

UNITED STATES SENATE

HEARINGS

BEFORE THE COMMITTEE

on
FINANCE

EXECUTIVE SESSION

Monday, June 22, 1981

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EXECUTIVE SESSION

Monday, June 22, 1981

U. S. SENATE,
Committee on Finance,
Washington, D. C.

The Committee met, pursuant to notice, at 3:15 p.m.,
in room 2221, Dirksen Senate Office Building, Hon. Robert
J. Dole, (Chairman), presiding.

Present: Senators Dole, Packwood, Roth, Danforth,
Chafee, Durenberger, Armstrong, Symms, Grassley, Long, Byrd,
Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley and
Mitchell.

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P R O C E E D I N G S

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2 The Chairman. I think we can commence where we left
3 off last week.

4 Since our meeting last Thursday, we tried to make
5 available to members, all the information we have had
6 available from Treasury and our own staff sources.

7 It is my hope today we can make some progress on the
8 proposal itself and on amendments to the proposal. I think
9 everyone now has a second draft of what has been referred
10 to as a bi-partisan tax reduction program.

11 There is a summary and then we get into specifics,
12 the individual tax rate reduction we disposed, on a
13 tentative basis, part of that on last Thursday.

14 We also agreed on revenue numbers last Thursday.
15 That was another tentative decision. The vote on that was
16 20 to 0.

17 The tentative vote on the tax rate across-the-board
18 reductions of 25 percent, 5 percent July 1 -- 5 percent,
19 October 1, 10 percent, July, '82, and 10 percent, July,
20 '83.

21 The vote was 15 yea's, 4 nays, and 1 absention.

22 It would seem to me, unless there was some objection,
23 that we might make more process if it is satisfactory with
24 members on both sides, to offer as a package the 15
25 items in the index and then proceed with their objections

1 or amendments to any one area, proceed on that basis.

2 We would like to address, if we can this afternoon,
3 the savings provisions and if possible, the estate tax
4 provisions and the reduction of rate of 70 to 50 percent of
5 unearned income.

6 I know of no objection to that provision.

7 We still have some matters under discussion that we
8 think we can resolve between now and tomorrow. One of those
9 is number 12, in the index, commodity tax straddles.

10 I think there is near agreement on a provision that
11 Senator Moynihan has been working hard on, but as of noon
12 today, there has been another proposal submitted.

13 If that is satisfactory to the Senator from New York,
14 we could postpone any action on that until later in the week.
15 We might take a look at that proposal.

16 Senator Moynihan. I would be happy to do that, Mr.
17 Chairman.

18 The Chairman. Is that satisfactory?

19 Senator Moynihan. I think that is only fair and should
20 be done.

21 The Chairman. Would there be any objection to
22 considering the other provisions, deduction for couples,
23 accelerated cost recovery system, individual retirement
24 accounts, retirement savings for self-employed, exclusion
25 of a portion of dividend and interest income, incentives for re

1 research and experimentation and so on.

2 I would move that we consider the proposals specifi-
3 cally referred to, that they would then be open to amend-
4 ment, modification, substitution or whatever. That might
5 provide for a more orderly process of discussion and
6 disposal of some of the items:

7 Senator Long. Mr. Chairman.

8 The Chairman. Senator Long.

9 Senator Long. Mr. Chairman, may we do this under
10 the procedure we used last year, that any of this is still
11 subject to further consideration by the committee?

12 The Chairman. Yes.

13 In fact, Senator Bradley has a number of amendments
14 to the tentative adoption of the 5-10-10 provision, last
15 Thursday.

16 Senator Bentsen. Mr. Chairman, of course, I will have
17 some amendments to what is termed an All Savers Amendment.

18 The Chairman. Right. And you have other amendments,
19 too, I understand.

20 Senator Bentsen. That's correct.

21 The Chairman. I know Senator Moynihan has amendments.
22 We have amendments on this side.

23 Senator Packwood. I have a charitable contribution
24 amendment.

25 The Chairman. Yes.

We may not get to that today, but I will make note of

1 that.

2 Senator Grassley. Also, Mr. Chairman, I have an amend-
3 ment on IRA's, too.

4 The Chairman. An amendment on the IRA provision?

5 Senator Grassley. Yes.

6 The Chairman. I understand there are a number of amend-
7 ments floating around.

8 Hopefully, we can reach those.

9 Well, if there is no objection, we will consider the
10 14 items listed, that would be excluding the commodity tax
11 straddle for another time.

12 Senator Moynihan. Mr. Chairman, we understand, it is
13 our expectation, the Committee agreeing, that there will be
14 a provision on commodity tax straddles.

15 The Chairman. Hopefully, by tomorrow.

16 Senator Symms. Mr. Chairman, may I make one more
17 question. If, in agreeing to these first 14 amendments, then
18 they are open to amendment.

19 The Chairman. We are just agreeing to take them up,
20 the package. They are open to agreement, they are open to
21 modification, substitution.

22 I think one that there is a great deal of interest
23 in would be the lowering the rate from 70 to 50 percent. We
24 might hear from Treasury on that, your views on that proposal.
25 Perhaps we can make some progress in that way.

1 Senator Bradley. Well, Mr. Chairman, we do of course,
2 support that proposal. It has, we think, a number of
3 beneficial effects, including of which is dropping the
4 maximum rate on capital gains immediately, beginning next
5 year, to 50 percent.

6 The Chairman. Does the Treasury support that proposal?

7 Mr. Chapoton. We do support that proposal; yes, sir.

8 The Chairman. Are there any questions of any of the
9 members on that proposal?

10 The Senator from New York.

11 Senator Moynihan. Mr. Chairman, in 1978, when we moved
12 to reduce the individual income, individual capital gains
13 rate to 35 to 28, we also decided at that time to make the
14 corporate capital gains tax, reduce it from in that case,
15 30 to 28.

16 I believe it has been our practice since the capital
17 gains tax began to see that individual and corporate rates
18 were the same.

19 I would like to propose that when we adopt the
20 reduction to 50 percent that, of course, that brings
21 individual rates to 20, that we adopt also proposal for
22 capital gains to 20 as well.

23 I believe I made that proposal last time.

24 The Chairman. Right.

25 I think the Treasury may have some response to that.

1 I am not certain. I think maybe not a valid objection, but
2 we are looking at '84, the very fragile surplus under the
3 economic assumptions and figures used in this bill of about
4 \$2 billion.

5 I hope that indicates the need for some restraint.
6 Does Treasury have a comment on that?

7 Mr. Chapoton. Mr. Chairman, this has not been a part
8 of our package. In most cases in the past, not always,
9 the corporate capital gain rate has been roughly equivalent
10 to the top capital gain rate on individuals.

11 We Did not propose at this time, because we were not
12 dealing with corporate rates in general, and we did not just
13 simply did not deal with the parity between corporations
14 and individuals here.

15 Senator Packwood. But we have had this gentleman's
16 agreement that we have lowered them in tandem over the
17 years?

18 Mr. Chapoton. Over the years when you look at the
19 history of it. In general, they have come down about the
20 same, but not in tandem. They have gone up and come down
21 about the same.

22 One of our problems now is that our estimate we would
23 be talking about in 1984, some \$900 million after the --
24 bringing the corporate capital gain rate down to 20 percent.
25 We simply do not have money in our figures for that.

1 So, I think that would constrain us to oppose it at
2 this time.

3 The Chairman. I wonder if we might have some expression
4 on the 70 to 50 and in the meantime, see if there isn't
5 something we might be able to do to accommodate the Senator
6 beyond 1984.

7 Would you be willing to proceed in the one area without
8 voting on the other?

9 Senator Moynihan. I would like to have a vote, Mr.
10 Chairman. If we can't do it this time, then I would like
11 to talk about a future time. I would like to have a vote.

12 The Chairman. Could we vote first on reducing that
13 rate from 70 to 50 on unearned income?

14 Is there any objections?

15 Senator Long. Why don't we call the roll, Mr. Chairman.
16 I will vote for it.

17 Mr. DeArment. Mr. Chairman, that would have an
18 effective date of January 1, 1982. But as the Committee
19 earlier agreed, that as far as the capital gains portion of
20 it, there would be a maximum rate of 20 percent on
21 transactions occurring after --

22 Senator Long. We have already agreed. What we will
23 do about capital gains as of June 10 effective date.

24 Mr. DeArment. For transactions after June 10.

25 The Chairman. That is right.

1 Mr. Lighthizer. Mr. Packwood.
2 Senator Packwood. Aye.
3 Mr. Lighthizer. Mr. Roth.
4 Senator Roth. Aye.
5 Mr. Lighthizer. Mr. Danforth.
6 Senator Danforth. Aye.
7 Mr. Lighthizer. Mr. Chafee.
8 Senator Chafee. Aye.
9 Mr. Lighthizer. Mr. Heinz.
10 (No response.)
11 Mr. Lighthizer. Mr. Wallop.
12 The Chairman. Aye.
13 Mr. Lighthizer. Mr. Durenberger.
14 The Chairman. Aye.
15 Mr. Lighthizer. Mr. Armstrong.
16 Senator Armstrong. Aye.
17 Mr. Lighthizer. Mr. Symms.
18 Senator Symms. Aye.
19 Mr. Lighthizer. Mr. Grassley.
20 Senator Grassley. Aye.
21 Mr. Lighthizer. Mr. Long.
22 Senator Long. Aye.
23 Mr. Lighthizer. Mr. Byrd.
24 Senator Byrd. Aye.
25 Mr. Lighthizer. Mr. Bentsen.

1 Senator Bentsen. Aye.
2 Mr. Lighthizer. Mr. Matsunaga.
3 Senator Matsunaga. Aye.
4 Mr. Lighthizer. Mr. Moynihan.
5 Senator Moynihan. Aye.
6 Mr. Lighthizer. Mr. Baucus.
7 Senator Baucus. Aye.
8 Mr. Lighthizer. Mr. Boren.
9 Senator Boren. Aye.
10 Mr. Lighthizer. Mr. Bradley.
11 (No response.)
12 Mr. Lighthizer. Mr. Mitchell.
13 Senator Mitchell. Aye.
14 Mr. Lighthizer. Mr. Chairman.
15 The Chairman. Aye.
16 On this vote the aye's are 19, the nay's are 0.
17 Everyone is recorded except Senator Bradley.
18 How does the Senator from New York wish to proceed?
19 Senator Moynihan. Mr. Chairman, if you know, last
20 year, when we took up this question, we voted to maintain
21 parity, to reduce capital gains to corporations to 20, the
22 same as individuals. The case can be made for this at
23 length, but I think we all know it.
24 I would suppose that we might vote on it and then
25 at the end of our deliberations here, you are going to have

1 to make a lot of adjustments. This may turn out to be one,
2 but, or perhaps you aren't going to make any adjustments.

3 (Laughter.)

4 Mr. Chapoton. Senator, we have a difference in
5 figures with the Joint Committee staff on the cost of that.
6 They have a lower cost than we do.

7 Let us -- with the Committee's indulgence, maybe we
8 could work on that tonight and see where our disagreement
9 is.

10 Senator Moynihan. Of course, Mr. Secretary.

11 The Chairman. That might be the best way to proceed.
12 I think that we may be able to accommodate the wishes of
13 probably every one here on this committee, if they could
14 work it out.

15 I would like to turn now, if there is no objection,
16 to number 15, the All Savers Provision, and number 6,
17 exclusion of a portion of dividend and interest income.

18 Mr. Lighthizer. Mr. Chairman.

19 The Chairman. Yes.

20 Mr. Lighthizer. I should point out that on the
21 description of all savers, on the last line of the second
22 paragraph it says, "There is no provision for tax exempt
23 savings certificates to be issued after December 31, 1981.
24 That should be September 30, 1982. It is consistent with
25 the previous sentence.

1 In other words, the certificates are for sale for
2 one year, from this October 1, through the end of the
3 following September. There is no provision after that
4 time.

5 The Chairman. Just read what you want to change.

6 Mr. Lighthizer. : The last sentence in the second
7 paragraph should say there is no provision for tax exempt
8 savings certificates to be issued after September 30,
9 1982.

10 The Chairman. Mr. Lighthizer, would you explain the
11 ~~import of number --~~ exclusion of a portion of dividend and
12 interest income, combined with number 15, the All Savers?

13 Senator Bradley. Mr. Chairman.

14 The Chairman. Senator Bradley.

15 Senator Bradley. May I be recorded on the last vote
16 as in the affirmative.

17 The Chairman. Yes.

18 Senator Bradley. I think there is nothing more
19 important we can do to stimulate investment in the country.

20 The Chairman. Thank you.

21 Mr. Lighthizer. Under current law, Mr. Chairman,
22 there is an exclusion, a provision for exclusion through
23 the end of calendar year 1982 for \$200 of interest and or
24 dividends and \$400 on a joint return.

25 We put that in in the Windfall Profits Tax. The

1 Administration has proposed making that permanent. The
2 proposal here is to go back to the old provision of \$100,
3 \$200, just for dividends after the end of this calendar
4 year.

5 In place of that, to insert what is referred to as
6 the All Savers Bill which basically allows a taxpayer to
7 take an exclusion of \$1,000 or \$2,000 in the case of a
8 joint return, for interest income earned on special one
9 year savings certificates that are issued by depository
10 institutions.

11 The certificates would earn an interest of 70 percent
12 of the one-year Treasury Bill interest rate. They could
13 just be sold during the one year period, October 1, 1981,
14 through September 30, 1982.

15 At the end of that time, the provision would stop.

16 The Chairman. Does the Joint Committee have some
17 numbers on the cost of that proposal?

18 Mr. McConaghy. If you drop the \$200 and \$400 down
19 to \$100 and \$200, on January 1, 1982, we have a pick up
20 of revenue there in fiscal '82, about \$600 million, and
21 '83, about \$3 billion, and in '84, about \$3.4, and about
22 '85, about \$3.5 billion.

23 If you adopted the provision which was effective in
24 October, '81, for a one year lifetime certificate, as Mr.
25 Lighthizer explained it, we have revenue numbers of about

1 \$500 million which would be less than the \$800 million you
2 pick up, or the \$600 million you pick up, about \$2.4, which
3 is less than the \$3 billion you pick up, about \$1.7, for
4 '84, which is less than the \$3.4 billion you pick up.

5 All of these estimates though are assuming that you
6 make it before you make any rate cuts.

7 If you compute this after rate cuts, of course, those
8 numbers become somewhat lower.

9 But, essentially, it is clear that you would pick
10 up revenue for those fiscal years compared to present law.

11 Mr. Chapoton. Our numbers, after interaction with
12 our rate cuts would differ somewhat as Mr. McConaghy said.
13 We figure we would pick up in '82 -- let's see -- well, we
14 pick up \$2.5 billion in fiscal '82. It is offset with all
15 savers, we would lose \$1.6, another \$2.5, in fiscal '83,
16 All Savers would lose 2.2.

17 Then, in '84, pick up another 2.5 and we would lose
18 .6. So, it would be a substantial revenue pick up in '84,
19 fiscal '84.

20 The Chairman. There --

21 Senator Byrd. May I ask a question?

22 The Chairman. Senator Byrd.

23 Senator Byrd. Then is it correct that this proposal
24 along with the change in item number 6, that there would be
25 no net loss to the Treasury on that?

1 Mr. Chapoton. That's correct.

2 Senator Byrd. There would be a gain.

3 The Chairman. There would be a gain.

4 There are a number of members who have different
5 savings proposals. I certainly want everybody to have an
6 opportunity to be heard and to offer amendments to this
7 proposal.

8 I think Senator Danforth and Senator Matsunaga, Senator
9 Heinz and others had an interest in this particular proposal.

10 Senator Bentsen has a different proposal.

11 I wonder if we might hear now from Senators Danforth,
12 Matsunaga and others who would like to speak on this proposal
13 and then, if Senator Bentsen has a substitute or whatever.

14 Senator Danforth.

15 Senator Danforth. Mr. Chairman, it is clear that a
16 ~~great deal of attention has been directed to the question of~~
17 ~~how can we encourage individuals to save.~~ There has been
18 some thought that we are not doing enough now in our tax laws
19 to encourage individual savings.

20 The original proposal that was made by the Administra-
21 tion was to make the \$200 and \$400 exclusions for interest
22 and dividends permanent.

23 Under present law, that exclusion began on January 1,
24 1981, and would expire on December 31, 1982.

25 In testimony before the Finance Committee, Treasury

1 testified that they were not convinced that the \$200 and
2 \$400 exclusion was the best long-term answer to the savings
3 question.

4 There are a variety of proposals that people have
5 made as to how to improve long-term savings and what to do
6 for them in the Internal Revenue Code.

7 Some people have suggested that the exclusion for
8 interest and dividends be computed not as a flat amount, but
9 on a percentage.

10 I think Senator Packwood and Senator Symms and Senator
11 Grassley and others have taken that position.

12 Others have felt that the best long-term incentive for
13 savings would be to make IRA's and LIRA's more attractive
14 than we do under the Administration's proposal.

15 I think Senator Chafee has taken that view.

16 Others have suggested that we devise some sort of net
17 savings credit. I know that Senator McClure introduced a
18 bill to that effect some time ago. People believed that
19 that deserves consideration.

20 At the same time that we are giving thought to perman-
21 ent features in the Code, which would encourage savings, it
22 is clear that we have an immediate crisis affecting thrift
23 institutions.

24 It is also clear that we have a very serious problem
25 relating to a variety of types of businesses in this country;

1 housing certainly being one of them. Car sales is another.
2 Small business is another.

3 So the notion of this tradeoff is that the \$200 and
4 \$400 exclusion be permitted to lapse at the end of this year.
5 The law would then revert to what it was last year, that is,
6 a \$100 for individual, \$200 for a joint return, exclusion
7 for dividends alone.

8 And that in lieu of the extension of the \$200 and
9 \$400 exclusion, the All Savers Provision be put into effect
10 for one year.

11 That would permit thrift institutions to issue certi-
12 ficates which would bear interest at the rate of 70 percent
13 of the Treasury bill rate, and that interest would be
14 excluded from taxes to the amount of \$1,000 for an individual
15 and \$2,000 for a joint return.

16 It is clearly an effort to provide an immediate help
17 for an industry which ~~is in great trouble~~ right now. For
18 that reason, I think this tradeoff makes sense. I think it
19 is clear, as Treasury pointed out, if the \$200-\$400 approach
20 is not being successful now, why reward it by making it a
21 permanent feature of the Code, and that this would keep open
22 the options for what to do with respect to a more permanent
23 incentive for savings.

24 The Chairman. Senator Matsunaga.

25 Senator Matsunaga. Mr. Chairman, I urge support of

1 the proposal, of which I am a co-sponsor.

2 You read the papers daily and you find that the thrift
3 institutions are in real trouble, they need help immediately.
4 The number of problem institutions increase from 120, in
5 1980, to 246 in March of this year, and since March of this
6 year, the number of problem institutions have increased to
7 263, as of today.

8 Now, unless we do something to help these institutions,
9 that is, primarily the savings and loan institutions, we are
10 going to find that the \$5 billion assets in the Federal
11 Savings and Loan Insurance Corporation cannot approach the
12 coverage needed by the problem institutions, nor can the
13 Federal Government afford the funds to relieve these insti-
14 tutions if we should permit them to go bankrupt, and they
15 will go bankrupt, and like a snowball will set not only
16 thrift institutions, the savings and loan institutions, but
17 other so-called banks, as well, to go into bankruptcy,
18 because we will definitely have a run on the banks once these
19 thrift institutions are permitted to go bankrupt.

20 The cost of \$4 billion over the bill's three-year
21 period is a modest amount compared with other savings
22 incentives which we are proposing.

23 The effectiveness of a tax exempt \$1,000, \$2,000
24 certificate has been questioned by some. The savings and
25 loan industry says that the proposal is absolutely essential

1 for their survival.

2 I might point out that the proposal is supported not
3 only by the savings and loan institutions, but also by the
4 credit union industry and the independent bankers association.

5 I think it is high time we did something to save an
6 industry which has meant so much in raising the standard of
7 living of Americans everywhere.

8 The Chairman. Senator Bentsen, do you have -- does
9 anybody else want to be heard on this proposal?

10 Senator Moynihan. Mr. Chairman.

11 The Chairman. Senator Moynihan.

12 Senator Moynihan. Mr. Chairman, may I simply support
13 everything my colleague, Senator Matsunaga, has said, and
14 Senator Danforth said.

15 I come from a state which tend to be the Northeastern
16 States where the savings banks began in the early 19th
17 century, as a social movement, basically. They are now large
18 institutions. In the mind of the public, they are not --
19 there is no differentiation between savings banks and
20 commercial banks.

21 There are \$5 billion banks in New York State itself
22 that simply arithmetically cannot get through the next
23 several years unless we give them some help. If we do, they
24 will. They have been there for a century and a half and they
25 will be there for another century and a half, but something

1 needs to be done. I don't think there is much time.

2 The Chairman. Does anyone else wish to be heard in
3 support?

4 Senator Bentsen. Mr. Chairman.

5 The Chairman. If not, I know that Senator Bentsen has
6 perhaps a substitute or some comment.

7 Senator Bentsen. Thank you very much, Mr. Chairman.

8 Let me say first in support of the objective of what
9 Senator Danforth is seeking. I think Senator Danforth has
10 made a major contribution in trying to help savings by what
11 he has proposed.

12 I certainly agree with what Senator Matsunaga and
13 Senator Moynihan has stated.

14 Senator Boren and I have not a substitute, but an
15 amendment to the proposal. When we talk about the problems
16 of the thrifts, you are talking about a \$28 billion outflow
17 from the savings institutions last year.

18 That is the mutual savings banks, and that is the
19 savings and loans.

20 You have over 260 of them on the troubled list, being
21 watched after, because they have some serious problems. But
22 you have another industry that is in trouble at the same time
23 and that is the housing industry.

24 In 1977, you had about 2 million starts. The first
25 quarter of this year, based on what they had annualized, you

1 are talking about a \$1.1 million.

2 You have the interest rate on home mortgages at 16
3 percent.

4 Now, why don't we try to improve these savings?

5 Anyone that thinks you are going to turn the problems
6 of the thrifts around in one year hasn't been as close to
7 the problem, I don't believe, as some of us have.

8 You have the banks at an all time high on their
9 earnings. The thrifts are in trouble.

10 What does this amendment do in its present form?

11 There is very little difference between the money
12 market certificate for 6 months that went at T bill rates for
13 26 weeks, with some minor differentiation, than what you are
14 talking about now with this one-year savings certificate at
15 70 percent of the one-year T bill rate. There is very little
16 difference.

17 So where is the money going to go? The money is going
18 to go to the same place it went with the 6 month certificate
19 and 60 percent of that money went to the commercial banks,
20 60 percent of it went to the commercial banks. Forty percent
21 of it went to the mutual savings banks and S & L's.

22 So, you are missing the target. Sixty percent of it is
23 going to commercial banks that have their earnings at an all
24 time high.

25 My bank stock is at an all time high. I am just

1 delighted with it. I am delighted I don't own any thrift
2 stock today.

3 But, why don't we try to take care of letting a young
4 couple try to buy a home again, and the thrifts at the same
5 time, with interest rates at 16 percent, and an average
6 home today selling at \$69,000. Less than 5 percent of the
7 families renting today can afford a new home. Less than 5
8 percent can afford a new home.

9 You take a 16 percent rate, on at 30-year mortgage
10 and compare that to an 8 percent rate where we would like
11 to drive these rates by an inflow of mortgage money and you
12 would save that young family \$330 a month in their payment.

13 How do most of them decide whether or not they buy a
14 home? Not so much the fact it cost \$69,000, but how much is
15 it going to cost me a month and can we fit it in to our
16 budget.

17 Now, if you can cut that monthly cost by \$330. If we
18 can get these rates appreciably down by a massive inflow of
19 savings into the thrifts, then you have made homes more
20 affordable again to young people. You have made the American
21 dream of home ownership more achievable. What else have you
22 done? You had a direct impact on the unemployment problem
23 in the housing industry which today is over 16 percent. It
24 is over twice what the national average is on unemployment.

25 What else have you done? You have taken those people

1 off unemployment and you put them on employment rolls. You
2 have taken them off unemployment compensation and you have
3 them paying taxes again.

4 So, you have a real inflow coming back to you.

5 Now there are some good things, excellent things in
6 what Senator Danforth has offered. I have modified the
7 approach of 701 to acknowledge those, and that is to change
8 the one I proposed which had 35 co-sponsors, to change it
9 where it is 70 percent of the one-year T bill, the rate that
10 will be paid off. That is in his proposal. But, not one
11 year that this be limited to, but three years. For three
12 years let this be allowed.

13 When they talk about a lifetime exemption, they are
14 talking about one time, \$1,000 and \$2,000. Let's make it
15 where it is from now on and let us make it where it is \$750
16 for the single and \$1,500 on a joint account, from now on.

17 But tie it to housing for three years by saying you
18 can only grant those savings certificates where you pay no
19 tax on the interest earned, to the extent that you have
20 housing mortgages in your financial institution.

21 Then say to the bankers, who say, "Well, I don't have
22 much in the way of housing mortgages" Well, "Why don't you
23 then go buy some?" "Why don't you help the secondary market
24 and home mortgages which is desperately needed today? Go
25 buy some. Put some in your portfolio. Help housing in this

1 country."

2 So, my amendment, again says, let's do it for three
3 years. Let's do what Senator Danforth has talked about but
4 let's target it more where it really affects housing in this
5 country and where the vast majority of that money would
6 actually go to the thrifts.

7 Let's help the industries that are in real trouble and
8 not have 60 percent of the money going to those commercial
9 banks that are having the best days they have ever had and
10 the highest earnings that they have ever had.

11 That is what I am proposing in the way of an amendment
12 to the amendment.

13 Again, \$750 for the single, \$1,500 for the joint
14 account. One, two and three year certificates. Seventy
15 percent of a one-year T bill. And at the end of three years
16 it will no longer be tied to housing portfolio.

17 I think it does what Senator Danforth is seeking and
18 Senator Matsunaga is seeking. But I think it targets it
19 more to where the problems are.

20 Then I would repeal, I would repeal the \$200 and \$400.
21 I was one of those principal authors of \$200 and \$400. But,
22 Senator Matsunaga and I and some of the rest of us tried it
23 at \$2,000 and \$1,000, to really have an impact, and they
24 cut it in the House and we ended up with \$200 and \$400.

25 But then to talk about saving the \$100 and \$200 on

1 dividends, how can you justify that. How much incentive do
2 you think that is for stock ownership, \$100 and \$200.

3 So, let's take that out too. Let's take out the \$200
4 and \$400 and let's take out the \$100 and \$200. And then
5 what do you have in the way of cost?

6 You take the total of '82, '83 and '84, and you end up
7 with a net surplus to the Treasury of approximately \$300
8 million.

9 Now that is the kind of an amendment I am offering. I
10 have it here for you, Mr. Chairman, a detail.

11 I would urge very strongly that we adopt what Senator
12 Danforth is proposing with this amendment to it.

13 Senator Symms. Would the Senator yield?

14 The Chairman. Senator Boren wanted to be heard.

15 Senator Bentsen. Senator Boren is the co-sponsor of
16 that with me.

17 Senator Symms. Would the Senator yield for a question?

18 Senator Bentsen. I would be delighted.

19 Senator Symms. Is that -- are you offering that for
20 three years only or permanently?

21 Senator Bentsen. I am offering the \$750 and the \$1,500
22 on a permanent basis, from now on. But for 3 years only
23 will it be tied to the mortgage portfolio of the financial
24 institution.

25 After that, interest earned on a savings account would

1 be tax-free for \$750, on an individual return, and \$1,500, on
2 a joint return.

3 Senator Symms. How about dividends?

4 Senator Bentsen. This is a savings amendment.

5 Senator Boren. Mr. Chairman.

6 The Chairman. Senator Boren.

7 Senator Boren. Thank you, Mr. Chairman.

8 Mr. Chairman, I am very proud to join with Senator
9 Bentsen in this amendment. As you know, I also had a similar
10 bill introduced to the original Bentsen bill. We have been
11 working together and also with Senator Danforth. I am happy
12 to see all of these initiatives.

13 I certainly want to commend Senator Danforth for what
14 I think is a step in the right direction. But I have to
15 agree with what Senator Bentsen has said and I think said
16 very well.

17 We are dealing with a problem that certainly transcends
18 any political considerations. Some of you may have followed
19 the fact that over the last several days I have been speaking
20 on this problem every day, on the floor.

21 I have been doing so because I am sincerely, extremely
22 concerned about the problem we face. I hope all the members
23 of the Committee will reflect again on what they have already
24 heard in terms of a \$28 billion outflow from the thrift
25 institutions, a \$28 billion reduction in reserves, that is

1 the largest in the history of the United States, the largest
2 reduction in reserves in the history of the United States.

3 That outflow has not been from the banks. Commercial
4 banks, primarily, as Senator Bentsen has pointed out, it has
5 been from what we call the thrift institutions, the saving
6 institutions.

7 Senator Matsunaga and Senator Danforth pointed out,
8 there are a number of these institutions now on the troubled
9 list. Now let's think about that for a minute.

10 We have \$510 billion in deposits, \$510 billion of
11 depositions in these institutions right now. The insurance
12 corporation standing behind those \$510 billion, has assets
13 of \$5 billion. That is how much is in the insurance fund,
14 \$5 billion, in the insurance fund, to insure \$510 billion.

15 That insurance fund had to loan out and expend \$1.2
16 billion, last year. It only grew at \$600 million a year,
17 the insurance fund, and had \$1.2 billion in outlays last
18 year.

19 We have had in a five month period, the number of
20 troubled institutions, more than double in five months.

21 Now we are talking about something that is more than
22 politics. We are talking about a problem that I think could
23 very well cripple the entire economic recovery program on
24 which there is very strong bi-partisan support in this
25 Committee.

1 If we allow these institutions to go under, and under-
2 mine the confidence of the people and the economic strength
3 of this country, we are going to have a serious problem
4 indeed.

5 Now, in addition to the serious problem we face in the
6 thrift institutions, we do face a very serious problem in
7 the construction industry as well, as Senator Bentsen has
8 pointed out, twice the national average rate of unemployment,
9 the highest number of bankruptcies in the home building,
10 construction field since the great depression.

11 The average house payment for the average new house
12 being built in the country right now a \$65,000 mortgage,
13 the average monthly payment being \$1,000 a month. \$1,000 a
14 month for the average new house, and as Senator Bentsen has
15 pointed out, less than 5 percent of the families can qualify.

16 The five percentage points that have been added on to
17 the interest rate in the past 12 months, have added a
18 a quarter of a million dollars of cost to a 30-year mortgage
19 on the average house in this country, a quarter of a million
20 dollars.

21 We have a serious, very serious problem. If we come
22 in with a one-year program, and if it comes down to it, if
23 we have no other choice, I am certainly not going to vote
24 against the Danforth proposal because it is certainly
25 better than nothing. I want to make that clear. It is better

1 than nothing. I want to make that clear. It is better than
2 nothing.

3 But I think the problem is so serious, we must take
4 the best possible action we can take. We must first of all
5 help make sure that every dollar of relief that we get from
6 taxation will translate itself as much as possible, into a
7 dollar of new deposits in the institutions which are most
8 troubled.

9 I think that the amendment that Senator Bentsen has
10 just spoken to will do that. We can't afford to have 60
11 percent of it go elsewhere. We have to have every dollar
12 and it still may not be enough.

13 We have to get every dollar we can possibly get into
14 those institutions or we are all going to have to stand back
15 a year from now or perhaps even sooner, and the new quarterly
16 figures will be out very soon as to the S & L's. We will be,
17 I think, facing the full magnitude of that problem in a
18 matter of days.

19 We must target it as best we can. We must also try
20 to do something about home building. A one year certificate
21 is not going to do much good. These institutions won't know
22 what to expect. If you had an institution and you were
23 going to make home mortgage loans and you only had a one-
24 year program, with how much confidence could you go out and
25 make those kinds of loans. You can't.

1 We should have at least a three-year program, a
2 permanent program, actually, as Senator Bentsen is talking
3 about, targeted for three years into the areas of most
4 critical concern.

5 I think if we do not adopt this amendment, I think
6 we are counting severe, severe problems. I don't think any
7 of us want to use terms that are too strong. We don't want
8 to create self-fulfilling prophecies in this country, but I
9 don't think it is possible for us to over-exaggerate the
10 importance, the strategic importance to our entire economy
11 of what we are talking about.

12 I would urge the members of the Committee, without
13 regard to the political affiliation, without regard to
14 personal friendships or anything else, to seriously consider
15 it. I think this is as important a matter as we have had
16 come before this Congress, certainly in the two and a half
17 years since I have been here; I think it is critical.

18 I hope we will very seriously consider this.

19 Senator Bentsen. Mr. Chairman, let me correct a
20 statement in the last draft and trying to get closer to
21 Senator Danforth's, we terminated at the end of three years,
22 terminated it all at the end of three years.

23 I would also like to say to Senator Boren, I am going
24 to vote for Senator Danforth's amendment, if we don't get
25 this. Because, I think it is a step in the right direction.

1 But I think we have gone farther, and we have a housing
2 problem, and we have also gone to target it more directly to
3 thrift.

4 The Chairman. Senator Armstrong.

5 Senator Armstrong. Thank you, Mr. Chairman.

6 I listened with great interest and appreciation to
7 the statement by the Senator from Texas. I would like to
8 address two questions to him.

9 First, you mentioned that any savings institution could
10 issue this instrument, but it would be limited by the amount
11 of their home mortgage portfolio.

12 Senator Bentsen. Housing.

13 Senator Armstrong. My question is, how is that limit
14 expressed in the amendment? Is it dollar for dollar? In
15 other words, if an institution has \$10 million in housing
16 loans, then they get \$10 million of these certifications or
17 is it based on a proportional scheme.

18 Senator Bentsen. It would be on a dollar basis.

19 Senator Armstrong. Dollar basis?

20 Senator Bentsen. Yes.

21 Senator Armstrong. So literally, an institution that
22 did not have any such loans in their portfolio could qualify
23 for this program by going out and buying such loans on the
24 secondary market.

25 Senator Bentsen. That's correct.

1 Senator Armstrong. I would like to ask, did you mention
2 what the revenue loss was on this amendment?

3 Senator Bentsen. I will give you that. I told you
4 what the net was over three years. Let me get that number
5 for you.

6 If you repeal all of Section 116, you save some \$3.4
7 billion, in '82; \$3.7 billion, in '83.

8 Now you would have a net for '82, you would have a
9 net inflow to Treasury in '82 of \$1.6 billion.

10 In '83, you would have a loss of \$600 million.

11 In '84 you would have a loss of \$700 million. For a
12 total net over those three years of approximately \$300
13 million.

14 I must very carefully state, that is a static
15 analysis. That doesn't give you the economic kick-back
16 that you get by putting people back to work in the housing
17 industry.

18 Senator Armstrong. I didn't hear what it was we were
19 repealing that yielded the \$3.4 and the \$3.7. Is that the
20 present \$200 and \$400?

21 Senator Bentsen. That is the \$200 and \$400, and also
22 the repeal of the \$100-\$200 stock dividend, or dividend on
23 stock.

24 Senator Armstrong. Could you give us the comparable
25 figures for the Danforth amendment?

1 Senator Bentsen. I think Senator Danforth gave those.
2 It is \$4.1 for the three years.

3 Senator Danforth. I think it is --

4 Senator Bentsen. Senator Danforth is a better man
5 to answer that.

6 Senator Danforth. It is half a billion, the first
7 year; \$2.4 billion the second, and \$1.7 the third.

8 Senator Bentsen. That gets you out to what I was
9 giving you in the total.

10 Mr. Lighthizer. That's right, Senator. Those are
11 the figures we have.

12 Senator Danforth. That is the loss from this particular
13 proposal. When you pick up \$200 and \$400 --

14 Mr. Lighthizer. You would end up, the figures we have,
15 under your proposal, the figures we have you would end up
16 under your proposal, Senator, about \$1.7 billion ahead in
17 1984, and about \$.7 ahead in 1983, and about \$.1 ahead
18 in 1982, ahead of continuing \$200 and \$400.

19 Senator Danforth. Let's do it apples and apples. In
20 Senator Bentsen's you are repealing all of it.

21 Mr. Lighthizer. That's correct. Both \$200 and \$400
22 and the \$100 and \$200. That is why it is sort of confusing
23 to everyone.

24 Senator Bentsen is repealing about \$2.8 billion more
25 than you are in the first year, and about \$.8 billion more

1 in 1984.

2 So, he is always repealing more than you are. That
3 is the \$100 and \$200 dividend exclusion.

4 Senator Bentsen. By the same token, I am carrying it
5 out for three years, and he is doing it for one year. By
6 the same token, I have the interest exemption for three
7 years. He in effect, has it for one.

8 Senator Armstrong. Mr. Chairman, I have only one other
9 question. I am under the impression that the thrift
10 industry is strongly in support of the Danforth amendment,
11 and yet, based on the explanation I have heard, I am
12 surprised that the S & L's and others in that business
13 haven't had more to say about the Bentsen amendment.

14 Why is that?

15 Senator Bentsen. Senator Armstrong, the thrifts are
16 strongly for Senator Danforth's amendment. They have also
17 told me, in speaking to me, in my office, that they are for
18 mine, that they are not against mine. But they formed a
19 coalition early on, on Senator Danforth's amendment. They
20 feel bound to that coalition.

21 The Chairman. Senator Symms.

22 Senator Symms. Thank you, Mr. Chairman.

23 I have a question in trying to get at this, which way
24 is the most money going to flow into the thrift institutions
25 in the next two to three year period?

1 Senator Bentsen. These are the -- the money market
2 certificate which is a six-month certificate and based on
3 26 weeks, on the T bills, 60 percent of the money of those
4 money market certificates have been in the commercial banks.

5 And 40 percent of it has been in the thrifts. That
6 is the mutual savings banks and the savings and loans.

7 Now, the one-year certificate, without any tie to
8 home mortgages and housing mortgages, is very comparable to
9 the six-month's one.

10 The only real difference there is that they make it
11 for a year, instead of six months, and they say it is 70
12 percent of the one-year T bill.

13 So, it stands to reason that the money will flow in
14 the same pattern, 60 percent to the commercial banks that
15 are in the best shape that they have ever been in, and 40
16 percent to the thrifts that are in serious trouble.

17 Now, --

18 Senator Symms. That is the All Savers.

19 Senator Bentsen. That is that. Now, if you take the
20 approach that Senator Boren and I are talking about, we
21 go along with Senator Danforth, but then we say, let's say
22 that you can only issue the savings certificates to the
23 extent that you have housing mortgages in your portfolio.
24 Go buy some if you want to. Provide the secondary market
25 for home mortgages, if you want to. Get into the business

1 with your financial institution, if you want to, but only
2 if you do can you offer this to your customer.

3 There is where you get the real kicker to housing.
4 You get the inflow of savings that goes to home mortgages
5 that helps bring down the rates on home mortgages and makes
6 homes more affordable again for people in this country,
7 young people in this country, and you put people back to
8 work.

9 You get twice the unemployment in the housing industry
10 that you have in the national average.

11 Senator Symms. What is the impact then on a small
12 agricultural area banker that maybe has most of his
13 portfolio in farm loans?

14 Senator Bentsen. Well, I tell you, you make a good
15 point. If you get to some of these small, small banks and
16 some of the rural areas, you will run more into things
17 where they have helped their neighbors on their homes.

18 So, you will have a higher percentage of home
19 mortgages in some of these smaller banks than you will in
20 the very large commercial bank.

21 Senator Symms. Well, Mr. Chairman, I guess that both
22 of these suggestions have a great deal of appeal for what
23 I do consider to be a very serious problem.

24 Now, Senator Bentsen, you are talking in your proposal
25 and Senator Boren, that you would remove the exclusion on

1 dividends from the people now have on \$100 and \$200.

2 Senator Bentsen. Yes, Senator, because you know, as
3 pleased as I was to get the \$200 and \$400 for savings, it
4 did not have that much impact. I don't think the \$100
5 and \$200 on stock ownership has that much impact.

6 Senator Symms. Well, what I was getting to, Mr.
7 Chairman, it would appear to me that what we really should
8 be looking at is a long-term program to start an overall
9 exclusion of all interest and dividends, but we need an
10 interim period to allow these thrift institutions to adjust
11 to the new financial competition that has come about from
12 money market funds and so forth as they become unregulated
13 in the future.

14 I would suggest, and I would throw out the idea to
15 the Committee, what I would like to see us do, which ever
16 one of these two propositions is accepted by the Committee,
17 and I think both of them have a lot of merit, would be to
18 start phasing in a dividend and interest exclusion at the
19 rate of 5 percent a year, and start it on a program in
20 1984, or 1985, so it won't have the impact on the budget
21 and maybe 15 percent the first year and then add 5 percent
22 every year, just across the board exclusion, and the
23 Committee could see how well it was working by 1988 and
24 then if they liked it, they could keep on excluding and
25 it would not have that immediate impact, but we would have

1 a long-term impetus directed toward savings then in the
2 effect of this law.

3 People would know if they started saving money in
4 either case, the All Savers Act or the Bentsen proposal,
5 you would still have money going into savings and then you
6 would have an encouragement for people to invest into any
7 kind of proposition.

8 In that first three years, the thrifts could adjust
9 to the new rules of competition.

10 Senator Bentsen. Senator, I think the All Savers
11 Act is a great title. We ought to keep it. I think Senator
12 Danforth has made a major contribution, but I believe we
13 are doing something here that will --

14 Senator Symms. Well, what is your plan after three
15 years, though?

16 Senator Bentsen. After three years I am confident
17 that we are going to see more in the way of savings in-
18 centives.

19 Senator Symms. Would you look favorably upon an
20 amendment to your position to add 15 percent exclusion to
21 all dividends and interest starting in 1985 and add 5
22 percent a year after that?

23 Senator Bentsen. Well, Senator, I am very interested,
24 but I have about all the load I can carry right now I am
25 afraid. I would hope we could have a vote on this

1 amendment.

2 Senator Danfroth. Mr. Chairman, I wonder if we could
3 hear from Treasury on what its position is.

4 And then hear from the Joint Committee on the revenue
5 loss.

6 Mr. Chapoton. Mr. Chairman, the making permanent
7 the \$400 and \$200 exclusion, we do not -- we think that
8 is desirable from a number of respects. It is a simpli-
9 fication matter for the small savers. It is a symbolic
10 matter. But, we do not feel strongly about it and we do not
11 think it is a major, certainly not a major impetus to savings.

12 On the other hand, we must oppose both of these
13 provisions, the All Savers Amendment and the amendment
14 proposed by Senator Bentsen.

15 The thrift institutions, we all know, do have a
16 problem and are facing problems in the future. The problem
17 is not currently a net cash flow problem. Their net cash flow
18 is still positive overall, and almost with very minor
19 exceptions, each institution, because they credit their
20 interest payable rather than actually paying it out.

21 So they have a net cash flow, but they also have
22 net losses and decreases in net worth. The Treasury is
23 very concerned about the problem and does plan to address
24 the problems facing thrifts.

25 We do not favor, however, a proposal which would attempt

1 to provide an immediate shot in the arm for this industry
2 through the tax system.

3 If the Committee did decide to do something about in
4 this area, we would hope it would be as limited as possible.
5 We would not like to make it -- well, we would hope it
6 would be limited in the sense it would be scope in time and
7 we would not want it to be a permanent provision of the tax
8 law.

9 It is our understanding that the savings institutions
10 have not asked for a permanent provision.

11 In addition, we would not like it to be so targeted
12 we would not support, that is, we would prefer that the
13 All Savers approach, to the targeted type approach, because
14 to the extent there is a savings incentive here, we would
15 like it to be across-the-board.

16 The Chairman. Senator Moynihan.

17 Senator Moynihan. Mr. Chairman. It is extraordinary
18 that this Committee has not responded. There is a genuine,
19 out there, it arithmetic, it is nothing more than that and
20 it is a temporary one until the older portfolios are
21 gradually retired and the new one comes in.

22 One of the possibilities, if Senator Bentsen's
23 approach were to be adopted, would be to confine the port-
24 folio against which these \$1,000 certificates, \$750, \$1,500
25 certificates could be issued, these certifications, to

1 confine that portfolio to mortgages of 7.5 percent or under
2 or mortgages issued before November, 1979, when the crisis
3 began, otherwise you might have a windfall you wouldn't
4 need and there would be a loss to the Treasury you would
5 wish to avoid.

6 I do hope we do something.

7 The Chairman. Senator Mitchell.

8 Senator Mitchell. Mr. Chairman, I would like to ask
9 two questions first, of Mr. Chapoton.

10 If you conclude, as you say you have, that the \$200-
11 \$400 interest exclusion is not a substantial incentive to
12 saving, may we therefore infer that you also conclude that
13 the \$100 and \$200 dividend exclusion is not a substantial
14 incentive for investment?

15 Mr. Chapoton. That is correct. It is not a substantial
16 incentive. It has the same beneficial effects generally
17 that the \$200 and \$400 has.

18 Senator Mitchell. My second question, to Senator
19 Danforth, Senator, could you explain why your proposal
20 would terminate the interest exclusion but would leave
21 intact the dividend exclusion?

22 Senator Danforth. Well, it would simply be a reversion
23 to prior law. The dividend exclusion was part of the law
24 for --

25 Mr. Chapoton. Many years.

1 Senator Danforth. We have the Windfall Profit Tax.
2 This would simply be a reversion back to prior law.

3 I don't know how much this dividend exclusion does.
4 I am certainly not carrying the banner for the dividend
5 exclusion. Except, it seems that rather than just totally
6 wipe it out, why not revert back to prior law, especially
7 when we had a revenue savings by contrast to extending the
8 \$200 and \$400.

9 Do you want --

10 Senator Mitchell. No, that is all I wanted. I guess
11 I do not understand the logic of it.

12 Senator Danforth. It is just a reversion. It is just
13 -- no, the last thing I am doing is offering a point of view
14 that says that the dividend exclusion is important. It
15 isn't.

16 This is simply a trade-in for what the Administration
17 proposed for \$200 and \$400 or something that I believe and
18 that the savings and loans believe is very important to them.

19 Senator Mitchell. And I believe as well.

20 Would you have any problem, if you are going to leave
21 some exclusion available to small investors -- actually it
22 is available to everybody, but in terms of incentive it is
23 presumably more than small savers, would you have any
24 problem with leaving the interest exclusion available,
25 because that is more likely to be of interest to persons

1 who are at lower income level?

2 Senator Danforth. Well, the problem with that is
3 two-fold. The first is, given the vote that we took last
4 week on trying to keep the revenue loss within the general
5 confines of what the Administration suggested, how many
6 things can we be doing at the same time.

7 The second is that the interest and dividend exclusion
8 at a \$200-\$400 level was thought not to be very effective
9 and therefore it would seem to follow that if it were at a
10 reduced level, it would not be very effective either.

11 Let me, Mr. Chairman, if I could, ask the Joint Comm-
12 ittee if they know what the comparative revenue losses for
13 the Bentsen proposal and the All Savers Proposal would be
14 for '82, '83, '84 and '85?

15 Mr. McConaghy. Senator Danforth, we had to translate
16 them here a little bit into fiscal years, but essentially
17 Senator Bentsen's proposal would pick up .3 or \$300 million,
18 in '82; \$1.0 billion in '83, and it would lose .7 in '84.

19 That is again, before interaction with rate cuts. I
20 will give you yours that way also.

21 Your's would pick up .1, in '82; .6, in '83; 1.6, in
22 '84 and 3.5 in '85.

23 Senator Danforth. So, looking at 1984, what would be
24 the difference, revenue lost in 1984 between the two?

25 Mr. McConaghy. It would be about \$2.3 billion difference.

1 Your's would pick up 1.6 and Senator Bentsen's would
2 have a negative \$700 million or a .7.

3 Senator Danforth. Mr. Chairman, in addition to the
4 revenue loss question, it seems to me that basically there
5 are two points to make in rebuttal to Senator Bentsen.

6 The first is the question of targeting. That is, to
7 what extent do we think that we in the Congress should
8 directed the flow of credit in this country to allocate the
9 flow of credit in this country when we make a decision that
10 these certificates will be available only to the extent that
11 mortgages are offered.

12 We are saying to local financial institutions that we
13 have made the decision for them, that money should be loaned
14 for mortgages and not for farms, not for small business,
15 not for the automobile industry.

16 It is quite true that the housing industry is in
17 trouble. It is also true that many farmers are in trouble.
18 It is clearly true that the automobile industry is in
19 trouble.

20 It is clearly true that many small business people
21 are in trouble. I do not believe that we should get our-
22 selves in the business of allocating credit among those
23 troubled institutions.

24 The fact of the matter is that the savings and loan
25 would be benefitted by both proposals; there is no doubt

1 about that. But All Savers is their program. They have
2 supported it from the beginning. They have felt so strongly
3 about All Savers that they have taken out full page newspaper
4 ads in support of All Savers.

5 In my visits with them they have indicated that that
6 is what they stick with. That is what they want.

7 The Bowery Savings Bank in New York City stated very
8 strongly that All Savers is the program they want, not a
9 program that is skewed to mortgages, because that tells them
10 what they are to be lending money for.

11 So, the degree of credit allocation is one of the
12 issues that is before us.

13 The second issue is longevity. How long should we
14 continue with this particular certificate approach to
15 encourage people to do something with their money.

16 I think for the short term it makes sense, but for
17 the long term, if interest rates come down, it would turn
18 out not to be just an immediate help for thrift institutions,
19 but it would turn out to be something that would not have
20 economic justification. It would be something of a windfall.

21 Finally, Mr. Chairman, with respect to the question of
22 how long this is to last, there are all kinds of proposals
23 for encouraging savings. One is this certificate method.
24 Other proposals are IRA's or net savings credit or a
25 percentage exclusions or changing the flat rate exclusion.

1 There are all kinds of proposals for what we should do for
2 savings in the long run.

3 To the extent that we lock ourselves into this
4 program, we are locking ourselves out of what might turn
5 out to be a better long-run program.

6 So, for all those reasons, the revenue effect in
7 out years, the manipulation of credit, the fact that really
8 the Bentsen Program would damage, would hurt banks and
9 credit unions and the fact that I am not persuaded that a
10 permanent program is in the best interest of this country.

11 Let me say this, this is a one-year program. What
12 that means is in a one-year period of time, thrift insti-
13 tutions could sell certificates. The benefit of those sales
14 of course, would last not only during the year, but in the
15 subsequent year while those certificates are outstanding.

16 So, in reality, as far as the institutions are con-
17 cerned, this is a two-year program to help them.

18 The Chairman. Senator Bentsen.

19 Senator Bentsen. Mr. Chairman, if I may. When we
20 talk about targeting and the allocation of credit, the All
21 Savers is also targeted because it is limited to those
22 insured institutions.

23 You can't put it in the money market fund. So you are
24 talking about targeted savings. There is no question of
25 purity in this situation.

So.

1 So, if you are going out to try to correct a problem,
2 you have a chance with one piece of legislation to really
3 hit your target and not have 60 percent of the money go to
4 the financial institutions that are in the best shape they
5 have ever been in, making more money than they have ever
6 made and have only 40 percent of it go to the reason, one
7 of the reasons for your trying to put this in.

8 That is what happens if you don't target it to housing
9 mortgages, because that is the way the six month money market
10 certificates have gone.

11 But if you target it to housing mortgages, then you
12 are going to these institutions that are having the problems.
13 You are saying, "You tried to support housing in this
14 country. We are going to try to encourage savings to do
15 just that thing. We are going to try to really get interest
16 rates down on home mortgages by such an influx, by such an
17 inflow of savings that will bring those rates down and we
18 are going to make homes affordable for young people again
19 in this country. We are going to make that monthly payment
20 something they can chin, something they can afford."

21 What else are we going to do? We are going to try
22 to put a million back to work in this country. A million
23 people are unemployed because you have twice the unemploy-
24 ment rate in the housing industry today than you have on the
25 national average of unemployment.

1 So, when we talk about the numbers of cost, we talk
2 about static analysis. But this amendment, Senator Danforth's
3 proposal, is one that will have a direct economic impact and
4 bring money back to the Treasury.

5 We are not talking about a one-year deal. We are
6 talking about three years to accomplish this objective. It
7 can't be done by any quick fix. We have to give some time
8 to turn this thing around.

9 Mr. Chapoton was talking about a plus cash flow.
10 When he says that when you have had \$28 billion worth of
11 outflow last year from thrifts, and in April of this year
12 had by far the highest we have ever had in this country,
13 over \$4 billion. He has to be talking about maturing
14 mortgages and that kind of inflow and cash flow so they can
15 meet the withdrawals.

16 Mr. Chapoton. That is correct, Senator.

17 Senator Bentsen. Yes. I assumed that.

18 Now, what have we then is that over those three years
19 that this is in effect, you have a \$300 million net return
20 back to the Treasury by repealing Section 116 that they have
21 stated really is not significant, that the \$200 and \$400 or
22 the \$100 and \$200 has not had that kind of an impact one
23 would want.

24 So, when you get all through with that, on a static
25 analysis, you are talking about \$300 million back net to the

1 Treasury. You have done a major job in trying to make
2 housing affordable in this country. You have tried to help
3 the thrifts that are in trouble. You have tried to make
4 homes affordable again. You have encouraged savings.

5 Senator Boren. If Senator Bentsen would yield for a
6 question.

7 Senator Bentsen. Yes.

8 Senator Boren. Isn't it true in regard to the comment
9 that you are not allowing these institutions to loan to
10 agriculture and small businesses and so on, if you adopt
11 our proposal, that you are limited by the housing portfolio?

12 Senator Bentsen. Yes.

13 Senator Boren. In other words, if you had as many
14 small banks in the rural areas have, 30 percent of your
15 loans and your housing portfolio, and you had new deposits
16 generated by this certificate, you could still loan that
17 money out.

18 In other words, you simply have to have to have housing
19 loans in your portfolio in order to do this.

20 Senator Bentsen. That is right.

21 Senator Boren. It would not mean that every dollar
22 that came in in new deposits would have to go into housing
23 if you had an institution that had sufficient dedication to
24 financing housing mortgages already.

25 Senator Bentsen. That's correct.

1 Senator Boren. It would provide some targeting, but
2 it would not totally direct all of the additional funds
3 away from other areas that might need it, and would allow
4 flexibility to small banking institutions, would it not?

5 Senator Bentsen. Mr. Chairman, I am ready to vote.

6 The Chairman. I would just say that I made many of
7 the arguments made by Senator Bentsen. Not as well, but I
8 tried on Friday with some of the representatives of the
9 savings and loans league and I didn't do very well.

10 When they left they still wanted the All Savers plan.
11 They felt on balance it did more than anything they had
12 seen.

13 I don't think we have yet been able to put together a
14 good savings provision. I don't say that in an effort to
15 have any real impact, but it was -- I was concerned about
16 the All Savers. I had a meeting on Friday. When they left
17 no one had changed their minds.

18 If there is no further debate, we will vote on the
19 amendment.

20 Senator Matsunaga. Mr. Chairman.

21 The Chairman. Senator Matsunaga.

22 Senator Matsunaga. Mr. Chairman, I might say that as
23 a co-sponsor of the Danforth proposal, I am strongly in
24 favor of the All Savers certificate.

25 On the other hand, listening to the arguments made

1 here and the proposal put by Senator Bentsen, I feel that
2 the amendment might improve the Danforth proposal.

3 The Bentsen proposal, as originally proposed in S.
4 701, as I note, has been considerably modified. It was
5 S. 701, which the S & L's did not favor.

6 But, as has been modified, and as proposed here as an
7 amendment to the Danforth proposal, it appears that even
8 the banks and the credit unions could support, so long as
9 they have a portfolio of real estate mortgages, then they
10 could participate in the program and it would be a two bird
11 with one shot business.

12 While I strongly support the Danforth proposal, I
13 think this might improve the Danforth proposal. I am willing
14 to support the Bentsen Amendment.

15 The Chairman. Again, I will only say that we have to
16 keep looking to 1984. I think there is a \$600 million or
17 a \$700 million net revenue loss if we adopt the Bentsen
18 proposal.

19 Maybe that should not be a consideration, but we are
20 playing with a delicate surplus of around \$2 to \$2.5 billion.
21 I am not certain how long we could sustain that, but this
22 may be the first test.

23 Senator Baucus. Mr. Chairman.

24 The Chairman. Senator Baucus.

25 Senator Baucus. Mr. Chairman, I too am a co-sponsor

1 of the Danforth bill.

2 I also quite strongly believe that Senator Bentsen's
3 modification is a better idea.

4 I come from the Western part of the country. As a
5 practical matter, the home building industry desperately
6 needs some help with housing. It is that simple.

7 I know it is true for other Senators of this Committee.
8 I am a little concerned about the revenue effect in '84,
9 but this is 1981. June, '81, and we have time to make
10 adjustments. By the time '84 comes around, I wouldn't get
11 too concerned about the objection. And '84, that is pretty
12 iffy around here.

13 My final point is, I with some amusement look at the
14 title of this package as the so-called bi-partisan package.
15 I hope that it is bi-partisan. There are Democrats on this
16 Committee.

17 The Chairman. This is a bi-partisan amendment.

18 Senator Baucus. I hope we find it is truly a
19 bi-partison --

20 Senator Danforth. Mr. Chairman, in response to that,
21 the All Savers proposal had at one time a majority of the
22 Democratic members of the Finance Committee as co-sponsors.
23 I, until very recently viewed it as a bi-partisan approach.
24 I hope I can continue to view it as bi-partisan.

25 The people who feel strongly about All Savers, and

1 they feel very strongly about All Savers and have certainly
2 no partisan interest in it at all.

3 Senator Baucus. I don't suggest there is either, but
4 the bottom line here is how we all come out here and how
5 we vote on this amendment.

6 Senator Bentsen. Mr. Chairman.

7 The Chairman. Senator Bentsen.

8 Senator Bentsen. Just one final comment. As to the
9 bi-partisanship, I said from the beginning I would vote for
10 your amendment if this one isn't added to it. I just think
11 that we are accomplishing more and as I understand the
12 Joint Tax Committee has shown what I have proposed with the
13 repeal of 116, would show us with a net surplus to Treasury
14 in both '82 and '83 and '84 you would have the deficit.

15 Senator Symms. Mr. Chairman.

16 The Chairman. Senator Symms.

17 Senator Symms. Mr. Chairman, just in -- if I could
18 just make one 30-second comment. I know the Chairman is
19 ready to ask for the vote, but I find some problems with
20 both of these propositions, even though I find that they
21 are both better than the present law.

22 I just believe that we really should be going after
23 an exclusion so that the long-term goal of the Congress is
24 to telegraph and tell the American people that if they
25 start saving money and investing in stocks and get dividends

1 that they are not going to be taxed on that savings.

2 So, we should have an exclusion in this bill. But
3 it appears, I can count the votes. We don't have the votes
4 to do that.

5 I would just like to say for the Committee's benefit
6 on the second tax bill, that I think we definitely should
7 be pushing for an exclusion at least of 25 percent of all
8 dividends and interest that anybody saves for anything so
9 we are not here trying to decide where they save and invest
10 their money, but that they are encouraged to save money.

11 The problem we face in the country is we tax savings
12 too much. I can see a lot of temptations for me, coming
13 from a timber state, in the Bentsen proposal, but I think
14 either one of these will have a positive effect on housing.

15 So, I will not offer my amendment today in order that
16 we won't have to debate that whole question now.

17 I would like to say to the Committee that when the
18 next tax bill comes up, I will be intending to offer a
19 motion which would implement an exclusion of all dividends
20 and savings and so we can get it beyond this allocation
21 and this directed question we are talking about right now.

22 The Chairman. The question is on the amendment.

23 Call the roll.

24 Senator Chafee. What are we voting for right now,
25 exactly?

1 The Chairman. We are voting on the Bentsen amendment
2 to the Danforth Amendment.
3 Senator Bentsen. Yes, sir.
4 Mr. Lighthizer. Mr. Packwood.
5 Senator Packwood. No.
6 Mr. Lighthizer. Mr. Roth.
7 Senator Roth. No.
8 Mr. Lighthizer. Mr. Chafee.
9 Senator Chafee. No.
10 Mr. Lighthizer. Mr. Heinz.
11 The Chairman. No.
12 Mr. Lighthizer. Mr. Wallop.
13 The Chairman. No.
14 Mr. Lighthizer. Mr. Durenberger.
15 Senator Durenberger. No.
16 Mr. Lighthizer. Mr. Armstrong.
17 Senator Armstrong. No.
18 Mr. Lighthizer. Mr. Symms.
19 Senator Symms. No.
20 Mr. Lighthizer. Mr. Grassley.
21 Senator Grassley. No.
22 Mr. Lighthizer. Mr. Long.
23 Senator Long. Aye.
24 Mr. Lighthizer. Mr. Byrd.
25 Senator Byrd. Present.

1 Mr. Lighthizer. Mr. Bentsen.
2 Senator Bentsen. Aye.
3 Mr. Lighthizer. Mr. Matsunaga.
4 Senator Matsunaga. Aye.
5 Mr. Lighthizer. Mr. Moynihan.
6 Senator Moynihan. Aye.
7 Mr. Lighthizer. Mr. Baucus.
8 Senator Baucus. Aye.
9 Mr. Lighthizer. Mr. Boren.
10 Senator Boren. Aye.
11 Mr. Lighthizer. Mr. Bradley.
12 (No response.)
13 Mr. Lighthizer. Mr. Mitchell.
14 Senator Mitchell. Aye.
15 Mr. Lighthizer. Mr. Chairman.
16 The Chairman. No.
17 It is 11 yea's, and 7 nay's.
18 Senator Bentsen. Mr. Chairman, I would now like to
19 move the bi-partisan --
20 Senator Boren. I wonder if the Senator would withhold.
21 Mr. Chairman, I do want to offer another amendment since
22 the previous amendment has failed. There are rally two
23 parts to that. I would offer them separately.
24 First of all, I feel very strongly the one-year
25 proposal is not sufficient, that it will not result in loans

1 being made. These institutions, I think it is obvious to
2 everyone around this table, simply cannot afford to go out
3 and make home mortgages and so on, not knowing if they
4 have more than a one-year program. That will generate a
5 short-term bail out, but it is not going to take care of
6 the long-range problem.

7 So, I would move to amend the Danforth proposal to
8 change it to apply and make it a three year proposal, and
9 with the phase-ins as he has indicated after that.

10 The Chairman. Do you want a record vote?

11 Senator Boren. I would like a record vote. I hope
12 -- this is not offered facetiously. I think that we want to
13 see loans go out. How many people here if they were heading
14 institutions would make those loans with simply a one-year
15 program. They wouldn't do it. They wouldn't begin to do
16 it, not knowing what the future is going to hold.

17 So, I would simply suggest, I think Senator Bentsen
18 was absolutely right in calling for at least a three year
19 program.

20 We are trying, as Senator Symms has said, to encourage
21 savings. I think we willy nilly go around here \$200 and
22 \$400, we are going to take it away from you next year,
23 \$1,000, \$2,000, we may take that away from you the next
24 year. We only adopt it for one year.

25 So we are not going to do enough good. I know that
the Treasury will have feelings about that. But I think --

1 Mr. Chapoton., Senator Boren, we do not have revenue
2 figures on that. But I can see right away that would give
3 us some trouble in the critical year, fiscal '84, because
4 under the Danforth Amendment, we have little cost in fiscal
5 '84. In this, it would be more.

6 The Chairman. This would wipe out the \$2 billion
7 surplus.

8 Mr. Chapoton. I am afraid it would. I don't have
9 figures.

10 I would also mention that we raised, we talked to
11 the savings and loan league and other representatives. We
12 were -- they make the argument no matter how many years,
13 they are borrowing short and lending long. That is something
14 that are used to doing. They say that what they are looking
15 for here is a one-shot assistance. They will have to lend
16 --

17 Senator Boren. I would say, Mr. Chairman, that I have
18 had a lot of discussions with them too. I know what they
19 are looking for. They are desperate. They are looking for
20 whatever they think they might be able to get no matter
21 what. They know the attitude of the Treasury. They know
22 the attitude of the commercial banks.

23 Naturally, they would be like the rest of us in a
24 desperate situation, they would say, "We will take what we
25 can get."

1 But in terms of really solving the problem, and I
2 don't want to leave here. I am going to offer this amendment.
3 I hope it will pass. I intend to offer another brief amend-
4 ment. But I don't intend to leave saying when we have
5 severe trouble with these institutions later on in this
6 year and the people come to me and say, "Well, where were
7 you, when you saw this coming on?" Because, mark my word,
8 it is going to come. This is not going to be enough. It is
9 a step in the right direction, but it is not nearly enough
10 to head it off.

11 I don't want to go back and say, "I sat there and
12 didn't try." So, I would like a roll call vote.

13 Senator Durenberger. Mr. Chairman, I wonder if I
14 might ask the Senator from Oklahoma if he knows that there
15 are certain tax bracket taxpayers to whom your proposal is
16 more advantageous than others?

17 Senator Boren. I wouldn't think there would be any
18 different than the advantageous nature of the Danforth
19 proposal. It would be the same. I am simply saying what
20 -- let's enact this. There is no difference. I am just
21 saying let's have a three-year program with a little
22 certainty to it, rather than a one-year, short term bail
23 out and we will be right back here next year with the same
24 situation.

25 Senator Durenberger. Perhaps I could ask the question

1 of Treasury then. Is there sort of an incentive tax
2 bracket taxpayer break on the All Savers Certificate?

3 Mr. Chapoton. These items would be like any other
4 tax exempt item. They are more benefit the higher your tax
5 bracket. The break point is about the difference between
6 the same percentage. In other words, you would have to be
7 in above a 30 percent bracket for it to be worthwhile,
8 because a 30 percent from T bills.

9 Senator Durenberger. So 30 percent --

10 Mr. Chapoton. Yes, 30 percent would be -- above 30
11 percent would be beneficial as compared to a taxable
12 certificate.

13 Senator Chafee. Mr. Chairman.

14 The Chairman. Senator Chafee.

15 Senator Chafee. Mr. Chairman, what bothers me in
16 the discussion we have had a good part of the day we have
17 had on the three-year proposals is that it is not really
18 discussing savings, we are discussing either helping the
19 home building industry or helping the housing or helping
20 the thrifts, both of which are laudable goals.

21 But I think what we have to concentrate on here is
22 increasing savings. I don't see this approach doing that.
23 If we go to one year, all right, I am prepared to go along
24 with that. But I would much prefer us to be dealing with
25 something that would be truly would be increasing savings

1 for the people of the United States, not for the thrifts
2 or the S & L's or anything else.

3 That is why I have stuck with the limitation to the
4 one-year and will continue to vote that way, and hope we
5 can very soon get into something that truly will be an
6 incentive for increased savings in the country.

7 Thank you.

8 Senator Roth. Mr. Chairman.

9 The Chairman. Senator Roth.

10 Senator Roth. Mr. Chairman, Senator Chafee has raised
11 a valid point. But, as I understand the proposal of
12 Senator Danforth, the reason he is proposing the one-year
13 is to give short-range help to savings and loans, but
14 equally important is the concept that it gives us time to
15 look at the whole savings problem.

16 I think we are all in agreement with Senator Chafee
17 that this is an extraordinarily critical problem. If I am
18 not mistaken, that is your idea that this gives us some
19 breathing space with which to take a more careful examin-
20 ation of the whole problem.

21 Senator Danforth. That is absolutely correct. I
22 think that we would be making a mistake to lock ourselves
23 in to this particular approach for an extended period of
24 time. We don't know what is going to happen to interest
25 rates in another year or two or three years.

1 We do know that there is an immediate problem and
2 this is the precise approach that the S & L's have asked
3 for to fix their immediate problem.

4 I think we should take them up on that. We should
5 not commit ourselves to what would turn out to be an
6 alternative or what might be better approaches for encourag-
7 ing savings.

8 No, I think the notion of encouraging savings is one
9 that is very much before us, and will continue to be very
10 much before us.

11 The Chairman. Senator Bradley.

12 Senator Bradley. Mr. Chairman, I would just like to
13 be recorded in the affirmative on the Bentsen Amendment.

14 The Chairman. The clerk will call the roll on the
15 first Boren Amendment.

16 Mr. Lighthizer. This is a three-year extension of
17 \$1,000-\$2,000, each year.

18 Mr. Packwood.

19 (No response.)

20 Mr. Lighthizer. Mr. Roth.

21 Senator Roth. No.

22 Mr. Lighthizer. Mr. Danforth.

23 Senator Danforth. No.

24 Mr. Lighthizer. Mr. Chafee.

25 Senator Chafee. No.

1 Mr. Lighthizer. Mr. Heinz.
2 (No response.)
3 Mr. Lighthizer. Mr. Wallop.
4 The Chairman. Mr. Wallop votes no.
5 Mr. Lighthizer. Mr. Durenberger.
6 The Chairman. Heinz votes no.
7 Senator Durbenberger. No.
8 Mr. Lighthizer. Mr. Armstrong.
9 The Chairman. No.
10 Mr. Lighthizer. Mr. Symms.
11 Senator Symms. No.
12 Mr. Lighthizer. Mr. Grassley.
13 Senator Grassley. No.
14 Mr. Lighthizer. Mr. Long.
15 Senator Long. Aye.
16 Mr. Lighthizer. Mr. Byrd.
17 Senator Byrd. No.
18 Mr. Lighthizer. Mr. Bentsen.
19 Senator Bentsen. Aye.
20 Mr. Lighthizer. Mr. Matsunaga.
21 Senator Matsunaga. Aye.
22 Mr. Lighthizer. Mr. Moynihan.
23 Senator Moynihan. Aye.
24 Mr. Lighthizer. Mr. Baucus.
25 Senator Baucus. Aye.

1 Mr. Lighthizer. Mr. Boren.

2 Senator Boren. Aye.

3 Mr. Lighthizer. Mr. Bradley.

4 Senator Bradley. Aye.

5 Mr. Lighthizer. Mr. Mitchell.

6 Senator Mitchell. Aye.

7 Mr. Lighthizer. Mr. Chairman.

8 The Chairman. No.

9 The nay's are 12 and the yea's are 7.

10 The amendment is not agreed to.

11 Senator Boren. Mr. Chairman, the second attempt, and
12 I can see what the result will be, but in conscience again,
13 I want to offer it, because I think we will very much
14 regret we didn't target at least a portion of the funds
15 where they would do the most good and where the need is
16 the most critical.

17 I would simply then, since we have lost on the three
18 years, take the one-year Danforth proposal and in essence
19 propose that half of it be targeted so that in between the
20 Bentsen approach and the Danforth approach, using the
21 provision in the Danforth -- I mean in the Bentsen
22 proposal that institutions could not issue All Savers
23 Certificates in amount -- in excess of the amount of their
24 home mortgage portfolio.

25 I would change that to in excess of twice the amount

1 of their home mortgage portfolio which would have the effect
2 of targeting half the assistance, in essence, targeting half
3 of the savings into this area.

4 I would say this, where Senator Bentsen estimated that
5 40 percent of the total cost of the Danforth proposal would
6 end up getting into the thrifts where there is the greatest
7 need, under the Bentsen proposal, 100 percent roughly would
8 have gone there, very close to it. It would be somewhere
9 in between, not as effective as it should be, but it would
10 perhaps be enough to get us over the hump.

11 It would also help take care of the problems of young
12 couples who can't buy a home. I think that is another
13 problem I think we ought to have some conscience about.

14 So, I would just propose this. There were some who
15 said they could see some merit in both propositions. I
16 would propose this. It has no additional cost attached to
17 it over the Danforth proposal.

18 I would just propose this to give people another
19 option to vote on that I think would be somewhat more
20 effective.

21 Senator Symms. Would you restate the proposition,
22 again?

23 Senator Boren. The proposition would be, Senator Symms
24 it would in essence target half of it to housing and have
25 the effect of targeting half of it to housing. You would

1 have to have half of it go into housing to relieve the
2 mortgage problem, the very severe problem. We do have the
3 most bankruptcies in that industry that we have had since
4 the depression.

5 It would also, I think, probably have the effect of
6 pumping a few more of the dollars into the thrift insti-
7 tutions where they do have certainly no problem meeting
8 the difficulty of having half of their portfolios.

9 I would doubt it very much if anyone here from the
10 savings and loan industry would say they would be opposed to
11 this. I couldn't very well believe they would.

12 The Chairman. Does Treasury want to be heard on that
13 amendment?

14 Mr. Chapoton. Senator, I don't think we have anything
15 to add, but what we said before. If we start down this
16 road we would prefer it not be targeted.

17 Senator Boren. It makes no difference in dollars; is
18 that correct? This amendment would not, would it?

19 Mr. Chapoton. We have not considered that. I don't
20 see that it would have any effect in dollars.

21 The Chairman. Do you want a record vote?

22 Senator Boren. Yes, sir.

23 The Chairman. The Clerk will call the roll.

24 Mr. Lighthizer. Mr. Packwood.

25 Senator Packwood. No.

1 Mr. Lighthizer. Mr. Roth.
2 The Chairman. No.
3 Mr. Lighthizer. Mr. Danforth.
4 Senator Danforth. No.
5 Mr. Lighthizer. Mr. Chafee.
6 Senator Chafee. No.
7 Mr. Lighthizer. Mr. Heinz.
8 The Chairman. No.
9 Mr. Lighthizer. Mr. Wallop.
10 The Chairman. No.
11 Mr. Lighthizer. Mr. Durenberger.
12 Senator Durenberger. No.
13 Mr. Lighthizer. Mr. Armstrong.
14 The Chairman. No.
15 Mr. Lighthizer. Mr. Symms.
16 Senator Symms. No.
17 Mr. Lighthizer. Mr. Grassley.
18 Senator Grassley. No.
19 Mr. Lighthizer. Mr. Long.
20 Senator Long. No.
21 Mr. Lighthizer. Mr. Byrd.
22 Senator Byrd. No.
23 Mr. Lighthizer. Mr. Bentsen.
24 Senator Bentsen. Aye.
25 Mr. Lighthizer. Mr. Matsunaga.

1 (No response.)

2 Mr. Lighthizer. Mr. Moynihan.

3 Senator Moynihan. Aye.

4 Mr. Lighthizer. Mr. Baucus.

5 Senator Baucus. Aye.

6 Mr. Lighthizer. Mr. Boren.

7 Senator Boren. Aye.

8 Mr. Lighthizer. Mr. Bradley.

9 Senator Bradley. Aye.

10 Mr. Lighthizer. Mr. Mitchell.

11 Senator Mitchell. Aye.

12 Mr. Lighthizer. Mr. Chairman.

13 The Chairman. No. Mr. Packwood, no.

14 (Pause.)

15 The Chairman. On this vote the yea's are 7, the
16 nay's are 13. The amendment is not agreed to.

17 The vote now occurs on the --

18 Senator Mitchell. Mr. Chairman, I would like to
19 suggest another amendment and hope that Senator Danforth
20 could accept it.

21 As I understand it, his proposal calls for the
22 termination of the exclusion for interest earned, reverts
23 back to prior law which continues the exclusion for dividends
24 earned in future years, so that after the one-year effect of
25 his proposal in the future, someone who is receiving

1 dividends gets an exclusion from income. Someone who is
2 receiving interest does not get an exclusion.

3 Now, Senator Danforth was candid enough to acknowledge
4 that there is no logic to this proposal. Even though there
5 is no logic, the effect is clear. It provides a small, but
6 nonetheless real benefit to persons at the upper end of the
7 income scale, and takes away a small, but nonetheless real
8 benefit to persons generally at the lower end of the economic
9 scale.

10 I can see no logic to that. It just doesn't seem to
11 be fair. We are already doing a lot in this bill for people
12 in the upper income level.

13 I think that to the extent that small savers benefit
14 from this modest exclusion, that if there is going to be
15 continued in the future an exclusion, it ought to apply
16 both to dividends and income.

17 It is really a pittance, in fact, but it just seems
18 to me it is the only fair thing to do under the circumstances.

19 Therefore, I offer an amendment that would, to the
20 extent that an exclusion is to be continued in future
21 years, that it apply to interest earned, as well as dividends
22 received.

23 The Chairman. I think that gets us back into fiscal
24 problems.

25 Mr. Chapoton. Senator Mitchell, would this retain

1 a \$100 and \$200 exclusion for interest as well as dividends?

2 Senator Mitchell. Same level for both. To the extent
3 that there is going to be one, it ought to apply to both.

4 Mr. Chapoton. That would increase the revenue
5 significantly because you have a lot of interest in the
6 year when the All Savers is phasing out, this would mean
7 a lot --

8 The Chairman. Plus, I think we would never do any-
9 thing about it. If we go back to a permanent interest and
10 dividend exclusion, back to \$200 and \$400 a month, I think
11 the way we are doing it today, it is going to put some
12 pressure on us to come up with a better plan.

13 I doubt that we have the best plan before us. I
14 would oppose that amendment.

15 Senator Mitchell. Mr. Chairman, why then are we
16 continuing the dividend exclusion? Does that not have
17 fiscal effect, Mr. Chapoton?

18 Mr. Chapoton. I have to concede, Senator. I am
19 comparing our proposal with other -- with changing those
20 proposals and not comparing with changes in items that are
21 existing law.

22 Obviously, if you reduce the dividend exclusion you
23 would save money.

24 Of course, during this period, I think as the
25 Chairman said, we are concerned about the tax on capital in

1 general. I feel certain we will be making further
2 proposals with respect to relieving some of the tax burden
3 on --

4 Senator Mitchell. Your argument is that is the way
5 we have done it, so that is the way we ought to do it.

6 It seems to me I have heard the President, on many
7 occasions suggest just the opposite argument, that that is
8 the way we have done it and we ought to stop doing it that
9 way because it is wrong.

10 Mr. Chapoton. What I am saying is, if you are talking
11 about repealing the dividend exclusion, then that would
12 leave in the interim, in the years while All Savers is in
13 effect, only an exclusion for this type of interest.

14 Then, at some point, I think it is incumbent we
15 deal with the overall question of taxation of capital
16 income. We would expect to do that.

17 Now, in the interim, I concede we would be just
18 sticking with the existing law.

19 The Chairman. Why don't we just vote on it.

20 Call the roll.

21 Mr. Lighthizer. Mr. Packwood.

22 The Chairman. No.

23 Mr. Lighthizer. Mr. Roth.

24 The Chairman. No.

25 Mr. Lighthizer. Mr. Danforth.

1 Senator Danforth. No.
2 Mr. Lighthizer. Mr. Chafee.
3 Senator Chafee. No.
4 Mr. Lighthizer. Mr. Heinz.
5 Senator Danforth. No.
6 Mr. Lighthizer. Mr. Wallop
7 The Chairman. No.
8 Mr. Lighthizer. Mr. Durenberger.
9 Senator Durenberger. No.
10 Mr. Lighthizer. Mr. Armstrong.
11 The Chairman. No.
12 Mr. Lighthizer. Mr. Symms.
13 (No response.)
14 Mr. Lighthizer. Mr. Grassley.
15 Senator Grassley. No.
16 Mr. Lighthizer. Mr. Long.
17 Senator Long. No.
18 Mr. Lighthizer. Mr. Byrd.
19 Senator Byrd. No.
20 Mr. Lighthizer. Mr. Bentsen.
21 Senator Bentsen. Aye.
22 Mr. Lighthizer. Mr. Matsunaga.
23 Senator Matsunaga. Aye.
24 Mr. Lighthizer. Mr. Moynihan.
25 Senator Moynihan. Aye.

1 Mr. Lighthizer. Mr. Baucus.

2 (No response.)

3 Mr. Lighthizer. Mr. Boren.

4 Senator Boren. Aye.

5 Mr. Lighthizer. Mr. Bradley.

6 Senator Bradley. Aye.

7 Mr. Lighthizer. Mr. Mitchell.

8 Senator Mitchell. Aye.

9 Mr. Lighthizer. Mr. Chairman.

10 The Chairman. No.

11 (Pause.)

12 Senator Mitchell. Mr. Chairman, Mr. Baucus voted aye
13 by proxy.

14 The Chairman. On the vote the yea's are 7, the
15 nay's are 13.

16 The amendment is not agreed to.

17 Are there further amendments?

18 If not the vote occurs on the Danforth-Matsunaga
19 Amendment, Bentsen-Moynihan-Durenberger.

20 The Clerk will call the roll.

21 Mr. Lighthizer. Mr. Chairman, may I just make three
22 technical points?

23 The Chairman. Yes.

24 Mr. Lighthizer. The exclusion will be disallowed, as
25 we understand it, to the extent that deposits are withdrawn

1 before maturity.

2 The exclusion will be disallowed to the extent a
3 taxpayer borrows to invest in tax exempt savings certificates
4 and this applies only to individuals, not to trusts and
5 estates.

6 Mr. Packwood.

7 The Chairman. Aye.

8 Mr. Lighthizer. Mr. Roth.

9 The Chairman. Aye.

10 Mr. Lighthizer. Mr. Danforth.

11 Senator Danforth. Aye.

12 The Chairman. Mr. Chafee.

13 Senator Chafee. Aye.

14 The Chairman. Mr. Heinz.

15 Senator Heinz. Aye.

16 Mr. Lighthizer. Mr. Wallop.

17 The Chairman. Aye.

18 Mr. Lighthizer. Mr. Durenberger.

19 Senator Durenberger. Aye.

20 Mr. Lighthizer. Mr. Armstrong.

21 The Chairman. Aye.

22 Mr. Lighthizer. Mr. Symms.

23 (No response.)

24 Mr. Lighthizer. Mr. Grassley.

25 Senator Grassley. Aye.

1 Mr. Lighthizer. Mr. Long.
2 Senator Long. Aye.
3 Mr. Lighthizer. Mr. Byrd.
4 Senator Byrd. Aye.
5 Mr. Lighthizer. Mr. Bentsen.
6 Senator Bentsen. Aye.
7 Mr. Lighthizer. Mr. Matsunaga.
8 Senator Matsunaga. Aye.
9 Mr. Lighthizer. Mr. Moynihan.
10 Senator Moynihan. Aye.
11 Mr. Lighthizer. Mr. Baucus.
12 (No response.)
13 Mr. Lighthizer. Mr. Boren.
14 Senator Boren. Aye.
15 Mr. Lighthizer. Mr. Bradley.
16 Senator Bradley. Aye.
17 Mr. Lighthizer. Mr. Mitchell.
18 Senator Mitchell. Aye.
19 Mr. Lighthizer. Mr. Chairman.
20 The Chairman. Aye.
21 No one voted in the negative. So there are 20 yeas.
22 There are 19 yeas. Does Mr. Baucus want to be record-
23 ed? I think so.
24 Senator Mitchell. Record him in the affirmative.
25 The Chairman. Yes, 20 yeas and no nays. The amendment

1 is agreed to.

2 I would like to at least bring up at this time, if
3 we can do it very quickly, and that is the estate and gift
4 tax provision.

5 We have had a task force working on this, a bi-partisan
6 task force, I might add. I think we have made some
7 recommendations that are agreed upon. I am not certain
8 Treasury agrees with all, but I know a few of the principal
9 members of that task force, well the Chairman, Senator
10 Wallop, is on his way back to Washington. He is not here
11 yet.

12 But, Senator Durenberger, Senator Symms, Senator
13 Grassley, Senator Boren, Senator Bentsen, Senator Byrd,
14 and Senator Baucus were represented and were members of
15 that task force.

16 I wonder if the staff might give us a short comment.
17 or explanation of that provision.

18 Mr. DeArment. First, the proposal would --

19 The Chairman. Let me say, we are privileged to have
20 in the room, four visiting Governors. Governor DuPont, from
21 Delaware; Governor Busbee, from Georgia; Governor Alexander
22 from Tennessee and Governor Thompson from Illinois.

23 If you fellows would like to vote --

24 (Laughter.)

25 The Chairman. Welcome. Find them a chair. We have a

1 couple of empties up here.

2 (Laughter.)

3 The Chairman. Mr. Lighthizer, do you want to go ahead
4 and explain that provision?

5 Mr. Lighthizer. Rod will, Mr. Chairman.

6 Mr. DeArment. The proposal would make a number of
7 changes to the estate and gift tax law.

8 First, it would over five years, increase the unified
9 estate and gift tax credit to a figure which would essentially
10 provide a credit against an estate of \$600,000. It is
11 currently at approximately \$175,000.

12 The proposal would also provide for an unlimited
13 marital deduction. It would increase the present \$3,000
14 annual gift tax exclusion to \$10,000 per donee.

15 It would make a series of changes in the current use
16 valuation rules relating to the special use of farm or other
17 business real property.

18 It would make a number of technical amendments to the
19 estate tax, special use and technical amendment were both
20 contained in Senator Wallop's bill, S. 395, which a number
21 of the members of this Committee have co-sponsored, including
22 Senator Boren.

23 The Chairman. Is the Treasury prepared to comment on
24 the proposal we have on page 17, of the list, Mr. Chapoton.

25 As I understand, in addition, and maybe Mr. DeArment,

1 did you explain also some of the recommendations made by the
2 task force?

3 Mr. DeArment. As I understand the recommendations of
4 the task force, they were to phase in by one additional year
5 the unified credit a little more slowly.

6 Originally, we talked about a four-year phase in. We
7 stretched that out to five years. By so doing, we would
8 have the revenue to put into place these special use
9 changes and the technical changes.

10 So it was a package designed to be revenue neutral,
11 yet take into account these important --

12 The Chairman. Was there agreement on that proposal
13 by members of the task force?

14 I know Senator Symms has a reservation.

15 Mr. DeArment. Senator Symms has one additional point.

16 The Chairman. He has a reservation about that action.
17 First, I guess I should ask Treasury.

18 Mr. Chapoton. We agreed to the recommendations of the
19 task force; yes sir.

20 The Chairman. What about Senator Boren? Would you
21 agree to the changes made by the task force?

22 Senator Boren. We do. I would just -- I think there
23 were two technical amendments in the bill that Senator
24 Wallop and I and in 395 that were not accepted or I think
25 overlooked. I think they just didn't appear in the packet.

1 Mr. Chapoton. The two, one was dealing with wood
2 lands I thought was not in the task force and the \$500,000
3 cap was not in the task force recommendation.

4 Are those the two?

5 The Chairman. Those are different.

6 Who knows what the technicals were?

7 Mark?

8 Mr. McConaghy. Those are the only two out of S. 395
9 that weren't included in the list that Mr. DeArment
10 indicated.

11 The Chairman. The others were agreed to?

12 Mr. DeArment. Yes.

13 Senator Byrd. Mr. Chairman.

14 The Chairman. Senator Byrd.

15 Senator Byrd. Well, I understood there were two
16 provisions that were agreed to in the simplification field,
17 but are not a part of this proposal.

18 They permit the election to pay gift taxes is one,
19 and avoid acceleration of the entire unpaid tax if late
20 installment is paid within 6 months.

21 Were those provisions inadvertantly dropped?

22 Or were they dropped for a cause?

23 Mr. DeArment. Is this in substance your annual gift
24 tax bill, Senator Byrd?

25 Senator Byrd. No. No.

1 Senator Boren. Senator Byrd, you are asking about the
2 gift tax election and the acceleration of payments; those
3 two issues?

4 Senator Byrd. Yes.

5 Senator Boren. Those were the two and the problem
6 on the cap on the agriculture use value. I think that they
7 have accepted that.

8 Mr. DeArment. Senator Byrd, I don't believe that the
9 task force that met discussed those. Why don't we take a
10 look at those and see if there are any particular revenue
11 implications from doing those technical changes; otherwise
12 we --

13 The Chairman. Let's ask the Treasury if they --

14 Mr. Chapoton. Mr. Chairman, I am really not familiar.
15 I thought these other two items were the ones we were
16 talking about. We would want to look at them. They would
17 sound -- they would not sound like we would oppose them.

18 Senator Symms. Did Senator Byrd get his question
19 answered?

20 Senator Byrd. Yes.

21 Senator Symms. I had two other questions, too.

22 The Chairman. Just hold it for a second.

23 As I understand, with the exception of the two raised
24 by Senator Byrd, the other matters were covered to the
25 satisfaction of members of the task force, with the exception

1 of reservation which Senator Symms is about to make. Senator
2 Durenberger, I think was represented there. Senator Grassley.
3 Senator Moynihan.

4 Senator Symms. Mr. Chairman, I like the direction we
5 are trying to go with the estate and gift tax reform. I do
6 think that we should -- and I am willing to wait until
7 tomorrow or some time if the Chair wants to move ahead with
8 this.

9 But, to be able to extend the special use valuation
10 to wood lots, also. I think that is very important. It is
11 a position I feel very strongly about.

12 Then I had one other question, Mr. Chapoton. I think
13 the Chair agrees that we can look at this tomorrow; is that
14 correct?

15 The Chairman. Well, what I would like to do, as has
16 been done in the past, tentatively approve what we have
17 agreed in the task force. If somebody has an amendment to
18 it, they can certainly offer it or try to work it out or
19 whatever.

20 Senator Symms. I would like to see if I could have 24
21 hours to see if we could work this out on the wood lands.

22 But, then one other question I think we could probably
23 settle now, is on this generate skipping tax.

24 Now, is it the intention to grandfather that in?

25 Mr. Chapoton. There is no change in the proposal.

1 Senator Symms. That tax is coming due at the end of
2 this year. They have never raised any revenue on it. It is
3 a real complicated --

4 Mr. Chapoton. It is quite complicated. But it is, as
5 I have stated earlier, Senator Symms, we do want to revisit
6 the estate and gift tax area. That would be one we would
7 want to look at.

8 Senator Symms. So that you would want to grandfather
9 this present --

10 Mr. Chapoton. Well, we would make no change in
11 existing law with respect to generation skipping.

12 Senator Symms. But extend the grandfather so we
13 won't be confronted with this at the end of this year.

14 Mr. Chapoton. No. We have made no such proposal,
15 the extension of the grandfather.

16 Senator Symms. You wouldn't oppose that though, would
17 you? Just extend that grandfather for one more year?

18 Mr. Chapoton. Senator, there is no revenue, but I
19 think there is a broader question. There is uncertainty
20 when that sits out there and no one knows it is going to be
21 in effect or not.

22 Senator Symms. Well, if it is put into effect, we are
23 going to have a problem though.

24 Mr. Chapoton. Well, it is going to cause some estates
25 to pay taxes that don't otherwise taxes; that's correct.

1 Senator Symms. Cause a whole new --

2 Mr. Chapoton. But the problem really now is in
3 estate planning, and that problem exists whether or not we
4 defer the effective date.

5 When you are planning an estate and trying to decide
6 whether a codicil should be signed by a person who has
7 written a will, those problems all exist if you extend the
8 effective date.

9 I think we ought to deal with the problem -- if you
10 extend the father, ought to deal with the problem rather
11 than extend the grandfather.

12 The Chairman. Senator Moynihan.

13 Senator Moynihan. Thank you, Mr. Chairman.

14 I don't want to prolong this exercise, but I wonder
15 if we could have some discussion about why we are doing this.
16 What is the problem we are addressing, not just what agree-
17 ments the task force reached.

18 Do I understand that the proposal we have here is if
19 a man dies with \$100 million estate, there is no estate tax
20 to be paid until his spouse subsequently dies?

21 Mr. Chapoton. That is correct, Senator, if he leaves
22 that entire estate to his spouse.

23 Senator Moynihan. Yes.

24 Mr. Chapoton. There would be no dollar limit on
25 interspousal, on the exemption for interspousal transfers.

1 Senator Moynihan. If he had \$1 billion he would pay
2 no tax.

3 Senator Symms. How about \$2 billion?

4 Senator Moynihan. Even \$2 billion. There are
5 evidently are some or will be before this tax goes through.

6 The Chairman. \$2 billion in a straddle.

7 (Laughter.)

8 Senator Moynihan. Yes.

9 Sir, what is the social problem we are addressing
10 and what is the fiscal problem. Why are we doing this?

11 Senator Symms. Well, Senator, I can answer that.

12 Senator Moynihan. Good.

13 Senator Symms. The social problem is that the man
14 and wife work together all their life on a farm, never have
15 any money. They end up, one of them dies and the other one
16 sells the farm to pay off the estate tax the way it is today.

17 Senator Moynihan. A \$100 million farm?

18 Senator Symms. Well, we don't see many of those, but
19 we are talking about people who have estates in the area of
20 \$1 million. That is the answer of who we are trying to
21 correct.

22 The \$1 billion estates already have the planners and
23 the lawyers and CPA's and we aren't touching them.

24 Senator Moynihan. They don't pay taxes anyway, is
25 that your theory?

1 Senator Symms. I don't know about that.

2 The Chairman. I might say that this is a matter that
3 the President, Candidate Reagan addressed during the campaign.
4 This is one tax he would like to eliminate all together.

5 I think at least we started down that road. There
6 are some of my colleagues on this side, who are hard to
7 restrain. They want to do it all right now. We are trying
8 to overcome some of the out year costs of this rather mild
9 approach we have taken, because we found in the past that
10 the present estate -- in fact, the gift tax hasn't been
11 changed, I don't think, since 1940. The \$3,000 figure has
12 been around for about 40, 41 years.

13 We did make some changes in the estate tax provisions,
14 but not of any great significance. We believe for the first
15 time we are addressing a problem that concerns not just the
16 \$100 million operators, and there may be some of those, but
17 small businessmen and small farmers and others who accumulate
18 a little property and find that at death, they don't find,
19 but their survivors find that a great deal that is passed on
20 to the Federal Government.

21 That, as I understand it, but the Treasury may have
22 a more eloquent argument.

23 We are doing it because people are tired of giving
24 their estate to the Government, That is why I am supporting
25 it.

1 Mr. Chapoton. That's correct, Mr. Chairman. It is
2 the feeling it would be a burden on the estate tax is a direct
3 tax -- the estate tax is a direct tax on capital that it has
4 been an undue burden, and the load should be lightened
5 considerably.

6 On the 100 percent exemption from transfers between
7 spouses, that has been something that has been discussed for
8 a great number of years as the tax on taxing transfers either
9 during lifetime or death on any transfer, on any gift between
10 spouses has been considered inequitable, because the family
11 owned money is generally considered owned by both spouses.

12 It unduly influences planning, financial planning when
13 you have such a tax.

14 Of course, if you did make a gift, a large gift to the
15 spouse, you are putting, it may not be wise to do from an
16 estate planning standpoint because the money will be in the
17 surviving spouse's estate on his or her death, so there will
18 be limiting factors in any event.

19 But to diminish the amounts available for the spouses
20 welfare, support, following the death of one spouse has not
21 seemed correct to a number of people who reviewed this area
22 for a great number of years.

23 Senator Moynihan. I don't want to be derisory, and
24 I am not. Have we considered a negative estate tax that
25 supposing you did not have \$1 million farm, that you would be

1 given some money?

2 Senator Grassley. That comes from your side of the aisle.

3 Senator Moynihan. Well, I think there are more of us
4 without million dollar farms than there are with.

5 I understand the farming problem. That land goes up
6 in value. If you are going to keep that farm together you
7 have a real problem, and you want to keep that farm together.

8 But I am told, Mr. Hawkins, that you can -- a million
9 dollar farm can be tax free to a wife.

10 Mr. Hawkins. That is assuming they put in the
11 \$600,000 so if you had \$1 million farm under existing law
12 you could deduct half of it if given to the wife. The
13 remaining half would be less than the \$600,000.

14 Senator Moynihan. A farm at roughly \$1 million can
15 be passed on without the unlimited marital deduction.

16 Mr. Hawkins. \$1.2 million.

17 Senator Moynihan. \$1.2 million.

18 But we might be dealing with yet another class of
19 people who don't have farms, but who have more than \$1.2
20 million.

21 The Chairman. Right. The Washington Star said on
22 Saturday, the average cost of a home in this area is \$112,000.
23 It doesn't take much imagination to get a million.

24 Senator Moynihan. Ten homes, Mr. Chairman?

25 The Chairman. Well, nine and a half; eight and a half.

1 (Laughter.)

2 The Chairman. Senator Durenberger has some very
3 compelling reasons why we are doing this.

4 Senator Durenberger. I would just go back to the
5 original question. I know you meant it so we would get a
6 full discussion of the issue.

7 In essence what we are doing here today is what I
8 have tried to do through at least three pieces of legislation
9 including the Economic Equity Act to get rid of the widow's
10 tax.

11 I am tempted to tell you some of the thousands of
12 stories that I have heard and I am sure you heard, that
13 relate to the farm situation.

14 I just want to say as one person, I am indebted to
15 the President for having listened to those same stories,
16 for having agreed to put estate tax reform into this tax
17 package, because there are just too many people out there
18 dying every day and seeing family farms and family businesses
19 that go up in smoke.

20 Senator Moynihan. I think that case has been made.
21 I don't -- but it seems to me the ceiling above which family
22 farms tend not to rise -- a \$1 million is a pretty good
23 farm.

24 Senator Durenberger. A million dollars in my state
25 which is a small farming state. I don't come from the

1 ranching states that surround me. But, just in the last
2 nine years, land values have more than quadrupled in my
3 state.

4 The average farm is \$1 million, on the market. It is
5 not a million dollar farm when you look at the ability of
6 the farmer to generate the income to buy and pay for it.

7 Senator Moynihan. I think I can clear up the
8 confusion.

9 The average farm is a \$1 million farm when we are
10 talking about the estate tax. The average farm is 40 acres
11 and a mule when we are talking about the wheat subsidy.

12 The Chairman. Or the real estate tax.

13 Senator Moynihan. And the real estate tax.

14 The Chairman. We don't have any subsidies for wheat.

15 (Laughter.)

16 Senator Moynihan. It depends on what committee you
17 are in.

18 (Laughter.)

19 Senator Moynihan. Could we ask, Mr. Chairman, about
20 the gift tax. I don't understand this. If you have a
21 \$10,000 gift tax, doesn't that mean that -- won't that
22 have a pattern? I ask, in all innocence.

23 Supposing you raise three children. I almost always
24 had more than \$30,000 a year income. Could I not have
25 given \$10,000 to each of them each year and then charge them

1 for their room and board and pay no taxes.

2 Literally, what does this lead to?

3 Senator Symms. You pay no gift tax.

4 The Chairman. If you have your children in college,
5 and you send them over \$3,000 a month, you won't be required
6 to pay a gift tax. That's how it works.

7 Mr. Chapoton. Over \$3,000 a year.

8 The Chairman. Right, a year.

9 (Laughter.)

10 The Chairman. If they go to private schools.

11 (Laughter.)

12 Senator Chafee. Even so, it takes a long time to
13 give that farm away if it is a \$1 million farm.

14 Senator Matsunaga. Mr. Chairman, two questions.

15 The Chairman. Senator Matsunaga.

16 Senator Matsunaga. What is the estimated revenue
17 lost?

18 Of the estate tax.

19 Mr. Chapoton. Well, the original proposal would
20 have been \$100 million, in 1982; \$1.9 in fiscal '83; \$3
21 billion, in '84 and \$4 billion in '85.

22 These changes would conform, string it out a little
23 bit, phase it out a little bit slower so the revenue would
24 be the same.

25 Senator Matsunaga. In order to avoid any abuse, is

1 there a requirement that the surviving spouse must have been
2 married to the deceased for at least seven days?

3 (Laughter.)

4 Mr. Chapoton. There is no such requirement; no sir.

5 Senator Matsunaga. Shouldn't we have such a require-
6 ment to avoid abuse?

7 Senator Moynihan. What goes on there in Hawaii?

8 (Laughter.)

9 The Chairman. Hawaiian Punch, that's what it is.

10 Senator Matsunaga. You must consider there are now
11 lawyers of both sexes, and depending upon who the deceased
12 might be or expect the decedent might be, we might find
13 some abuse.

14 The Chairman. Well, this is phased in. So you better
15 see your doctor. It is going to take several years to get
16 the max. here.

17 Senator Boren. Mr. Chairman, I think I would like to
18 suggest we at least go ahead and approve the parts that are
19 in the package now, subject to later amendment of it.

20 I think the elements that are in the package are
21 all very good and very positive and there could be, of
22 course, later amendment to it, including clearing up I
23 think probably the two things raised by Senator Byrd can be
24 cleared up without actual amendment.

25 The Chairman. I think if we could have a sort of a

1 review and make certain everybody understands what we are
2 voting for or against.

3 Do you have it there, Mark? Who has it?

4 Mr. DeArment. The Treasury Department is willing to

5 --

6 The Chairman. On the -- maybe the Treasury should
7 do it, to make certain we understand what they are agreeing
8 to do on this provision.

9 In other words, do you want to just restate what we
10 are about to vote on.

11 Mr. Chapoton. Well, there are a number of technical
12 changes in the special use area. We are agreeing to -- our
13 proposal, raising the \$600,000 over five years, raising the
14 marital deduction, making it unlimited and raising the
15 gift tax exclusion to \$10,000.

16 Senator Chafee. What would be the date, the effect
17 date?

18 Mr. Chapoton. It would be January 1, 1982.

19 The Chairman. If someone dies this year?

20 Mr. Chapoton. There would be no change, no effect.

21 The Chairman. Even though the tax will not be due
22 until next year, the estate tax.

23 Mr. Chapoton. No, the date of decedent's death.

24 Now as I understand the two changes Senator Byrd we
25 were not clear on earlier, that the task force either

1 considered or it was not clear that the task force recommend-
2 ed.

3 One was that if the estate tax is being paid in
4 installments --

5 Senator Moynihan. Could we have order, Mr. Chairman.
6 The Secretary is speaking.

7 The Chairman. Yes.

8 Mr. Chapoton. If the estate tax, a proper election
9 was made to pay the estate tax in installments, which is
10 permitted under current law, under current law, if an
11 installment is paid late, that triggers all future in-
12 stallments.

13 The proposal was that a six-month grace period be
14 allowed so that no trigger results. We would have no
15 objection to that change.

16 The other change though, we would not like, it
17 allowed a small gift tax to be paid, that is, elect not
18 to take part of the unified credit on a gift so that the
19 statute of limitations would start to run on the valuation
20 of the gift.

21 Therefore, it would preclude a later disagreement by
22 the Service about the value placed on the gift.

23 The problem we have with that is if too small a gift
24 tax is paid, a very small gift tax, it will not be audited
25 by and large and will not come to the attention of the

1 Internal Revenue Service. So that it would be possible to
2 pay a very small tax, say \$100 gift tax and preclude the
3 Service from ever making a meaningful examination of the
4 gift.

5 So, we would oppose that on administrative grounds.
6 The Chairman. Senator Moynihan.

7 Senator Moynihan. Mr. Chairman, would it be possible
8 for the Treasury to give us an estimate of the number or the
9 proportion of estates that are valued at over \$1 million
10 which consists of farms?

11 Mr. Chapoton. That are just farms?

12 Senator Moynihan. Yes, sir, or substantially agri-
13 cultural.

14 Mr. Chapoton. We could attempt to supply that. I
15 am not sure, Senator what our data --

16 The Chairman. Could you give us maybe the other
17 figure you do have that might be helpful to Senator
18 Moynihan?

19 How many estates would this eliminate from tax?

20 Mr. Chapoton. After fully effective, only about .3
21 percent of all estates of decedents dying, all estates,
22 would be subject to estate tax.

23 Now that is, as compared with approximately 3 percent
24 of estates now, a little less than 3 percent of estates
25 today are subject to estate tax.

1 The Chairman. Does that take into account inflation
2 in the out years?

3 Mr. Chapoton. That would -- that would take into
4 account.

5 Senator Moynihan. I am sorry, Mr. Secretary, I didn't
6 hear you. Could you start with what you have today and
7 what the effect would be?

8 Mr. Chapoton. Today, a little less than 3 percent
9 of estates are -- have to pay, are required to pay estate
10 tax.

11 Senator Moynihan. The effect of this legislation?

12 Mr. Chapoton. The effect of this would reduce that
13 to approximately .4, .3 percent.

14 Senator Moynihan. I see. So it is taking out roughly
15 85 percent of the tax that now pay tax, would pay none?

16 Mr. Chapoton. That is correct.

17 The Chairman. Is that the same -- the Joint Tax
18 Committee?

19 Mr. McConaghy. Yes, those numbers are 65,000 down
20 to about 6,500 estates would be taxable.

21 Senator Moynihan. We would be left with 6,500 estates
22 per year paying tax?

23 Mr. McConaghy. Per year, that's correct.

24 Senator Chafee. In the whole country?

25 The Chairman. There aren't that many rich people.

1 Senator Moynihan. There are going to be a lot more
2 when this bill --

3 The Chairman. They are not dying.

4 Senator Mitchell. Mr. Chairman.

5 The Chairman. Senator Mitchell.

6 Senator Mitchell. Mr. Chairman, could I ask a couple
7 of questions following up on that?

8 Mr. Chapoton, you gave the total revenue figures.
9 Do you have them broken down as between the three items?
10 I am looking at page 17.

11 Mr. Chapoton. Senator, I do not have that with me,
12 I am afraid. We do have it. The Joint Committee.

13 You wanted it broken down between unlimited marital
14 deduction, the gift tax and the estate tax?

15 Senator Mitchell. Yes.

16 While you are doing that, could I also ask someone
17 who is for that, I still haven't heard an explanation, we
18 treated it kind of humorously, as to why it is necessary to
19 have a completely unlimited marital deduction with no regard
20 to the size of the estate at all.

21 What is the rationale for that? I heard all the
22 arguments about the farms. I happen to agree with that, but
23 that does not seem to me to make the argument for the
24 completely unlimited marital deduction.

25 Senator Durenberger. Why not?

1 Senator Mitchell. Is there a separate argument?

2 Senator Durenberger. Why not?

3 Senator Mitchell. Well, the .3 or 3. whatever the
4 figures are, the numbers of estates. There are people who
5 have estates of \$10, \$15, \$20, \$100 million. Those aren't
6 family farm estates, are they?

7 Senator Symms. The estate was built on money that
8 already had had taxes paid on it. So then the poor guy dies
9 and they want to tax him again. It is a death tax is what
10 it is.

11 It should be bad enough to die, much less to tax the
12 estate.

13 (Laughter.)

14 Senator Mitchell. Yes.

15 Senator Symms. That is really what we are talking
16 about. Why tax it when a couple works together all their
17 lives and then one of them dies and then they have to pay
18 a bunch of money to the Government.

19 Senator Mitchell. You could carry that argument to
20 any tax. A person works very hard to earn income and has
21 to pay a tax on it. Why tax him?

22 The logic of suggesting that there is something
23 difficult about taxes applies to every tax imposed on any
24 activity.

25 Senator Durenberger. Are we talking about the husband

1 or the wife? The wife dies and leaves it to the husband
2 or vice-versa. Why tax it? They jointly borne the burden
3 of the tax on the income that came in, and there is no
4 reason why one should pay a tax on the death of the other.

5 Senator Mitchell. I asked you about an income tax.
6 I go out and work. You work. Husband and wife; why tax it?

7 Senator Symms. You pay taxes on your income and then
8 if you are thrifty and save your money, and you put it into
9 a farm or business and then when the day comes that you die,
10 then your wife gets stuck with another tax on money that
11 you already paid taxes on. So why tax it twice?

12 Senator Mitchell. Why then aren't you proposing the
13 complete repeal of the estate tax?

14 The Chairman. Well, we would like to repeal it, we
15 would like to just eliminate all of it. That is the hope
16 we may do that in the next few years.

17 Senator Byrd. The tendency of this argument is to
18 suggest that the surviving spouse does not pay a tax. The
19 surviving spouse will pay the survivors of the surviving
20 spouse will pay a hell of a tax, a much higher tax than
21 would be paid if it had been split between, as can be done
22 now, 50 percent left to the surviving spouse and 50 percent
23 tax.

24 Under this proposal, 100 percent could be left to
25 the surviving spouse. No tax would be paid then, but twice

1 the tax would be paid later on.

2 Senator Mitchell. That is if he or she does not marry
3 in the interim. There is going to be a powerful incentive
4 for people to remarry.

5 (Laughter.)

6 Senator Byrd. Another thing this doesn't address,
7 this bill, and I think it is a serious omission, is it does
8 not change that 70 percent top rate.

9 Now this Committee voted unanimously last week to
10 reduce the 70 percent top rate on income tax to 50 percent,
11 the theory being the Government ought not take more than
12 half of a person's income.

13 But this does not touch the top bracket of 70 percent.
14 It seems to me that the Committee ought to give consideration
15 to reducing that top bracket to the 50 percent bracket,
16 just as we did on income.

17 The Chairman. Would the Senator yield?

18 Senator Byrd. Yes.

19 The Chairman. I raised this with the Treasury to
20 see if there might be some way to accommodate that starting
21 in 1985, some phased 70, to 65, to 60, to 55, to 50. I
22 have yet had no affirmative response from Treasury. I do
23 know they have been asked to consider that.

24 I share the view expressed by the Senator from
25 Virginia.

1 If there is no further discussion --

2 Senator Grassley. Mr. Chairman.

3 The Chairman. Senator Baucus and then Senator
4 Grassley.

5 Senator Grassley. Thank you, Mr. Chairman.

6 Senator Baucus. Mr. Chairman, obviously one of the
7 main purposes of this bill, this amendment, is to help
8 farms and ranches.

9 I am just curious why the \$500,000 limit on current
10 use in this new version, and also why we can't somewhat
11 index the current use deduction, the best use.

12 Mr. Chapoton. Do you mean index the 500?

13 Senator Baucus. That's right, in some way. Because
14 obviously, this is geared to help farm ranch situation with
15 the land values going up much as they are. It makes sense
16 to me to someway index that \$500,000 amount.

17 Mr. Chapoton. Senator, of course, when you have a
18 major reduction in the overall tax, a lot of the pressure
19 on that question is removed. The indexing question ought
20 to be considered, I think, more with overall question of
21 indexing rather than overall question of estate tax,
22 particularly the special use area.

23 It is -- the special use provisions cause some
24 difficulties now. Most of these changes are technical type
25 changes which do clean up those, some of the problems in the

1 special use rules, but do not address the major questions
2 such as you are suggesting.

3 Senator Baucus. To what degree does the reduction
4 of the number of states that are covered, 3 percent or .3
5 percent or .4 percent attributable to \$600,000 exemption or
6 the unlimited marital deduction?

7 Mr. Chapoton. It is almost entirely attributable to
8 the exemption.

9 Senator Baucus. Almost entirely.

10 Mr. Chapoton. Almost entirely, yes.

11 Senator Baucus. It is not, it would not be wise
12 estate planning to pass significant amount of property
13 from one person in the same generation.

14 While that might sound like it would often be done,
15 by and large it would not be done very often.

16 Senator Baucus. I am still concerned about the
17 special use provision, because based upon experience of
18 farms and ranches that are hit very hard with present
19 estate tax provisions.

20 I am just trying to figure out some way to not only
21 solve the problem or begin to solve the problem today, but
22 if possible, through a feature of the bill, which continually
23 solves the problems years down the road.

24 Mr. Chapoton. I think the better approach though is
25 to look at the overall estate tax burden. While the

1 concentration is on farms and ranch land, there is a
2 problem for other estates of comparable size that don't
3 have the benefit of special use valuation, that if the
4 discount is too significant, you cause too much disparity
5 between different types of property.

6 Senator Baucus. I hear what you are saying, but I
7 would not agree with your analysis, frankly.

8 The Chairman. Senator Grassley.

9 Senator Grassley. Mr. Chairman, I would like to
10 address that same point. I visited with Senator Baucus
11 about it, about his idea of indexing it with a CPI or my
12 approach of using the GNP deflater.

13 But, it seems to me like this is one part in
14 addressing a point that Senator Moynihan would agree with
15 the rest of us on, you know, passing on from one generation
16 to the other, the family farm or family business, is an
17 important aspect.

18 This special use valuation was put in here to make
19 that a transfer and to keep within the family, to make it
20 easy and to accomplish that goal.

21 Now here with this \$500,000 limitation, whereas
22 when the '76 act was passed and that was put at \$500,000,
23 farm land in my state was averaging \$1,380.

24 Today it is averaging \$2,066. But there is not
25 any change in that \$500,000. Yet, we might make it easy to

1 transfer from spouse to spouse.

2 But where we want to pass on to the young farmer or
3 the young entrepreneur in the small family business, that
4 is not going to be made any easier.

5 Part of what we are doing here is allowing spread
6 out of paying the estate taxes. You are allowed to do it
7 at a lower interest rate.

8 It seems to me it is capital formation for small
9 business and farms. It is very essential to that capital
10 formation.

11 I would like to have you consider that aspect, even
12 if it was only going to start in 1985 or 1984, as an
13 example. So we could start taking into consideration the
14 capital formation for the small far.

15 It doesn't make much difference whether you have, if
16 you are over that \$500,000 figure you aren't going to be
17 able to take advantage of it and hence, you don't have the
18 capital formation of somebody under \$500,000.

19 We ought to be keeping that figure as modern as
20 we do any of these other figures.

21 The Chairman. Well, again, I share the view of
22 the Senator from Iowa. We raised that with Secretary
23 Regan. You may have raised it with the President. I am not
24 certain. But it has been raised. I think it is something
25 we need to address.

1 On the other hand, I think we are making a positive
2 step in the right direction. Had we come to this Committee
3 with nothing, and ended up with this, we would probably all
4 be delighted. But we came to the Committee with this. There
5 is a tendency to expand on it. I don't quarrel with that.
6 I think we should address that issue.

7 I think that Senator Grassley and Senator Baucus
8 have properly reminded the Treasury of their interest. I
9 would like to vote on this proposal while we still have a
10 quorum, if there are no further discussions.

11 Senator Grassley. If we do vote on it, the reason
12 I didn't offer an amendment on this point, I didn't want
13 to preempt Senator Armstrong on the whole general subject
14 of indexing, but that would not preclude then, when we go
15 down the road to offering that amendment.

16 Is that all right?

17 The Chairman. That is correct.

18 This would be as we have done in the past, as long
19 as I have been on this Committee, tentative approval,
20 subject to modification, amendment.

21 This would be the last item considered today.
22 Tomorrow morning, at 10:00 o'clock we will meet and consider
23 and hopefully take up IRA's, individual retirement accounts
24 and incentive stock options, investment credit for use
25 property, and then we can proceed from there.

1 Senator Chafee. What time do we meet tomorrow?

2 The Chairman. At 10:00 o'clock.

3 Hopefully we could finish the bill by noon tomorrow,
4 but I doubt it.

5 The Clerk will call the roll.

6 Mr. Lighthizer. Mr. Packwood.

7 (No response.)

8 Mr. Lighthizer. Mr. Roth.

9 The Chairman. Aye.

10 Mr. Lighthizer. Mr. Danforth.

11 Senator Danforth. Aye.

12 Mr. Lighthizer. Mr. Chafee.

13 Senator Chafee. Aye.

14 Mr. Lighthizer. Mr. Heinz.

15 (No response)

16 Mr. Lighthizer. Mr. Wallop.

17 The Chairman. Aye.

18 Mr. Lighthizer. Mr. Durenberger.

19 Senator Durenberger. Aye.

20 Mr. Lighthizer. Mr. Armstrong.

21 The Chairman. Aye.

22 Oh.

23 Senator Armstrong. Aye.

24 Mr. Lighthizer. Mr. Symms.

25 Senator Symms. Aye.

1 Mr. Lighthizer. Mr. Grassley.

2 Senator Grassley. Aye.

3 Mr. Lighthizer. Mr. Long.

4 Senator Byrd. Aye by proxy.

5 Mr. Lighthizer. Mr. Byrd.

6 Senator Byrd. Aye.

7 Mr. Lighthizer. Mr. Bentsen.

8 Senator Bentsen. Aye.

9 Mr. Lighthizer. Mr. Matsunaga.

10 Senator Matsunaga. Aye.

11 Mr. Lighthizer. Mr. Moynihan.

12 Senator Moynihan. Aye.

13 Mr. Lighthizer. Mr. Baucus.

14 Senator Baucus. Aye.

15 Mr. Lighthizer. Mr. Boren.

16 Senator Boren. Aye.

17 Mr. Lighthizer. Mr. Bradley.

18 (No response.)

19 Mr. Lighthizer. Mr. Mitchell.

20 (No response.)

21 Mr. Lighthizer. Mr. Chairman.

22 The Chairman. Aye.

23 (Pause.)

24 The Chairman. On this vote the yeas are 17, and the
25 nays are zero. The absentees may record their vote. I want

1 to thank the members and the staff for all the work on this
2 provision.

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

4 (Whereupon, at 5:45 p.m., the hearing adjourned,
5 subject to the Call of the Chair.)
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