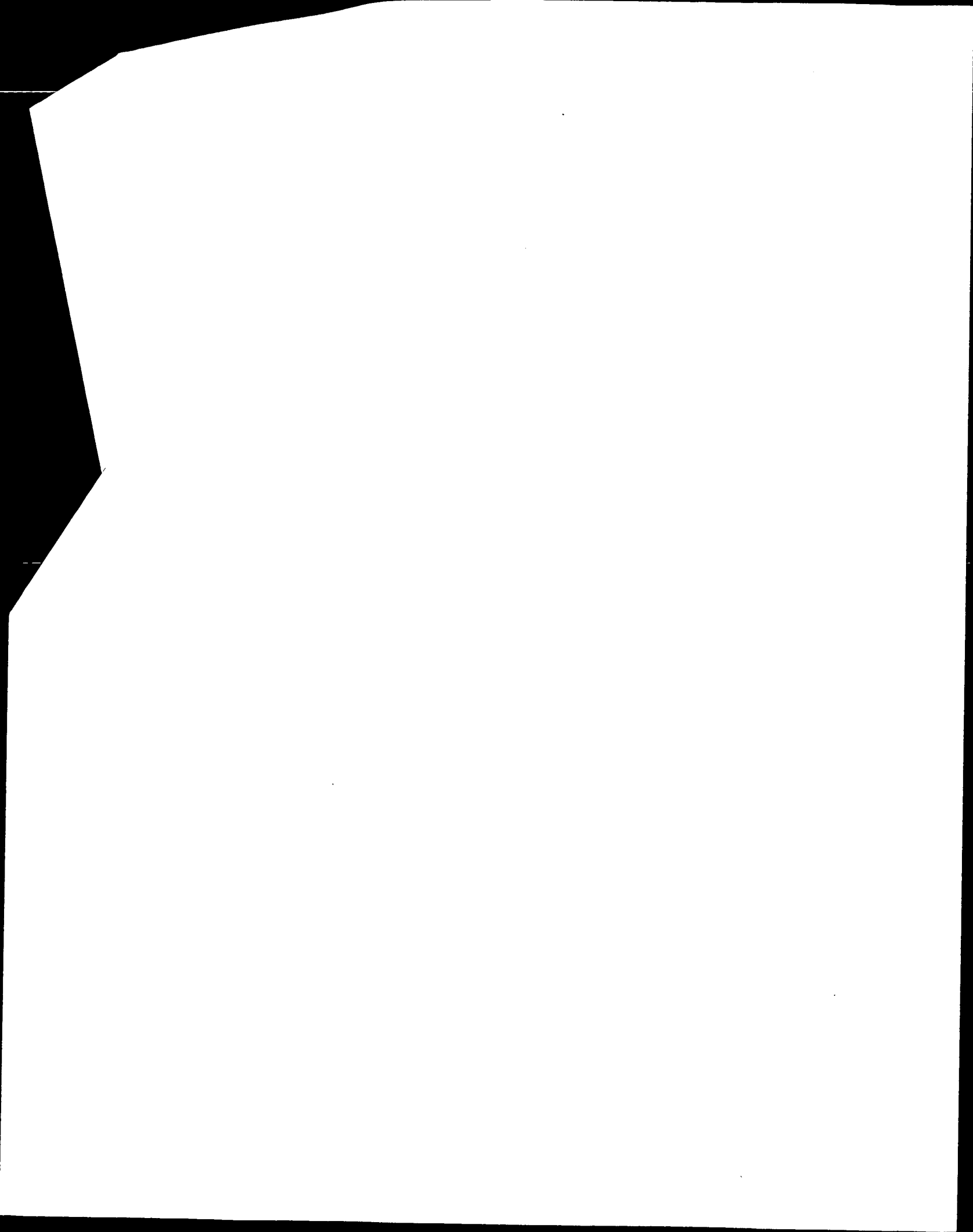
1 business. Mr. Moynihan has been trying to get recognition.
2 Senator Moynihan. Thank you, Mr. Chairman.
3 We have on our list of things that we wish to deal with
4 in this bill the question of capital gains. You recall,
5 in 1978 this committee raised the level of the gain
6 exemption to 70 percent. That would have had the effect of
7 reducing the effective tax to 21 percent. We were not able
8 to get that measure in conference, and we were not able to
9 get it in conference.

10 In the interval, however, we did make a reduction.
11 In the interval we have learned what a very successful
12 that was in taxation. The early loss anticipated by the
13 Treasury has been much less than imagined. The increase in
14 new capital has been very marked in disbursements by venture
15 firms, in capital raised through initial public stock
16 offerings. It has been a success. We see it much faster
17 and much stronger than we expected.

18 Therefore, I would hope that it would be the consensus
19 of the committee that we go back to our position that we
20 have already adopted. That we raise the exemption to 70
21 percent, and with our new 67 percent rate that would bring
22 the effective rate at the top bracket to 20.1 percent. We
23 would do that for corporation capital gains as well.

24 Senator Wallop. Mr. Chairman.

25 The Chairman. Senator Wallop.



1 Senator Wallop. Mr. Chairman, I will not argue the
2 point. I will state that I have been after the 75 percent
3 exclusion, which was the original Hansen-Steiger proposal.
4 I know the Treasury does not permit itself to live in the
5 real world and is unwilling to talk about dynamic revenue as
6 a net effect to them, and will only talk about static
7 revenue.

8 In the interest of trying to get a bill, as the
9 chairman said, that has an understandable figure to the
10 Treasury -- I think the public is plainly being gipped out
11 of some returning tax dollars by not going to the full rate
12 -- I will drop off my demand and also my request that we
13 compromise to 73, which would have given us the effective
14 rate of 17.5.

15 I would suggest that we all very seriously continue to
16 look at this thing, and if it has the success that it has
17 had in the past, then it just makes sense, both from the
18 standpoint of revitalizing American industry and from the
19 standpoint of revenue to the Treasury, which apparently does
20 not want them, to come back after a couple of years of
21 exposure to this thing and get it to where I think it
22 actually belongs in this country.

23 Senator Moynihan. I would like to thank my friend in
24 that regard.

25 Mr. Chairman, I wonder if we could make that part of

1 our report, Senator Wallop's request, because there is no
2 question about the dynamic impact here, and there is no
3 question that the Senator is right about that.

4 Senator Wallop. Just for example, in the out years a
5 \$1.8 billion static cost in 1987 for a net dynamic revenue
6 tax back for them of \$8.7 billion. So the country is losing
7 nearly \$7 billion on the altar of obstinacy.

8 The Chairman. Are we ready for the vote?

9 Let's call the roll.

10 Mr. Stern. Mr. Talmadge.

11 The Chairman. Aye.

12 Mr. Stern. Mr. Ribicoff.

13 Senator Ribicoff. Aye.

14 Mr. Stern. Mr. Byrd.

15 (No response.)

16 Mr. Stern. Mr. Nelson.

17 Senator Nelson. Aye.

18 Mr. Stern. Mr. Gravel.

19 (No response.)

20 Mr. Stern. Mr. Bentsen.

21 (No response.)

22 Mr. Stern. Mr. Matsunaga.

23 (No response.)

24 Mr. Stern. Mr. Moynihan.

25 Senator Moynihan. Aye.

1 Mr. Stern. Mr. Baucus.
2 (No response.)
3 Mr. Stern. Mr. Boren.
4 (No response.)
5 Mr. Stern. Mr. Bradley.
6 Senator Bradley. Aye.
7 Mr. Stern. Mr. Dole.
8 (No response.)
9 Mr. Stern. Mr. Packwood.
10 (No response.)
11 Mr. Stern. Mr. Roth.
12 Senator Roth. Aye.
13 Mr. Stern. Mr. Danforth.
14 Senator Danforth. Aye.
15 Mr. Stern. Mr. Chafee.
16 Senator Chafee. Aye.
17 Mr. Stern. Mr. Heinz.
18 Senator Heinz. Aye.
19 Mr. Stern. Mr. Wallop.
20 Senator Wallop. Aye.
21 Mr. Stern. Mr. Durenberger.
22 (No response.)
23 Mr. Stern. Mr. Chairman.
24 The Chairman. Aye.
25 Vote Mr. Gravel aye. He wanted to be recorded as aye.

1 Mr. Stern. Mr. Boren.

2 Senator Boren. Aye.

3 Mr. Stern. I am informed that Mr. Dole votes aye.

4 The Chairman. Mr. Doles votes aye.

5 The ayes are 14, and the nays are none.

6 I would ask the staff to try to get the answers from
7 the absentees as soon as you can.

8 There is another vote going on. I suggest that we come
9 back at 2:00 o'clock. If you decide you want to hold a
10 conference or a caucus, you can between now and the time we
11 come back at 2:00 o'clock.

12 Thank you, gentlemen.

13 (Whereupon, at 12:00 a.m., the committee recessed, to
14 reconvene at 2:00 p.m., the same day.)

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