OFFICIAL TRANSCRIPT

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COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

Friday, August 22, 1980

Washington, D. C.

ALDERSON REPORTING

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

Telephone: (202) 554-2345

EXECUTIVE SESSION

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FRIDAY, AUGUST 22, 1980

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

The committee met, pursuant to recess, at 10:20 a.m., in Room 2221 Dirksen Senate Office Building, the Hon. Russell B. Long (chairman of the committee) presiding.

Present. Senators Long, Ribicoff, Byrd, Bradley, Packwood, Chafee, Wallop, and Durenberger.

The Chairman. What we are here for is not to vote to report the bill. We have voted to report it. We are here to take a look at this rate schedule that we have asked the staff of the committee to write for us. If we don't want to agree to this, we can reconsider and change it.

Incidentally, if someone can improve on it between now and the time that we call the bill up, and the committee wants to go along with the modification, I will glad when we meet just to stand there as the manager of the bill and modify the committee amendment before anybody has a chance to make proposed changes as they saw it.

I think that this is definitely an improvement over what we looked at yesterday. Would you explain, Mr.

Shapiro, how this has been changed?

Mr. Shapiro. Mr. Chairman, this individual income tax cut is identical to the one you had yesterday, except with the certain rate changes. That is, the points one, two, three and four are the same that we discussed. The point number five, in the middle of the page, there have been reductions in every single rate bracket between one and three percent.

The way the staff was able to accomplish that was to reduce some of the brackets. We have kept the same number of brackets, but we narrowed some of the brackets in order to accommodate income. But every single bracket got a reduction, and we have maintained the 12 percent low rate and the 67 percent high rate.

The Chairman. It looks good to me.

You told me that it does cost some additional money in order to do it.

Mr. Shapiro. It cost an additional almost $400 million. Once you start making modifications in the tables, and you run it on the computer, you can either add or reduce a couple of hundred million either way, depending on how it breaks when you do the rate schedules. After the rate schedules were programmed, it came out that this added an additional almost $400 million to the total.

The Chairman. The $400 million is spread up and down the whole chart.

Mr. Shapiro. That is correct.

The Chairman. Let me ask you if I have this straight, Mr. Shapiro. You moved some numbers here and there, perhaps you shifted $100 up one brackets and $100 down another brackets in order to bring this about, did you not?

Mr. Shapiro. That is correct.

The Chairman. Am I correct in assuming that this did not result in an increase for anybody in order to do that.

Mr. Shapiro. There is no increase over present law for any individual.

The Chairman. But compared to the schedule that we looked at yesterday, would there be some increase for some, perhaps a few?

Mr. Shapiro. Overall it should not be an increase. There really should not be an increase over the one from yesterday.

The Chairman. So it amounts to about a $400 million reduction. No one bracket gets any major part of it.

Mr. Shapiro. Let me correct what I just said. There may be a few cases because of the way the brackets were changed that some individuals may get a little less than they did yesterday. They would still get more than they did. They will get a tax reduction over present law. However, this table, the way it was modified and the way the brackets were changed, everyone gets a reduction, every single bracket. The marginal bracket, when you move $100 from one bracket to the other, someone who is in that $100 marginal bracket may lose as much as $1.00 or one percent on that $100.

The Chairman. I think that this is a much better proposal for the simple reason that when people look at what is in the chart, what is in the law that we voted, and look at the rates, you don't have to explain to anybody that he, in fact, gets a tax cut when he looks at the chart and sees that the tax rate is the same as it was. You don't have to explain that any longer because it shows a smaller rate in any event.

It helps to carry out more the right impression, which is that everybody gets some cut out of this tax cut rate. They all do, don't they, they all get a tax cut.

Mr. Shapiro. That is correct.

The Chairman. So this chart makes it clear that they do, and I think that it is the better way to do it.

Any further discussion, gentlemen?

Senator Ribicoff. I was just wondering if the staff has a resume of what we did yesterday.

Mr. Stern. Senator, there is a press release for yesterday's action, and for the day before. The two of them combined are a complete summary of what you have done on the bill, with the exception of these specific tax rates which you approved this morning.

Senator Ribicoff. We are asked a lot of questions, and if we don't have that before us.

The Chairman. I think that I will put it in the Congressional Record.

Senator Ribicoff. Mr. Chairman, I would like to take this opportunity of commending Mr. Shapiro and his staff, and Mike Stern and his staff for the outstanding work and dedication to duty that they have shown for the Congress and the people. I think we are very fortunate to be so served.

The Chairman. I would do likewise, but I don't want to spoil them until we get this bill passed.

(Laughter.)

Senator Ribicoff. I would say that to pass the bill is your responsibility, Mr. Chairman, and not theirs.

The Chairman. I appreciate the fine work that they have done for us. I think that it is also the view of everybody on this committee. We don't want to go too far with those plaudits until we have wrapped this up because we are counting on them doing a lot more work for us between now and the time we finally report the bill.

I want to congratulate Senator Bentsen for the line that I read in the Washington Post, which I have already plagiarized, and will plagiarize again, when he said that we are going to "fight inflation with production rather than unemployment lines." I think that it is a good line, and I am going to borrow it again before this debate is over.

Senator Wallop. Mr. Chairman, some of us saw CBS News this morning, and saw you plagiarize it quite very early this morning.

(Laughter.)

The Chairman. I thought that I would give him credit at 10:30 before he hears about the 8:00 o'clock program.

(Laughter.)

The Chairman. It looked so good that I thought I would it myself.

Then we will plan to hold our meeting -- Mr. Stern, you had made a suggestion.

Mr. Stern. Yes, sir. The meeting to consider the miscellaneous amendments would be on Tuesday, September 16, and if necessary the following days have also been set aside for committee meetings to consider miscellaneous amendments.

The Chairman. I would like to touch on another item before we break up here.

I asked you to give me a copy of that Resolution that the Democrats gave us.

We hear in the media and some other places about the fact that this bill will not be voted on even in the

Senate. Some people may have some doubt about the matter, but I for the life of me cannot find any room for any doubt. I am looking at Senate Resolution 481 sponsored by Mr. Bentsen, Mr. Robert Byrd, Mr. Stevenson, Mr. Bradley, Mr. Baucus, Mr. Boren, Mr. Riegle, Mr. Cranston, Mr. Stewart, Mr. Exon, Mr. Hart, Mr. Williams, Mr. Ribicoff, Mr. Nelson, Mr. Sasser, Mr. Long, Mr. Bumpers, Mr. Burdick, Mr. Cannon --

How many senators are there listed on that Resolution, Mr. Stern. Do you have a copy of it there?

Mr. Huddleston, Mr. Jackson, Mr. Johnson, Mr. Leahy, Mr. Levin, Mr. Matsunaga, Mr. Melchior, Mr. Mitchell, Mr. Pryor, Mr. Randolph, Mr. Sarbanes, Mr. Stennis, Mr. Talmadge, Mr. Tsongas, Mr. Bayh, Mr. Eagleton, Mr. Culver, Mr. Durkin, Mr. Kennedy, Mr. McGovern, Mr. Stone, Mr. Moynihan, and Mr. Biden.

Mr. Stern. There are 48 names that are printed here, Mr. Chairman.

The Chairman. That is 48 senators.

Senator Byrd. You can also count on 41 Republicans.

The Chairman. The Republicans had a similar instruction from their caucus, isn't that right? So they had 41 in their caucus who gave them similar instructions. That makes it 90 senators who instructed us to do what we did.

There is nothing new around the Senate of finding people of little faith, those who, the first the going gets a little rough, decide that it was not a good idea after all, and move in the other direction. But my impression about the United States Senate is that the average senator is made of firmer stuff than to go and ask us to do something, and then beat a retreat in the other direction before they do it.

I am not here to take issue with the Budget Committee. They had a Resolution that urged them to come in with a balanced budget. I don't blame them at all. They do the best they can. I recall how this got started, when Mr. Dole came out there and brought that balanced budget resolution. Then, Mr. Long offered an amendment to the Dole amendment that said, yes, they should bring this balanced budget resolution before us.

I also recall the same Mr. Dole went out there with the tax cut proposal a year later, and said that the circumstances were such that we needed a tax cut.

I am not here to argue about all that. You can reconcile the tax cut two ways. Either by reducing spending, or by suffering a deficit if you cannot get your production up enough.

In any event, this instruction to us to bring out this tax occurred a year later than that balance the budget resolution. I am perfectly willing to cooperate with the Budget Committee in doing their job.

On the other hand, I don't think the Senate is going to instruct us to do something by a 90 percent margin instructing the Republicans, and by about a 90 percent margin instructing the Democrats, and having done that then proceed to march off in the other direction. They might, but I would be very surprised.

I believe that we ought to proceed on the basis that we thought we were proceeding on, and that we are doing what the Senate wants us to do. If we do, I think that working with the Administration, if they will come aboard --

Mr. Lubick, I wish you would carry this word back to the Secretary. Just for fear that you might be delayed on the way, I will call him and tell him that I hope they will get aboard because I think that this is a good proposal. If it is good for the country, as I believe it is, there will be plenty enough credit to go around for all.

If the Treasury had a little amendment that they wanted considered, we would even be willing to take a look at it.

(General laughter.)

The Chairman. Thank you very much, gentlemen, for all the good work.

The committee stands adjourned.

(Whereupon, at 10:34 a.m., the committee adjourned, to reconvene at the call of the Chair.)

Sec. 911 would be modified to provide a special exclusion of ~~one-half~~ of an individual's export-related income, up to a ~~maximum~~ exclusion of $50,000 a year. Export-related income would include income received for the performance abroad of export-related services, or compensation for employment abroad with an employer (including a branch) substantially all of whose income is derived from the export of U.S. goods or the performance of export-related services. These would include:

(1) construction, architectural, engineering, or repair services performed in connection with equipment, structures or agricultural, construction or engineering projects located in a foreign country,

(2) services associated with the export of U.S. products (including marketing and market analysis, advertising and promotional activities, sales and distribution services, packaging and assembly, warehousing, document and customs clearing),

(3) exploration for or extraction of petroleum or other natural resources, and

(4) any other services performed overseas which are designated by the Secretary of Treasury (after consultation with the Special Trade Representative and the Secretary of Commerce) as contributing significantly to U.S. exports.

DEDUCTIONS FOR INDIVIDUAL RETIREMENT SAVINGS BY RETIREMENT PLAN PARTICIPANTS

Present law

An employee generally is entitled to deduct the amount contributed to an individual retirement account or individual retirement annuity or used to purchase retirement bonds (referred to collectively as "IRA's"). The limitation on the deduction for a taxable year is generally the lesser of 15% of compensation for the year or $1,500. The $1,500 contribution limit is increased to $1,750 for a spousal IRA. No IRA deduction is allowed to an individual who is an active participant in a tax qualified plan (or certain other retirement arrangements) in a taxable year. Also, employee contributions to retirement plans are not deductible.

Explanation of provision

Under the proposal, an active participant in a tax-qualifed retirement plan would be allowed a deduction for an amount contributed to the plan or to an IRA. The maximum deduction would be the lesser of 15 percent of compensation or $1,000. A lower limit would apply to mandatory employee contributions to the plan. Also, no deduction would be allowed to an individual covered by a plan if the individual owns more than 10 percent of the employer maintaining the plan.

In addition, for individuals who are not active participants in tax-qualified plans, the contribution limit for an individual retirement account (IRA) would be increased to $1,750 from $1,500 (to $2,000 from $1,750 for spousal IRA's).

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August 21, 1980
JCX-38-80

Individual Income Tax Cut

Proposal

The tax cut would consist of:

(1) an increase in the personal exemption from $1,000 to $1,100,

(2) an increase in the zero bracket amount (standard deduction) from $2,300 to $2,400 for single persons and heads of households and from $3,400 to $3,600 for married couples,

(3) an increase in the rate of the earned income credit from 10 percent to 11 percent and an increase in the phaseout from $6,000-$10,000 to $7,000 - $11,000.

(4) a deduction for married couples equal to 10 percent of the first $30,000 of the earnings of the lesser-earning spouse (5 percent in 1981), and

(5) tax rate reductions.

The specific rate reductions for joint returns are as follows:

Present law rate	Proposed rate
14%	12%
16	14
18	17
21	21
24	24
28	27
32	29
37	35
43	41
49	48
54	54
59	58
64	63
68	67
70	67

There would be corresponding rate reductions for single persons, heads of households and married persons filing separate returns.

Revenue effect

The revenue effects would be as follows:

	Fiscal year ($ billions)					Calendar year
	1981	1982	1983	1984	1985	1981
Personal exemption	1.7	4.9	5.1	5.4	5.6	4.8
ZBA	1.0	1.6	1.6	1.7	1.8	1.5
Earned income credit	0.1	0.6	0.6	0.5	0.5	0.6
Marriage penalty	0.3	3.4	6.8	8.3	9.7	2.7
Rate cuts	7.7	13.9	16.8	20.4	24.4	12.4
Total	10.8	24.3	30.9	36.3	42.0	22.0

Distribution of Individual Tax Cut by Income Class
(1979 income levels, $ Millions)

Tax increases under current law:

Income Class (000)	Social security	Inflation Minus Interest Exclusion	Total	Tax reduction proposal	Percent of present tax liability
Under $5	286	176	462	271	*
5 - 10	636	1,252	1,888	2,041	30.1
10 - 15	852	1,196	2,048	2,248	12.9
15 - 20	1,009	1,327	2,336	2,422	10.0
20 - 30	1,946	2,615	4,561	4,488	8.5
30 - 50	1,664	2,504	4,168	4,223	8.3
50 -100	446	1,435	1,881	1,836	5.9
100 -200	77	403	480	423	3.0
Over 200	20	135	155	391	2.5
TOTAL	6,936	11,043	17,979	18,343	8.6

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II.D. Research and Development Credit

Present law

Present law permits taxpayers to elect to deduct currently, or to amortize over 60 months or more, certain "research or experimental expenditures" which otherwise would have to be capitalized (section 174 of the Internal Revenue Code).

Proposal

Under the proposal, an income tax credit also would be provided for research expenditures to the extent they exceed the average of such expenditures in the preceding three taxable years. The rate of the new credit would be 25 percent of the incremental research expenditure amount.

The proposal would redefine research expenditures for purposes of both the existing section 174 election and also the new credit. The proposed definition, which would be substantially the same as the definition of "research and development" used for certain accounting purposes (FASB, St. #2), would cover all expenditures incurred incident to either:

(1) a planned search or critical investigation aimed at discovery of new knowledge with the intent that such knowledge will be useful in developing a new product or service, or a new process or technique, or in bringing about a significant improvement to an existing product or process, or

(2) a translation of research findings or other knowledge into a plan or design for a new product or process, or for a significant improvement to an existing product or process to the point that the product or process meets specific functional and economic requirements, and is ready for manufacture, sale, or use.

Under the proposal, the amount of the credit for a particular taxable year would be limited to the taxpayer's income tax liability reduced by other tax credits (other than the investment tax credit, the credit for certain fuel uses, and the earned income credit). Any excess over this limit could be carried over to apply against tax liability for the 3 preceding and 7 succeeding years.

The proposal would include rules for determining whether there has been a true increase in qualifying research expenditures or merely a shifting of research expenditures at the same dollar amount among different persons. Thus, for credit computation purposes, research expenditures by the taxpayer would be aggregated with research expenditures of commonly controlled persons and entities in which the taxpayer has an economic interest or the right to benefits of the research.

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Comparison of Tax Policies for Overseas Employees

Country	Tax on Salary	Tax on Incentives/ Bonuses	Tax on Benefits (Retirement, Health, Insurance, Etc.)	Tax on Cost of Living Allowances	Tax on Additional Income Earned Out of Home Country	Notes:	Government Subsidies (To Individual)
United States	Yes[1]	Yes	Yes	Yes[2]	Yes	[1]20,000 exclusion under Section 911 for those in qualified camps. [2]Certain deductions permitted under complex Section 913 tests.	No
Japan	No	No	No	No	No[1]	[1]Rental, interest, etc. on off-shore investments totally exempt from taxation during non-residence status **only**.	Yes
Italy	No[1]	No	No	No[2]	Complex formulas to discourage foreign investments	[1]Complex non-residency requirements. [2]Limitation placed on daily expenses for home leave and R&R.	Government owned companies
France	No[1,2]	No	No	No	Complex formulas	[1]Assumes accompanied tour/rules for dual residency—unaccompanied—very complex. [2]Recent government policy aimed to encourage more French engineers to accept overseas work.	Government owned companies
Korea	No	No	No	No	No	[1]Most liberal policies with respect to individuals — Korea committed to exports of domestic unemployment.	Yes
Germany	No[1]	No[2]	No	No[3]	Some limitations. Generally liberal.	[1]Complex non-residency requirements aimed at tours of less than 6 months. [2]Complex definitions. [3]Some limitations designed to reduce excesses.	Few
Canada	No[1]	No	No	No	No	[1]Accompanied tour only. If family of head of household remains in Canada all worldwide earnings subject to full taxation.	No
Sweden	No	No	No	No	No	[1]Recently liberalized tax policies in order to encourage acceptance of overseas assignments.	Few
United Kingdom	No	No[1]	No[2]	No	Complex requirements	[1]U.K. recently liberalized tax policies in order to encourage. [2]Some limitations.	Few

Compiled from data provided in Worldwide Projects and Business International S.A./Consultex S.A., a multiclient study, The Expatriate Employee, 1979.

Capital gain

Corporate rates

Small business

Section 911

ESOP

LERA

R&D

Joint Committee on Taxation
August 19, 1980
JCX-30-80

Debt Management Procedures (H.R. 7478)

I. Savings bonds interest rate ceiling

A. Present law

The maximum rate of interest that may be paid on U.S. savings bonds is 7 percent.

The interest rate on Series EE and HH bonds is 6.5 percent; Series EE held longer than 5 years earn an additional 0.5 percent, for an annual rate of interest of 7.0 percent.

Since June 1978, redemptions of savings bonds exceeded sales, and in each month from March through May of this year, redemptions averaged more than $2 billion greater than sales.

B. House Action

The Secretary of Treasury is authorized to increase the interest rate paid on the U.S. savings bonds above the statutory rate at his discretion after receiving approval of the President. The bill limits the increases to one percentage point a month in any six-month period.

II. Exception to interest rate ceiling on long-term bonds

A. Present law

Since 1971, the Secretary of the Treasury has been allowed to issue limited amounts of long-term bonds to the general public with interest rates above 4-1/4 percent. In 1979, Congress raised the limit to $50 billion.

B. House Action

The ceiling is raised from $50 billion to $54 billion through September 30, 1980, and for the period after that date, to $70 billion. It is expected that the $70 billion will provide sufficient authority through fiscal year 1981.

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Capital Gains Deduction

Present law

Individuals.--Noncorporate taxpayers may deduct from gross income 60 percent of the amount of any net capital gain for the taxable year. The remaining 40 percent of the net capital gain is included in gross income and taxed at the otherwise applicable regular income tax rates. As a result, the highest tax rate applicable to a taxpayer's entire net capital gain is 28 percent (70 percent top tax rate on the 40-percent includible capital gain).

Corporations.--An alternative tax rate of 28 percent applies to a corporation's net capital gain (in lieu of any capital gains deduction) if that rate is lower than the corporation's regular tax rate. Otherwise, a corporation would pay a tax on the entire gain at its lower regular tax rate.

Proposal

The proposal would increase the net capital gain deduction from 60 to 70 percent, i.e., 30 percent would be included in gross income and taxed at the otherwise applicable regular income tax rates.

In the case of corporations, the alternative capital gain tax rate would be reduced from 28 to 21 percent.

11. C. Small Business

1. Graduated corporate rate structure

Under present law, corporate taxable income is subject to tax at a five-step graduated rate structure. The corporate tax rates under present law are:

Taxable income	Tax rate (percent)
$0 to $25,000	17
$25,000 to $50,000	20
$50,000 to $75,000	30
$75,000 to $100,000	40
Over $100,000	46

The proposal would widen the existing corporate tax rate brackets and lower the rate in the first bracket. Under the proposal, corporate tax rates would be:

Taxable income	Tax rate (percent)
$0 to $25,000	15
$25,000 to $50,000	20
$50,000 to $100,000	30
$100,000 to $150,000	40
Over $150,000	46

Under this proposal, the maximum reduction in tax liability (for corporations with $150,000 or more of taxable income) would be $6,000.

2. Increase in minimum accumulated earnings credit

In addition to the regular corporate income tax, present law imposes an accumulated earnings tax of 27-1/2 percent to 38-1/2 percent on improperly accumulated corporate earnings where the accumulation occurs in an attempt to avoid the individual income tax. In computing the base on which this tax is imposed, there is excluded an amount equal to the earnings and profits of the taxable year which are retained for the reasonable needs of the business. This is known as the accumulated earnings credit. Present law provides a minimum credit of $150,000 of earnings which may be accumulated before any accumulated earnings are subject to this tax.

The proposal would increase the minimum accumulated earnings credit to $250,000. However, this increase would not apply to specified service corporations whose principal business consists of the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting.

3. Investment credit for used property

Present law provides a 10-percent regular investment credit. A taxpayer may claim this regular investment credit for the cost of up to $100,000 of used qualifying property acquired by purchase each taxable year.

The proposal would increase the annual cost limitation on used property for purposes of the 10-percent regular investment credit from $100,000 to $200,000.

4. Time for furnishing Form W-2 to terminated employees

Section 6051(a) of the Code requires an employer to furnish to an employee who has terminated employment prior to the close of the calendar year a Form W-2 on the day the employee receives his or her last salary payment.

The Internal Revenue Service has recently published regulations which provide that the employer may furnish a Form W-2 to an employee whose employment terminates prior to the close of the calendar year at any time after the termination but no later than January 31 of the following year. However, if an employee who terminates employment prior to the close of the calendar year requests earlier receipt of a Form W-2, and if there is no reasonable expectation on the part of the employer and employee of further employment during the calendar year, then the employee must be given a Form W-2 on or before the later of the 30th day after the request or the 30th day after the last salary payment.

The proposal would codify the general approach of these regulations.

5. Deferred application of Revenue Procedure 80-5 and Revenue Ruling 80-60 relating to inventory writedowns

In Revenue Procedure 80-5 and Revenue Ruling 80-60, the Internal Revenue Service provided rules which require taxpayers to conform their method of inventory accounting to that method of inventory accounting approved by the Supreme Court in *Thor Power Tool Co. v. Commissioner*, 439 U.S. 522 (1979). For taxpayers with excess inventories (inventories in excess of foreseeable demand) that have been erroneously written down for tax purposes, these pronouncements require that the writedowns be taken back into income.

These Internal Revenue Service pronouncements, which were issued on February 8, 1980, are applicable to 1979 taxable years. Taxpayers contend that by waiting until 1980 to release the pronouncements, the IRS has prevented them from being able to comply in 1979 with certain Treasury regulations that would have mitigated the income recapture required under the *Thor Power* decision.

The proposal would delay the implementation of Revenue Procedure 80-5 and Revenue Ruling 80-60 to taxable years beginning after 1979 and would give taxpayers the opportunity to take mitigating action under the Treasury regulations.

6. Increase in maximum number of subchapter S shareholders

Under present law, one of the requirements that a corporation must meet in order to be eligible to elect to be treated as a subchapter S corporation is that it have no more than 15 shareholders.

The proposal would provide for an increase in the maximum number of shareholders in a subchapter S corporation from 15 to 25.

7. Exemption from excise taxes for certain fuels used in intercity, local, and school buses

Present law imposes a manufacturers excise tax of 4 cents per gallon on gasoline and a retailers excise tax of 4 cents per gallon on diesel fuel and other special motor fuels used or sold for use in a highway motor vehicle. The Energy Tax Act of 1978 provided that a credit or refund of these taxes could be obtained if these fuels were used in a bus while engaged in (a) the furnishing (for compensation) of certain passenger land transportation available to the general public, or (b) the transportation of students or employees of schools. However, that Act did not permit the owners or operators of buses to purchase fuel tax-free even if the fuel was to be used in a qualifying activity.

The proposal would allow a taxpayer to purchase gasoline or other fuel tax-free for use in such qualifying activities if the taxpayer registers with the Internal Revenue Service and establishes that the fuel will be used in these activities.

8. Reserves for market-making activities

Under present law, a securities dealer must recognize any gain on the sale of equity securities, even if he is making a market for the securities. Generally, this gain will be treated as ordinary income.

The proposal would allow certain dealers in corporate securities to defer for 10 years the net gain (up to $1 million) from the sale of small business equity securities where the dealer is making a market in the security.

Under the proposal, a corporation which is engaged in market making activities during the taxable year would be allowed to establish a deductible reserve for the net gains for that year from the sale of certain small business equity securities in which it makes a market. The deduction would be equal to the addition to the taxpayer's reserve. However, the reserve could not exceed $1 million. Moreover, the deduction could not exceed the taxpayer's taxable income for the year nor could it exceed 30 percent of the fair market value of the taxpayer's average monthly inventory positions in over-the-counter equity securities carried for market making activities for the year.

This provision would apply to equity securities held by the taxpayer for sale in the ordinary course of its trade or business which are not traded on a registered security exchange and which are of corporations that had $25 million or less of debt and equity outstanding on the last day of the preceding taxable year.

Under the proposal, the amount of an addition to the reserve for a taxable year would not be taken back into income until the earlier of (1) the tenth year following the year of the addition, or (2) the year the amount is withdrawn from the reserve. (A withdrawal is deemed to be from the earliest remaining addition to the reserve.)

SMALL BUSINESS PROPOSALS

	Fiscal years 1981	1982	1983	1984	1985	Calendar year 1981
	(Millions of dollars)					
Small Business						
1. Corporate rate reduction (15%, 20%, 30%, 40%, 46%; 25k, 50k, 100k, 150k)	-304	-710	-783	-852	-927	-675
2. Increase in accumulated earnings credit	1/	1/	1/	1/	1/	--
3. Increase in used equipment eligible for investment credit to $200,000 in 1981	-101	-226	-242	-252	-262	-229
4. Elimination of certain W-2 filing requirements	--	--	--	--	--	--
5. Deferral of application of revenue ruling on inventory writedowns 2/	3/	3/	3/	3/	3/	--
6. Increase in number of subchapter S shareholders to 25	4/	4/	4/	4/	4/	4/
7. Exemption from excise tax on certain fuels used in intercity, local and school buses	-1	3/	3/	3/	3/	3/
8. Reserves for market making activities	-40	-90	-70	-40	-20	-90
Total	-446	-1,026	-1,095	-1,144	-1,209	-994

1/ Indeterminate with respect to both amount and timing but could be substantial

2/ Loss of $25 million in fiscal year 1980 and a comparable gain in later years, primarily 1990.

3/ Negligible.

4/ Loss of less than $5 million

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