

Bill W.

3-19-86

1 EXECUTIVE SESSION ON TAX REFORM PROPOSALS

2 WEDNESDAY, MARCH 19, 1986

3 U.S. Senate

4 Committee on Finance

5 Washington, D.C.

6 The committee met, pursuant to notice, at 9:30 a.m. in  
7 Room SD-215, Dirksen Senate Office Building, the Honorable  
8 Bob Packwood (chairman) presiding.

9 Present: Senators Packwood, Dole, Roth, Danforth,  
10 Chafee, Heinz, Wallop, Durenberger, Armstrong, Symms, Grassley,  
11 Long, Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley,  
12 Mitchell, and Pryor.

13 Also Present: James Baker, Secretary of the Treasury;  
14 Richard G. Dorman, Deputy Secretary of the Treasury;  
15 J. Roger Mentz, Acting Assistant Secretary for Tax Policy.

16 (The press release and the prepared written statement  
17 of Senator Dole follows:)

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1 The Chairman. The committee will come to order, please.

2 I am delighted that we have with us both Secretary Baker  
3 and Assistant Secretary Darnen this morning, with whom I have  
4 worked extensively in attempting to craft this bill, and I  
5 might say extensively with all of the members on both sides  
6 of the aisle. I spent about 70 hours meeting with all of the  
7 members, Republicans and Democrats, in attempting to find out  
8 two things: One, what were their unique, or the critics might  
9 say "parochial," interests. And I don't think "parochial  
10 interests" is a bad term at all; this is a federal system,  
11 and all of our states have different interests, and we are  
12 all senators from those states. We are meant to protect those  
13 interests, and I think that is a good thing.

14 So, as I would go around talking with the Senators, if  
15 they came from a state that had a great many 501(c)(3)  
16 colleges, they were worried about whether or not the volume  
17 cap on municipal bonds was going to include or exclude those  
18 kinds of schools. If they came from a state that had a center  
19 of charitable institutions, they were worried about the  
20 donation of appreciated property and whether or not that would  
21 go into the minimum tax.

22 I was obviously worried about timber; Senator Bentsen  
23 was concerned about oil; Senator Bradley was concerned about  
24 toxic waste dumps. Those are all legitimate issues.

25 But as I talked with the members generally about what

1 we were trying to do nationally and trying to square it with  
2 the President, this is roughly where it came out: In terms  
3 of the President's desires, lower rates, and especially the  
4 35 percent rate for individuals, was absolutely inviolate,  
5 and I think, Mr. Secretary, I probably even understate how  
6 inviolate that is in terms of his mind. There are things that  
7 are made clear, and there are things that are "made clear,"  
8 and that was made abundantly clear.

9 I am not going to be one to say, "Well, he wouldn't  
10 veto the bill if it were 36." But if there is any issue upon  
11 which he was quite strong it was that issue.

12 Secondly, he felt very strongly about the \$2000 exemptions  
13 at least for the first two brackets; that we have accommodated.  
14 And I found most of the members were in accord on that issue.  
15 It is a help to the poor; we phased it out for the rich, and  
16 I found an accommodation between the President and the members  
17 on that subject.

18 The President wanted improved capital formation,  
19 especially over what the House bill had done; he would have  
20 liked even improved over present law. And the President's  
21 bill as he introduced it did have a substantial improved  
22 capital formation over present law.

23 And then he was quite insistent about it being revenue  
24 neutral. I know I have had many questions about "is there  
25 going to be a \$15-20 billion tax increase in this bill?" The

1 bill is at the moment revenue neutral, and I would hope to  
2 keep it that way -- at least keep it that way until there is  
3 some action by the Senate and the House Budget Committees and  
4 the Senate and the House, and if they order us to produce  
5 revenues, that is another matter; but that is a bridge we will  
6 cross when we get there, and we certainly don't need to cross  
7 it now.

8 Now, in talking with the members I came out with a  
9 slightly different scale of priorities or at least order of  
10 priorities, again forgetting for the moment those where we  
11 have a very specific interest in our own state. If there are  
12 any two things that the members kept repeating over and over  
13 and over it was capital formation, job creation, and savings  
14 and investment: "Tilt this bill toward capital formation,"  
15 and "Tilt this bill towards savings," and "Tilt it away from  
16 consumption."

17 In keeping with that admonition, we therefore lowered the  
18 interest limitation on deductions to \$1000 and \$2000. We made  
19 a change in installment sale contracts. All of those are  
20 limitations on consumption. We dramatically improved the  
21 House bill in terms of depreciation; in my judgment it is  
22 even slightly improved over the present law.

23 The members wanted a very tough and inescapable minimum  
24 tax, especially a corporate minimum tax. And here we were  
25 substantially tougher than the House in two respects: One,

1 under the House corporate minimum tax, there were still a  
2 number of ways that profit-making corporations -- large  
3 corporations making large profits -- could escape paying  
4 taxation. The problem with the House bill was that, no matter  
5 how you cut it and skewed it, so long as you left certain  
6 exemptions or deductions, somehow, some way, corporations  
7 could figure a way to take advantage of those -- legitimately;  
8 they were not violating the law. But they could escape  
9 taxation.

10 The draft bill comes at it in a much easier sense: All  
11 public corporations are required by the Securities and  
12 Exchange Commission to file a report of the profits that they  
13 report to their shareholders, and it is a uniform way of  
14 reporting. It may not be the same set of books they keep for  
15 the IRS -- it is legal to do that. You can have a profit-  
16 making corporation, but because of immense deductions you have  
17 no taxable income.

18 So the draft bill simply says that half of all the book  
19 value of the profits that you report to the shareholders will  
20 be counted as a preference item for the minimum tax. And  
21 that does mean, I think, that no matter what the deductions,  
22 credits, exemptions, or otherwise, every profit-making  
23 corporation in this country will have to pay a minimum tax.  
24 The House raised \$6 billion with the corporate minimum tax;  
25 we raised 22.

1           The next issue I got from members over and over was  
2 international competitiveness, and there we have attempted to  
3 stand the House bill on its head. I found it very adverse to  
4 American businesses competing overseas and found that, in  
5 some cases, you had foreign businesses or foreign investors  
6 in this country not paying what we regarded, or what I  
7 regarded, as a fair tax.

8           Next was rate reduction, but I have to be fair and say  
9 that among the members that I talked with it did not occupy  
10 as high a priority as it did with the President. There were  
11 some who supported it strongly, some who said fine, but they  
12 ranked it below savings and investments and capital formation.

13           Lastly was the issue of revenue neutrality. There were  
14 a number on this committee, but not a majority, that wanted  
15 a tax increase; they did not want the bill to be revenue  
16 neutral. They were not a majority. And that is one of the  
17 reasons that I did not put in this bill a provision for tax  
18 increases.

19           Now, is there room for compromise in the bill? Of course  
20 there is. But in terms of the things we did for capital  
21 formation and for savings and investment, they were expensive  
22 items: About \$24-30 billion in improved depreciations, about  
23 \$17-18 billion in improved -- this is over the House bill --  
24 improved savings in the area of pensions and retirement,  
25 about \$20 billion alone, in one single item, for small

1 business, and that is moving from the present law of allowing  
2 small business to expense \$5000 a year in investment to  
3 \$50,000, something that is very attractive to small business  
4 and very expensive.

5 So, obviously, I had to look for revenues, and either  
6 they had to be nickel and dime revenues -- a little bit here,  
7 a little bit here, a little bit here, a little bit here -- or  
8 immense revenues from a few sources. And I, very frankly,  
9 hit upon the idea of the elimination of the excise tax as a  
10 deduction. That is an immense item; over five years it is  
11 \$62 billion. And it is the engine that makes the rest of the  
12 bill possible -- the improved depreciation and the other  
13 things that we have done for savings and investment. Without  
14 that revenue or an immense equivalent source of revenue, then  
15 the things that I tried to do in the draft cannot be done.

16 To give you an example, for those who say, "Well, let us  
17 increase the corporate tax or increase the minimum tax to do  
18 those things," for each one-percent increase in the  
19 corporate tax over five years, it is about \$12 billion --  
20 over five years. For each one percent in the top individual  
21 rate on the individual tax, it is about \$9 billion. So, if  
22 you are talking about getting back the entire \$62 billion  
23 that we achieve in just the elimination of the excises, plus  
24 about another \$15 billion in the way that we changed the  
25 taxation of alcohol, tobacco, gasoline, and some others, you

1 are going to have to raise the individual and corporate  
2 rates immensely -- far beyond what would be acceptable to me  
3 and I know far beyond what would be acceptable to the  
4 President -- to do it.

5 I found no support for an oil import fee -- five or  
6 six, but no great support. I know Senator Roth has a  
7 business transfer tax, and it is a well thought-out  
8 proposition, and I understand, Senator, you may be offering  
9 it. I did not find overwhelming support for it in the  
10 committee. But the Senator is going to make a good argument  
11 for it. But if it is not adopted, and if the oil import fee  
12 is not adopted, which the President doesn't want now, and  
13 we have to have immense revenues to achieve what we want to  
14 achieve; then I would simply ask those who want to achieve  
15 what we want to achieve, "Where do we get the money and keep  
16 the bill revenue neutral?" Let alone what we might have to  
17 do if we are ordered by the House and the Senate in a  
18 concurrent budget resolution to produce \$10-12-15-20 billion,  
19 and they tell us to do it in this bill, or tell us to do it  
20 separately. It is still \$10-12-15-20 billion.

21 So, those were the thoughts that went through my mind as  
22 I was trying to fashion a bill. I am aware of the argument  
23 that, on the deduction of the excise taxes, one of two things  
24 is going to happen -- but they both can't happen. I have had  
25 a number of the alcoholic beverage companies, tobacco



1 companies, and trucking companies come to me and say they  
2 cannot pass this on, that this is going to absolutely eat into  
3 their profits and raise their effective tax rates. Well, if  
4 that is the case, then it is not a price increase for the  
5 consumer. And that has been the case, of course, for a number  
6 of years with the windfall profits tax, even though we collect  
7 none of it now because the price has fallen below the level  
8 we put in the bill. But even when it was above that, we  
9 collected relatively little, because we did not put an oil  
10 import fee on at the time we passed the windfall profits tax,  
11 and the companies were unable to pass it on; they were stuck  
12 with the world price of oil, and so they had to eat it.

13 If the corporations are going to eat the excise tax  
14 deductions, there will be no price increase. If they are  
15 going to pass them on, there will be a price increase, but the  
16 corporations won't be any worse off. But both cannot happen;  
17 one or the other is going to happen.

18 As to the argument that the excises are regressive, that  
19 is, fortunately, easily remedied if the committee wants to,  
20 by simply following the idea that Senator Long started a  
21 number of years ago on the earned-income credit. And that we  
22 can adjust, so that those that are very poor, or at least in  
23 the lower-middle income, are helped significantly by giving  
24 them an earned-income credit.

25 I have a fair pride of authorship in a good many parts of

1 this bill. But quite a number of lobbyists have asked me,  
2 "Now, where, on a scale of one to 10, is -- " and then they  
3 would mention their provision.

4 Clearly, I am not going to start going through this list  
5 with everyone who asks and say, "That's a seven, that's a two;  
6 I don't care if you get rid of that, I didn't like it anyway;  
7 that's a 10." There are a number of things in here for me  
8 that are very high priorities, and it is no surprise to  
9 anyone that the taxation of employee benefits is one of those  
10 -- I don't think they should be taxed. The treatment of  
11 natural resources, as they are currently treated under  
12 current law, is a high priority. The excise tax deductions  
13 have to be a high priority, unless somebody has a magic way to  
14 produce some other money to achieve the end result of the  
15 bill.

16 And my mind is open to other ways to do it. I was simply  
17 unable to come up with any.

18 So, for better or for worse, we are ready to start. I  
19 would call upon the members of the committee first for any  
20 opening comments, and I would call upon Senator Long, and then  
21 I will take the members in the order that they have come.

22 Senator Long?  
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1 STATEMENT OF THE HONORABLE RUSSELL B. LONG, UNITED STATES  
2 SENATOR FROM THE STATE OF LOUISIANA

3 Senator Long. Thank you, Mr. Chairman.

4 Let me congratulate you on the changes you have made as  
5 part of this bill. It is certainly improved, in my judgment.  
6 I am pleased to see what you recommend about natural resources  
7 -- oil, gas, and timber. That is very important to a great  
8 number of us representing states that do produce a lot of  
9 natural resources.

10 What you suggested about depreciation is good, and I  
11 think most of us will agree with your philosophy about the  
12 minimum tax -- be it the individual tax or the corporate tax.

13 We will see how much money we can raise as we get down  
14 to the individual items; it seems to me that that is the time  
15 when we will determine if we can afford the rate cuts that  
16 you have recommended.

17 But on the whole, I think you have made a major  
18 improvement over the House bill, and I believe you have  
19 presented us with a good vehicle on which to go to work.

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1           The Chairman. Now, here is the order I have. Normally  
2 I don't encourage opening statements from everybody; but on  
3 this day, this is so important that, for those who want to  
4 make them, I think they should. The order I have is Pryor,  
5 Roth, Bentsen, Mitchell, Chafee, Bradley, Long, Baucus,  
6 Heinz, and then I lost track. So, I will try to put together,  
7 after Senator Heinz, who came in, in that order. And if the  
8 Clerk can help me, I would appreciate it. But we will go with  
9 Senator Pryor.

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1 STATEMENT OF THE HONORABLE DAVID PRYOR, UNITED STATES  
2 SENATOR FROM THE STATE OF ARKANSAS

3 Senator Pryor. Thank you, Mr. Chairman.

4 I would like to compliment you, Mr. Chairman, on all the  
5 time, energy, and effort that you have personally expended in  
6 putting this new tax proposal before the committee and before  
7 the Senate Finance Committee, and ultimately before the  
8 country.

9 Mr. Chairman, I have two major concerns with this  
10 legislation: First, it is the radical departure by which  
11 your proposal treats the issue of excise taxes. In your  
12 opening statement, Mr. Chairman, you indicated that either  
13 the companies would absorb this tax or that it would be passed  
14 on.

15 I think that there are a lot of industries out here that  
16 are going to be bearing the brunt of this additional cost.  
17 For example, one company in my own state told me yesterday  
18 that this would amount to an additional \$35 million in cost  
19 to this particular company, unless they passed it on. If they  
20 pass it on, we have got to take into consideration the fact  
21 that eight percent of food prices today in the marketplace  
22 are related to the transportation of those costs.

23 I think, Mr. Chairman, that we cannot go a great deal  
24 further in this legislation, because this is the big revenue  
25 gainer, \$60 billion, until we have detailed and very

1 informative, hopefully, hearings that would give us the facts,  
2 the figures, and the impact of this radical departure in the  
3 area of excise taxes.

4 I am hereby requesting, respectfully, Mr. Chairman, that  
5 you do this. And hopefully it would be early in our  
6 deliberations.

7 The second concern I have is where we are collecting  
8 \$60 billion in new taxes -- this is a consumption tax,  
9 probably -- then we are getting ready to write a check for  
10 \$30 billion to a lot of companies in this country and a lot of  
11 industries in our nation that are paying no income tax. That,  
12 of course, is the check written to these industries because of  
13 the investment tax credit carry-forward, the 70 percent  
14 buy-out provision. In fact, one major company was in my  
15 office yesterday, Mr. Chairman, and the chairman of the board  
16 stated to me that his company would receive a check for  
17 \$330 million if this proposal went through.

18 I don't know that it is fair to add a consumption tax, or  
19 even an excise tax, and then turn around and pay it to many  
20 of the major corporations of America that are paying no taxes.  
21 Mr. Chairman, I hope that we will seriously study this  
22 provision.

23 Finally, Mr. Chairman, I think that we certainly have a  
24 duty and a responsibility very early in our deliberations to  
25 make a strong and hopefully a unanimous statement from this

1 committee to go to the Ways and Means Committee and to go to  
2 the business community generally across our country that we  
3 are going to make a strong statement about the effective dates  
4 that are in this package.

5 I think what we have done has almost been similar to  
6 spreading acid rain out in the business community about the  
7 effective dates, the lack of cohesiveness in effective dates,  
8 a pall that we have placed over the American economy. And I  
9 hope that very early in our deliberations, Mr. Chairman, we  
10 can make a strong statement to this effect.

11 Mr. Chairman, once again I thank you. I know this is an  
12 arduous and difficult and complicated task. I salute your  
13 energy and your enthusiasm in bringing this proposal out; but  
14 these are my major concerns at this time.

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1 The Chairman. Before I call upon Senator Roth, let me  
2 make one statement about the investment tax credits, so that  
3 no one is under the misimpression that we are spending  
4 \$32 billion that we wouldn't otherwise spend.

5 Treasury estimates there are about \$44 billion in  
6 investment tax credits outstanding, which are redeemable in  
7 the future. Under the House bill they are redeemable; under  
8 the present law they are redeemable. And Treasury estimates  
9 that over the next five years redeeming them will cost about  
10 \$32 billion. I have, instead, proposed that we simply buy  
11 them out now at \$70 cents on the dollar, and over five years  
12 that will cost about \$32 billion.

13 So, whether we keep the present law on redemption --  
14 assuming that you are going to get rid of the investment tax  
15 credits rather than keep it -- or that in the House bill, or  
16 what I propose, there is no additional cost. It does have  
17 the advantage of giving an infusion of cash to the hardest-  
18 pressed industries, those that are losing money, and they are  
19 frankly basic rust-belt, back-boned, ship-building, steel  
20 types of industries. But it is money we would pay out in any  
21 event under the House bill.

22 Senator Pryor. Mr. Chairman, would that take a separate  
23 appropriation bill to fund that \$31 billion?

24 The Chairman. Not to the best of my understanding it  
25 would not.



2 Senator Pryor. I think it would be good if we could have  
3 an interpretation. It is my opinion that there is a split in  
4 that area of opinion, and I am inclined to believe that it  
5 might be. I can just imagine us bringing a bill out that  
6 would require us to pay General Dynamics and General Electric  
7 and many of the major corporations this so-called money  
8 up front in the buy-out, and I think we need a legal opinion  
9 in this particular area.

10 The Chairman. Senator Roth?

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STATEMENT OF THE HONORABLE WILLIAM V. ROTH, JR., UNITED STATES SENATOR FROM THE STATE OF DELAWARE

Senator Roth. Thank you, Mr. Chairman.

I, too, would like to congratulate you for what I think is a very imaginative and vast improvement on the House bill. I think that, considering the restraints as you saw them that were imposed on you, it took a great deal of skill.

But, Mr. Chairman, let me say that I think in whatever legislation we finally enact, the key question is whether or not the tax policy will create an environment of growth.

Sometimes I worry that we get too involved in details, as we necessarily must, in this kind of a tax-reform package. But I think the challenge and the problem this country faces is whether or not we shall continue to be the leading industrial nation of the world.

Frankly, I think that is in question. I think there are other countries that have shown that they are fully able to assume the industrial leadership of the world during the twentieth century.

So, as I view it, whether or not I can support tax reform is going to depend upon whether or not we are developing a tax environment of growth. And that means that we have to look at a number of reforms.

I think we have to look at this package from the standpoint of whether we are going to move from a consumption

1 to a savings nation. I think that means, in turn, that the  
2 American people should have their marginal rates of taxation  
3 reduced; with that I agree very strongly with the President.  
4 I think the burden of federal income tax must be reduced for  
5 Middle America.

6 At the same time, I think we have to remove the bias  
7 against savings. And there I would say not only in a negative  
8 way, of dealing with interest on borrowings, but to build upon  
9 the IRA to promote savings on the part of the American people  
10 so that there is a constant flow of new capital to help  
11 modernize the American industrial base.

12 That leads me to the third point: I think our tax  
13 policy has to be such, has to encourage our industry to be  
14 the most modern, the most efficient in the world. In many  
15 cases that is not the case today.

16 I, for one, am tired of playing catch-up with the  
17 Japanese and others, and one of the reasons they have moved  
18 ahead of us is that their tax policy has provided them with  
19 a steady source of new capital that enables them to  
20 incorporate first the latest technology. And that has got to  
21 be changed.

22 I would just say to the Administration that, if we are  
23 going to continue as the shield for the free world, that means  
24 we have to provide the kinds of policies that will enable our  
25 basic industries to modernize.

Finally, Mr. Chairman, I feel very strongly that our tax policy must encourage trade. The fact is that, by our reliance upon the federal income tax, we have handicapped our exports and helped subsidize, in effect, our imports.

I remember many years ago sitting with Russell Long, then Chairman, and we were looking forward to the Tokyo Round of negotiations, in which it was agreed that something had to be done about the tax system under GATT to make it a level trading field. And that was not done.

So, if we are going to have tax reform now of the kind and dimension we are talking about, it seems to me that a critical factor has to be to level the trading field for American exports, both agricultural and industrial.

So, Mr. Chairman, I will not take the time of the committee to talk about the so-called "Roth Reforms." We have only one name, so we don't have to get into any competition on who goes first.

(Laughter)

Senator Roth. But I do intend to, at the appropriate time, bring that up.

Again, I congratulate you. I would like to echo what Dave Pryor said about the time of these changes; I think it is critically important that before we move into markup there be a clear understanding. The one clear message I am getting from the business people back home is that our economy is

1 being depressed, is not doing as well as it should, because  
2 of the uncertainty in this area.

3 So, I would urge the committee and you, particularly,  
4 Mr. Chairman, to make that a first order of business.

5 Thank you, Mr. Chairman.

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1 The Chairman. Let me again comment on two things as we  
2 go. In terms of the cost of capital formation -- and these  
3 are the Joint Committee figures as of yesterday -- under  
4 present law, and they use a percentage factor, it is 8.2,  
5 and the lower the figure, the better. The President's  
6 proposal was 7.5; the House bill was 8.6; my proposal is 8.  
7 So, it is not as good as the President's, but it is better  
8 than present law and better than the House bill.

9 In terms of exports and imports, I might note that one of  
10 the excises that the deduction is eliminated for is tariffs,  
11 and that produces about \$17 billion in and of itself.

12 Senator Bentsen?  
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STATEMENT OF THE HONORABLE LLOYD BENTSEN, UNITED STATES  
SENATOR FROM THE STATE OF TEXAS

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

You have had a tough job of it, Mr. Chairman, and I join with the others in congratulating you on putting together a package. There will be no unanimity, and you well knew that as you did it. But as you try to cut these rates, obviously you have to try to change some of the incentives that are in the system.

I am one of those that feels very strongly that the tax system should be used to achieve certain social and economic objectives for our country, whether we are talking about interest deductibility on homes so people can have home ownership in this country, or we are talking about low-income housing, or we are talking about, as you did in this bill, giving a 25 percent tax credit on a permanent basis for research and development. I think that is important. I think we can do that better through the private sector than we can by some governmental agency handing out the money. So, I am for that.

But in achieving the lower rate you have to give up some of those incentives, and that is what we have to try to balance out.

I feel very strongly, as Senator Roth does, that when you have yourself a \$150-billion trade deficit in this

1 country, when you have an enormous transfer of the wealth of  
2 this country moving out of the country to other countries  
3 around the world that are doing a better job on exports than  
4 we are, that it is important that we try to keep incentives  
5 so people will buy the new machinery and new equipment to  
6 keep us competitive. So, I support that.

7 One thing that happened along the way, of course, though,  
8 the objective of simplification -- we lost that. There is  
9 nothing about simplification, really, in this bill, that I  
10 see, or the one that the House did, or the one that the  
11 Treasury did -- that has not survived. And I suppose one of  
12 the reasons it hasn't survived is because it is very difficult  
13 to get fairness without some of the fine lines of distinction  
14 that have to be drawn. So, when we are faced with a choice  
15 between fairness and simplification, the great majority of  
16 us choose fairness. And I think you tried to do that in this  
17 one, and I certainly support that kind of effort.

18 On the minimum tax, I was one of the original sponsors  
19 of a tough minimum tax for corporations. It doesn't make any  
20 sense to let corporations report to their stockholders and to  
21 the SEC that they are making hundreds of millions of dollars  
22 and then turn around to the Treasury and say, "We owe no  
23 taxes." How do you explain that to the fellow making \$35,000  
24 a year, when taxpaying time comes and he reads those kinds of  
25 stories and then finds he has a tax to pay? He says, "There



has to be something wrong with the system," and there is.

2           So, I strongly agree with the effort to try to correct  
3 that kind of imbalance.

4           The one thing we also must achieve and achieve early is  
5 to arrive at some kind of a decision here, up and down, as to  
6 whether we are going to have a bill and we are going to change  
7 these laws, because one of the great immobilizing factors is  
8 indecision for business people trying to decide on capital  
9 investments for the future when they just don't know what the  
10 tax law is and how it is going to affect them.

11           So, I hope that we can work to that early kind of a  
12 decision and either change this bill to the better, vote it  
13 up, or vote it down.

14           Thank you.

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1 The Chairman. For those who are unaware, the effective  
2 dates in this bill are January 1, 1987, with a few exceptions.  
3 We did not move the investment tax credit forward; it is being  
4 phased out anyway. And there are three or four other early  
5 effective dates; although, my hunch would be that the  
6 committee would not object to those. But the bulk of them  
7 that the committee has been asked about -- the municipal  
8 bonds, the other effective rates, the depreciation schedules  
9 -- all are next January. And the tax cuts come in July of  
10 1987. We just basically have moved the whole thing forward  
11 a year.

12 Senator Mitchell?  
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STATEMENT OF THE HONORABLE GEORGE J. MITCHELL, UNITED STATES  
2 SENATOR FROM THE STATE OF MAINE

3 Senator Mitchell. Thank you, Mr. Chairman.

4 I join the other members who have spoken in commending  
5 you for putting this package together for the members of the  
6 committee. You have conducted this process to date with  
7 fairness, and I believe all members of the committee do  
8 appreciate that very much. You have had to operate under  
9 difficult constraints, some of which you have touched on in  
10 your opening remarks, imposed by the President, the interests  
11 of various members of the committee and others, and the  
12 package you have presented is a good first step under all of  
13 those constraints.

14 As you know from our previous conversations, I have  
15 expressed my concern about those provisions of the package  
16 which seek to raise revenue through excise taxes. That has  
17 already been discussed here today, and I would like to make a  
18 brief comment on that.

19 We began this process, and it has moved forward through  
20 the House and now to this committee, as a needed change in our  
21 income tax laws to restore fairness to the system. One of  
22 the fundamental concepts of fairness in income tax, in my  
23 judgment, is that tax burdens should be related to ability to  
24 pay. To the extent possible, we should reduce income tax  
25 rates; but we should be careful about doing that, reducing a

1 tax based upon the ability to pay, by increasing excise  
2 taxes, regressive taxes which do not relate to ability to  
3 pay. I think the inequity of doing that, increasing  
4 regressive taxes to finance reductions in progressive taxes,  
5 is obvious to all of us.

6 The Chairman's proposal would deny deductions to  
7 businesses who pay excise taxes. Some argue that this is no  
8 different than a direct increase in excise taxes, that it will  
9 flow directly through as a tax on individuals who consume the  
10 taxed product. Others believe the burden would not be passed  
11 through and fall directly on the business tax payer.

12 I know we are operating within narrow time constraints,  
13 and I do not want to slow the process down; but I believe we  
14 could all benefit from a clearer understanding of this issue,  
15 and I therefore join Senator Pryor in asking, Mr. Chairman,  
16 that at your convenience and when it does not interfere with  
17 the work of the committee you schedule hearings to explore the  
18 implications of those provisions.

19 The second concern I have is with the long-term revenue  
20 effect of this legislation. The budget period for this bill  
21 is defined as the next five years -- in the House Bill that is  
22 1985 to 1990, and 1986 to 1981 in the Senate bill. I believe  
23 we should also be concerned about the longer term revenue  
24 effect, say for at least the succeeding five-year period.

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Admittedly, the longer the term, the more difficult it is to accurately estimate revenue effects. Nevertheless, I believe the committee should be aware, as much as possible, of the long-term revenue implications of tax reforms.

I don't know what the long-term revenue implications are. The bill may raise revenue over the second five-year period or it may lose it, but we seem to be so pressed with the pressing fiscal problems of today that it may seem irrelevant to some to try to look too far into the future. But I think, as responsible legislators, we ought not to ignore the uncertainty.

The House tax bill discontinues revenue estimates, the revenue effects of its bill, in the same year that Gramm-Rudman-Hollings requires us to have a balanced federal budget. Thus, we could -- and I emphasize I am only saying "could" -- be making a policy error of some magnitude if, just as the deficit is reduced to a manageable level by 1990, tax reform could have the effect of creating the problem all over again by sharply reducing federal revenues in the period beyond 1991.

I think there are some aspects of the legislation so far which raise this concern. The first is that many of the changes in the House bill have been phased in in such a way so as to achieve revenue neutrality in the five-year budget period; thus, the cost of the new provisions is delayed until

1 outside that period. The opposite effect will occur with  
2 respect to costly provisions that are phased in. We don't  
3 know what the net effect of all of these provisions will be.

4 Secondly, the House bill raises considerable revenue  
5 from recapturing certain reserve accounts. The revenue  
6 gained from these provisions will not recur after the  
7 immediate budget period.

8 Mr. Chairman, your own proposal would index the  
9 depreciation of capital assets to reflect inflation over  
10 three percent. This provision accounts for a significant  
11 part of the cost of capital calculations, so the revenue  
12 effects are substantial. Yet, little of that cost shows up  
13 in the immediate budget period. Most of it would presumably  
14 occur beyond the immediate five-year budget period in the  
15 succeeding five years, when of course the revenue effects  
16 have not been measured.

17 If feasible, I suggest that all provisions be costed out  
18 over 10 years, or, in the alternative, ask that there be a  
19 more general study of the out-year revenue effects in both the  
20 House bill and our final version, as compared to current law.

21 I support tax reform, Mr. Chairman, and I conclude, as  
22 I began, by commending you for the contribution you have made  
23 toward that, operating under what I think are very difficult  
24 constraints imposed through the interests of the members of  
25 this committee, I one of them, the President, and others.

2 The Chairman. I might comment on the excise taxes. Of  
3 course, I emphasize again, this is not technically an increase  
4 in the tax; it is an elimination of the deduction. And if a  
5 business finds itself in the situation that the oil companies  
6 did where they could not pass it on, they won't if they can't.  
7 The principal excises we are talking about are alcohol,  
8 tobacco, tariffs, and gasoline. That is the overwhelming  
9 bulk of the \$62 billion. Superfund excises and black lung are  
10 a smaller part of it.

11 But I did check the votes both in the committee and on  
12 the floor of all of the members of this committee, as to how  
13 they have voted in the past on alcohol tax increases, tobacco  
14 tax increases, gasoline tax increases, and at least their  
15 expressed views about tariffs, and at least based on their  
16 past performance I found, if not overwhelming enthusiasm, at  
17 least no reluctance to increase those taxes, including just  
18 within the last two and a half months a motion of Senator  
19 Chafee's to increase the cigarette tax to 32 cents, which  
20 failed by only two votes on this committee.

21 So, if the committee is now raising the concern of  
22 increasing the excise taxes because they are regressive or for  
23 some other reason, it is a concern that I have not found  
24 expressed in their votes or comments in the past.

25 Senator Mitchell. Mr. Chairman, may I just comment on  
that? Not to prolong it -- I have already taken more than my

share of time -- I think the purpose for which the taxes are  
2 raised has something to do with the concern. I think you have  
3 to view it in the total context in which that legislation was  
4 offered, and this legislation as well.

5 The Chairman. Well, to the extent it will make anybody  
6 feel any better, I don't mind saying that, if we use the  
7 excises to increase the standard deduction and increase the  
8 personal exemptions, and the things to help the poor, and take  
9 six and a half million people off the rolls, and that about  
10 eats up the excise taxes, then we can say that that is what  
11 we used them for, and then we will use the other taxes for  
12 some other purpose.

13 Senator Chafee?  
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STATEMENT OF THE HONORABLE JOHN H. CHAFEE, UNITED STATES  
SENATOR FROM THE STATE OF RHODE ISLAND

Senator Chafee. Mr. Chairman, we want to thank you for your hard work in connection with this, in giving us something to start with.

Now, our congratulations to your hard work doesn't necessarily mean that we agree with your result. And I am a supporter of tax reform and have been, and continue to be. It seems to me that one of our principal objectives is to make the system fair. We started out with three objectives -- fairness, simplicity, and efficiency. Simplicity has been junked, and probably wisely so, because you can't have simplicity and the minimum tax. I think those things are at odds with each other. And we all support a minimum tax -- certainly, I do -- both for corporations and individuals, and I think probably all of the members of the committee do.

By fairness, we mean that people with the same economic income are paying the same tax.

Now, in efficiency, what we seek is to get out of investment decisions the distortions that come with the computation of the tax incentives. We want capital to flow to its most productive use.

If we can eliminate as many of these incentives as possible, then we can bring the rates down to the lowest possible level. And I must say that the lower rates are the

biggest incentive of all, as far as I am concerned.

2           Now, when we finish this bill, undoubtedly there will be  
3 some tax incentives left in the Code; however, I hope we will  
4 use our time in this markup to rigorously examine every one  
5 of these items just as if they were a direct spending  
6 program. Just because there are incentives in the Code, it  
7 doesn't mean it doesn't cost the federal government something.

8           One statistic: In 1970 we collected \$2.90 for every  
9 dollars of tax incentives -- \$2.90 of revenue came in, and on  
10 the other side of the ledger was a dollar of tax incentives.  
11 That was in 1970. Fifteen years later we collect 98 cents for  
12 every dollar of tax incentives. So, it seems to me the time  
13 has come for weeding out as many of those incentives as  
14 possible.

15           Now, this proposal that you have come forward with,  
16 Mr. Chairman, is revenue neutral; but it is made so by this  
17 major new provision you have in there which we have no  
18 familiarity with, and that is the nondeductibility of excise  
19 taxes, which is, as you say, \$62 billion over five years. And  
20 I concur with the others who stated before that we ought to  
21 have some hearings on that.

22           Now, it seems to me that this is a tax increase --  
23 veiled, perhaps, but nonetheless a tax increase. And at the  
24 same time in the Code we are keeping many tax incentives. And  
25 indeed, in the case of small business, we are increasing

ten-fold a certain incentive that small business has, while we are giving all business a tax reduction, and a substantial one.

The refund of the ITCs -- it seems to me that that is rewarding the losers on the same business as you reward the winners, and as I understand it we are going to have the IRS writing out checks for \$30 billion in one year. I think that provision certainly is worthy of careful examination, as is the entire bill that you have submitted. I think we should scrutinize it and debate it, all of which I look forward to.

2 The Chairman. I will say to my colleagues around here,  
3 opening their statements with lauding me about how fine this  
4 bill is, any time you saw a Supreme Court opinion start out,  
5 "The learned trial judge," you wanted to watch out, because  
6 the poor devil was going to get whapped before the opinion  
7 was over.

8 (Laughter)

9 The Chairman. So, much as I appreciate your opening  
10 sentences in the comments, I take umbrage at the remainder  
11 of the comments.

12 (Laughter)

13 Senator Chafee. Well, if you examine my statement  
14 carefully, I didn't laud your work, Mr. Chairman; I lauded  
15 your effort.

16 (Laughter)

17 The Chairman. We will settle this later this afternoon,  
18 Senator Chafee. He and I have a squash match at 4:45, and I  
19 am going to --

20 (Laughter)

21 The Chairman. Senator Bradley?

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STATEMENT OF THE HONORABLE BILL BRADLEY, UNITED STATES  
SENATOR FROM THE STATE OF NEW JERSEY

Senator Bradley. Thank you very much, Mr. Chairman.

I, too, would like to congratulate you for having successfully negotiated the shoals of the Internal Revenue Code to produce the seventh version of tax reform. As one who has been out swimming in those waters for about five years, I know how difficult it is to design a proposal that meets the two basic criteria of conceptual integrity and critical political mass.

Over the next weeks, as we try to separate the truly sacred cows from the merely holy, we will find out whether the proposal does indeed meet those two criteria.

If I may, I would like to take a couple of minutes just to restate the principles by which I believe the American people will judge the committee's efforts.

First, true tax reform will give the lowest possible rates to the greatest number of people. In doing so, we will be telling men and women who work hard and honestly that they are going to keep more of the money that they earn.

Second, true tax reform will eliminate the bulk of the loopholes. This will make the system fairer and simpler, so that people with equal incomes will pay equal tax. It will also reduce incentives to cheat and enhance incentives for productive investment.

Third, true tax reform will give generous relief to low and middle income families who aren't exploiting loopholes and are having trouble making ends meet.

Fourth, true tax reform will accurately measure income, tax it at low and uniform rates.

Fifth, true tax reform will get rid of subsidies that distort investment, promote tax shelters, and squander scarce capital.

Sixth, true tax reform will harness market forces to allocate our economy's vast resources. This will improve efficiency and enhance our competitiveness internationally.

And finally, under true tax reform the revenues needed to lower individual and corporate rates so that the deficit is not increased will come from broadening the base of the income tax, not from other sources. After all, the tax expenditures now exceed \$400 billion a year, and it shouldn't be necessary to look outside the income tax system in order to fund lower tax rates.

So, how does the proposal before us now stack up against these six principles? Well, the rates are lower, and the base is broader, certainly broader and lower than the current law; though we could have made even more progress if we had been more bullish on closing loopholes -- in other words, the rates could have been even lower.

At first blush, the Chairman's mark appears to give

generous relief to low and middle income taxpayers; that is,  
2 until we account for the 50-percent increase in excise taxes.  
3 I find these excise tax increases troublesome, and I think you  
4 have to make a difference and make the distinction clear.

5 Corporate income taxes tend to fall on shareholders and  
6 owners of capital. Corporate excise taxes end up being paid  
7 by consumers. This will cut sharply into the share of the  
8 tax cut going to the low and middle income families, and  
9 skew the distribution in favor of the wealthiest taxpayers.  
10 In other words, the proposal before us now could very well  
11 increase the relative tax burden on middle income Americans.  
12 And why? So that we can keep a few more loopholes and  
13 protect them.

14 These excise taxes will also raise questions about how  
15 accurately this proposal measures income. Traditionally,  
16 business income has been defined as "net of taxes" -- net of  
17 taxes. The draft presented to us today reverses this, and  
18 frankly I am interested in exploring with the Chairman his  
19 rationale for this radical departure from accepted tax policy.

20 I must also admit that I have some reservations about  
21 how the proposal stacks up in terms of fairness and  
22 simplification. For example, earlier versions of tax reform  
23 repealed loopholes. This proposal trims back credits,  
24 deductions, and exclusions, rather than eliminating them  
25 outright. And I can appreciate the politics of the approach.

1 And I can appreciate it, even as I recognize, as Senator  
2 Bentsen said, that it complicates rather than simplifies. But  
3 I hope that we could view this document as a starting point  
4 and not as our final destination, particularly since Don  
5 Regan said last week that the President wouldn't sign this  
6 version of tax reform.

7 And I hope that we could also seize what is surely a  
8 historic opportunity to restore substance and conceptual  
9 integrity, not merely obey political imperatives.

10 I also hope, as we begin consideration of this bill, we  
11 will be able to inject greater efficiency considerations in  
12 the area of depreciation. The existing tax law creates huge  
13 differentials in effective tax rates among industries. These  
14 differentials distort the allocation of capital, waste  
15 resources, and reduce our competitiveness in international  
16 markets. The proposal before us does not appear to address  
17 these concerns.

18 I am hopeful that the committee will be receptive to  
19 remedying these shortcomings in the weeks ahead.

20 Finally, I would like to say a word about the  
21 refundable investment tax credits. Put simply, this is  
22 safe-harbor leasing revisited. And when the American  
23 taxpayers learn that we are writing welfare checks to  
24 corporations to the tune of tens of billions of dollars, I  
25 think they will let us know what they think about that.



1 I would hazard a guess that, like the excise tax  
2 increases, it is one of the ideas that might not make it to  
3 the mountaintop.

4 Well, with reservations about natural resources and  
5 state and local taxes, let me just say again how pleased I am  
6 that we are finally about to mark up tax reform, and I look  
7 forward to working with you, Mr. Chairman, to produce a  
8 document that the American people can be proud of.

9 I think we should also remember -- and it is difficult  
10 sometimes -- that tax reform is not just about money; it is  
11 about bolstering people's sense of security, of being in  
12 control of their lives at the same time as having a  
13 government that is sensitive to their needs. It is about  
14 promoting the general interest, not just catering to the  
15 special interests that too often seem to have taken control of  
16 our political lives.

17 I believe that in the final analysis tax reform is  
18 ultimately a decision about values and about the kind of  
19 country that we want to be.

20 So, Mr. Chairman, that is why I also believe that it  
21 will happen.

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1 The Chairman. Let me ask a quick question, because  
2 I cannot remember. Normally you shouldn't ask questions to  
3 which you don't know the answer. What did you do with the  
4 right to redeem the investment tax credits in your bill?

5 Senator Bradley. We scaled them back so that they would  
6 be the equivalent of the drop in the tax rate. We did not  
7 make them refundable. They were received on a normal  
8 schedule over time.

9 The Chairman. And what did you do with the \$44 billion  
10 in the outstanding credits now that exist? You could not  
11 redeem them at all?

12 Senator Bradley. They could be redeemed, but on the  
13 appropriate schedule, the time schedule. They weren't  
14 refundable; you would not write them a check.

15 The Chairman. No, I understand that. How much would  
16 the redemption have been under your bill?

17 Senator Bradley. How much would the redemption have  
18 been?

19 The Chairman. Yes. I think it is \$32 billion.

20 Senator Bradley. But the point is, it is \$32 billion  
21 over five-six-seven-eight years; it is not a check written  
22 in one year.

23 The Chairman. Yes, I understand that.

24 Senator Bradley. Mr. Chairman, let me also say, just in  
25 response to an earlier comment, just so we clearly see the

choices, on the excise taxes, you said that you would gladly  
look at the excise taxes as protecting the exemption and the  
standard deduction and lowering the rates. You know,  
another opportunity is closing more loopholes to protect the  
exemptions and the deduction and the lower rates.

The Chairman. Let me add, and I hope the committee  
doesn't mind if I interject as we go along, both this  
committee and the Ways and Means Committee in the past have  
had hearings on what taxes are passed along and what taxes  
are not passed along. And I know the argument is made that  
income taxes are passed back to the shareholders, and excise  
taxes are passed forward to the consumers. I can find no  
evidence in those hearings that that is necessarily true.

What I do discover is that corporations will pass  
forward any costs they can, including income taxes, and they  
will eat any costs they have to if they cannot pass them  
forward. And I come back again to the windfall profits tax,  
which I voted for, which the oil companies by and large were  
unable to pass through because of the world price of oil. It  
is a good example of an excise tax on a major American  
industry that they could not pass along.

So, I do not think it is inevitably true to say that all  
income taxes fall on the backs of the wealthy shareholders and  
all consumption taxes fall on the backs of the poor beer-  
drinkers.

Senator Baucus?

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## STATEMENT OF THE HONORABLE MAX BAUCUS, UNITED STATES

2 SENATOR FROM THE STATE OF MONTANA

3 Senator Baucus. Thank you, Mr. Chairman.

4 As I listened to these speeches this morning, and as  
5 we contemplate the Code, I think it is important to remember  
6 that the last time this committee met to try to attempt a  
7 top-to-bottom overhaul of the Tax Code was June 9, 1954 --  
8 that was 32 years ago. It was a year when Eisenhower was  
9 President, Joe DiMaggio was married to Marilyn Monroe, there  
10 were no major league baseball teams west of Kansas City, and  
11 a lot has happened in the last 32 years.

12 With respect to the Code, we obviously have added  
13 deduction upon deduction, credit upon credit, over 140  
14 deductions and credits totalling over \$400 billion, for  
15 various reasons. Various groups have come in to accomplish  
16 various purposes; most of them have been laudatory, most of  
17 them good. But here we are faced again with a potential  
18 top-to-bottom examination of the Code.

19 I think, frankly, that we have a very heavy duty here to  
20 do the very best job we can. I know we will, anyway, but I  
21 think we have an even greater duty, because I don't think we  
22 are going to attempt another top-to-bottom review of the Code  
23 for a long time, after we do it this time or this year.

24 Whether or not we do pass a tax reform bill this year, I  
25 don't think we will revisit a comprehensive overhaul of the

Code for several years. And, frankly, I hope we don't give  
the Code a big overhaul for several years, because business  
and people need more predictability, more certainty, and for  
a lot of reasons.

I am a little bit disappointed that this bill is not  
geared more toward achieving the goal of simplicity. But  
given the President's restrictions and given certain time  
constraints, I understand that it is very hard at this time to  
enact an overhaul that greatly simplifies the Code. But I  
think that is a major shortcoming of our effort here. That  
is, this is not a simplification of the Code, and I think  
the American people very much do want a Tax Code that is much  
more simple than the one we now have.

I am going to be looking at our efforts here from several  
points of view; let me just name two:

One is our international competitiveness. You know, a  
lot has happened since 1954. The United States is in a much  
different arena today than it was in 1954.

In 1954, 27 of the 30 largest corporations in the world  
were American corporations. Today that is 11. Our trade  
deficit is approximately \$150 billion a year. Other  
countries' productivities have increased at a much higher  
rate than ours. We know the industries in America that are  
taking a beating because of severe competition overseas.

Unfortunately, the Treasury Department didn't look at

1 this bill from the point of our international competitive  
2 position. The President's Council of Economic Advisors  
3 didn't address that part of the bill. The House didn't,  
4 either, in my judgment. And we are only attempting to do  
5 that now as we meet here in the Finance Committee, for the  
6 first time.

7 I think as we review the various provisions of the  
8 package, Mr. Chairman, we owe it to ourselves to ask ourselves  
9 the degree to which these particular provisions enhance or  
10 detract from our American competitive position. We owe that  
11 to our country and to our people.

12 Second, there has been another major change since 1954,  
13 and that is the rise of the underground economy. I don't have  
14 figures for 1955 and 1956, but it is generally agreed that  
15 over the last six years approximately \$600 billion of taxes,  
16 federal taxes, legally owed are not paid -- uncollected bad  
17 debt so far of about \$600 billion over the last six years.  
18 And as we try to overhaul the Code here today, I think we  
19 should try to find some way to get that \$600 billion.

20 I am going to be offering a compliance provision, a  
21 comprehensive tax-compliance provision, which should give the  
22 IRS more revenue agents, about 10,000 more revenue agents  
23 over the next couple of years, to increase the penalties in  
24 the Code, add more enforcement provisions, to help taxpayer  
25 compliance and to make sure that more Americans are paying

1 their fair share of taxes.

2 I think a part of that should also be an amnesty  
3 provision. I think we can learn from the states. Since  
4 1982, about 18 states have enacted amnesty provisions and  
5 have raised about \$800 billion, at least.

6 There are lots of questions about tax amnesty. In my  
7 view, I think tax amnesty is a necessary component, along with  
8 the necessary enforcement -- enhanced enforcement -- and  
9 enhanced compliance provisions that the states have enacted.  
10 I think, if done right, amnesty works and works very well.

11 I will be outlining that later on, but it is my hope that  
12 the Senators don't at first blush gloss over it; rather, that  
13 the Senators look at the experience of the states, notice that  
14 at first the states were skeptical. But in every state where  
15 the program has been attempted, there has been a success, a  
16 great success.

17 I hope that as we go through markup, that that is also  
18 a provision we could include.

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The Chairman. Thank you.

I have been asked about the remainder of the list, and at the end of them I am going to call upon the Secretary for what comments he may have. It is Senators Wallop, Armstrong, Danforth, Heinz, Symms, and Moynihan.

1 STATEMENT OF THE HONORABLE MALCOLM WALLOP, UNITED STATES  
2 SENATOR FROM THE STATE OF WYOMING

3 Senator Wallop. Mr. Chairman, thank you.

4 I wanted to say that all during this you have been fair.  
5 Looking through the side-by-side, you have accommodated some  
6 and even many of my concerns.

7 I want to call the attention of the committee to the  
8 nature of the responsibility that I think faces us right now.  
9 I think whatever the Finance Committee does will essentially  
10 be whatever passes or fails to pass the Senate. This will be  
11 the closest thing to a closed rule the Senate will have ever  
12 had when we come out of here. The ability to change things  
13 on the floor, given the restrictions of Gramm-Rudman are  
14 virtually going to be impossible; everything will have to be  
15 revenue neutral, it will be entirely dependent upon estimates  
16 coming from Treasury or Joint Tax, which we have no ability  
17 or no means to contest.

18 So, as I look at that, it seems to me that what we are  
19 about to do is about what is going to be done if anything is  
20 going to pass. And when it was quoted on the other side that  
21 the President said he wouldn't sign this bill as it stands,  
22 and he wouldn't sign the House bill as it stood, and I see  
23 that we have to go yet to conference, and to confer on two  
24 things that are unacceptable, that would give me some  
25 confidence that we might be able to do the right thing and not

1 do tax reform this year.

2 (Laughter)

3 Senator Wallop. But I don't have that confidence, and  
4 I don't have it, frankly, because of the hearings we held on  
5 oil import fees, in which, having asked for the opinions of  
6 the Administration, we found that the Energy Department gave  
7 a litany of how bad that was from the standpoint of energy  
8 policy: it was awkward, and it was inefficient, and it would  
9 lead to allocations and relocations and other shuns around and  
10 about. The State Department came down and told us that, as  
11 a matter of diplomacy, it was illegal under GATT, that it  
12 would violate our agreements under the international energy  
13 agencies, do havoc with our relations in the hemisphere, and  
14 that if we fixed our relations with Canada, Mexico, and  
15 Venezuela, we would have problems with Britain and Norway.  
16 And if we fixed those, we would enhance the stature of OPEC.  
17 So, that was a bad thing.

18 And Treasury came in and gave its opinion that it was  
19 inefficient, that it was regressive, that it was complex, that  
20 it would require significant relocations; but that, if we  
21 wanted it on the table as a matter of tax reform, in a revenue  
22 neutral status, we could consider it.

23 Now, it seems to me that if you can ignore that stench  
24 in your rose garden, you will be able to ignore most anything.  
25 And I really worry that we are now down to the point where we

1 are looking at symbol over substance.

2 I think I disagree with my friend Lloyd, and I rarely  
3 do, that we had to abandon simplicity in order to achieve  
4 fairness. But my suggestion is that the more complex it is,  
5 the more likely it is that it favors the most powerful  
6 amongst us, because they can afford to accommodate the  
7 highest-priced advice and find the most intricate loopholes,  
8 where those in the smaller parts of the business world simply  
9 cannot, or the individual world.

10 I look particularly at the structure of the minimum tax  
11 under simplicity, and I find that we now have three methods  
12 required for bookkeeping: One, your income tax, ordinarily;  
13 secondly, you come back and do your alternative minimum tax  
14 and then you do your book income. And I would point out that  
15 maybe only five or six percent of American corporations do  
16 book income; most closely-held ones do not.

17 It is going to require a definition on our part which  
18 cannot simplify the Tax Code but only greatly complicate it.

19 I think on its face it is going to be unfair to small  
20 business and closely-held business in this country.

21 I think and am worried very much about what I would have  
22 to call "voodoo revenue."

23 (Laughter)

24 Senator Wallop. These accounting changes that are  
25 contained in the bill exchange permanent revenue losses in

1 other portions of the bill for temporary revenue increases.  
 2 And I want to know what happens when the temporary ones go  
 3 out and that revenue loss is unaccounted for. I think it is  
 4 an invitation to a tax increase, perhaps not in this  
 5 President's term but certainly in some other ones, because  
 6 those revenues fall out of the stream when they have taken  
 7 place.

8 With regards to the excise taxes, I am most concerned  
 9 perhaps that it is a very complicated increase on energy,  
 10 particularly in the area of the windfall profits tax, which is  
 11 not now there, the superfunds, which is definitely there, and  
 12 black lung, which is definitely there.

13 And there is one last thing, I think. To the extent that  
 14 these excise taxes take money from trust funds for which they  
 15 were especially set up to pay for other things, it is a tax  
 16 on user fees.

17 I think we have a lot to do, and the accountability and  
 18 the responsibility of this committee is really rather awesome  
 19 on this day, as we set forward, because I think we lost sight  
 20 of the three legs of the stool a long time ago.

21 Let me just close by saying that, under the minimum tax,  
 22 the highest marginal tax rate in the entire system is going  
 23 to fall on new investments, which is the classic piece of tax  
 24 law that grandfathers old capital and penalizes new capital.  
 25 And I wish we weren't on the threshold of trying to force

1 this into a hole called "tax reform," because I don't think  
2 it is.

3 The Chairman. Senator Armstrong?  
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1 STATEMENT OF THE HONORABLE WILLIAM L. ARMSTRONG, UNITED  
2 STATES SENATOR FROM THE STATE OF COLORADO

3 Senator Armstrong. Mr. Chairman and my fellow tax-  
4 reformers, I am just like everybody else.

5 Bob, I want to congratulate you for presenting this  
6 proposal. And I guess like everybody else I am prepared to  
7 throw myself into this battle with enthusiasm and vigor.  
8 I am not sure which side I am going to be on yet, but I intend  
9 to really bang the table as soon as I figure that out.

10 (Laughter)

11 Senator Armstrong. You know, in all seriousness -- and  
12 I have said this a time or two to you privately -- I cannot  
13 recall in the years I have been in the Senate when any  
14 chairman has approached a major piece of legislation with the  
15 thoroughness and competence and so on that you have. I  
16 really feel, while I have some doubts about the proposal, that  
17 the prospects for ultimate enactment of a tax-reform bill have  
18 markedly increased because of the process that you have  
19 followed, in the sense that I think David Pryor alluded to  
20 earlier, or maybe it was George Mitchell, that everybody has  
21 had a fair shake and has had a chance to get in right on the  
22 ground floor. And so I do congratulate you for it.

23 I also congratulate you for an ingenious proposal. I  
24 have some doubts, and I am just going to tick them off. This  
25 is not the moment to dwell on them.

1 I am really pleased that you focused, in preparing this  
2 markup document, on capital formation issues; I think that is  
3 critically important, that we not enact a bill that is going  
4 to be too punitive towards capital formation.

5 I am personally particularly glad that you didn't follow  
6 the direction of the House on oil and gas taxation and some  
7 others, because that is an industry that is in terrible  
8 trouble, and I would hate to see us make it any worse.

9 Now, having said that, Mr. Chairman, let me just mention  
10 as a point of reference five or six specific things that I  
11 hope, as we go through this bill, that we can take some time  
12 on.

13 One is the underlying question of whether or not we  
14 ought to have a massive shift of tax burden from individual  
15 taxpayers to business taxpayers. Maybe that is inevitable  
16 if we are going to lower the personal rates, but it does have  
17 some economic consequences, and I am concerned about the  
18 nature of those consequences in terms of fostering growth  
19 and productivity and job opportunities, and a growing,  
20 expanding economy over the next few years, particularly in  
21 those industries where we are trying to fight hard to compete  
22 in international markets.

23 Second, I am concerned, as others are, about the state  
24 and local tax issue. I am concerned about the excise tax  
25 issue. I am dismayed about the inclusion of the cash versus



1 accrual accounting issue in this markup. I hope, since the  
2 dollars involved in that are really quite minimal, that we can  
3 back off of that one way or another. I don't think that is  
4 a revenue issue at all; I think it is sort of a policy issue.

5 Mr. Chairman, I also hope that as we get to it we could  
6 take a long hard look of the question of the loan loss-  
7 reserve question for the banks -- not because I particularly  
8 am concerned about the bankers, but because, at a time when  
9 our major banks have got all of these bad loans to Poland and  
10 South America and Mexico, and our farm banks have got huge  
11 portfolios of loans that are never going to be solid on farms,  
12 and when the banks in Texas and Oklahoma and Colorado have got  
13 big energy portfolios, it seems to me to be very questionable  
14 social policy let alone tax policy to discourage bankers from  
15 adding to their reserves for loan losses.

16 I think our banking system is really quite fragile, and  
17 I don't think we ought to make it any shakier than it is by  
18 tax policy.

19 I am concerned about the change in depreciation for real  
20 estate, not because I think 30 years is unnecessarily bad but  
21 because we trumpeted the idea that we were going to make a  
22 change and that it would be a permant change. I remember  
23 about 36 months ago when we told all our friends in the real  
24 estate business that we had made this change and that it was  
25 going to be a once-in-a-lifetime change. And then about 12

1 months later we changed it again, and now here we are, a  
2 couple of years later, making still another change.

3 I also share the concern some have expressed about  
4 refundable tax credits. But if there is one feature above  
5 everything else that I hope we can come back to, either as  
6 we mark up or at the end, Mr. Chairman, it is this issue of  
7 simplicity. I think we have really abandoned that, and I  
8 don't think we have to. And I think it is important that we  
9 not get away from that, first of all because, from a fairness  
10 standpoint, there is a very great suspicion, as Malcolm  
11 Wallop pointed out, that complex tax codes favor the  
12 wealthiest and the most powerful and the most ingenious and  
13 the most sinister elements of our society. But more than  
14 that, I think there are millions, maybe even tens of millions,  
15 of taxpayers out there who would like to simplify their life.  
16 I think there are a lot of Yuppies that are invested in  
17 cattle deals and are a little guilty about it, and they feel,  
18 "What in the world am I getting into, financing movie  
19 production and limited partnerships and cattle feeding and  
20 all of these things?" And they feel awkward about it. And  
21 yet, our Tax Code virtually forces them into that position.

22 Now, by the very fact of lowering the highest bracket  
23 amounts, we tend to put that back on an equilibrium. But I  
24 hope that we can find some way to offer, as an alternative  
25 for those taxpayers who would like to have it, some sort of a

1 process where they could just get out of all the tax shelters,  
2 every tax shelter there is, and just say, "I am opting out of  
3 that kind of thing," and get a lower, flatter tax bracket.

4 David Boren and I have been working on a proposal that  
5 leads in that direction, and maybe at some point in the  
6 markup we will offer that, either maybe as an add-on to  
7 whatever else is on the table or as an option instead of that,  
8 or something.

9 But I think this notion of simplicity is important.  
10 Inevitably, in a complex country like ours, I don't think we  
11 can go back to a one-page tax return for all taxpayers. I  
12 am not talking about nostalgia, and I am really not talking  
13 about convenience for tax practitioners. But for a pretty  
14 big segment of the taxpaying public, this idea of being able  
15 to somehow simplify their life and somehow be in a position  
16 that they could invest in things and work at things because  
17 they think they make economic sense instead of for tax  
18 reasons, it really is an important concept.

19 I do not find that that is a notion which is fostered  
20 by any of the proposals which have come forward to date --  
21 that is to say Treasury I or II, Kemp-Kasten, Bradley-  
22 Gephart, the House bill, nor your proposal, even though there  
23 is much in your proposal that I favor.

24 Finally, Mr. Chairman, let me say this: If we are  
25 really serious about passing a tax-reform bill, and I know

1 that you are, and let me say that I am, too -- I would like  
2 to pass a bill, and I hope there will be a bill on the table  
3 that I can vote for -- but if we are really serious about  
4 it, we ought to take the next two or three days off and go  
5 right up to the Budget Committee and put the kibosh on the  
6 budget resolution that they are about to adopt; because the  
7 toughest part of this tax bill is to achieve revenue  
8 neutrality, as you said at the outset.

9 Well, they are in the process up there of marking up a  
10 tax bill that has a huge tax increase built into it. And if  
11 they add a \$50-60 billion tax increase on top of the task of  
12 maintaining neutrality, I don't see how you will ever get  
13 there. In fact, I think it is going to be darn tough to get  
14 a revenue-neutral bill out of this committee. But if you have  
15 to be not only revenue neutral, plus add \$50-60 billion over  
16 the next three or four years, and maybe more than that --  
17 that is just the first bid in this round of tax increasing  
18 that is under discussion -- then, I think it is almost  
19 certain to scuttle the idea of tax reform.

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1           The Chairman. Senator Danforth, and then Senators  
2 Boren, Heinz, Symms, Moynihan, Matsunaga, and Dole.

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1 STATEMENT OF THE HONORABLE JOHN C. DANFORTH, UNITED STATES  
2 SENATOR FROM THE STATE OF MISSOURI

3 Senator Danforth. Mr. Chairman, you earlier stated your  
4 interest in the fact that everyone who had spoken had said  
5 nice things about the Chairman, commenting on the Chairman's  
6 draft. It is a very understandable tactic. I mean, it is  
7 in the interests of all of us to butter up the Chairman at  
8 the beginning of a markup.

9 (Laughter)

10 Senator Danforth. I would just like to go on record,  
11 Mr. Chairman, by saying that in my opinion those who have  
12 preceded me in making statements have not gone nearly far  
13 enough.

14 (Laughter)

15 Senator Danforth. I would also say that if you lose  
16 that squash game this afternoon, Senator Chafee has made a  
17 major blunder.

18 (Laughter)

19 Senator Danforth. Mr. Chairman, when the House passed  
20 the tax bill, I stated major concerns with that bill. I  
21 think that the House bill really has a lot of mischief in it,  
22 that if the goal of the country is to have an economy that  
23 grows, if the goal of the country is to provide a better  
24 future for our citizens, I think the House bill went in  
25 exactly the wrong direction.

1           The House bill was anti-growth, anti-capital formation,  
2 anti-savings, anti-investment, and pro-consumption. It was  
3 the exact reverse of Japanese tax policy, which encourages  
4 savings and encourages investment.

5           I do believe, Mr. Chairman, that you have gone a very  
6 long way in correcting the obvious defects in the House bill.  
7 You have focused on the questions of growth and savings and  
8 investment, and you have, I think, done a remarkable job. I  
9 want to work with you in moving ahead with this bill. I  
10 think that your draft is a very good working document. I  
11 think that it is possible, probable even, that we do pass a  
12 tax bill and that it improves tax law very substantially.

13           It seems to me that one of the problems -- and this has  
14 been stated by a number of Senators so far, six that I  
15 counted -- is the excise tax deductibility issue. I think  
16 that that is one that will deserve our very careful attention.  
17 I only note it now, and I would hope that we could address  
18 that problem as we press forward with the bill.

19           The other point that I would like to make in these  
20 opening statements deals with the effective-date problem. I  
21 can't count the number of people over the past few months who  
22 have raised the question of the effective date. They have  
23 stated to me that they could take almost any kind of change  
24 in the tax law, provided that it is prospective and not  
25 retroactive.

1           You have indicated, Mr. Chairman, in your draft that  
2 you recognize this problem. You recognize that what the House  
3 did with the retroactive effective date is not fair, that it  
4 should be changed.

5           I think that one useful contribution the Finance  
6 Committee could make at a very early date in this markup is  
7 to provide even stronger assurance to the American people that  
8 the effective date will not be retroactive. And I would  
9 invite the committee to think about how to do this.

10           I know that Senator Boren has expressed particular  
11 concern about the effective-date question. I think he has  
12 some ideas of what steps we could take.

13           I was thinking yesterday, and I talked to you about it,  
14 Mr. Chairman, of the possibility of circulating some sort of  
15 document among the membership of the Finance Committee that  
16 stated that we will not sign a conference report which has  
17 an effective date that is not substantially what we agree on  
18 in the Finance Committee. I think that would provide the  
19 greatest assurance possible to the people of the country. I  
20 have talked later to Senator Boren about it. He has some  
21 concerns, I think, with that precise approach. But I do  
22 believe that if it is the will of the committee to lay at  
23 rest the concerns of our people about the effective-date  
24 question, it would be possible to do it early in the markup  
25 by some sort of appropriate vote, or by some appropriate



1 letter or document that we could sign onto, providing the  
2 assurance that we are not going to have retroactive effective  
3 dates.

4 The Chairman. Well, I know Senator Boren has mentioned  
5 it also, and I think he is going to mention it now. That  
6 would solve the problem, if the majority of this committee  
7 just signs a letter and says, "We will not sign a conference  
8 report" -- assuming you mean it -- "we will not sign a  
9 conference report that does not have the effective dates we  
10 have in the bill as it goes out of here," and, as I say, with  
11 the exceptions, I think none of which the committee would  
12 disagree with, that are going to be prospective. That would  
13 end the problem, if those who signed the letter stuck with  
14 what they signed.

15 Senator Danforth. I have just a draft of a little  
16 statement here, and I don't know if this is the best approach  
17 or not. But I will read it, for whatever use it is: It says,  
18 "The undersigned members of the Committee on Finance agree not  
19 to sign the conference report on any tax-reform legislation  
20 passed by the Senate in 1986 unless the effective dates for  
21 such legislation are substantially in conformance with the  
22 effective dates as passed by the Senate. The undersigned  
23 further agree not to engage in any conference negotiations  
24 relating to substantive issues of the tax-reform legislation  
25 unless the majority of the conferees from the House of

1 Representatives agree to accept effective dates in  
2 accordance with the spirit of the preceding sentence."

3 The Chairman. I think that is a good letter, and I  
4 would encourage the members to sign it.

5 Senator Boren?  
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1 STATEMENT OF THE HONORABLE DAVID L. BOREN, UNITED STATES  
2 SENATOR FROM THE STATE OF OKLAHOMA

3 Senator Boren. Mr. Chairman, I am delighted to hear  
4 what Senator Danforth has just said. And I don't want to  
5 go back over all the ground.

6 Let me just stipulate that I want to repeat everything  
7 that has been said about the chairman. You have listened  
8 to each one of us. You have spent a great deal of time  
9 with each one of us and have considered our concerns.

10 I do think that the vehicle we have before us is a  
11 much, much improved vehicle over the House-passed bill, and  
12 I am glad that we are using it as the mark-up vehicle rather  
13 than the House-passed bill.

14 I agree with all the comments that have been made. As  
15 far as I am concerned, you couldn't do much worse than the  
16 House-passed bill in terms of assuring that we are going  
17 to defeat ourselves in the ability to compete in world  
18 markets and to restore our economy to the kind of vigor  
19 that we need.

20 It discourages everything that we need in this country,  
21 that is, saving, investment, and capital formation; and it  
22 encourages the very thing that we don't need more of and  
23 that is consuming today rather than building our inventories  
24 and our productive capacity for the future. It stands all  
25 the priorities of the country on its head.

2  
1 And I think you have certainly come a long way in  
2 reshaping that and in making this bill much less harmful  
3 to saving and investment and capital formation; and I think  
4 that is a very good thing to do.

5 I was talking with someone one day about what in the  
6 world we would do if we were unwise enough to pass a bill  
7 that was much like the House-passed bill and what we would  
8 do in terms of our ability to compete with others.

9 It would be, I think, a good tax bill for Japan, and I  
10 hope that we don't end up out of this committee passing a  
11 good tax bill for Japan, instead of a good tax bill for the  
12 United States.

13 He thought for a minute and he said, well, I guess about  
14 the only thing we could do to even up our competitive ability  
15 if we were unwise enough to pass that kind of bill is see if  
16 we could talk the Japanese into passing a similar bill.

17 (Laughter)

18 Senator Boren. And perhaps that would be about the only  
19 strategy left to us, if we were unwise enough to proceed in  
20 that direction; but I think you have come a long way in  
21 restructuring it. I appreciate your sensitivity to the  
22 problems that we have in certain areas of the country that  
23 have been mentioned.

24 We are in a virtual depression in the whole natural  
25 resource area, everything from agriculture to timber to

1 minerals to oil and gas production.

2 Senator Armstrong has mentioned that that is affecting  
3 the stability and credibility of the financial system in  
4 some areas. We need to think very, very carefully about  
5 that, as we look at the reserve requirement and others,  
6 particularly in certain regions of the country for our  
7 financial institutions.

8 But I do think we have come a long way, and I want to  
9 commend you for the progress that has been made, and I am  
10 very glad that we are starting with this as the vehicle  
11 instead of either the House bill or the earlier Treasury  
12 proposal.

13 Now, I want to again focus on what Senator Danforth  
14 said. I think it is absolutely essential that we end the  
15 uncertainty that is out there in the country.

16 You know, we talk often in the committee about the  
17 failure of the private sector to make long-range investment  
18 decisions. Why haven't they been investing in the private  
19 sector at the rate that they should to restore our  
20 competitive ability and to get these productivity figures  
21 turned around?

22 We excoriate the corporate managers as having a two or  
23 three year time frame, trying to maximize profits in the  
24 short run and then turn things over to their successor  
25 within the corporate bureaucracy, without really doing long

1 range planning.

2 For goodness sake, I think it is time we admit that we  
3 are a big part of the problem. When you change the rules  
4 of the game every six months, or at least inject an  
5 uncertainty into the economy about what the rules are for  
6 making investments, you make it impossible for the private  
7 sector of this country to make long-range investment  
8 decisions.

9 And I just hope that we will go on record. I  
10 particularly want to focus on the second part of what  
11 Senator Danforth said; and I certainly plan to sign that  
12 letter.

13 And I had intended fully, Mr. Chairman, to come in  
14 today and to make a motion that we not even proceed with  
15 mark-up until we get assurance from Chairman Rostenkowski  
16 that he will accept most of the provisions of the bill of  
17 January 1, 1987 effective date.

18 I think it is important that we not only deal with  
19 certain segments of bonds. We are talking about uncertainty  
20 in the entire economy.

21 We could pass an absolutely perfect bill out of this  
22 committee; and still we have no way of telling the American  
23 people what the final result is going to be because we have  
24 to go to conference with the House.

25 And one of the things that concerns me greatly is I don't

1 think we should have to go and trade a lot of the good  
2 provisions that you have written into this draft in the  
3 conference committee, trade them away to Mr. Rostenkowski  
4 and the house conferees in order to get a nonretroactive  
5 effective date.

6 So, I think it is very important that we get that  
7 settled before we ever go to conference because, if we  
8 simply say we won't sign a conference report that doesn't  
9 have a nonretroactive effective date, I can see that some  
10 people on the House side would be delighted.

11 Yes, we will trade away half of your bill, and we will  
12 give you that nonretroactive effective date. I don't think  
13 we ought to have to trade a single thing in terms of what  
14 we think is sound tax policy to get a nonretroactive date;  
15 and I think that we ought to end the uncertainty out in the  
16 country during the whole process in which we are proceeding  
17 to mark up.

18 So, we don't cause a recession by causing uncertainty  
19 and by causing people to hold up on making decisions.

20 I think you have done a good job. You have us with a  
21 good start and it is certainly not my desire to want to be  
22 an obstructionist; and therefore, I am not going to make  
23 that motion today.

24 But let me say that I do think that the second part of  
25 Senator Danforth's letter is important, that we not proceed

1 to confer with the House on matters of essential policy  
2 until we have received pledges from them about this  
3 retroactive effective date on virtually all of the provisions,  
4 except expired provisions of current law.

5 And if we don't get that, let me just say that one of  
6 these days as we proceed ahead and try to get our work moving  
7 down the pike, I may come into this committee and make that  
8 motion that we still don't seem to be getting any progress  
9 in assurance from the House conferees, and maybe we ought to  
10 stop for a while until we get it.

11 I can't believe that they would want to champion the  
12 cause of retroactivity and the creation of uncertainty in  
13 our economy to the American people.

14 And I think that we ought to be very blunt with the  
15 House conferees, potential conferees, about that, the chairman  
16 of the House committee; and hopefully we will get the vast  
17 majority to sign the Danforth letter.

18 And then, I for one am going to continue to monitor  
19 progress on the House side; and I realize that is beyond  
20 the control of the chairman.

21 Our chairman has put a nonretroactive effective date,  
22 January 1, 1987, in his bill; and I commend you for it; but  
23 I think we still need to let the people on the House side  
24 know we are watching and we are growing increasingly  
25 impatient with their failure to be clear about this matter.



1           The Chairman. Let me assure the committee of something.

2           I met with Secretary Baker and Secretary Darman  
3 yesterday, along with Senator Long and Senator Bentsen, and  
4 I indicated to them that I am not wedded to getting a bill  
5 just for the sake of getting a bill.

6           And I was not going to let the Senate be put in the  
7 position of passing a good bill, meeting the requirements  
8 that the President wanted--and I think we have come close  
9 to meeting them--then getting to conference and finding  
10 that perhaps the President had retreated a bit and putting  
11 us in a very embarrassing and difficult position of having  
12 say, well, okay, half a loaf is okay.

13           Half a loaf in this case is not okay. Half of that  
14 House bill would be an abomination; and I for one have no  
15 hesitancy to walk away at the last moment in conference  
16 from any bill, rather than have any bill for the sake of  
17 a bill.

18           And as far as I am concerned, the effective dates are  
19 one of those provisions that are not negotiable.

20           Hopefully the House members, because they are getting  
21 the same kind of criticism we are, are putting more and more  
22 and more pressure on the Ways and Means Committee members  
23 because now they can say, well, for crimony sakes, the  
24 Senate has given prospective dates; why can't you just assure  
25 the public that that is what we are going to do?

1           And I am hoping we may get to that even before we get  
2 to conference; but I am not buying out for the sake of  
3 getting a bill just so we can say we passed a "tax reform  
4 bill."

5           Senator Boren. I commend you for that point of view  
6 very highly.

7           The Chairman. Senator Heinz?

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1 STATEMENT OF THE HONORABLE JOHN HEINZ, UNITED STATES SENATOR  
2 FROM THE STATE OF PENNSYLVANIA

3 Senator Heinz. Mr. Chairman, we have come a long way  
4 from Berkeley Springs, West Virginia, which for those of  
5 you who don't know where it is, it is about three miles south  
6 of the best State in the Union, Pennsylvania.

7 (Laughter)

8 Senator Heinz. And of course, it is where the Finance  
9 Committee met to discuss tax reform; and I think it is fair  
10 to say that at that meeting, you had about four or five  
11 votes, maybe at most Mr. Chairman, about proceeding in any  
12 way, shape, or form with a tax reform bill, excluding  
13 possibly starting with the 1954 Tax Code, as amended.  
14 And that we are here today working seriously, or soon to be  
15 working seriously, about tax reform is an incredible  
16 accomplishment.

17 As we have all found out in looking at every  
18 conceivable approach to tax reform, however, it is a zero  
19 sum game when it is revenue neutral. There are winners and  
20 losers; and it is a very tough game, but is one, speaking  
21 for myself, that I intend to play fully.

22 I intend to be as active and involved in writing a tax  
23 reform bill as I know how because there are elements of tax  
24 reform that I think are good for this country and which are  
25 good for not only such principles as compliance, fairness,

1 economic growth, maybe a little simplicity here and there  
2 --not much probably--but that are important in their own  
3 right.

4 I think lower rates, especially for working and lower  
5 income people, are important. It is important to give  
6 people an incentive to continue their hard work.

7 The Government takes more and more of it. People have  
8 more and more of an incentive not to work as hard; and there  
9 is no doubt in my mind we should be going the other way,  
10 that is down with tax rates.

11 Nobody should disagree with the notion that there are  
12 plenty of loopholes in the Tax Code. Maybe they got there  
13 on some justifiable basis in the first place, but many of  
14 them have outgrown their usefulness, and it is time to  
15 overhaul the Tax Code and scrutinize every single one of  
16 those tax expenditures, as sometimes they are called, and  
17 plow all of those savings in those tax expenditures into  
18 rate reduction--the lower rates that I mentioned.

19 We need to ensure that every single person or business  
20 is paying their fair share of the tax burden. There are  
21 many individuals and corporations that are not. We should  
22 do something about it; and I think the committee is united  
23 on that.

24 That is the easy part of tax reform.

25 The hard part of tax reform, to borrow from Senator

1 Bradley, is to decide what values you really want to reflect,  
2 beyond the ones I just enumerated.

3 And what is tough is that, to some of us, maintaining  
4 an equality in our Tax Code that does not internationally  
5 disadvantage those employers and their workers that must  
6 compete against foreign imports or in foreign markets, is  
7 very important to many of us.

8 It represents a value that we should not disadvantage  
9 in our Tax Code versus the tax codes of other countries any  
10 jobs or employers who must so compete.

11 We want to create more in the way of incentives for  
12 savings, and particularly retirement savings. Speaking for  
13 myself, as somebody who is a great believer in the Social  
14 Security system, I still think that we want to encourage  
15 people to save for their needs, for retirement income  
16 purposes, over and above what Social Security can ever be  
17 expected to do for them.

18 And a third point, and haven't heard it much talked  
19 about today, is that we should promote stability in the Tax  
20 Code. We have written a tax bill just about each year--we  
21 have not always passed one--but we have written a tax bill  
22 just about every year since I became a member of the Finance  
23 Committee.

24 I trust it is not because I became a member of the  
25 Finance Committee in 1979 that we have had so many tax bills,

1 but that on-again, off-again, back and forth predelection  
2 to manipulate the Tax Code, and there are plenty of good  
3 reasons we can always find to do it, is a constant source  
4 of difficulty, uncertainty, and economic friction that slows  
5 down decision making in our economy.

6 We should seek, if we are going to do tax reform, and  
7 get it done and then lay off the Tax Code for five or ten  
8 years. Rudy Boschwitz, I think, has a bill called the  
9 "Stand-Still Tax Act."

10 I haven't read all of its provisions, but I sure like  
11 its title.

12 Mr. Chairman, there is one other observation I would  
13 make, and it has to do with obviously what is the most  
14 outstanding feature of your proposal; and that is the  
15 elimination of the deductibility of excise taxes, which is  
16 a major money and conceptual item.

17 Now, I have an open mind on that provision. There are  
18 many things, as you know, and I have said this to you, that  
19 I like about it. It seems absolutely ridiculous to me that  
20 as, under current law, tariffs and duties should be  
21 considered even if they are imposed for countervailing duty  
22 purposes or antidumping purposes, deductible as a business  
23 expense. Absolutely ridiculous, I think, to the average  
24 American.

25 The people who are coming in cheating should then be

1 allowed to deduct the cost of their cheating from their  
2 profits.

3 And I am not persuaded necessarily that the excise  
4 taxes are going to be, as you have pointed out, necessarily  
5 passed right on to consumers; but because that is such a  
6 central feature of your plan, and it may prove under  
7 examination to be an entirely meritorious feature, I would  
8 urge you to give the committee the full scope of examination  
9 of that proposal--some have suggested hearings--by whatever  
10 means.

11 A full scope of examination because, if this committee  
12 does agree with you, we will want to go as a committee just  
13 as united as possible behind that provision, all of it or  
14 most of it, if that is how the committee decides that it  
15 survive, to conference.

16 The last thing that I think any of us want to do is take  
17 a divided committee, in whole or in part, depending on the  
18 number of conferees, to conference and thereby be  
19 disadvantaged in the negotiations that inevitably take place  
20 in conference.

21 So, I would urge you, Mr. Chairman--and maybe you have  
22 already done this--to think through very carefully how you  
23 want to proceed in accommodating the committee on, I think,  
24 some uncertainties that we all have on this issue.

25 My last comment, Mr. Chairman, is that I know you are a

1 good chess player; and you and I have spent many late nights  
2 when the Senate was not doing much, but we were required to  
3 hang around the cloakroom, playing our nonexpert version of  
4 that game.

5 And I just want to put you on notice that, as long as  
6 we are considering tax reform, I have absolutely no  
7 intention of resuming any of those games because there would  
8 be at least a 50-50 chance that I might win one; and if I did,  
9 I would sure lose the ball game.

10 (Laughter)

11 Senator Bradley. Mr. Chairman?

12 The Chairman. I am not going to play basketball.

13 Senator Bradley. No, no.

14 (Laughter)

15 Senator Bradley. Mr. Chairman?

16 The Chairman. Senator Bradley?

17 Senator Bradley. Those days are only a memory anyway.

18 (Laughter)

19 Senator Bradley. The reason I interrupt--I don't want  
20 to interrupt the opening statements--but this letter has  
21 made its way around to me, and I simply would like to ask  
22 for a clarification on the letter.

23 It says that dates for such legislation are substantially  
24 in conformance with the effective dates as passed by the  
25 Senate.



1 As I understand it, the purpose of the letter is to  
2 say that we want dates to be prospective. We don't want  
3 retrospective so people can make some business decisions.  
4 January 1, 1987 will be the effective date versus January 1,  
5 1986 in the House bill.

6 As this is worded, a Senate bill could emerge that did  
7 a lot of things with effective dates: phased-in rate  
8 reductions, phased-out ITCs or depreciation schedules.

9 It seems to me that that means that if we sign this  
10 letter, we are locked into those effective dates, which  
11 means the Senate could pass a substantially different bill  
12 that had substantially different effects than even your  
13 version as has established.

14 And my question is: If we mean prospective or January 1,  
15 1987, why don't we just say that as opposed to having us  
16 lock into whatever emerges from the Senate, which might be  
17 quite different?

18 The Chairman. I think because what Senator Danforth  
19 means, although I have got January 1, if we were to say  
20 March 1--in some case let's say we are in a lame duck session  
21 or let's say we finish this August and we say October 1, on  
22 some things.

23 They are going to be prospective, and I think all Senator  
24 Danforth is asking is that we don't go to conference and  
25 say let's go back to the dates last year in conference.

1 Senator Bradley. Why doesn't he just say: Shall not  
2 be retrospective?

3 The Chairman. Because there are some, like the  
4 investment tax credit, that are going to be retroactive.  
5 They are terminated; the effective date is gone.

6 And my bill, and anyone else's, is making them  
7 prospective. Although I didn't sign this letter, I think  
8 this letter stated it very clearly.

9 We are just going to try to stick with what the Senate  
10 says, and I am assuming that 95 percent of what we are going  
11 to say is going to be prospective, and my hunch is that most  
12 of it is going to be January 1.

13 Senator Danforth. I have no doubt that the Senate  
14 position--the Senate tax bill--is going to be essentially  
15 a prospective tax bill.

16 There may be, you know, one or two items in it that  
17 are not prospective. For example, picking up some of the  
18 expiring provisions, or the expired provisions, that we will  
19 have to do. The R&D credit, for example, expired on  
20 December 31.

21 That is the reason. I didn't want to attempt to write  
22 our tax bill in that document; but I think the point is that  
23 our view is that the House bill is unacceptable, and I don't  
24 have any doubt that when we come out with a bill ourselves,  
25 that it will be one that --

Senator Bentsen. Would the Senator yield for a moment?

Senator Danforth. Surely.

Senator Bentsen. The same question came to mind to me as I looked at that, and I had some concern about it until I started thinking through some of the details of things that happen that may be minor; but nevertheless, as a matter of equity or fairness or trying to keep someone from frankly just exploiting a loophole, that you had to have some discretion in there that would finally be determined by what the Senate passed.

A great deal of time has passed since the House has done what they have done; and I think, with that in mind, that we will make the appropriate adjustments in what we pass.

Senator Bradley. My concern is only that--and I will only register this one more time--given the interaction of what the Budget Committee is doing, you could very easily get the Budget Committee saying we have to raise revenue, and the way we solve that is simply delay the effective date for the rate reduction.

And I take the intent as expressed is not that, but is simply some flexibility to send a message to those who are undecided out there that they can go ahead and make their investment decisions because anything we do will be prospective.

1 The Chairman. That would be my intention, with most  
2 things. Do we have a roll call?

3 Senator Dole. You may have one.

4 The Chairman. Let's hurry along and see if we can  
5 finish these opening statements. Then, if Senator Dole  
6 has got to go to the floor, I will put him ahead of Senator  
7 Symms. Bob?

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STATEMENT OF THE HONORABLE ROBERT J. DOLE, UNITED STATES  
SENATOR FROM THE STATE OF KANSAS

Senator Dole. I just want to put my statement in the record and indicate that I also congratulate the chairman.

One thing about your package is I am seeing different people now.

(Laughter)

Senator Dole. And that is why I have got to rush back to my office. I think Mr. Gallo is waiting for me.

(Laughter)

The Chairman. Without objection. Thank you. Senator Symms?

1 STATEMENT OF THE HONORABLE STEVEN D. SYMMS, UNITED STATES  
2 SENATOR FROM THE STATE OF IDAHO

3 Senator Symms. Thank you very much, Mr. Chairman, and  
4 I want to join with all those that congratulated you for  
5 your long and serious efforts to try to do what I described  
6 here earlier one night when we were together as an impossible  
7 task that had been laid at your doorstep.

8 I think it is an impossible task and yet somehow you  
9 have uncannily come through; and my first reaction to your  
10 way to pay for keeping these capital formation ideas--that  
11 many of us on this committee believe in on the bill with  
12 the excise tax--I said that was an ingenious stroke because  
13 that should just about gut the support for the bill that had  
14 been growing in Washington.

15 (Laughter)

16 Senator Symms. And when you analyze who would really  
17 be hit with that--the American Trucking Association being  
18 one group, truckers who have been in favor of tax reform--I  
19 would think that they would heartily be concerned about that.

20 But you did lower the rates lower than the House did.  
21 You did better on capital formation. By Washington, D.C.'s  
22 definition, there is no tax increases in it. It is revenue  
23 neutral.

24 I have to say that revenue neutrality is a term we use  
25 here in Washington, looking myopically from inside the

Beltway out. If you go out and find people who happen to be in the \$140 billion part of the economy that get their taxes raised to pay for the reduced rates on the other sector of the economy, they hardly believe it is revenue neutral.

As one who is a sponsor of a true tax reform bill with Senator DeConcini, the Hall-Rabushka bill, which is a broadly based tax reform package that is simpler; it includes ideas of the Bradley-Gephardt bill and the Kemp-Kasten, and it calls for a personal tax on compensation, integrated with a unified tax on all business profits; this bill would broaden the tax base and reduce the marginal rates dramatically while reducing the tax bias against savings and investment.

So, having said that I do support that idea and probably at some point may still offer it in this committee at the appropriate time--when the chairman thinks is appropriate--but having said that, I want to go back and congratulate you again, Mr. Chairman, considering the turmoil that is being created in this country of lack of predictability, on your original statment when the President said he wanted tax reform, and then the bureaucrats down in the bowels of the Treasury came out with Treasury I.

And you made the comment then, and that is what I want to congratulate you for; and that was that you liked our Tax Code the way it was, and compared with Treasury I, I

quite agree with you.

2           And when I look at what has happened and when I see  
3 a senator I have a great deal of respect for, Russell Long,  
4 he made the statement one time a few years ago and I was  
5 amused when I saw it--it was in the local newspaper--and  
6 that was that tax reform was any time you can get 51 votes  
7 in the U.S. Senate.

8           And I think that, when I look at this, we passed a tax  
9 reform bill in 1976, 1978, 1981, 1982, 1984; and when  
10 Secretary Baker came down the first day for the first day  
11 of our hearings, I said that day that the best tax reform  
12 we could pass for this country would be adjourn this  
13 committee.

14           (Laughter)

15           Senator Symms. I said give these people a chance in  
16 the United States to figure out what we have done in the last  
17 ten years. I still--even though I was enthused about the  
18 President's first speech on tax reform--knowing the  
19 political realities, knowing that we are not going to pass  
20 a simplified bill, Senator Bentsen said it very well: we  
21 lost the issue of simplicity.

22           In fact, to call H.R. 3838 simplicity, it would not  
23 meet the standards of truth in labeling anywhere in the  
24 United States except inside the Beltway.

25           It is just not simplicity; it does not make the Tax Code



more easy. It makes it more complicated; and I for one am less than enthusiastic about it.

I do appreciate very much the chairman's effort to look favorably on timber, agriculture, mining, and other natural resource production because I think we are headed for an absolute disaster in this country with respect to oil and gas production and other critical minerals that are produced.

And to raise the taxes on those sectors of the economy just sets this country up for an absolute crunch put on us in another four or five years that will make the last energy or mineral crunch look like a Mother Goose rhyme.

So, I am glad you have at least addressed that question.

I want to say just one other thing that I am greatly concerned about, and that is the prospect of the lack of accounting integrity in this entire process; and not necessarily your bill any more than the Treasury II bill or H.R. 3838. I think they all suffer from this.

There is a great effort here to take people who are on an accrued accounting basis and put them on a cash basis so you can make them pay their taxes sooner, and vice versa for people who are on a cash accounting basis--put them on an accrual accounting basis so they have to pay their taxes sooner.

In the long run, it will do nothing in terms of revenue

2.4  
1 to the Treasury. In the short run, it makes it look like,  
2 on the books, that we are raising more capital on the front  
3 end.

4 I cite the example of property and casualty insurance,  
5 the bank loan loss reserves, taking some people that are on  
6 cash accounting and putting them on accrual. I have a great  
7 deal of concern about that.

8 The elimination of the deductibility of the excise tax,  
9 as I see it, is nothing more than a 35 percent increase in  
10 excise taxes. That is how it works out; but of course,  
11 according to our definition here in Washington, that is not  
12 a tax increase.

13 It is only a tax increase if you happen to be a company  
14 that pays excise taxes or collects them. In fact, I guess  
15 I find it difficult --

16 The Chairman. Steve, let me interrupt just a second  
17 and tell you the bind we are in.

18 We have two more senators to speak after you, and I  
19 would like the Secretary of the Treasury to speak; and we  
20 are going to vote in about eight or nine minutes.

21 Senator Symms. I will close my remarks very quickly,  
22 Mr. Chairman, to simply say that I again compliment you on  
23 the long and diligent effort that you and your staff have  
24 made. I would also say that I would compliment you; you  
25 were right in the first place.

1 If we really can't get honest tax reform and  
2 simplicity, we would be better off, I think, to work on the  
3 budget, work on trade problems, work on the defenses of the  
4 country's problems, and just leave everybody alone for some  
5 predictability in the Tax Code.

6 And the sooner we could resolve that, I think the better  
7 off the country would be. And I just have less and less  
8 enthusiasm for this process, the further we get into it.

9 The Chairman. Senator Moynihan?  
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1 STATEMENT OF THE HONORABLE DANIEL PATRICK MOYNIHAN, UNITED  
2 STATES SENATOR FROM THE STATE OF NEW YORK

3 Senator Moynihan. Mr. Chairman, this is my tenth year  
4 on this committee, and I hope I have learned something about  
5 this world.

6 So, I would like to begin by offering my particular  
7 congratulations to Mr. Diefenderfer and Mr. Colvin and all  
8 other members of the Joint Tax Committee.

9 Senator Danforth. He has outdone me, Mr. Chairman.

10 (Laughter)

11 Senator Moynihan. If it is any consolation, I can tell  
12 you I have a predecessor named Roscoe Conklin, who was the  
13 Republic boss of New York State in the 1980s, and he was  
14 no friend of Civil Service legislation, not at all.

15 And he once remarked that when Dr. Johnson declared  
16 patriotism to be the last refuge of a scoundrel, he  
17 underestimated the potential of reform.

18 (Laughter)

19 Senator Moynihan. And as Senator Dole said, he is seeing  
20 different people this week thanks to this new version.

21 I have two quick points to make and very seriously.  
22 The first is a matter of public policy and a matter of  
23 constitutional scruples. I think it is wrong for the  
24 Federal Government to invade the fiscal resources of States  
25 and local governments.

1           The first income tax we ever adopted in this country  
2 was in 1862. It was brought to the floor of the House by  
3 the then-chairman of Ways and Means, Justin Smith Merrill,  
4 entered the House as a Wig and stayed on as a Republican;  
5 and almost the first thing he said about that tax was that  
6 no tax would be imposed on any monies paid as taxes paid  
7 to a State government or a subdivision thereof.

8           It would be fundamentally violative of constitutional  
9 principles; and that is an argument I know we can have, but  
10 I want to state it.

11           But another and perhaps more pressing one is the question  
12 of voodoo revenue to raise--to use Senator Armstrong's  
13 version.

14           Five years ago, Mr. Chairman, we sat in this committee;  
15 and we commenced the destruction of the public finances of  
16 the United States Government.

17           We did so through a tax bill we were told was revenue  
18 neutral, but in fact almost instantly produced a devastating  
19 deficit. The Administration learned about it very quickly  
20 and was reduced to circumstances--and I hope they don't take  
21 anything personal--but by the fall the deficit was clear. It  
22 was clear that the President was going to send a budget with  
23 a triple-digit deficit.

24           And the Office of Management and Budget was reduced to  
25 misrepresenting facts before this committee and others.

23  
1 Now, the fact is that in touching upon and repealing the  
2 deductibility of State and local taxes, sales taxes for  
3 example--Louisiana raises 69 percent of its deductible taxes  
4 in sales taxes, Hawaii 52, Texas 44, Oklahoma 42.

5 The most elemental fact is those States will shift their  
6 patterns of taxation to forms of taxation that are deductible,  
7 property taxes and business taxes.

8 The same will be true of the chance of the deductibility  
9 of State income tax; and you simply aren't going to get that  
10 revenue, in addition to which we have the problem that every  
11 time that something seems to be built into this tax--every  
12 time you put together a tax reform bill--you suddenly find  
13 yourself \$60 billion short.

14 Treasury II found themselves \$60 billion short at the  
15 end of the computation and had to go into that recapture of  
16 the accelerated cost recovery, which the House immediately  
17 said won't do.

18 We found ourselves \$60 billion short and have gone into  
19 the repeal of the excise tax deduction.

20 Well, that is not going to happen. You can practically  
21 feel it around this room. It is not going to happen.

22 In addition, upstairs in the Budget Committee, we are  
23 about to deal with their proposal from Mr. Domenici and Mr.  
24 Chiles that will require this committee to add \$74 billion  
25 to the taxes in the next three years.

1 It seems to me if we want to repeat the 1981 experience,  
2 very well; but that would add \$1 trillion in deficit in five  
3 years, a trade deficit that we find devastating, and the  
4 general protracted prices of public finance that we are in.

5 I am very much in favor of many of the things you have  
6 done; but to pass a bill that increases the deficit at this  
7 time by accepting static revenue estimates for situations  
8 that will be dynamic, seems to me to be a mistake. I know  
9 you don't intend it, but I think we really should be rigorous  
10 about this and, for heaven's sake, remember what we did.

11 The present budget crisis began five years ago in this  
12 committee, and it ought not to be reenacted. Thank you, sir.

13 The Chairman. Senator Matsunaga?  
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1 STATEMENT OF THE HONORABLE SPARK M. MATSUNAGA, UNITED STATES  
2 SENATOR FROM THE STATE OF HAWAII

3 Senator Matsunaga. How much time do I have, Mr.  
4 Chairman?

5 The Chairman. About 90 seconds.

6 (Laughter)

7 Senator Matsunaga. It will take me five minutes just  
8 to sing praises to the chairman.

9 (Laughter)

10 The Chairman. You have six and a half minutes.

11 (Laughter)

12 Senator Matsunaga. I wish especially to thank the  
13 chairman for leaving untouched the law as it now pertains  
14 to pineapple, sugar, and macadamia nuts.

15 (Laughter)

16 Senator Matsunaga. Seriously, Mr. Chairman, I am very  
17 pleased with the draft that you have come forth with,  
18 particularly with reference to extension of business energy  
19 tax credits.

20 I have a lot more to say, but I think we have kept the  
21 Secretary waiting long enough. We ought to hear from him.

22 The Chairman. We will conclude with Senator Durenberger  
23 and then take the Secretary.

24

25



STATEMENT OF THE HONORABLE DAVID DURENBERGER, UNITED STATES  
SENATOR FROM THE STATE OF MINNESOTA

Senator Durenberger. Mr. Chairman, thank you very much.

I will be very brief; and if you believe that, you don't know I took Humphrey's seat in the Senate.

(Laughter)

Senator Durenberger. Hubert, that is. No, I will.

At the end of my statement, which I will ask to be submitted in the record, I quote the Farmer's Almanac, if somebody else hasn't already, which quotes Patrick Henry to the effect that "if you think taxation without representation was bad, you should try it with representation."

(Laughter)

Senator Durenberger. So, with that, I regret very much not having heard my colleagues with their opening statements indicate how good it is going to be with their kind of representation.

Mr. Chairman, I went into the Army at the end of the Korean War as a Second Lieutenant; and though I had some empathy for your role in this process since we went off to Berkeley Springs, because the one thing I always concerned myself about as a Second Lieutenant was not what was out ahead of me but what was right behind me--all of the people I was supposed to be leading.

And so, I was always tempted to wear by bullet-proof vest

on my back, rather than on the front.

And I think you are probably in that same kind of situation here since Berkeley Springs, and I would say you have done a pretty good job of accommodating all of the followers here, so that you wouldn't get shot in the back during the course of this process.

But had we in some way or another improved the mark-up vehicle for tax reform, I suppose that is all in the view or the eye of the beholder.

And when I look at it, I find it another series of rearrangements of the base on which Americans tax income in this country; and I am struck by the fact, as I sat through the hearings, that probably the best proposals we have had before us as a nation were Treasury I and some of the other flat tax proposals that have been before us.

We have stopped short clearly of doing tax reform with any tax principle. We are still doing political principles; 35 percent rate and \$2,000 exclusion and revenue neutrality have nothing really to do with tax principles but a whole lot to do with political principles.

And so, with the suggestion that I have made before, I will make again, that if we are going to use rate reduction as an incentive to broaden the base of the income tax, then I feel strongly we should use rate reduction or base broadening as a way to bring down the rates. And that means

1 that the proposals to eliminate the deduction of excise taxes,  
2 the proposals to change the tax treatment for State and local  
3 taxes, are not appropriate for the process.

4 And with all due respect to your efforts to try to find  
5 the key to that 35 percent, you haven't found them in base  
6 broadening. You have found them in the area of taxation,  
7 which is an effort of this society to raise needed revenue  
8 to meet the needs of its people at various levels of  
9 Government and for various purposes.

10 And you will find in this nation people differently  
11 situated around this country. I think when we get to it,  
12 that will end up being the difficult, if you will,  
13 philosophic approach that we haven't taken.

14 I would certainly join with those of my colleagues who  
15 have asked that we have a hearing specifically on the issue  
16 of the excise tax recommendation.

17 The Chairman. Thank you. Let me just announce what I  
18 plan for our schedule to be, and then we will call on the  
19 Secretary.

20 It isn't fair to ask the members to vote on this printout  
21 that they have just gotten this morning. There will be no  
22 mark-up tomorrow. We will start next Monday, and go Monday,  
23 Tuesday, Wednesday.

24 We will decide on Tuesday or maybe Wednesday morning  
25 whether to go on Thursday. That will depend on whether Bob

1 is going to keep us here, or whether we will be done on  
2 Wednesday night. Monday for sure.

3 We will come back after the recess--not on Monday--but  
4 go Tuesday, Wednesday, Thursday, Friday after the recess;  
5 and Monday through Friday of the following week, which will  
6 give us 12 days of mark-up.

7 And I will try to start with the things that we are  
8 more familiar with or where there have been fewer changes  
9 so that the parts that are tougher in the sense of massive  
10 changes that we have had less comment about, we will give  
11 the people a chance to lobby on those that want to.

12 So, I would like to start on Monday with agriculture  
13 and natural resources and move onto ACRS and probably on to  
14 accounting, in that order.

15 Mr. Secretary?

16 Senator Bradley. Mr. Chairman, will we, after the  
17 Secretary has had a chance to make his presentation, have  
18 a chance to ask the staff to develop certain materials before  
19 the mark-up?

20 The Chairman. To the extent, Bill, that they can and  
21 that they are relatively easily attainable.

22 Mr. Secretary?

1 STATEMENT OF THE HONORABLE JAMES BAKER, SECRETARY OF THE  
2 TREASURY

3 Secretary Baker. Mr. Chairman, I am hesitant to start  
4 out by congratulating you because I really think that you  
5 are to be congratulated.

6 I agree very much with your comprehensive opening  
7 summary statement. On behalf of the Administration, we are  
8 pleased to be here this morning to start mark-up of tax  
9 reform.

10 The President, as he himself indicated to you, Mr.  
11 Chairman, you are to be commended for coming up with a mark-up  
12 document that meets the President's fundamental requirements.

13 It is a package that is at the very least very  
14 resourceful. It is a package that hopefully will put us on  
15 the road to a tax code that will encourage economic growth  
16 and that will encourage greater fairness; and we are delighted  
17 to be here this morning.

18 The Chairman. Mr. Secretary, thank you; and let me thank  
19 both you and Deputy Secretary Darman and Assistant Secretary  
20 Mentz. You have been of immense help and frankly very  
21 tolerant on occasion when I have jumped up and down and  
22 said yes or no; and we have spent hours and hours together.

23 I have got a feeling we are going to spend hours and  
24 hours together before we are done; but I think, by and large,  
25 it is a fair start.

Russell Long once told me he never saw a bill introduced that came out the way it went in, even when he introduced them, and I expect there might be one or two niggling changes.

(Laughter)

The Chairman. In the proposal that I have put before the committee; but my hunch is when we are done, we will have a tax reform bill that the committee will adopt and that the Senate will pass and that will meet the President's standards.

I will add that 16 names have signed Senator Danforth's letter, which as far as I am concerned, means that when we go to conference, the first issue will be effective dates. And we will bargain about effective dates before we end up bargaining on anything else.

And if we reach an impasse on effective dates, that will be the end of the conference.

Senator Symms. Would the chairman yield on that point?

The Chairman. Yes.

Senator Symms. Why don't we settle that now so we don't have to go through all the work if the House doesn't want to negotiate it?

The Chairman. Because you don't really want a bill, anyway.

(Laughter)

Mr. Darman. Mr. Chairman, we put Symms down as

1 uncommitted.

2 (Laughter)

3 The Chairman. No. I just want to give you the chance,  
4 Steve, to vote on a lot of things that you are going to love  
5 before you vote "no" on the bill. We do have a vote on right  
6 now, and I think we had better stand in adjournment until  
7 Monday when we will start on agriculture and natural  
8 resources. I'm sorry. I apologize, Chuck.

9 Senator Grassley. I am not going to take the time for  
10 an opening statement, but I do have a question of procedure.

11 Now, you are saying Monday you are starting on  
12 agriculture? Is this going to be--like in agriculture and  
13 anything else--you do a block and then it is only on that  
14 day that we can ever deal with that subject?

15 The Chairman. No. Clearly, as we have done before, it  
16 is open to reconsideration. We have followed two rules.

17 One is that if we are here--and of course, proxies are  
18 allowed--and we vote, we seldom undo something on the same  
19 day if somebody goes out and rounds up some more proxies.

20 But as we go through these different sections and we  
21 are getting down toward the end and we are \$15 or \$20 billion  
22 short of revenue, we can come back and revisit things. It  
23 is not foreclosed forever.

24 Senator Grassley. Like as an example, there are some  
25 areas in depreciation in agriculture where I am interested in

1 changing that would be some revenue raising. Well, now,  
2 that money may be spent in another area as far as I am  
3 concerned--if you are talking about revenue neutrality  
4 amendments, let's say.

5 I just give that as one example.

6 The Chairman. Anything that raises revenue, we would  
7 love to have early.

8 Senator Grassley. Yes. Well, I am not doing it so  
9 somebody else can spend it. I will tell you that. I mean,  
10 I am just saying that you are going to have a situation  
11 then where, you know, agriculture one day is going to be  
12 part of a discussion in connection with a nonagricultural  
13 issue another day.

14 The Chairman. As we have moved through these before,  
15 we have gone section by section or title by title. I am  
16 simply going to try to start, Chuck, with the sections the  
17 committee knows better or where there are fewer changes from  
18 the present law than in some of the areas where there are  
19 rather dramatic changes that I think will require more  
20 explanation.

21 Senator Chafee. Mr. Chairman, I think it would be  
22 extremely helpful for us as we go through this mark-up to  
23 have the staff here that can give us as accurate as possible  
24 an estimate of what change A, B, or C will be.

25 Now, of course, we won't know what we might propose or



1 what might be proposed, but presumably you will have those  
2 type of people here.

3 The Chairman. All of the staff, both the Joint Committee  
4 and the Finance staff, will be here for all of the mark-up,  
5 and especially when we are on their sections. They will  
6 be here.

7 If somebody comes up with an amendment that they frankly  
8 have never heard of and you say what is the revenue estimate,  
9 they may not be able to give you an answer on it right away.

10 Senator Chafee. You have set forth the schedule. I  
11 missed it. Are you going to publish it or something?

12 The Chairman. Yes. I will announce it now, but we  
13 will publish it.

14 Monday, Tuesday, Wednesday next week for sure.

15 Senator Chafee. Yes.

16 The Chairman. Maybe Thursday, depending upon when we  
17 will leave, and we will decide that on Tuesday perhaps.

18 Senator Chafee. The items that you were going to  
19 discuss? Would you quickly review those?

20 The Chairman. Yes. We will start on agriculture and  
21 natural resources; move to ACRS because we have not made  
22 many changes in my draft on it, and it is easier I think to  
23 comprehend.

24 Senator Chafee. Yes.

25 The Chairman. And then after that, move onto the

1 accounting changes, which are controversial but they are  
2 not complicated, in terms of understanding them.

3 And my hunch is that is going to take us more than three  
4 days. And after we have gone that far, we will see where  
5 we go next.

6 Senator Bradley. Mr. Chairman, could we ask the  
7 Treasury and the Joint Tax Committee to also do a  
8 distributional analysis of the nondeductibility of the excise  
9 taxes so that we have that ready, so that we are not delaying  
10 the whole consideration?

11 We might as well get it done and get it out for people  
12 to look at.

13 The Chairman. You mean on the assumption that they  
14 are all passed through?

15 Senator Bradley. On the assumption that they are all  
16 passed through. That 100 percent are passed through.

17 The Chairman. I don't mind if you ask them. In the  
18 past we have never, in terms of corporate deductions, never  
19 accounted those as pass-throughs, no matter what the  
20 deduction was that they lost.

21 As long as you understand that is totally different  
22 from any method of accounting that either the Ways and Means  
23 or this committee has ever kept before.

24 Senator Bradley. Well, they could do the kind of work  
25 they did on assessing the impact of the energy tax a couple

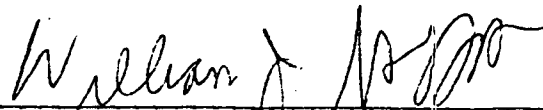
1 years ago, for example. Or the kind of work that the  
2 Treasury did on the oil import fee.

3 The Chairman. Let's stand adjourned until Monday; and  
4 we will try, if we can get it. We are adjourned until  
5 Monday morning at 9:30 a.m.

6 (Whereupon, at 11:42 a.m., the hearing was adjourned.)  
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C E R T I F I C A T E

This is to certify that the foregoing proceedings of a hearing before the Committee on Finance conducted on March 19, 1986, in re: Tax Reform, were held as herein appears and that this is the original transcript thereof.



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WILLIAM J. MOFFITT  
Official Court Reporter

My Commission expires April 14, 1989.

Opening Statement of Senator Dave Durenberger

Senate Finance Committee

Tax Reform Markup

March 19, 1986

MR. CHAIRMAN, AS THE SENATE FINANCE COMMITTEE BEGINS TO CONSIDER A REWRITE OF THE NATION'S TAX LAWS, I WOULD LIKE TO COMMEND YOU FOR YOUR DILIGENT EFFORTS TO PROVIDE THE MEMBERS OF THIS COMMITTEE WITH AN ALTERNATIVE TO THE HOUSE VERSION OF THE TAX BILL. I BELIEVE YOUR ALTERNATIVE OFFERS A WORKABLE STARTING POINT FOR OUR MARKUP.

I ALSO WANT TO EXPRESS MY APPRECIATION TO YOU AND THE RANKING MEMBER FOR WORKING WITH YOUR COUNTERPARTS IN THE HOUSE OF REPRESENTATIVES ON THE EFFECTIVE DATES OF THE TAX LEGISLATION WE ARE CONSIDERING. THE UNCERTAINTY OVER EFFECTIVE DATES HAS HUNG A CLOUD OVER THE ECONOMY, AND YOU HAVE TAKEN A STEP TOWARD REMOVING THAT CLOUD. HOWEVER, I THINK WE SHOULD PROVIDE AN EVEN STRONGER SIGNAL, THAT ANY TAX LEGISLATION WE ADOPT WILL HAVE A PROSPECTIVE EFFECTIVE DATE.

CALVIN COOLIDGE USED TO REFER TO UNFAIR TAXATION AS "LEGALIZED ROBBERY." I THINK THERE IS A GOOD DEAL OF INEQUITY IN OUR TAX CODE, SOME AMOUNT OF ROBBERY, AND I THINK A CONCERTED EFFORT AT TAX REFORM IS SECOND ONLY TO DEFICIT REDUCTION AS A PUBLIC MANDATE. HOWEVER, MR. CHAIRMAN, I MUST ADMIT THAT I AM LESS THAN ENTHUSIASTIC ABOUT MARKING UP A TAX BILL AT THIS TIME.

I CAN'T HELP BUT WONDER IF WE HAVE LOST SIGHT OF OUR PRIORITIES. FIRST OF ALL, WE ARE TALKING ABOUT DEVOTING A GREAT DEAL OF TIME TO PRODUCING A "REVENUE NEUTRAL" TAX BILL, AT A TIME WHEN OUR FEDERAL BUDGET DEFICIT CONTINUES TO HEMMORHAGE AT CLOSE TO \$200 BILLION A YEAR. WE HAVE JUST COME OFF OF THE WORST TRADE YEAR IN OUR NATION'S HISTORY WITH A RECORD \$148 BILLION TRADE DEFICIT. WE WILL SOON BE THE WORLD'S LARGEST DEBTOR NATION. YET THE FINANCE COMMITTEE HAS NOT BEEN ABLE TO DEVOTE ITS RESOURCES THIS YEAR TO PENDING PROPOSALS TO REWRITE OUR OUTDATED TRADE LAWS.

IN FACT, WE HAVE A GREAT DEAL OF TAX LEGISLATION THAT WAS INITIATED AND APPROVED BY BOTH THE SENATE AND THE HOUSE IN 1985 THAT REMAINS UNRESOLVED. WE HAVE YET TO NARROW OUR DIFFERENCES WITH THE HOUSE OVER LEGISLATION TO FINANCE THE SUPERFUND PROGRAM. SEVERAL REVENUE RAISING PROVISIONS IN THE BUDGET RECONCILIATION BILL ARE BEING HELD HOSTAGE TO THE CONTROVERSY OVER VARIOUS OTHER ISSUES. AND LEGISLATION THAT WOULD TEMPORARILY EXTEND TAX AND TRADE ADJUSTMENT ASSISTANCE PROVISIONS WHICH EXPIRED AT THE END OF 1985 IS STILL IN LIMBO AS WELL.

AS ELECTED REPRESENTATIVES AND AS TRUSTEES FOR FUTURE GENERATIONS, WE ARE FAILING IN OUR DUTIES BY CONTINUING TO IGNORE THE SERIOUSNESS OF OUR BUDGET AND TRADE DEFICITS, AND INSTEAD DEVOTING OUR ATTENTION TO REARRANGING THE TAX CODE.

OUR FARM ECONOMY HAS BEEN IN A SUSTAINED DEPRESSION FOR THREE YEARS. OUR BASIC NATURAL RESOURCE INDUSTRIES -- OIL, GAS, TIMBER AND MINING -- ARE THREATENED BY SERIOUS FOREIGN COMPETITION. CAPACITY UTILIZATION IN THE NATION'S FACTORIES CONTINUES TO FALL, AND THE BANKING INDUSTRY TEETERS UNDER THE THREAT OF MASSIVE DEFAULTS AT HOME AND ABROAD.

IF WE ARE LUCKY ENOUGH TO BE REMEMBERED BY HISTORY, THE CHRONICLERS CERTAINLY WILL WONDER WHY WE WENT FORWARD IN THIS DIRECTION -- REARRANGING THE PEGS AND THE HOLES -- IN THE FACE OF THESE OTHER, PRESSING PROBLEMS. OUR ONLY EXPLANATION: "A 35% TOP RATE; AND A \$2,000 PERSONAL EXEMPTION." AS FAR AS I CAN TELL, THOSE ARE THE ONLY "PRINCIPLES" THAT ARE NOW MOTIVATING THIS PROCESS.

THERE WAS A TIME WHEN WE SET OUT OTHER PRINCIPLES: SIMPLICITY, FAIRNESS, BROADENING THE TAX BASE. WE STARTED THERE IN 1984 WHEN THE TREASURY DEPARTMENT UNVEILED ITS INITIAL TAX REFORM PROPOSAL, BUT ALONG THE WAY WE'VE LOST SIGHT OF THOSE PRINCIPLES.

AS YOU HAVE RECOGNIZED, MR. CHAIRMAN, SIMPLICITY AND FAIRNESS ARE SOMETIMES UNEASY BEDFELLOWS. NEVERTHELESS, I WONDER IF WE ARE NOT JUST CREATING AN EVEN MORE COMPLEX AND CONVOLUTED TAX CODE; ALL IN AN EFFORT TO BRING DOWN THE RATES.

AND WILL OUR EFFORTS MAKE THE TAX CODE FAIRER AND MORE EQUITABLE? IF SO, WHY DOES THIS PROPOSAL ALLOW WEALTHY TAXPAYERS TO FULLY DEDUCT THEIR REAL PROPERTY TAXES WHILE MIDDLE-CLASS TAXPAYERS ARE DENIED THE RIGHT TO TAKE ANY DEDUCTION FOR SALES AND PERSONAL PROPERTY TAXES? AND WHY ARE INTEREST EXPENSES ON SECOND HOMES FULLY DEDUCTIBLE WHILE CATASTROPHIC HEALTH CARE COSTS AND CASUALTY LOSSES ARE FURTHER RESTRICTED?

LOOK AT THE PROVISION DENYING BUSINESSES THE DEDUCTION FOR EXCISE TAXES -- A LEGITIMATE BUSINESS EXPENSE. INSTEAD OF BROADENING THE BASE OF TAXABLE INCOME, WE WOULD ESTABLISH A DANGEROUS PRECEDENT BY MOVING TOWARD TAXING GROSS RECEIPTS RATHER THAN TAXABLE INCOME. WE HAVE NOT HELD A SINGLE HEARING ON THIS ISSUE, AND YET IT IS THE SINGLE LARGEST REVENUE-RAISER UNDER CONSIDERATION.

AT THE SAME TIME, DURING THIS TIME OF UNPRECEDENTED FEDERAL DEFICITS, WHERE ARE WE GOING TO FIND THE ESTIMATED \$30 BILLION TO "BUY BACK" UNUSED INVESTMENT TAX CREDITS? IT'S GREAT TO PLAY SANTA CLAUS, BUT AS WE ALL KNOW, SANTA IS FLAT BROKE.



SEVERAL PROVISIONS, INCLUDING THOSE RESTRICTING THE STATE AND LOCAL TAX DEDUCTION AND TAX-EXEMPT BONDS, WOULD PUT A SEVERE STRAIN ON STATE AND LOCAL GOVERNMENT'S ABILITY TO REBUILD OUR NATION'S INFRASTRUCTURE AND PROVIDE BASIC SERVICES. I DON'T THINK THE EXTENT OF THAT PROBLEM HAS BEEN APPRECIATED. AND FINALLY, THROUGHOUT THIS PROCESS WE HAVE COMPLETELY IGNORED THE MOST REGRESSIVE AND ONEROUS ELEMENT OF OUR TAX LAWS -- THE STEADILY GROWING PAYROLL TAX.

THESE ARE JUST SOME OF THE ISSUES THAT I HOPE TO ADDRESS IN THE COMING WEEKS, AS WE PROCEED WITH MARKING UP THIS TAX BILL. AS I HAVE SAID, I WOULD PROBABLY CHOOSE NOT TO GO AHEAD WITH THIS BILL AT THIS TIME. BUT IF WE ARE GOING AHEAD WITH IT, I LOOK FORWARD TO WORKING WITH MY COLLEAGUES TO MAKE IT THE FAIREST POSSIBLE PACKAGE, BEARING IN MIND THE OBSERVATION FROM "THE OLD FARMER'S ALAMANAC": "IF PATRICK HENRY THOUGHT THAT TAXATION WITHOUT REPRESENTATION WAS BAD, HE SHOULD SEE HOW BAD IT IS WITH REPRESENTATION."

Statement on Effective Dates  
July 19, 1986

The undersigned members of the Committee on Finance agree not to sign the conference report on any tax reform legislation passed by the Senate in 1986 unless the effective dates for such legislation are substantially in conformance with the effective dates as passed by the Senate. The undersigned further agree not to engage in any conference negotiations relating to substantive issues in the tax reform legislation unless a majority of the conferees from the House of Representatives agree to accept effective dates in accordance with the spirit of the preceding sentence.

John H. Clafee

John D. Danforth

Gene Heinz

Bruce Rostenkowski

Melvin Belli

Paul Simon

Steve Symms

James B. Long

Lloyd Bentsen

Frank Lautenberg

W. H. Hooper

Paul Boren!

Max Evans

W. H. Gray

Lee Lee

John Dunning

Greg Mitchell

Chuck Gravelley

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