

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

EXECUTIVE SESSION

- - -

FRIDAY, MARCH 18, 1977

- - -

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

The Committee met, pursuant to recess, at 9:20 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell T. Long (Chairman of the Committee) presiding.

Present: Senators Long, Talmadge, Byrd, Ribicoff, Bentsen, Haskell, Matsunaga, Moynihan, Hansen, Dole, Packwood, Roth, Laxalt and Danforth.

The Chairman. The Committee will come to order.

Mr. Woodworth, first, let me congratulate you. I am sorry I could not be at your swearing in yesterday. Let me congratulate you that now you are official, you have a big job down there. I am not sure that you are any better off than you were before, frankly, but you are in.

I thought it might be worth exploring this marriage penalty problem and I would make a suggestion. Do you have those charts there, Mr. Shapiro, to show the marriage penalty?

Mr. Shapiro. We have it on the board, Mr. Chairman.

The Chairman. You have shown me a set of figures. I

0000000614

1 think it would be good for everybody to take a look at them,
2 to see how this thing works out. Apparently, since 1974,
3 and some of this, as I understand it, without very much
4 consideration in terms of providing a tax credit to each
5 taxpayer in that kind of thing, we have gotten the discrim-
6 ination against married couples worse and worse until we
7 really ought to start looking in the other directions and
8 try to straighten that out.

9 Mr. Wetzler, would you mind explaining to me how these
10 acts in took in 1974 have tended to discriminate against
11 married couples?

12 Mr. Wetzler. The main effect is the so-called general
13 tax credit that equals 2 percent of the first \$9,000 of your
14 taxable income. Two single people with taxable incomes over
15 \$9,000 get a \$180 credit each. If they get married, they
16 lose one of those \$180 credits, so it increases the marriage
17 penalty by \$180.

18 These charts that Mr. Stern handed out show what the
19 so-called marriage penalty is under different types of standard
20 deductions.

21 The Chairman. If you look at the lefthand column it has
22 a minus figure. It looks as though the marriage is better
23 off because they are married if the wife is earning nothing.
24 But then you look at the righthand column which shows what
25 the marriage penalty is in terms of dollars that the taxpayer

1 pays at various income levels.

2 Here is the thing that seems unfair. Assuming the wife
3 has no earnings and reflecting the theoretical gain there,
4 that works on the theory that the wife is contributing nothing
5 to that marriage, she is staying home, tending the house,
6 preparing the meals, doing all the housework and looking
7 after two or three children.

8 Oftentimes she is doing more work than the husband is
9 out there on that job.

10 If you take that into account, as Louisiana law does,
11 our community property law looks upon it as though the two
12 of them are earning everything the marriage earns. It
13 recognizes the wife is making a real contribution by running
14 the home and doing the housework while her husband is out
15 working someplace else.

16 If you take that into account, this righthand column
17 would be consistent, no matter what the wife's earning
18 power is.

19 Mr. Shapiro. This chart, the column on the left that
20 goes down, is the total family income. The column on the
21 top of that, the guided lines, is the split of income between
22 the spouses.

23 We see zero, zero, zero there means one spouse earns
24 all of the income; the other spouse earns none of it.

25 The next column is where one spouse earns 90 percent,

1 the other spouse earns 10 percent.

2 The far right column, each earning an equal amount.

3 As you come down where you see the minuses, that means
4 where they are better off filing a joint return. Where you
5 see that there are no minus figures, it shows a so-called
6 marriage penalty where they would be better off if they had
7 been able to file single returns rather than file a joint
8 return.

9 Senator Packwood. What happens when marrieds file
10 separate returns?

11 Mr. Shapiro. One half the rate of joint returns, no
12 benefit of the single return rate.

13 Senator Packwood. One half?

14 Mr. Shapiro. One-half of the joint return rates.
15 Usually there is no benefit on that unless one spouse has a
16 significant number of deductions or one spouse who has less
17 income does not have that many deductions, but the other
18 spouse, who has a lot of income, can reduce it by the number
19 of medical expenses or something that relates specifically
20 to that particular spouse. Thereby, they can reduce.

21 One spouse with a lot of income can take many of the
22 reductions and reduce that spouse's income way down. Then
23 they would have a benefit.

24 Senator Packwood. How do you do that if one spouse has
25 no income?

1 Mr. Shapiro. You cannot if they have no income. You
2 can only do it if each of them have income and you can work
3 it both ways. You can file a joint return and see how much
4 tax you would owe. When you file two separate returns, the
5 way it would work, the one who has the most income would
6 try to take most of the deductions, therefore, to reduce the
7 highest level of income down so the marginal rate on that
8 other income is reduced.

9 It is in that manner that they could reduce their
10 taxes by filing separate returns; just taking one income, one
11 wage-earning, dividing that and filing separate returns, they
12 would not benefit.

13 Senator Packwood. What happens in the separation
14 situation where a woman is deserted, she is working. What
15 kind of tax does she file at that point.

16 Mr. Shapiro. A single return. Still married?

17 Senator Packwood. Married.

18 Mr. Shapiro. Separate returns.

19 Senator Packwood. He has deserted and she is working
20 for \$10,000 a year. What kind of return is she privileged
21 to file? How many options does she have? She is deserted.

22 Mr. Shapiro. In the Internal Revenue Code there is a
23 deserted spouse rule where they can file a single return
24 today and have the same benefit as a single person.

25 Senator Packwood. Thank you.

1 Mr. Shapiro. Let me point out, there are several
2 sheets here. The top sheet refers to the marriage penalty or
3 the effect of marriage with \$2300/\$3100 standard deduction .
4 Let me point out that these tables refer to the entire tax
5 results, looking at rates as well as the standard deduction.
6 We are showing at different levels the standard deduction.

7 The \$2300/\$3100 on the first sheet, that is alterna-
8 tive one on the blackboard. The second sheet, which provides
9 the same figures with respect to \$2200 single standard
10 deduction and \$3200 joint return standard deduction would
11 be alternative two on the board.

12 Senator Packwood. Let me ask another question. Do
13 these charts have any relevance at all for people who
14 itemize?

15 Mr. Shapiro. These are all standard deductions.

16 The third sheet is the Administration's proposal, \$2200,
17 single return; \$3000, joint return.

18 The fourth sheet is the House bill, \$2400, single return;
19 \$3000, joint return.

20 The \$2400 to \$2800 is the original Administration
21 proposal. Then the next one, the 1976 law, is the present
22 law.

23 These are the computer print-outs of the various
24 alternatives before the Committee with respect to the
25 standard deduction.

1 The Chairman. Here is the kind of thing that concerns
2 me. If you are willing to assume that the wife's contribu-
3 tion to a marriage, even if not in cash, in the work and
4 effort she puts in to make the marriage succeed is the same
5 as that of the husband -- that is the way we do it in
6 Louisiana -- if you make that assumption and you look at this
7 chart over here of what the House bill does, that is the
8 one headed \$2400/\$3000. At the \$10,000 level, that is a
9 \$300 penalty on that couple for being married, or a \$300
10 bonus if the marriage broke up.

11 If they are making a joint income of \$15,000, that is
12 a \$397 marriage penalty. At the \$20,000 level that is
13 a \$600 marriage penalty, or \$600 incentive or bonus payment,
14 you might say, for the marriage failing. If the people
15 are separated, it is a \$600 penalty on reconciliation.

16 None of that makes sense to me. It seems that we should
17 try to reduce that marriage penalty. The House took the
18 view that, as I understand it, it was just unthinkable
19 over there to vote to increase anybody's taxes. If you are
20 thinking in the tax reform area, implicit in that all the
21 time is that you are tightening up on the loose end by
22 loosening up on the tight end. You ought to be willing to
23 bite the bullet now and then.

24 Mr. Woodworth. We agree with you on that completely.

25 The Chairman. I think it is right, now and then the fact

1 that the Senate sits on six-year terms and the House on
2 two-year terms ought to compel us to come up with those and
3 do some of these things that make for better laws. Here is
4 what occurred to me. If we would take what is on this
5 second sheet here, you take the figures that the Administra-
6 tion is recommending for the singles, \$2200, then move the
7 House figure up from \$3000 up to \$3200. That would cost
8 about \$100 million, I am told, compared to the House bill --
9 or is it compared to present law?

10 Mr. Shapiro. \$200 million compared to the House bill.

11 The Chairman. That would be within the budget?

12 Mr. Shapiro. Yes.

13 The Chairman. If you did that, then the marriage penalty
14 would be reduced down, compared to the House bill -- let me
15 get the right page. Let us say \$300 for people making \$10,000
16 a year down to \$204. It would be cut by one-third.

17 It seems to me for that small a revenue consequence that
18 is a major reform to reduce that marriage penalty by a third.

19 Mr. Shapiro. That is the case where the income is split
20 50-50. If you run along that line, you can see the various
21 savings with respect to each category.

22 The Chairman. If you did that, how many people would
23 fare better if we did that? How many taxpayers would fare
24 better if we made that adjustment?

25 Mr. Shapiro. Relative to present law, 46 million people

1 would benefit, those who file joint returns, and 2 million
2 people would lose, those who are presently at the \$2400
3 ceiling would be reduced to \$2200.

4 Senator Hansen. What is the number that would benefit?

5 Mr. Shapiro. Forty-six million.

6 Senator Hansen. Two million would lose?

7 Mr. Shapiro. That is right, relative to present law.

8 The Chairman. Compared to the House bill, how do those
9 numbers work out?

10 Mr. Shapiro. We are kind of rough on this. It is
11 approximately 25 million would benefit, 25 million would
12 lose.

13 The reason for this is the House bill has a \$2400 stan-
14 dard deduction for single people. They are right now under
15 the House bill. They would be put at \$2400. You would be
16 reducing them to \$2200.

17 As compared to present law, 2 million of those 25
18 million would take a loss over what they would actually have
19 today.

20 The Chairman. Compared to present law, there would
21 be 23 people who would benefit for every one who would be
22 on the losing end.

23 Mr. Shapiro. That is correct.

24 The Chairman. Those on the losing end would get the
25 worst of it on about \$50 a year?

1 Mr. Shapiro. On the average, yes.

2 The Chairman. Personally, how does the Administration
3 feel about that?

4 Mr. Woodworth. We very hastily constructed a little
5 chart here which shows the 50-50 split level, the comparison --
6 there is no question about the fact in terms of the 50-50
7 split that the \$2200 to \$3200 decreases the marriage penalty
8 relative to the present law as well as relative to the
9 Administration's proposal. It very decidedly decreases it
10 relative to the House bill.

11 The revenue cost of this, versus the Administration
12 proposal, if my figures are correct, it is about \$1 billion
13 more.

14 The Chairman. Compared to the Administration proposal?

15 Mr. Woodworth. Yes. That is my impression, that that
16 is correct.

17 I think Mr. Shapiro was comparing it to the House bill.

18 Mr. Shapiro. The House bill raises the Administration
19 figure by \$800 million.

20 Mr. Woodworth. \$800 million plus the \$200 million is
21 \$1 billion.

22 You have to have a striking a balance of differing con-
23 siderations. In terms of this, I think the Administration
24 would prefer not to lose that additional \$1 billion in
25 revenue at this time, but I think we would certainly have to

1 agree, in terms of the marriage penalty, that \$2200 and
2 \$3200 is a better proposal than any of the others, including
3 the Administration proposal.

4 However, I could point out that when the tax reform
5 proposal comes along this fall, if you were to adopt the
6 Administration proposal, the \$2200 and \$3000, if additional
7 revenue could be lost at that time, it would be no trouble
8 at all to move to the type of proposal that you have here,
9 \$2200 to \$3200.

10 You would not have to push the single return down any
11 further. It would just be moving the married up from \$3000
12 to \$3200 at that time.

13 I think, in balance, we would prefer not to lose that
14 additional billion of revenue, although I have to acknowledge
15 that in terms of impact on the marriage penalty, this is
16 preferable to any of the others.

17 The Chairman. Can you give me an estimate? If we go
18 in there with the \$2400 and try to eliminate that marriage
19 penalty by letting each spouse file a return and claim half
20 the income, how much will that cost the Treasury?

21 Mr. Woodworth. \$5 or \$6 billion, on that order of
22 magnitude.

23 The Chairman. I thought it was more than that.

24 Mr. Woodworth. It may be.

25 Mr. Shapiro. It would be at least that.

1 Mr. Woodworth. You know, faced with that kind of
2 choice, Senator Long, there is no question of where we would
3 go; that is the \$2200 to \$3200. If you tell us that that is
4 the choice, then obviously we would prefer, between that and
5 the \$2200 and \$3200 we would clearly go to the \$2200/\$3200.

6 The Chairman. It seems to me, if we are going to try
7 to reform this tax law by taking the view that we cannot
8 ask anybody to pay any more, the only way we can reform it
9 is to give further tax cuts to people, the cost is going
10 to so enormously reduce revenue in items like this it is
11 beyond the pale.

12 The biggest tax reform bill we had had a revenue loss
13 of \$7 billion. If you are going to go \$5 billion for a
14 single item like this, it looks to me like you could wipe it
15 out.

16 Mr. Woodworth. The Administration would be very strongly
17 opposed to any amendment of that type. It would be a
18 major consideration that would have to be weighed with
19 respect to the bill.

20 Mr. Shapiro. The revenue effect of having each one
21 file separately on their income could be as high as \$12
22 billion.

23 The Chairman. That is the figure I heard; \$12 billion.
24 I would suggest we try the \$2200 to \$3200. Compared to
25 present law, you would have 46 million people who would be

1 better off and only 2 million who would be worse off.

2 Mr. Woodworth. Compared to the House bill, we would
3 prefer the \$2200/\$3200. You lost \$800 out of the \$1 billion
4 in the House bill, Between those two, we would like to have
5 one that would fix up the marriage penalty.

6 The Chairman. If you are going to lose \$800 million
7 in revenue anyway, you might as well lose \$200 million
8 promoting tax equity and tax justice.

9 Mr. Woodworth. That is the reason for my statement.
10 Between the two choices, we would prefer the \$2200/\$3200.

11 Mr. Shapiro. The \$2200/\$3200 would encourage \$6.7 million
12 switchers from the itemized deduction to the standard
13 deduction.

14 The Chairman. That is important. What percentage
15 of the people would you then have using the standard deduc-
16 tion?

17 Mr. Shapiro. Approximately 76 percent. The 6.7 is
18 compared to the 5.5 under the House bill. The House bill
19 would switch approximately 5.5, take it from 69 percent to
20 approximately 75 percent.

21 This would increase those switchers to just shy of 7
22 million; approximately 76 percent of the people would be on
23 the standard deduction.

24 Senator Hansen. Mr. Chairman, before we make the
25 final determination, I would like to ask Mr. Shapiro if the

1 1975 optional tax tables, you may have a copy before you,
2 if we were to go back to that approach, would that not
3 achieve essentially what the Chairman and I are talking
4 about trying to achieve the changes in the proposal,
5 give taxpayers a way of reporting that would not be any more
6 complicated than this proposal would be?

7 Mr. Shapiro. There are two specific issues in that
8 regard. One is to make it easier for people to fill out
9 their tax return. Two, providing rate reductions, permanent
10 rate reductions, standard deductions and encourage more
11 people to switch. They are tied together, but somewhat
12 separate.

13 The pre-1976 tax forms, which were changed by the
14 1976 Tax Reform Act and from the use of tax tables to
15 taxable income so that people had to make various computa-
16 tions.

17 Senator Hansen. That made it more complicated??

18 Mr. Shapiro. That made it more complicated. The
19 standard deduction could be built into the tables as they
20 were prior to 1976, from the standpoint of filling out their
21 tax return, that will be achieved from a simplification
22 standpoint.

23 However, that would not apply to those who used itemized
24 deductions. Those who itemize deductions, in order to
25 provide simplification for those who itemize deductions, you

1 need to go to a flat standard deduction. When you have a
2 flat standard deduction, those who itemize their deductions
3 would be able to use those tables as well.

4 There are two types of issues. If you are talking
5 about simplification in filling out the income tax return
6 only, and only for those who take the standard deduction,
7 you could go back to pre-1976 law and deal with that without
8 making any change in the standard deduction. However, if you
9 want to deal with the marriage penalty, if you want to pro-
10 vide some rate reductions on a permanent basis for those
11 who take the standard deduction, if you want to simplify the
12 tax laws for filling out the tax return for those who
13 itemize their deductions as well as those who take the
14 standard deduction, you have to come to some flat amount.

15 There are levels where it would be revenue neutral.
16 It would mean a lot of people would have tax increases.

17 Senator Hansen. Could you give me an idea of the
18 number of people, or percentages, in your judgment that
19 would be affected by one law or another? How many use
20 itemized deductions? How many use the standard deduction?
21 How many receive some help in preparation of their income
22 tax returns?

23 Mr. Shapiro. Let me do it by percentages. Under present
24 law, 69 percent of taxpayers use the standard deduction.
25 31 percent itemize their deductions. As a result of the

1 House bill, 75 percent would take the standard deduction.

2 Under Senator Long's proposal, 76 percent of the tax-
3 payers.

4 Senator Hansen. If you were to use the 1975 optional
5 tax tables as an alternative, we could assume that roughly
6 three out of every four taxpayers would not find that
7 unacceptable. Would that be a fair statement?

8 Mr. Shapiro. You would find 69 percent of the people --

9 Senator Hansen. I thought you said 76.

10 Mr. Shapiro. That would be under the changes here.

11 If you did nothing to change the '76 law with respect to the
12 use of tax tables, 69 percent of the people would find it
13 easier to fill out their tax returns. In order to go up
14 to the 76 percent, you would have to make some adjustment
15 in the standard deduction by going to the higher levels, as
16 we were talking about in these various alternatives.

17 Senator Hansen. If we went back to the pre-1975 tables,
18 what savings would be made.

19 Mr. Shapiro. You would not incur the revenue losses
20 under these proposals, the bottom lines that we are talking
21 about.

22 Senator Hansen. That revenue loss you estimated would
23 be roughly \$1 billion under the \$2200/\$3200 that we were
24 talking about?

25 Mr. Shapiro. We are talking about, under the House bill,

1 let us say the Administration proposal --

2 Mr. Woodworth. May I comment?

3 Senator Hansen. Yes.

4 Mr. Woodworth. The Administration proposal would cost
5 \$4 billion on the liability basis in this area. The proposal
6 you are now talking about would cost \$5 billion.

7 Another point that I thought should be clear is the
8 fact that it is our understanding that as much as 96 percent
9 of the taxpayers would have their tax returns simplified
10 under either one of these proposals that I just mentioned.
11 96 percent.

12 That is because it includes those who take the itemized
13 deductions as well as the standard deduction. It is
14 possible, with the flat standard deduction built into the
15 whole structure to simplify it for those categories of
16 taxpayers, so that it is not just a question of 69 percent.

17 It is both the fact that we feel we need that tax
18 increase there because the tax level is moving below the
19 poverty level. We think we need that as a stimulus. That
20 is the second reason.

21 The third reason is by doing it in this way, we can
22 begin a real and very substantial simplification of the tax
23 returns.

24 We have three major reasons for moving in this direction,
25 not just one. Obviously if you did not have the reduction at

1 all, you do not provide the stimulus that is needed there.
2 Secondly, you do not move the tax line up to the poverty
3 level again.

4 In addition to that, under any results, you do not
5 achieve all the simplification that we are asking.

6 I might point out again that for itemizers, the fact
7 that the credit is computed separately -- and I think it
8 would have to be, if you do not go this way, it turned out
9 to be the number one problem with respect to errors on the
10 tax return this year.

11 Senator Hansen. When they itemize?

12 Mr. Woodworth. Right now it is whether they itemize
13 or do not itemize, it is the number one error.

14 Senator Hansen. Is it three out of ten who itemize
15 now?

16 Mr. Woodworth. 31 percent is what it is.

17 Mr. Shapiro. What you really have is the tax credit
18 should be computed within the table for standard deductors.
19 What we are talking about, for those who itemize, you need
20 to make it easier for them to fill out their tax returns.

21 Unless you increase the flat standard deduction up to
22 close to the maximum of where it is today, you will have a
23 lot of people having tax increases. That is the reason why
24 the various proposals go to the maximum level and even
25 more. Not only do you make it easier and simpler to fill

1 out the tax returns, you are providing tax reductions and
2 reducing the marriage penalty.

3 These are the various discussions that you are having
4 with respect to the various levels of the standard deduc-
5 tions.

6 Mr. Woodworth. What we found out, if the people can
7 apparently look up on a table and get their tax from that
8 much more readily than they can multiply it and divide, those
9 seem to be the problem areas. They can add and subtract,
10 but the multiplication and division gets them in trouble,
11 many of them.

12 The Chairman. If you could bring in one of those
13 proposed tax returns and show us what it would look like, it
14 would be helpful. Has anyone drafted any yet?

15 Mr. Woodworth. We have a proposal; unfortunately I do
16 not think we brought it with us this morning. We can get
17 it for you.

18 Mr. Shapiro. We have some in the office. If you would
19 like, we can send for it.

20 The Chairman. Bring it over.

21 Senator Hansen. I would like to have a sketch of
22 the facial expressions of the taxpayer using the two systems
23 too, if I could.

24 Senator Curtis. We asked the other day for a figure, I
25 do not know that it has been given to us in writing. The

1 total number of taxpayers, individual taxpayers in the
2 country counting the joint return as two taxpayers. Do we
3 have that?

4 I do not want to delay the proceeding. The reason that
5 I mention it is that I think we can overdo granting tax
6 relief by a method of the standard deduction. A great many
7 people would be most happy to have a tax reduction. They
8 are not asking to be taken off the tax rolls.

9 I do not believe it is good government to move to the
10 point where we have such a vast majority of adults eligible
11 to vote who pay no taxes. I think that we should treat the
12 lower income very generously in percentage reductions.

13 Mr. Shapiro. Counting the separate returns and joint
14 returns separately, counting each of those as to each, there
15 are approximately 109 million taxpayers, including when you
16 file a joint return, including those as two.

17 Senator Curtis. How many people are there eighteen and
18 over in the United States --

19 Mr. Shapiro. We will try to find that.

20 Senator Curtis. That 109 million sounds pretty high to
21 me. My understanding is that of people over sixty-five, only
22 one out of five pays taxes.

23 Mr. Shapiro. The number of people sixteen and over
24 is approximately 157 million.

25 Senator Curtis. I will not take any more time. Thank

1 you.

2 Mr. Shapiro. One point that may be of interest to
3 you, in pamphlet number two before you, on page 23 of the
4 table, Table 8 of the taxpaying population, that includes
5 exemptions also.

6 If you look on that table, you will see a little ratio
7 of the tax returns, the exemptions on tax returns to total
8 population. For example, in 1976, 82.5 percent of the total
9 population--

10 Senator Curtis. What page?

11 Mr. Shapiro. Page 23, pamphlet number 2.

12 Senator Curtis. My experience has been --

13 Mr. Shapiro. You will see in the righthand column the
14 ratio of exemptions to total population. You are talking
15 about each family; that is included. That is how many
16 exemptions they have. Approximately 82 percent for 1976,
17 82.5 percent of the population are on the tax rolls.

18 Senator Curtis. Filing a return?

19 Mr. Shapiro. Filing a return. That includes their
20 children, too.

21 Senator Curtis. That includes some who always get a
22 refund.

23 Mr. Shapiro. Taxable returns. They may get a refund,
24 but they owe some taxes for 1976.

25 Senator Curtis. I think there is a place for the

1 standard deduction, I think it is here. But I think we
2 can go too far in using that as a weapon to bring tax
3 relief.

4 I have never had a citizen from Nebraska ask me to take
5 them off the tax rolls. They may ask me to have a reduction
6 in taxes. We do not have a group of people who say, do not
7 tax me at all.

8 Senator Hansen. Mr. Chairman, if I could have a
9 couple of follow-up questions, it is my understanding that
10 since 1959 some 15 million persons who were then taxpayers
11 have been removed from the rolls.

12 Is that essentially an accurate statement?

13 Mr. Shapiro. What happens, Senator, each year, by various
14 tax acts, increasing the standard deduction, you have
15 removed people from tax rolls, but inflation puts them back
16 on. As inflation puts them back on, ^{the increased} the increased
17 standard deduction takes them back off. You cannot
18 accumulate those figures.

19 In the meantime, some of those are being put back on the
20 tax rolls.

21 If you will look at page 24 of that same pamphlet,
22 number 2, you will see Table 9. That looks at the tax-free
23 levels, including the standard deduction.

24 Senator Hansen. Page 24?

25 Mr. Shapiro. Page 24, pamphlet number 2.

1 There is a comparison of the tax-free levels where
2 people would not be liable for taxes, compared to the
3 projected poverty levels.

4 What has happened since 1969, you have tried to keep
5 pace with the poverty levels so that those below the poverty
6 levels would not have to pay tax. However, each year as
7 inflation keeps going up and wages keep going up, people
8 are being put back on the tax rolls.

9 By increasing the standard deduction, you are keeping
10 pace with the poverty level. Therefore, you are taking
11 more people off, but more keep being put on, so you cannot
12 accumulate those figures from '69 and say that is the total
13 number of people taken off.

14 As you can see from this table -- it has three levels,
15 single person, couples without dependents and a family of
16 four. You see the 1976 levels at the House bill, compared
17 with the 1977-79 projected poverty levels as to what the
18 '76 law is, and what the projections are under the House bill
19 and the projected poverty levels, where the effort appears
20 to be that the Congress is trying to keep pace with the
21 poverty levels so that people below the poverty levels would
22 not be on the tax rolls.

23 Mr. Woodworth. I have a statistic that tends to bear
24 out that it has kept pace fairly accurately in that regard.
25 In '69 to '76 the United States population grew 6.14 percent.

1 If the number of taxpaying returns had grown at the same
2 percentage, there would be 67.7 million. In fact, there
3 were 66.6 million, which shows that the change that has
4 occurred in that regard has kept pace very, very closely
5 with the poverty levels.

6 Senator Hansen. Are you saying that while a static
7 population might have a lower number of taxpayers, are you
8 talking about total numbers of taxpayers, or percentages?

9 Mr. Woodworth. I was going to the fact that you pointed
10 out a statement that I think Treasury submitted for the record
11 that there would be 15 million more taxpayers if the 1969
12 tax rates had continued to exist today, which is perfectly
13 true.

14 What I was pointing out is that the difficulty with that
15 is the fact that, as incomes have risen and costs of purchasing
16 food and other products has risen, the poverty level has also
17 risen in that period of time. It is necessary to adjust the
18 beginning tax rate, unless you intend to tax those at or
19 below the poverty level.

20 It is necessary to adjust that level, and what I was
21 indicating is that the percentage that would remain taxable
22 in the total population, given the growth rate that has
23 occurred in the population since that time, was entirely
24 consistent with what, in fact, ^{were} those who were subject
25 to tax.

1 We believe there has been a consistent movement in
2 raising the standard deduction over this period of time.

3 Senator Hansen. As you factor in the population increase?

4 Mr. Woodworth. That is correct.

5 Senator Hansen. And the rising poverty level, you come
6 up with a wholly-defensible position as far as uniformity
7 of the tax burden goes comparing today with 1969. Is that
8 what you are saying?

9 Mr. Woodworth. That is correct.

10 Mr. Shapiro. Maybe I can respond to a question that
11 you asked earlier about the forms.

12 Without looking at the form itself, I can show you the
13 ease of computation. If you look at pamphlet 2, page 19,
14 we have two examples comparing present law in the House bill
15 with respect to the various computations.

16 Page 19, pamphlet number 2. You will see the number of
17 steps that are under present law to complete the taxes. The
18 number of steps in the House bill.

19 If you look at case number one, it is a family that
20 would be on the standard deduction, a family of four. The
21 income is \$15,000. On the lefthand side, you will see
22 present law -- adjusted gross income, \$15,000. They will
23 have to compute the standard deduction. Having done that,
24 it will be \$2400. You make that subtraction, you get
25 \$12,600.

1 You multiply the number of exemptions, \$750 times four,
2 to get \$3,000. They have to make that subtraction to get
3 it down to \$9600. Then they can look up the tax in the tax
4 table, because they do not compute their tax. That was a
5 change made in 1976.

6 They just look under \$9600. They get their tax of
7 \$1727. Then they are entitled to the credit, general tax
8 credit. \$35 times the number of exemptions, or 2 percent
9 of the taxable income up to \$9,000. This case, 2 percent of
10 the first \$9,000 would be more, so they get a credit of
11 \$180. Their tax would be \$1547.

12 Under the House bill, if you look in the righthand
13 column, the same example, all they would have to do is
14 put their adjusted gross income on their tax return of
15 \$15,000 and they make no other computations or adjustments.
16 They look right at the tax tables.

17 The reason for this is that the standard deduction, the
18 personal exemptions and the general tax credit would all
19 be built into the tax tables, so they would not need these
20 various adjustments, subtractions or multiplications.

21 As a result of the change made in the 1976 return, which
22 was an error, we changed the '76 law and it results in the
23 number of errors that have increased in the tax returns, so
24 you can see the great simplification of going back to the
25 tax tables.

1 Mr. Woodworth. May I just point out, it is not a
2 difference in the lines, even though that is very significant.
3 It is also the fact that some of these lines require multiple
4 calculations.

5 For example, line number 2, they have to determine, not
6 only multiply to determine the 16 percent, they then have
7 to stop and say is this amount above the floor? If so,
8 fine. Except I cannot have it if it is above the ceiling.

9 At least on that one line, there are at least three
10 things that they must look at.

11 Similarly, on line 7, over there, they have to multiply
12 \$35 plus the number of exemptions. They have to then look
13 up the taxable income and multiply that by 2 percent, except
14 they can only take it into account up to \$90,000 of taxable
15 income.

16 Then they have to compare those two sets of figures and
17 decide which is the larger. It is the combination of
18 substantial additional calculation combined with the additional
19 number of lines.

20 The Chairman. If you wanted to give a man \$50 rather
21 than tax him \$50, the guy would say, "If I have to go
22 all through that, just forget about it."

23 So I believe that this part of it would cause taxpayers
24 to love us.

25 Mr. Woodworth. Unless I am sadly mistaken, if the

1 Congress makes this change, you will find the taxpayers
2 will really next year, relative to this year, be very
3 enthusiastic about the change and the computation.

4 The Chairman. It is a good time to run for office.

5 Senator Curtis. This table, in case one very drama-
6 tically illustrates the changes made there. My first ques-
7 tion is this.

8 What level of income does the simplification indicated
9 in case one become impractical or disappear? People with
10 incomes at all levels?

11 Mr. Woodworth. In the case of a joint return, we think
12 this can be applied up to \$40,000. For single, we think
13 that it would probably be true up to about \$20,000.

14 Senator Curtis. Adjusted gross?

15 Mr. Woodworth. Taxable.

16 Senator Curtis. You do not have any taxable income on
17 t his form.

18 Mr. Woodworth. It is what is called tax table income,
19 after you subtract any itemized deductions that you have.

20 Mr. Shapiro. Case one is only for the standard
21 deduction. Case two goes to itemized deductions. The
22 simplified system would go to both of those.

23 Senator Curtis. If this is adopted, individuals with
24 taxable income of \$20,000 for single and \$40,000 for married
25 could use it without incurring a penalty?

1 Senator Curtis. That is right. This is the way that
2 they would compute their tax.

3 Mr. Woodworth. One more thing. We think that
4 it covers 96 percent of all tax returns.

5 Senator Curtis. There is always a price to pay for
6 uniformity.

7 Mr. Woodworth. That still allows for itemization.
8 I want to be sure you understand.

9 Senator Curtis. There is no way that the itemizers
10 can ever equalize their burden with the person who never
11 makes a contribution, never pays any local tax, never buys
12 a home. There is no way they can ever overcome the advan-
13 tage that people have in the standard deduction who have
14 nothing to deduct.

15 Mr. Woodworth. It is not usually on that basis. Usually,
16 the comparison is somebody who has a home -- I believe this
17 is fairly accurate -- both groups of people pay state
18 income tax, both of them pay sales tax, both of them make
19 some contributions to charity. In the bracket areas we
20 have been talking about, we have not been able to figure out
21 there is too much difference in the contributions they make
22 to charity.

23 The difference is that some of them are renters and
24 because they are renters they do not get the property tax
25 deduction and do not have the interest on the mortgages

1 although the cost that they pay on the rental property
2 may reflect those costs to someone, whereas those who
3 itemize get those deductions specifically.

4 Senator Curtis. What you are saying is that someone
5 might pay more real estate tax, more interest, but the other
6 fellow may pay more liquor taxes?

7 Mr. Woodworth. He might rent a house which the person
8 who owns the house pays the property taxes.

9 Senator Haskell. When you say 96 percent can use
10 this, are you talking about case one and case two?

11 Mr. Woodworth. Yes, I am.

12 Senator Haskell. What percentage, do you think, would
13 use case one?

14 Mr. Woodworth. Case one under the Administration pro-
15 posal, it was 75 percent. Under the one you were just
16 talking about, it would be 76 percent of the taxpayers.

17 Senator Haskell. That is great.

18 Mr. Woodworth. That might be just a little bit
19 lower, because some of the standard deduction people might
20 be over the \$40,000 ceiling. It is going to be very
21 small.

22 In my opinion, it really is a very substantial simpli-
23 fication.

24 Senator Haskell. It sure is.

25 The Chairman. You say in case two where they itemize

1 it is still a major simplification?

2 Mr. Woodworth. It is a major simplification for them,
3 too.

4 The Chairman. Shall we vote on the suggestion of
5 \$2200/\$3200?

6 All in favor, say aye.

7 (A chorus of ayes)

8 The Chairman. Opposed, no?

9 (No response)

10 The Chairman. The ayes have it.

11 I have three proxies here of Senators who say they would
12 vote for it.

13 Senator Curtis, would you like to offer your proposal
14 about the railroads?

15 Senator Curtis. I think that there are two problems
16 before us. One is the question of refundable investment
17 credit. The other one has to do with the job credit.

18 I believe the staff has the latest language on the job
19 credit. I do not think it is a question of either/or. I
20 think both should be in the bill.

21 What we do about refundable credit, whatever the
22 Committee decides, of course that is it. We have to be
23 somewhat uniform to all transportation industries, I suppose,
24 as well as taking into account everybody's interest.

25 What I would like to bring up first is an alternative

1 way that they can figure this job credit so it will
2 increase employment. I am doing this on the basis that
3 we have railroads, that Congress has taken action to legislate,
4 in a sense, to subsidize.

5 In the case of ConRail it is different than a private
6 corporation.

7 Mr. Shapiro. The proposals that have been worked out
8 with the railroads, first of all, let me say that this will
9 be essentially for ConRail. You gave some of the reasons
10 for this.

11 The Penn Central system, because of delays in legisla-
12 tion, was forced to continue to net up losses. When the
13 system went through, they had excessive losses. They would
14 really not benefit by any tax credits. It will be so long
15 in the future before they can turn around and get their
16 profits.

17 Senator Curtis. The Congress, by law, prevented them
18 from reducing their payroll.

19 Mr. Shapiro. That is correct.

20 One of the things in the ConRail legislation has
21 required them to turn over their employment by requiring
22 them to reduce the employment in areas where they were
23 overemployed, where they had too many people in one job,
24 and the Federal government would pick up the benefits for
25 those who would, in effect, be fired. They would receive

1 benefits by Federal subsidies in that respect. As a result
2 of this, ConRail would be firing some but would be hiring
3 in new areas that they are going into.

4 Because of those who would be laid off, they would not
5 be able to benefit by the jobs tax credit, not be able to
6 benefit by the investment tax credit, because they are not
7 in a profitable situation right now.

8 The proposal they have suggested requires three changes
9 to the jobs tax credit proposal, that the House bill has.
10 The proposal you have voted on, the first, would reduce the
11 base.

12 As you know, this is an incremental jobs tax credit.
13 The only way you could get a credit is if you had new
14 employees over the base year. They need some changes to
15 reduce that base in order to have an increment.

16 The first change would say that Title V, Employees --
17 this is Title V of the Rail Reorganization Act of 1973, --
18 Title V of that Act requires or encourages the ConRail
19 system to lay off the people who are not needed and therefore
20 reduce their payroll. Since the Congress has mandated them,
21 or directed them, to lay off these people, they have requested
22 that these people who are laid off, reduce the base in
23 1976 -- not like you are firing some and hiring others to
24 replace them. They are firing some people for one area because
25 they do not need them. The people they would be hiring would

1 be doing different work.

2 The second part of a proposal to reduce their base would
3 be that there are some people who would retire or die. If
4 you reduce the base year by these three categories, one, the
5 Title V people who would be fired; second, the people who
6 retire; third, the people who would die, those three categories
7 in either 1976 or '77 would reduce their base year, reduce
8 their threshold.

9 In addition, as you recall, there is a 3 percent
10 adjustment. You would have to go to 3 percent above the
11 base year, in order to reduce the base year for ConRail,
12 they would like that 3 percent rule to be disregarded.

13 In fact, as you can see, what they want is to reduce
14 the base year so that the increment would increase. In 1977,
15 they will actually hire a number of new employees, but unless
16 their base year is reduced, there is no increment. What
17 they are trying to do is reduce their base year because
18 of the new employees.

19 They have make three suggestions to reduce their base
20 year, and then not to have that 3 percent ^{adjustment} adjustment
21 to be made. But they would still not benefit, because they
22 do not have tax liability.

23 They requested, for their case -- only in the sense for
24 railroads; the way these rules would apply I think would only
25 apply to ConRail. You may want to specifically provide that.

1 They would like to have it be refundable. This would
2 be the only refundable portion of your business tax reductions.
3 The refundable portion for those employers that would come
4 under this particular rule; I think, in effect, it would
5 only cover ConRail.

6 Senator Curtis. Then the amount of the rebatable
7 job credit would be refigured comparable for other industries
8 but it would only relate to Railroad Retirement?

9 Mr. Shapiro. Yes.

10 As I understand, ConRail would be willing to have a
11 ceiling, a cap, so that they would not get more, say \$2.5
12 to \$2.75 billion; the refundable portion to them would be
13 limited; even if the increment came to \$3 billion, they could
14 not get more than \$2.5 or \$2.75, whichever the Committee
15 would like.

16 Senator Curtis. The peculiarity of their employment
17 situation is not a result of hiring practices to deliberately
18 qualify or not qualify for jobs credit. They had to carry
19 it out in response to the law that Congress passed.

20 Is that generally true?

21 Mr. Shapiro. Yes, it is.

22 To the extent of Title V, but let me make this obser-
23 vation. I say this with some knowledge, but not with as
24 much knowledge as I would like to have.

25 When you had the ConRail legislation, you did take into

1 account their financial situation. As a result, there
2 was provision made to cover those workers who would be fired.
3 There was a significant financial arrangement worked out
4 between Congress and ConRail that they would be compensated
5 in a number of respects for this compensation.

6 What they are saying is that they could use the
7 additional money. They would increase the number of hirings.
8 They had a certain pattern that they would hire so many
9 people each year. If they get these revenues, they said they
10 would hire more people and accelerate their hirings.

11 It is fair to point out that Congress did take into
12 account their financial situation and did compensate them
13 for some of their financial considerations in the Railway
14 Reorganization Act of 1973. If you did this, it would be
15 viewed as encouraging them to increase their hiring level
16 in '78 or '79, so they would have additional funds to make
17 the hiring sooner.

18 That would be the inducement in this bill.

19 Senator Curtis. What was the staff's recommendation on
20 this?

21 Mr. Shapiro. I am very hesitant to make a recommenda-
22 tion. I think the Committee has to view as to whether or
23 not they want to make a refundable credit only in the sense
24 for ConRail, one company, taking into account --

25 Senator Curtis. You are talking about the jobs credit?

1 Mr. Shapiro. Yes.

2 This is for the jobs credit, a special exception for
3 the jobs credit, essentially for one situation, for ConRail.

4 The Committee has to take into account that you are
5 doing it because of their special needs as to whether or not
6 you think they should get it. What they are saying is, if
7 they get it, they will increase their hiring. They would
8 hire more employees sooner than they otherwise would do.

9 It is a judgmental factor the Committee has to make,
10 whether or not you want that. Congress has, in the Railway
11 Reorganization Act, taken into consideration compensation
12 made in that legislation. There are also some court cases
13 pending to adjust the compensation level.

14 This should not be viewed as rewarding ConRail for
15 something that is due them with respect to the Railway
16 Reorganization. It is in spite of that Railway Reorganiza-
17 tion that they are making adjustments in their employment.
18 They cannot benefit under the new jobs credit because of the
19 threshold over the base year in increment.

20 What they are saying is that they do need to hire new
21 employees. They are hiring new employees. They will hire
22 them sooner if they get this money.

23 Senator Haskell. Did you say that somewhere in the
24 Reorganization Act they were compensated for this employment
25 situation?

1 Mr. Shapiro. All the Title V people who would be fired
2 because they are ~~not needed,~~ laid off for one reason or
3 another would be getting Federal benefits. The Federal
4 government would be paying for that shift.

5 What has happened, ConRail has a number of employees
6 that they do not need. Therefore, Congress has directed them
7 to reduce their labor force in the other areas, because
8 you wanted them to do other things in other areas.

9 Senator Haskell. Congress is paying the pensions of
10 people who were laid off?

11 Mr. Shapiro. Yes, sir.

12 Senator Haskell. Could we hear from the Administration?

13 The Chairman. Mr. Woodworth?

14 Mr. Woodworth. We cannot support the amendment.

15 ConRail -- because it really is just ConRail, as I see it,
16 is supported under legislation to the tune of, I think,
17 \$4.6 billion in the aggregate and part of that is in loan
18 guarantees, part of it in other special provisions.

19 But the problem, of course -- first of all, ConRail
20 pays no taxes, as I understand it now, because they are not
21 in a profit position. What they want -- and I should also
22 say, they do not really meet your first test of the employ-
23 ment credit, although at Treasury we do question that
24 standard. They are not really increasing their employment.
25 It is a decrease in employment, but understandably so. I want

1 to be clear on that.

2 They have good reasons for modifying the operation, but
3 I think they are decreasing their employment. They have
4 decreases of about 7,000 and increases of 4,700.

5 So we do not think it meets the standard and we cannot
6 support the amendment.

7 Senator Curtis. How much money is involved?

8 Mr. Shapiro. Approximately \$2.5 billion for ConRail.

9 Senator Curtis. Annually?

10 Mr. Shapiro. Yes, a two-year program. \$2.5 billion
11 for '77 and '78.

12 The Chairman. It seems to me that frankly in my
13 judgment this is a drop in the bucket, a small drop in the
14 bucket, to what we should do to get the railroads rehabili-
15 tated for the good of this country.

16 As a matter of fact, Senator, one of my principal
17 doubts about voting for your amendment is that it does not
18 do nearly enough for the railroads, to tell you the truth.

19 I would like to see us do something to put 100,000
20 workers out on those roads fixing up those rails, just for
21 starters, an equal number of people working to manufacture
22 modern rolling stock to put out there.

23 And I hope to initiate legislation -- maybe you can
24 join me as a co-sponsor, to get some of that done. \$2.7
25 billion is small compared to what we ought to do to get people

1 to work, get people repairing these railroads, get modern
2 rolling stock out there.

3 We ought to try to get those people to organize on a
4 better basis and resolve some of their conflict to put a
5 lot of things on the rails that presently are cracks and
6 slabs every quarter of a mile.

7 Just do a better job of transportation, generally, in
8 this country. I am afraid, Senator, if we put your amendment
9 in here they are going to say we did something for just
10 one corporation, that we did, as well justified as that
11 is.

12 Senator Curtis. I would like to say, in closing, that
13 ConRail does not travel through my area at all, but I am
14 interested in the overall transportation policy and I assume
15 that any dollars that come to them will help the general
16 situation that much more.

17 Certainly all of these roads need new equipment. However,
18 it is a matter for the Committee to decide, because I have no
19 personal interest. I did feel that it meant considerable
20 help to our general transportation policy. I am also aware
21 that the Middle West is dependent upon sort of railroad
22 running in the East. Our railroads come up to a certain
23 point, and stop.

24 I will leave it to the Committee to decide.

25 The Chairman. Senator Laxalt?

1 Senator Laxalt. I am sympathetic of the plight of the
2 transportation system. Coming from the West, as I do, the
3 observations made in the last couple of days as to the
4 desperate plight of a number of our businesses, I find it
5 difficult to reconcile in my own mind this preference for
6 ConRail.

7 If we are going to help ConRail there should be another
8 vehicle to create this preference. I do not think that a
9 preference for this company should be under this Act.

10 The Chairman. I hope the Senator will understand, I
11 am sympathetic. I would vote for something that would do a
12 lot more, but I think when we do it we should do it in a
13 broader context.

14 Senator Curtis. Very well, we can go on to something
15 else.

16 The Chairman. I am not going to push any more the
17 refundable tax credit for industry, not in this bill, because
18 I suspect that with the budget limitations we had and looking
19 at the other things we have recommended, persons like Senator
20 Kennedy who feel as I do if we had the money to do it we
21 ought to make it all refundable tax credit. We will be
22 offering an amendment on the Floor to strike out much of what
23 we did here, and have a refundable tax credit, and all of
24 the rest of it.

25 The Senators can let their consciences be their guide.

1 Maybe they want to go all the way with it.

2 If that is the case, it would help a great number of
3 companies who are getting the worst of it, who otherwise would
4 not benefit from provisions in the bill.

5 I believe that I am going to take a view that the refun-
6 dable tax credit ought to be considered with the Tax Reform
7 Bill.

8 Mr. Woodworth. We plan to consider it in that connec-
9 tion, I can assure you. I do not know what recommendations
10 will be made, but I know that it will be studied in great
11 detail.

12 The Chairman. I do not like to resist an amendment to
13 make all these tax amendments to be refundable. It seems to
14 me that that is the best and most uniform way to do it.

15 I know what budget limitations are. That being the case,
16 I think we should stand on that.

17 Senator Curtis. May I ask for one budget estimate?
18 Maybe we can consider it.

19 Senator Hansen. I have one other thing, also.

20 Senator Curtis. Theoretically, if a person has an
21 unused investment credit, he can carry forward seven years.
22 Is that right?

23 Mr. Shapiro. He can carry it back three years first.
24 If he does not use it in the carry back, he can carry forward
25 seven years.

1 Senator Curtis. If he has a \$70,000 tax credit, he
2 can carry that forward seven years. If his position remains
3 constant for seven years, he might be able to take \$10,000
4 for seven years.

5 What would it cost if a taxpayer who has an investment
6 credit coming but no tax due could each in the forward
7 years discount his carry forward credit, one-seventh of
8 it, at, say, 75 percent?

9 In other words, here is a concern that has \$70,000
10 unused that he cannot get because he has not been able to
11 make any money. Theoretically he can carry that through
12 seven years. If his situation remained constant, that would
13 be \$10,000 per year. In the first year, he would get
14 nothing, but in the second year, he could take one-seventh
15 of that and then cash it in at an arbitrary rate -- not
16 100 percent, but three-fourths.

17 What I am getting at is that companies that are in a
18 bad situation financially, but they desperately need new
19 equipment and in somebody else's industry it is going to
20 create jobs because they are going to buy this equipment,
21 but they will become more efficient, more modernized.

22 Have I made myself clear on my request?

23 Mr. Shapiro. Yes, Senator. What you are saying, for
24 the carry forward, there is a seven-year carry forward.
25 You are saying they would get nothing in the first carry

1 forward year, but in the second carry forward year they
2 could get one-seventh on a discounted basis.

3 Senator Curtis. Refundable, yes.

4 Mr. Shapiro. One-seventh.

5 What you are really saying is that they are one year
6 behind, so the first year is one-seventh?

7 Senator Curtis. I would have no objection to giving
8 one-seventh that first year. I am not suggesting a total
9 refundable thing right now because they might get in a
10 profit position in their carry forward period.

11 Mr. Shapiro. In the current year, when they have
12 these investment credits, they cannot use?

13 Senator Curtis. It does not make any difference to me
14 whether it begins in the current year or the next year, but
15 one-seventh of that at a discount.

16 I do not know how much good it would do, but it might
17 be some incentive for taxpayers whose profit condition is
18 miserable. In order to get out, they need new equipment and
19 the job producing factor of the investment credit goes to
20 other people anyway, people who produce the needed equipment.

21 Mr. Shapiro. Another way of looking at your proposal
22 would be that you are phasing it -- a refundable credit on
23 a seven-year basis, you would take one-seventh, but after
24 seven years, if they had carry overs for each of those
25 years, you might have one-seventh one year, one-seventh the

1 year before.

2 Senator Curtis. It might be classified as such. It
3 would also go on the assumption that we hope, before the
4 seven years are over, they get into a profit position.

5 Mr. Shapiro. Your proposal would have a discount
6 factor?

7 Senator Curtis. It does not apply to railroads.

8 Mr. Shapiro. We will try to get an estimate for you.

9 The Chairman. I am a little reluctant to throw this
10 out at this point, but the thought occurs to me, I have thought
11 of how you can meet some of these budgetary problems.

12 If we wanted to make this tax credit refundable
13 and be able to stand off the budget objections, we could
14 just say at the end of seven years, it becomes refundable.
15 That way somebody knows they are going to get it and they
16 could borrow money against it.

17 Mr. Woodworth. That is what we looked at, when I was
18 on the Joint Committee staff, I can remember looking at it
19 there. I do not recall that we have looked at that yet.

20 I would like to take these different options that you
21 are discussing now and analyze them in connection with our
22 tax reform proposal this fall.

23 The Chairman. You do not want to add it on here now?

24 Mr. Woodworth. Yes, sir, that is correct.

25 Senator Curtis. My only reason for bringing this up is

1 that one very valid criticism against the investment tax
2 credit is that the money-making concerns who can easily
3 buy new equipment is heavily subsidized and the concern that
4 desperately needs modernization, we are not quite as favor-
5 able to.

6 Mr. Woodworth. The firm, as you said it, Senator
7 Curtis, if the firm is successful, highly successful, there
8 is no question they can get it themselves right now. The
9 firm that is hard-up for cash but has the prospect of a
10 good future can usually obtain the benefit of this through
11 a leasing arrangement, with someone else getting the credit,
12 and that is done, to a very, very large extent. There is
13 a large amount of bank leasing set up on this basis.

14 Senator Curtis. That does not quite reach local small
15 businesses.

16 Mr. Woodworth. Even for a local small business that
17 the banks recognize have good, future prospects should
18 be able to do this. The ones that are not in that category
19 are those which are questionable, that there are questions as
20 to their future or where the assets involved does not have
21 resalable value.

22 Senator Haskell. What you are really saying is that
23 the poor devil who needs it the most does not get it.

24 Mr. Woodworth. It may also be the one that is going
25 to fail, in any case. There is one of each in that.

1 The Chairman. If you take the view, as I do, of
2 the investment tax credit, if you take that attitude, you
3 take the view that, look, this is a subsidy that we are
4 voting to help people buy new equipment and we are doing it
5 by way of the tax law rather than by way of a direct appropri-
6 ation. One good reason for doing it that way is that the
7 fellow who knows he is supposed to get it, if you do it by
8 way of a direct appropriation you might get it, and then
9 again, you might not.

10 When the time comes for the appropriations bill, we
11 have some outstanding economizer on the Senate Floor to
12 strike it out or put some stringent conditions on it. It
13 all started out great, but by the time you get through with
14 all the red tape, by the time Congress reconsiders, you have the
15 next election, you do not get it after all.

16 So if you have something of this sort in the tax law,
17 you have more of a certainty that you will get it. If you
18 want to subsidize by way of the tax law, you can use the
19 refundable tax credit approach. If that is what you want to
20 do, you have that right to do it. If you want to do it that
21 way, you can fix it up. No doubt about it; the person is
22 going to get it. You can just make it a refundable credit.

23 I think that is the coming thing. Secretary Simon
24 became convinced of it while he was here. I have no doubts
25 that Secretary Blumenthal, when he studies it, will become

1 convinced that that is the thing we should do. If you
2 think about it, the more sense it makes. If you look at it
3 this, as I do, as a subsidy, you are using the tax laws to
4 subsidize something -- let's get it out in the open and call
5 it what it is.

6 Mr. Woodworth. The problem we have is the amount of
7 revenue loss.

8 The Chairman. If you are trying to get the economy
9 going, here is some fellow. He does not know whether he is
10 going to make it or not. He is doing the best he can to make
11 his company go.

12 It is all to your advantage to have him place that
13 order for equipment, put people to work. It gets the economy
14 moving along.

15 If you want him to do that, the more you can remove the
16 uncertainty from this, the better off it is for all concerned.

17 If you say all right, when you buy the equipment you
18 have earned the right to that tax advantage and it is a
19 subsidy; we are paying it by way of the tax system, so you
20 are entitled to it, and you can have it.

21 We could, in this bill, if we wanted to, without
22 increasing your budget problems, anytime in the near future,
23 to say at the end of the seven years it becomes a refundable
24 tax credit and indicate that we do approve of the principle
25 of refundability for this investment tax credit.

1 Senator Laxalt. If staff can tell me, how extensive a
2 problem is this? How many businesses do we have in this
3 country with unused investment tax credit?

4 Mr. Shapiro. There are a large number. We understand
5 that the 2 1/2 percent credit, approximately one-third would
6 not be able to use the 2 percentage increase, the full 2
7 percent.

8 There are two sets of problems here. One is that there
9 is a 50 percent ceiling as to why the businesses cannot
10 use all their tax credit; even if you have 100 percent
11 ceiling, the nonprofitables could not get it because they
12 are not in a profitable picture.

13 There are two sets of problems, the 50 percent ceiling
14 and the nonprofitability.

15 Senator Laxalt. Under the existing law, how many
16 businesses do we have that are affected now by unused invest-
17 ment tax credit?

18 Mr. Shapiro. I think we can only quantify it in the
19 sense that there is approximately \$4 billion worth of
20 unused investment tax credit.

21 Senator Laxalt. Mainly among so-called small businesses?

22 Mr. Shapiro. It is spread out.

23 Let me make this observation. It is fair for the
24 record to point this out. Some of the reason is not because
25 all of these businesses are unprofitable; some of them have

1 taken advantage of some of the other tax preferences made
2 available, depreciation, rentals and other preferences, so
3 not all of them are nonprofitable.

4 They may show a profitable picture on their balance
5 sheets for accounting purposes, but the tax picture is not
6 profitable. We should probably have that information in
7 there, both respects, where they are not profitable because
8 of other tax advantages or not profitable for economic
9 purposes.

10 Senator Matsunaga. I raise these questions, not for
11 adding to or detracting from the bill before us, but as
12 something to consider. In the tax reform measure during
13 the fall, the thing that bothers me about the proposal of
14 refundable tax in the investment tax credit is that we would
15 appear to be rewarding the inefficient.

16 Supposing, for example, a company, knowing that they
17 are unable to make a profit, that they will be able to get
18 along. They say, let's buy new equipment, let the government
19 pay for it. So they are inefficient even to the extent of
20 raising the salaries of corporate officers. They would
21 not make any profit, so the government would refund the
22 investment tax.

23 An efficient company would pay for its own equipment.

24 The Chairman. If that is all you get if you go into
25 business and you get that investment tax credit and you lose

1 your money in all other respects, you have still lost
2 your money.

3 Senator Matsunaga. Nine years at 12 percent, whereas
4 under Senator Curtis' proposal you have one-seventh for
5 seven years.

6 The Chairman. He is only getting back 12 percent of it.
7 He loses the other 88 percent, plus all the other money he
8 put into it.

9 Senator Matsunaga. In seven years you have 84 percent,
10 one-seventh of it.

11 The Chairman. I do not think I will press the matter
12 right now. It is something that I am going to let rest for
13 the time being.

14 Does anybody else have an amendment?

15 Senator Packwood. Could I ask a question? I mentioned
16 yesterday the problem of a company in Oregon that leases
17 railway cars, makes them and leases them, and they are not
18 making money. Do they get this investment tax credit?

19 We agreed yesterday that they would.

20 The Chairman. We have not voted to make the investment
21 tax credit refundable. They get the same thing they are
22 always getting.

23 Senator Hansen. The Senators will recall last year
24 during the final hour of the Senate-House Conference on
25 Title XX of H.R. 6860, the tax bill, we deleted all of the

1 energy conservation provisions. At that time, as I recall,
2 Chairman Ulman of the House Ways and Means Committee said
3 that he would be happy to reconsider those provisions if
4 they were submitted on the first tax bill that came along.

5 It would seem to me, then, that with the assurance that
6 he had given us, this would be an appropriate time to discuss
7 those.

8 I would like to bring them up because I think that
9 most everyone agrees that as we put together an energy pro-
10 gram, it is at least as important to consider conservation
11 efforts as it is to think about ways to increase domestic
12 production.

13 While I am in favor of both of these, I think we would
14 be extremely derelict not to consider the various initiatives
15 that we could take by simply putting back into the bill
16 Title XX which was struck last year. Without burdening the
17 Senators with all the detail, if Mike could pass around
18 a single page hand-out -- I will hit the main points.

19 That bill, Title XX last year, contained a residential
20 insulation provision that would provide that 30 percent of
21 the first \$750 up to a maximum credit of \$220 would apply
22 on residential insulation. Residential solar or geo-
23 thermal credit, 25 percent of the first \$1,000 plus 25
24 percent of the next \$6,400 to a maximum credit of \$2,000.

25 Residential heat pump credit, a maximum of \$1,000.

1 For business solar and geothermal equipment, it is
2 10 percent and 12 percent on certain energy equipment.

3 There are some further less important provisions in
4 Title XX. What we did last year, I think wisely so, was
5 search out the points that could be most effective in
6 helping us reduce the waste of energy that we all know takes
7 place.

8 This Title package, Treasury tells me, would cost about
9 \$500 million. I submit, Mr. Chairman, that it would be a
10 very wise investment for the Congress to make in encouraging
11 those practices which would strike a double blow at our
12 energy problem by attaching the waste of energy and this
13 does not provide for any refundable credit. What it does
14 do is simply provide a tax credit, so you have to be a
15 taxpayer in order to get it.

16 I think it has a lot of merit. I would like to submit
17 it.

18 The Chairman. What is the Treasury position?

19 Mr. Woodworth. The Administration is coming down with
20 an energy proposal which will include -- I know from my
21 own work that it will include significant tax proposals in
22 connection with this. That is scheduled to be presented
23 on the 20th of April. We would be very strongly opposed to
24 doing it piecemeal this way. We think that the way to do
25 it is to have a comprehensive energy proposal and I can assure

1 you that one will be presented. It will contain significant
2 tax proposals, by the 20th of April.

3 We think it would be very unfortunate, and we would
4 very strongly oppose, including any partial program in this
5 bill at this time.

6 Senator Hansen. Mr. Chairman, if I could make a further
7 observation. I fully respect and greatly appreciate the
8 observations made by Dr. Woodworth. I would just point
9 out, though, that back in 1971 we started putting together
10 at the initiative of the Democratic majority in the Congress,
11 an energy policy.

12 We do not have one yet.

13 Secretary Schlesinger is now calling for comments on
14 that energy policy and I submit that it seems not unreasonable
15 to me, and I do not question it a bit, that the Administration
16 will come forward with a proposal. But by the time that
17 runs the Congressional gamut, it may not be this year, it
18 may not be next year, when one is adopted. This cuts across
19 a lot of interests.

20 The Chairman of this most important Committee, in my
21 mind, has a very real interest in that energy package. There
22 are going to be some proposals that the Department of
23 Energy have all kinds of authority including the authority
24 to grant leases, to review those leases, to ~~extinguish them,~~
25 to determine how much oil or gas should be produced on a

1 lease, to penalize an operator if he does not come up with
2 a performance that measures up to imposed government
3 standards. All of the proprietary information we have on
4 oil wells immediately goes into the public domain sector.
5 I can anticipate that is not going to go through in
6 five minutes.

7 I say to my good friend, I would hope that we did not
8 miss a chance now to take a step that was approved by the
9 Senate and has the support of the Chairman of the House
10 Ways and Means Committees to take some action that I think
11 has the overwhelming support of a big majority of Americans.

12 Mr. Woodworth. Senator Hansen, the point I would like
13 to make with you on that, the Administration may send down
14 a comprehensive bill -- I believe that they will.

15 It will involve many different issues, many of which are
16 not tax issues.

17 As you know, the way those matters are handled before
18 the Congress, those provisions that relate to tax are split
19 off, in practice, for Committee consideration and handled
20 by the tax Committee.

21 Approval or disapproval of non-tax-related matters need
22 not wait. In other words, tax matters need not wait for
23 disapproval or approval of non-tax-related matters.

24 The way Congress considers them, they are separate.

25 I think that there is no question about the fact that

1 there will be the tax measures in an energy package will be
2 before the Congress, and I do not see any way that it will
3 be considered but as a separate consideration by the
4 Congress.

5 So the matters that you may be raising questions about
6 are not necessarily going to impede actions on the tax
7 revisions.

8 Senator Hansen. I would hope that they would not.
9 Mr. Chairman, if I could, I would like to have a roll call
10 vote on this issue. If it does nothing more than to put
11 the Administration and Congress on notice that we are
12 concerned, that we think we have some valuable alternatives
13 that have been approved by the Senate in the past and just
14 put it on record.

15 Senator Packwood. If I could ask a question, I do not
16 have a copy of the proposal. Is this still financed by the
17 half-cent gasoline tax increase?

18 Senator Hansen. There are two ways that it could be
19 financed. One could be by the half-cent tax increase our
20 Chairman proposed, which I think has great merit. Another
21 way would be to remove the deduction for gasoline, that
22 credit that is now available to people.

23 We were talking about doing it that way. Those are at
24 least two ways that it could be financed. We are talking
25 about a half a billion dollars. I think the longterm energy

1 savings is of great significance.

2 Senator Packwood. I like the plan. Are you putting
3 a tax with it, or as a \$500 million addition to this bill?

4 Senator Hansen. What is the situation? Are we being
5 called upon, Mr. Chairman, as these different amendments
6 are being offered, to suggest was in which they should be
7 financed?

8 I was not aware that we were doing that.

9 The Chairman. You can do anything you want.

10 Senator Packwood. I just wanted to know if it was.

11 Senator Hansen. Since we have not been doing that,
12 Senator Packwood, I would say let us not do it here, but if
13 anyone raises a question, either of these two methods of
14 financing it would be acceptable.

15 The Chairman. I had better state my position on this.
16 I am for it, for everything in the amendment. I voted for
17 it. I am for it. I am disappointed we could not get the
18 House to take this into Conference last time.

19 This way, when we tried to pass the bill back with a
20 tax to pay for it, we ran into obstacles and could not do
21 it. But I really think we should all hope that the President
22 will make recommendations that will be even a more compre-
23 hensive program than this.

24 I would think that part of it is recommending a
25 tax to pay for all of this, is that not right?

1 Mr. Woodworth. I assure you, there will be tax measures
2 in it. The exact nature of the tax measures I am not sure
3 of yet.

4 The Chairman. It seems to me that we are going to have
5 to ask for a tax to pay for this energy. We ought to put
6 a tax on this energy. People are wasting a lot of it. If
7 we do not tax anything but the waste, we ought to tax some-
8 thing to help pay for this, because I think we need these
9 good things that people are going to like to sweeten the
10 tax that will have to go along with the energy package, to
11 get some good points as well as some tough points to face
12 up to.

13 I am afraid we will lose the balance we need for a
14 real, major energy bill. At this time, I want the Senator
15 to know I am for everything in his amendment. I will help
16 him enact all of this at a future point.

17 I will also help him to do some other things that
18 ought to be done in the energy area. The Senator from
19 Wyoming very strongly supports it. I just could not support
20 it at this moment, but when we have the Administration's
21 recommendations, I would like to help do all of this.

22 Senator Hansen. Mr. Chairman, I might observe, for
23 the benefit of those new members who may not be aware, that
24 this measure passed the Senate last year by a vote of
25 73 to 2. It passed the House by a vote of 291 to 130.

1 If I cannot have the support of my Chairman, I appreciate
2 his qualifying the reasons for his opposition as he did.

3 I would just say, when we started talking about an energy
4 policy in 1971, this happens to be one of the things that
5 was not vetoed by a Republican President; it never got down
6 to him.

7 We talked for five years or six years about the advan-
8 tages of an energy policy. Everyone agreed that they were
9 very clear and distinct and there was good reason to enact
10 them. But we did not get any enacted. I hope we will not
11 repeat that performance again. It would seem to me ^{me}
12 helpful, that while I hope that the President would do this,
13 I say, let's help the President do it. One of the ways to
14 help him is to go on record to say we think these are good
15 measures, nonpartisan measures. Most of them came from
16 the Democratic members, and I find great merit in them.

17 Senator Curtis. If you would yield for a question?

18 If the Committee chooses to adopt your amendment, are
19 you amenable to having the Committee, if they so choose,
20 work out in this bill a financing feature of it?

21 Senator Hansen. I am very amenable. As being one of
22 the Minority, I am very flexible.

23 Senator Curtis. The reason I asked the question, it
24 would make it a clear-cut issue, whether we want to do this.
25 If the vote prevails, then we can talk about how it can be

1 paid for.

2 Senator Moynihan. May I simply say on procedural
3 matters I want to defer to the Chair, so I vote as I do,
4 but I think Senator Hansen has made a very strong case and
5 I support the idea.

6 Senator Matsunaga. Senator Hansen's case is even stronger
7 because this was a Democratic idea to begin with, but
8 procedurally I will have to go with the Chairman.

9 The Chairman. Call the roll.

10 Mr. Stern. Mr. Talmadge?

11 The Chairman. No.

12 Mr. Stern. Mr. Ribicoff?

13 (No response)

14 Mr. Stern. Mr. Byrd?

15 Senator Byrd. Aye.

16 Mr. Stern. Mr. Nelson?

17 The Chairman. No.

18 Mr. Stern. Mr. Gravel?

19 (No response)

20 Mr. Stern. Mr. Bentsen?

21 (No response)

22 Mr. Stern. Mr. Hathaway?

23 The Chairman. No.

24 Mr. Stern. Mr. Haskell?

25 The Chairman. No.

1 Mr. Stern. Mr. Matsunaga?

2 Senator Matsunaga. No.

3 Mr. Stern. Mr. Moynihan?

4 Senator Moynihan. No.

5 Mr. Stern. Mr. Curtis?

6 Senator Curtis. Aye.

7 Mr. Stern. Mr. Hansen?

8 Senator Hansen. Aye.

9 Mr. Stern. Mr. Dole?

10 Senator Dole. Aye.

11 Mr. Stern. Mr. Packwood?

12 Senator Packwood. Aye.

13 Mr. Stern. Mr. Roth?

14 Senator Roth. Aye.

15 Mr. Stern. Mr. Laxalt?

16 Senator Laxalt. Aye.

17 Mr. Stern. Mr. Danforth?

18 Senator Danforth. Aye.

19 Mr. Stern. Mr. Chairman?

20 The Chairman. No.

21 Senator Hansen. Let me say that I appreciate the
22 observations made by my distinguished and cherished colleagues
23 on the other side. I understand your sentiments as well.

24 The Chairman. The vote is eight yeas and seven nays.

25 Mr. Ribicoff votes no, so it is eight to eight.

00100000604

1 Senator Curtis. I move the Hansen amendment that we
2 just voted on, plus the feature of the half-cent per gallon
3 gasoline tax to pay for it. I ask for a roll call.

4 The Chairman. We will have a roll call.

5 Mr. Stern. Mr. Talmadge?

6 The Chairman. No.

7 Mr. Stern. Mr. Ribicoff?

8 (No response)

9 Mr. Stern. Mr. Byrd?

10 (No response)

11 Mr. Stern. Mr. Nelson?

12 The Chairman. No.

13 Mr. Stern. Mr. Gravel?

14 (No response)

15 Mr. Stern. Mr. Bentsen?

16 (No response)

17 Mr. Stern. Mr. Hathaway?

18 The Chairman. No.

19 Mr. Stern. Mr. Haskell?

20 The Chairman. No.

21 Mr. Stern. Mr. Matsunaga?

22 Senator Matsunaga. No.

23 Mr. Stern. Mr. Moynihan?

24 Senator Moynihan. No.

25 Mr. Stern. Mr. Curtis?

1 Senator Curtis. Aye.

2 Mr. Stern. Mr. Hansen?

3 Senator Hansen. Aye.

4 Mr. Stern. Mr. Dole?

5 Senator Dole. Aye.

6 Mr. Stern. Mr. Packwood?

7 Senator Packwood. Aye.

8 Mr. Stern. Mr. Roth?

9 Senator Roth. Aye.

10 Mr. Stern. Mr. Laxalt?

11 Senator Laxalt. Present.

12 Mr. Stern. Mr. Danforth?

13 Senator Danforth. Aye.

14 Mr. Stern. Mr. Chairman?

15 The Chairman. No.

16 Senator Ribicoff wants to be voted no.

17 Six yeas, eight nays.

18 Senator Dole. Mr. Chairman?

19 The Chairman. Mr. Dole?

20 Senator Dole. I have a technical amendment. Staff is
21 familiar with it; in fact, there are two amendments.

22 The first amendment deals with the problem in Wichita,
23 Kansas and nine other communities in the country where they
24 are considering building city-owned plants to convert coal
25 into synthetic gas. The amendment would make a modification

1 to the Code to simplify the process of using tax-exempt
2 municipal bonds to finance coal-gas plants. It would put
3 the coal gassification plants on equal footing with other
4 important public projects now recognized in the Code, such
5 as airports, water and sewage facilities and pollution control
6 facilities. Everyone understands the necessity now of finding
7 some alternative sources in the energy field.

8 The revenue impact is minimal. If you have ten plants
9 in ten cities, it would be \$10 million. It is strictly
10 limited to coal gassification plants, and it is tightly
11 drawn to be sure the plants can never be used for private
12 gain.

13 That, in essence, is the modification that I seek, It is
14 of some urgency in the city of Wichita, and, I assume other
15 areas may be considering this same proposition.

16 The Chairman. What is the revenue estimate and the
17 Treasury position on that?

18 Senator Dole. Fiscal '78 is \$10 million.

19 Mr. Shapiro. \$10 million in '78, \$30 million in '79,
20 \$50 million in '80, \$80 million in '81, and \$110 million in
21 '82.

22 Senator Dole. There is also some feedback.

23 Mr. Shapiro. That is the revenue effect, without
24 feedback.

25 Mr. Woodworth. Again, we consider this to be a part of

1 the energy program and we would like to urge the Committee
2 to postpone consideration of this amendment for the same
3 reason that you agreed to postpone consideration of the
4 other, until the April 20th message with respect to the
5 energy proposal.

6 Senator Dole. I was afraid that it might get lost in
7 the energy package.

8 Mr. Woodworth. It would be clearly germane to that,
9 Whether it is in the package or not, there can be no problem
10 about bringing it up at that time.

11 The Chairman. If you could hold off on that at this
12 time, I would be happy to help you with it at the time the
13 President makes his recommendation. I would appreciate it
14 very much if you would.

15 Senator Dole. Fine.

16 I think it does have merit and, based on the assurances
17 that I have -- three nods, maybe one vote --

18 Senator Hansen. Before you do that, could I say a word
19 or two, Senator Dole? I might observe that a couple of
20 years ago there were schools closed down in the state of
21 Oklahoma despite the fact that that state is a major gas
22 exporting state, in order to take care of the critically
23 cold numbers of people up around the Great Lakes area
24 where some of the interstate pipelines were shipping gas to.

25 This is a small effort, I grant that, but it certainly

1 has to be an effort, clearly, in the right direction, there
2 can be no doubt at all about that.

3 If we want to talk about energy costs and the impact
4 that this would have upon Treasury estimates, I would hope
5 that Mr. Shapiro and Dr. Woodworth might factor in a little
6 bit some of the costs that occurred in Ohio and other parts
7 of the Northeast this year when factories were shut down
8 and people were thrown out of work because there was not
9 any gas to run plants.

10 I think that is the other side of the coin that ought
11 not to be overlooked, as towns in Kansas, and other areas
12 as well, would seek to have the opportunity to do something
13 about firming up alternative sources of fuel for natural
14 gas.

15 Senator Dole. Based on that, I will withdraw the amend-
16 ment.

17 I would like to raise another amendment, with reference
18 to rebates.

19 I am firmly opposed to rebates, but it would appear
20 that there are some identifiable groups that should receive
21 the rebate. I have in mind two specific groups. The House
22 added something where they could be identified: VA pensions
23 and those receiving black lung benefits.

24 Mr. Woodworth. Could I say on that point, we hoped
25 you could consider some technical amendments in that area to

1 help us get rid of some problems with respect to the
2 veterans payments.

3 Senator Dole. They are now in the House bill.

4 I would like to discuss two other categories: Civil
5 Service retirees who are now recovering their tax-free con-
6 tributions; that is about 70,000 persons who for one or
7 two or three years are recovering their tax-free contribu-
8 tions from their retirement system, therefore not taxpayers.
9 Then there are others, 200,000 Civil Service retirees whose
10 income is under the minimum taxable income.

11 As I understand one reason, the cost is about \$13.5
12 million, estimated cost. They can be identified.

13 If we are going to have a rebate, it seems to me that
14 they are low income and they should have the benefit.

15 Mr. Shapiro. This matter did come up before the
16 House. Let me give you the benefit of a consideration of
17 it.

18 There was concern there that there were administrative
19 problems. Many of those people would presently be eligible
20 to the \$50 rebate because they would be paying some
21 taxes.

22 Clearly, their retirement immunity would not be taxable.
23 There were administrative problems in that respect, because
24 that material information was not on the master file because
25 the Internal Revenue paid a great deal of additional cost to

1 find it.

2 When an analysis was made, it was determined that those
3 people do have some other income, would be filing the tax
4 return and would be eligible for the \$50 rebate in their
5 own right. There are some clearly who would only be getting
6 Civil Service retirement without any income who would not
7 get it.

8 When the House considered the matter, they believed that
9 the administrative costs and the problems involved were not
10 appropriate to extend it to that population, that category,
11 and did not include it in the bill.

12 Senator Dole. Are the administrative costs any greater
13 in that area than in some of the other categories which were
14 included?

15 Mr. Woodworth. Relative to the number of people not
16 covered, the cost would be very high here. The Civil Service
17 retiree ordinarily recovers his contribution in about eighteen
18 months. There are likely to be individuals who are on the
19 tax rolls, likely to be a very small proportion of the
20 total, who really are not on the tax rolls for some period
21 of time.

22 It is difficult to sort these people out. Administra-
23 tively, I assume you do not want them to get two \$50
24 rebates. It does present administrative problems in that
25 regard.

1 Also, with respect to those who are below the taxable
2 level, we do not know how to pick them out and identify
3 them.

4 Also, many of those will, because of other employment,
5 be eligible for Social Security. We would have no objections
6 if there were a way to deal with these administratively.
7 and sort out those cases where they are already receiving
8 a rebate. We do not know how to do it, to be honest with
9 you, and we have not heard any way suggested that sounds to
10 us to be practical in dealing with it.

11 Senator Dole. I think you probably raise the point, if
12 they cannot be identified they cannot get the rebate. I
13 assume, based on that, you are opposed to the amendment?

14 Mr. Woodworth. That is correct.

15 Senator Dole. Is there some study underway to see if
16 they can be identified, or has it already been decided that
17 there is no way to identify this group?

18 You are not opposing it because of the cost?

19 Mr. Woodworth. That is correct. Not because of the
20 cost at all. It is because of the difficulty of identifying
21 them, also the difficulty in being sure that they have not
22 already received the rebate from another source.

23 Many of these people may have some other income that
24 puts them in the taxable category, in which case they would
25 have gotten a rebate in that regard or they may, because of

1 other earnings, be covered by Social Security, in which case
2 they could have gotten it in that way. We just do not know.

3 Senator Dole. That problem does not exist in the other
4 six categories?

5 Mr. Woodworth. It does exist in the case of some of
6 the veterans' pensions. We would like to go through some
7 of the suggestions that the staff has developed in the
8 pamphlet to reduce our problems in that regard.

9 There are very serious administrative problems in the
10 veterans area. We are not really asking that they be
11 removed, but rather that they be cut down so that those
12 cases where it is likely that the veterans are covered by
13 another program, that they not be included under the
14 veterans portion of the program.

15 Senator Dole. I think based on that explanation, I will
16 withhold this. Maybe if we can devise some way where they
17 could be identified, I will bring it back. There is no
18 objection, if we could do that?

19 Mr. Woodworth. If they can be sorted out to be sure
20 that they are not covered under the programs, we have no
21 objection.

22 The Chairman. Let me raise this question.

23 Have we done everything that can be done to avoid the
24 double-dip people getting more than one check for \$50?

25 Mr. Shapiro. Senator Long, we have a series of

1 modifications with respect to the cash rebate that we would
2 like to present to you when appropriate. If you would like
3 us to do it now --

4 The Chairman. Yes.

5 Mr. Shapiro. There are several items. I will go to
6 the double payments. I will just go down.

7 We would like to suggest that you change the cutoff
8 date for the special payments of Social Security, SSI,
9 Railroad Retirement and other special \$50 payments as of
10 April 30th, rather than December 31, as in the House bill.

11 The reason for that is that it would provide a great
12 deal of administrative convenience with respect to matching
13 these tapes in order to avoid the double payments. If we
14 use the April month, anybody who would be a beneficiary
15 and entitled to their beneficiary check in April, they
16 would be entitled to the special \$50 payment. You would
17 not have to keep the rolls open until December because of
18 the greater administrative problem.

19 Most of these people, in any event, would be those
20 who went on Social Security or some of these programs late
21 in the year and therefore would have been paying some
22 taxes in some of the other programs and would be getting a
23 tax payment in any event.

24 We think for administrative convenience, making the
25 cut-off April 30, 1977 would be much more appropriate in

1 your bill.

2 Mr. Woodworth. We would like to urge that you would
3 adopt that. It would ease the administrative problems
4 considerably.

5 The Chairman. If there is no objection, we will do
6 it.

7 What is the next one?

8 Mr. Shapiro. We have found out that the 1975 special
9 payment under Social Security is still being paid by the
10 Social Security Administration to some people. The way that
11 is occurring, they were not being paid for those abroad.
12 As some of these Social Security recipients have come back
13 to the United States, they are issuing them the \$50 rebate
14 tax as late as now.

15 We do not think that was the intent of the Congress
16 under this 1975 rebate. We feel, if we just put a cut-off
17 as of the date of enactment, no more 1975 rebates would be
18 paid, that would be appropriate and consistent with what
19 the Congress intended in 1975.

20 Mr. Woodworth. We would support that.

21 The Chairman. Is there objection?

22 Without objection, it is agreed.

23 Mr. Shapiro. Another change from the House bill, the
24 House bill made the eligibility for the welfare AFDC payment
25 as of March. We think it would be appropriate as of April.

1 Therefore, you would have a consistent program for
2 both AFDC and the Social Security payment.

3 The Chairman. Without objection, we will agree with
4 that.

5 Mr. Shapiro. With respect to some of the points with
6 the double payments and the veterans group you are referring
7 to, there are a number of problems with respect to the
8 double payment aspect.

9 As you know, the House tried to eliminate double
10 payments to the fullest extent possible. In the case of
11 the veterans, the rule just said that there will be no double
12 payments.

13 The problem has arisen of the 5.4 million veterans
14 beneficiaries, only 1.6 can be identified by the VA records
15 as having appropriate Social Security numbers where they
16 can identify whether there would be double payments. These
17 are the ones that would get Social Security. Therefore, they
18 can identify them.

19 However, there is a significant amount of problems
20 because of the data that the VA has. They can not identify
21 whether or not they are double payments in the other cases,
22 In order to try to alleviate some of the administrative
23 burden we thought we would suggest to you two rules, that
24 in some respect are arbitrary but we think cover the types
25 of cases that are consistent with the double payment rule.

1 Let me go through this.

2 The first one is a need-related program. This affects
3 approximately 5,000 beneficiaries that will be getting VA
4 payments. We think they would have incomes which would be
5 above the minimum Social Security levels, in which case, they
6 are probably receiving Social Security or some other type
7 of income.

8 It could be earnings or some other need-related program,
9 in which case they would be getting a refund, a tax refund
10 or a refund because of Social Security and the fact that VA
11 does not have records and they cannot be identified, if you
12 would eliminate that whole category on the need-related
13 programs, we think we could eliminate much of the double
14 payment in this category.

15 Let me be clear to say I cannot give assurance that
16 every single individual in this category would be a double
17 payment. We just think that a great majority, possibly almost
18 all of them, would be receiving a payment in another
19 category. What you would be doing is eliminating those
20 double payments for those individuals.

21 Mr. Woodworth. We have gone through this with the staff
22 and we believe that this is a desirable amendment, to cut
23 out double-dipping.

24 The Chairman. Without objection, agreed to.

25 Mr. Shapiro. Second category for the VA--

1 Senator Hansen. Just before that is passed over, on
2 the Veterans' Affairs Committee, I do not argue with what
3 the thrust of your concern is. I certainly hope that we
4 examine that very carefully in order to assure that a
5 veteran who is disabled and qualifies otherwise is not
6 penalized simply because he is unfortunate enough to be able
7 to qualify for Social Security and to have other veterans
8 benefits as well.

9 Mr. Shapiro. In that case, he would get the \$50 special
10 payment because of qualifying under Social Security. This
11 is a means to try to prevent someone from getting two
12 payments, one from Social Security and the second from VA,
13 with this as a means to do so.

14 In an event, there is a problem by pointing out that
15 if it is not in the House bill, if it is a special problem --
16 we have been trying to work with the VA on this. We will
17 hear about it.

18 Senator Dole. Is there any way that you can get more
19 than two?

20 Mr. Shapiro. There are ways that people could
21 legitimately get two payments under both the House and the
22 Senate; unless they do something that is illegal, every
23 difficult to get three.

24 Mr. Stern. I should point out, you get one payment
25 for Aid to Dependent Children. If you are under two names,

1 you would get more.

2 Mr. Shapiro. There are legitimate two beneficiaries.
3 To give you an example of one that we do not think that
4 we can handle is the case where an elderly person is on
5 Social Security and also in the household of their children.
6 They would be taken as exemptions so they would get a \$50
7 rebate as a Social Security recipient and because they are
8 an exemption in the household, they would get one there.
9 There are not sufficient records to avoid that double
10 payment.

11 Senator Dole. Could you put a note in the check, if
12 you get two of these, send one back?

13 Mr. Shapiro. Those suggestions have been explored
14 because of the problems involved. We find it difficult to
15 suggest that.

16 The second category we have is a number of the VA
17 recipients are disabled. The feeling is that some of them
18 clearly would not get additional income, therefore they should
19 not be entitled to the \$50 payment. There are some that
20 are disabled, that are slightly disabled, and therefore they
21 do work in other areas and they do have other income and
22 therefore would be entitled to a tax refund of \$50 because
23 they do have earnings that made them eligible for a \$50
24 tax refund.

25 We think if you want to have a cut-off point, you could

1 say that all the VA beneficiaries who are under 50 percent
2 disabled, 50 percent or less, you are probably making an
3 assumption that these people are not that disabled, are
4 working and making other income, and therefore other earnings,
5 and they would be eligible for a tax refund.

6 The presumption is that those above that level, they
7 could be so permanently disabled that they would not be
8 earning other income and not working and this would be their
9 only refund. However, if they are less than 50 percent
10 disabled the presumption would be that they are capable of
11 working and presumably they are working and therefore would
12 be eligible for a \$50 refund.

13 If you wanted to avoid a double payment for these
14 individuals, which records are not available, if you did
15 not eliminate this category, all of these people that
16 are disabled and receiving a \$50 check here, to the extent
17 they do work, they would be receiving a \$50 tax refund.

18 If you want to eliminate that category of 50 percent
19 or less, presumably you could avoid the double payment in
20 those categories.

21 Senator Hansen. Mr. Chairman, let me say again that I
22 have read a lot of letters and responded to a considerable
23 number where it seems to me that equity and fairness just
24 has to come on the side of the veteran. When we have a
25 cut-off that is arbitrarily imposed -- I have had letters

1 from people who maybe have lost one leg and have another
2 problem along with it, the sight of an eye. It can be a
3 pretty doggoned callous application of percentages when
4 you say in my mind that you are going to chop them off
5 at 50 percent.

6 I just hope that we do not take any action here that
7 is going to prejudice what I think are all considerations
8 of compassion and fairness and equity that I think these
9 people deserve.

10 I would just make that observation and hope we keep
11 it in mind when we start saying if it is under 50 percent,
12 you chop them off. I have had some pretty poignant letters,
13 believe me, that tore me up.

14 Mr. Stern. The problem is that the Veterans Administra-
15 tion has no income information at all on people who get
16 disability compensation. This is an attempt to say that
17 people who have a 50 percent or less disability in fact are
18 typically working and they will get the \$50, but they will
19 get it through the tax system. They just would not get two
20 p ayments.

21 Senator Hansen. I just do not understand. I have to
22 say that.

23 Senator Matsunaga. If the Senator would yield, how
24 much would be involved by setting 50 percent? How much would
25 be saved?

1 Mr. Shapiro. You are eliminating 1.9 million of the
2 VA beneficiaries.

3 Senator Matsunaga. About \$850,000? I think we should
4 decide in favor of the veterans.

5 Mr. Woodworth. These are the double payments.

6 Mr. Shapiro. That is approximately \$95 million.
7 Assuming that cut-off, you would save that amount of money
8 because most of those, the presumption is that almost all
9 of those, would be getting their tax refund.

10 Let me observe the problem here is that the VA does
11 not have adequate records. If they had the records, we
12 would know.

13 Sometimes, what has happened in the past -- when the
14 House bill does not provide for this and you provide for
15 it, you are putting this as a cut-off, if you would adopt
16 a provision like this between now or just before it gets
17 to Conference, this provision is made known. We could discuss
18 it with them and decide whether it is appropriate or not.

19 Senator Matsunaga. I wonder if we should limit it to
20 40 percent?

21 Mr. Shapiro. That would reduce that 1.9 to 1.8, a
22 little over 100,000 people between the 40 percent and 50
23 percent levels.

24 Senator Matsunaga. If we are going to set any percentage,
25 I would rather give the benefit of the 10 percent there.

1 There are quite a few 50 percent disabled who do not
2 work, I know from my own personal experience.

3 Mr. Shapiro. From a revenue standpoint, it may be
4 significant. It may be appropriate to do that, reduce
5 the 1.9 million beneficiaries to 1.8.

6 The Chairman. Without objection, we will agree to it.

7 Senator Curtis. What you are proposing here, can that
8 be drawn so that it deals with nothing as far except
9 double dipping?

10 Mr. Shapiro. That was the intent.

11 Senator Curtis. I know, but can it be drawn that there
12 would be no veteran because of that who does not get a
13 check?

14 Mr. Shapiro. You cannot. The House tried to do that.
15 The House said there will not be double payments. That
16 would presumably apply. If the House provision could be
17 administered, you would not need any of these amendments.

18 After the House passed the bill, we found out that
19 VA did not have the records that were necessary in order
20 to do just that, to say no double payments. Therefore, to
21 prevent double payments, these are a series of presumptions
22 that are being presented to you. The staff has analyzed
23 them and believes these are the categories of people who
24 would be double dippers that would get a payment, both from
25 the tax refund and the VA and I think what Senator Matsunaga.

1 is proposing on the 40 percent level, you are probably insur-
2 ing that those below that level are probably not disabled
3 to the extent that they would have other earnings.

4 Senator Curtis. Where will these checks be mailed
5 from, Washington?

6 Mr. Shapiro. Yes.

7 Senator Curtis. Will they all bear the same date?

8 Mr. Shapiro. No.

9 Senator Curtis. I would think that printed right on
10 all these checks, if you identify similar checks, that
11 there was a penalty for cashing more than one, you might
12 save a lot of pages in the law books.

13 Mr. Shapiro. A number of the proposals you and other
14 Senators have suggested, sending out forms putting messages
15 on the check, were considered. The major concern there
16 is not only the administrative concern but a penalty of
17 making somebody taking it and some of them would take it.
18 There would be a problem of testing the honesty of people.

19 We feel it is probably appropriate not to have something
20 like that for the few cases that may get the double payments,
21 in any event. We are trying to provide presumptions to
22 avoid the double payments without having to go to these
23 types of measures that we are very concerned about.

24 Senator Dole. What about military retirement pay.
25 Is that lumped into VA pensions? There are a number of

1 people who leave the service, not under a pension, but
2 under retirement.

3 Mr. Shapiro. This only applies to the pensions on
4 disability. It does not apply to any coming from DOD.

5 Senator Dole. They are not eligible?

6 Mr. Shapiro. They are eligible to the \$50 to the
7 extent they have tax refunds; special payments with respect
8 to disability or pensions from the VA,

9 Senator Dole. Why would they not be included? They
10 are an identifiable group. There are a lot of enlisted
11 men who may have chosen that route.

12 Mr. Shapiro. The reason why it was not done in the
13 House side, the DOD payments generally are partially taxable.
14 The VA payments are all tax exempt.

15 Therefore, to the extent the DOD payments are taxable,
16 that, coupled with other income would make a particular
17 recipient eligible for the tax refund.

18 Senator Dole. If you have retired on disability it
19 is not taxable, military retired pay?

20 Mr. Woodworth. It depends on the percentage of
21 disability.

22 Senator Dole. It seems to me you are omitting a class
23 where they have almost the same benefits and the same problems
24 but would not receive the rebate.

25 Mr. Shapiro. The way I understand how the DOD system

1 works, you get your retirement based on your service. To
2 the extent you have disability, your service is subject to
3 tax, your disability is excluded. Generally there is not
4 a 100 percent exclusion under DOD. Some portion of it is
5 generally taxable.

6 In the cases where there is a 100 percent disability,
7 generally the VA case, as I understand it.

8 Mr. Woodworth. I understand the people you are refer-
9 ring to also qualify for Social Security, therefore, they
10 would be covered under those payments.

11 Senator Dole. I take my own case as an example. I was
12 not in the Army very long, but I was in the wrong place. I
13 get disability retirement, nontaxable. I assume there are
14 many enlisted men -- the benefits are the same.

15 Mr. Shapiro. Is yours from DOD or VA?

16 Senator Dole. DOD. I am not concerned about it,
17 but because there were many who took DOD pensions and many
18 who took retirement pay -- maybe we could check that.

19 Mr. Shapiro. We will look at that.

20 A question that was not considered in the House that
21 you may want to consider, as you know there is a phase-out
22 for the income tax refunds. Above \$30,000, they get no
23 refund. Beginning at \$25,000, it is phased out.

24 For example, someone at \$25,500, they get one-half a
25 refund. The question has been raised subsequent to the House

1 bill as to whether or not it would be appropriate to have a
2 phase-out for Social Security recipients. The data is
3 available, there are some Social Security recipients, for
4 example, who do have outside income, not earnings, income,
5 rental income. That may be significant.

6 If they are going to phase out, they may not be eligible
7 for a refund.

8 That is \$25 million. It could be done, but it was not
9 done in the House bill.

10 All of this would be when the Social Security tape
11 comes from the Internal Revenue Service and the Internal
12 Revenue Service runs that tape through. That has to be
13 computed. Any Social Security beneficiaries that have
14 income over \$30,000 would not get their Social Security
15 income. They would already be phased out of the tax refund;
16 they would not get that in any event.

17 For two reasons: one, the phase-out; second, because
18 they are on Social Security. If you want to phase out the
19 Social Security payments to the same extent of the income,
20 you could provide for that as well without significant
21 administrative problems.

22 The Chairman. All in favor, say aye.

23 (A chorus of ayes.)

24 The Chairman. Opposed, no?

25 (No response)

1 The Chairman. The ayes have it.

2 Mr. Shapiro. Let me bring up another point.

3 Some of the beneficiaries included in the House bill,
4 for example, you have the black lung, the state SSI, and in
5 addition to expanding those areas, there are certain
6 administrative problems with respect to the double payment.

7 These other items are so small, the question is, do you
8 want to expand those categories. If you do, do you want to
9 allow double payments, because the problems in order to
10 determine double payments are so significant. What I am
11 talking about, double payments, AFDC -- the AFDC program is
12 a state program. In order for them to determine the double
13 payments with respect to black lung, VA or railroad retire-
14 ment, it is quite unlikely as to whether AFDC benefits are
15 in these other programs. In order for the states who are
16 going to be paying out these AFDC payments to determine
17 that, it is going to be a tremendous amount of administra-
18 tive work to isolate those very few cases -- we think they
19 would be very few.

20 Maybe in order to expedite this program, if you wanted
21 to expand it to these other categories, black lung, for
22 example, that generally you may want to prevent double
23 payments with respect to AFDC and these other payments.

24 Presently, the House bill does not eliminate double
25 payments between AFDC and tax refunds for that very same

1 reason -- the administrative problems. The way the bill is
2 drafted in the House, they require the elimination of double
3 payments between AFDC and these other programs. We think
4 we probably will not have the double payment problem with
5 AFDC and these others. Just to say that they could have a
6 double payment does not mean that they are going to have it.
7 You would save a great deal of administrative problems.

8 Mr. Woodworth. We would strongly support that. It is
9 a very difficult administrative problem for HEW to try and
10 sort these payments out. We do not think that there is
11 very many double payments involved in any event, but the
12 checking to be sure of it is very difficult because AFDC
13 is basically a state-controlled program -- in some cases, a
14 county-controlled program.

15 To get adequate records, Social Security records and
16 check those against Social Security would greatly delay
17 payment.

18 The Chairman. If I understand your position, you are
19 saying, if a person is a taxpayer, he is paying taxes and
20 entitled to a refund by virtue of the tax payments, that is
21 how you would identify him for the refund, but he is also
22 drawing aid to families for dependent children, that you
23 would suggest that there are so few of those who are paying
24 an income tax and also drawing AFDC, welfare assistance,
25 that you would do better not to try to run them down?

1 Mr. Woodworth. The particular case you mentioned, the
2 House already took that up, Senator Long. For the reasons
3 you just said, the House does not require us to check for
4 double payments in that case.

5 The problem is that the House does, however, in the
6 AFDC area require that you check to be sure that they are
7 not getting a Social Security payment before you make the
8 payment.

9 Because of the same reason we have trouble checking
10 out the tax, we also have trouble checking out the Social
11 Security. AFDC payments are locally administered programs,
12 in many cases. It is going to be very difficult to check out
13 double payments there administratively there for HEW.

14 The Chairman. It seems to me you may have quite a few
15 double dips in that situation, maybe a million or so.

16 Mr. Stern. On the income tax side, you probably would.
17 Basically it was exempted as an administrative problem. The
18 guess would be that there are probably a million recipients,
19 parents plus their children who probably are earning enough
20 to file a tax return.

21 Senator Hansen. Say that again?

22 Mr. Stern. The House bill says you do not have to
23 check those people who receive AFDC who also would be getting
24 the rebate because they paid taxes. There is really no
25 convenient way of checking. You would have to mail out a

1 form to every AFDC recipient to get at this. That is quite
2 a few people, if you include the children.

3 Senator Hansen. Maybe a million?

4 Mr. Stern. The guess is that it is about 9 percent of
5 the AFDC, about 11 million. That is a million people.

6 Mr. Woodworth. We think it is going to be very diffi-
7 cult to check this out.

8 The Chairman. Why do we not go along with the staff's
9 suggestion then and take the chance?

10 Your position is there will be some overlap. If
11 you look at what it is going to take to try to eliminate
12 it, the better part of wisdom would be to let them go ahead
13 and have the check.

14 Mr. Woodworth. That is correct. That is the way we
15 feel.

16 Mr. Shapiro. We checked Social Security. That is where
17 there would be an overlap. The House bill has it as no
18 suggested change.

19 The Chairman. All right.

20 Mr. Shapiro. The next category is state supplements
21 to SSI. Let me let Mike present that.

22 Mr. Stern. This is the category, Mr. Chairman, we
23 would recommend that you just consider leaving out. The
24 reason is that in order to get a state supplement to SSI
25 without any Federal program means that you have to have

1 income of at least \$168 a month for an individual, \$252 for
2 a couple, and people with that kind of outside income, I
3 think you could presume, in almost all cases, would be
4 getting Social Security or some other program that they
5 would be getting the \$50 payment under.

6 Our recommendation would be to eliminate that as a
7 category.

8 The Chairman. Without objection, that will be done.

9 What is next?

10 Mr. Shapiro. We have four other issues that were in
11 the House bill that I just want to make sure I mention.

12 Mr. Stern. One other item in Social Security. The
13 one case where it is going to be very difficult to tell
14 whether a Social Security beneficiary is also getting a
15 rebate through the tax system is the case of a child whose
16 Social Security number does not appear on the tax form.

17 There, our recommendation would be if there is a
18 Social Security benefit payment only to children, then you
19 will assume those children are being cared for by a taxpayer
20 who is claiming them as a dependent.

21 This would affect something like a million children.
22 A typical case is where a mother dies having worked long
23 enough under Social Security for the children to get
24 survivor benefits, but they are still living with the
25 father, really dependent on their father, and are going to

1 get a \$50 rebate through the father.

2 The Chairman. What is your recommendation?

3 Mr. Stern. What we are recommending is that the \$50.
4 payment through the Social Security system not to go to
5 cases where there are only children receiving benefits.

6 The Chairman. Without objection, agreed.

7 Mr. Shapiro. The four provisions in the House bill,
8 just to make sure you are aware of them --

9 The Chairman. If it is already in the House, let's
10 not get into that now. We can review that later.

11 Mr. Shapiro. These are all of the areas that we have
12 for Title I.

13 I do have one point to clear up on the sick pay exclu-
14 sion. When you repealed the sick pay exclusion in the '76
15 Act, there is a provision put in there that allows certain
16 elections to be made to take certain employee contributions
17 to retirement systems. These people have already made their
18 elections. Some people are better off or worse off, but
19 we would like to say I think it would cause the least amount
20 of problems to let these people continue the election, or
21 do what they want to, without saying we are postponing
22 the sick pay exclusion.

23 We are saying it is to let your sick pay date move
24 up to January '77, as Senator Dole had in his amendment.
25 At the same time, aim it at the people who made elections

1 under the 1976 Act which gave them other treatment.

2 The Chairman. Without objection, agreed.

3 I believe Senator Moynihan wanted to bring up two
4 matters.

5 Senator Moynihan. Thank you.

6 First, Mr. Chairman, there appears to be a problem that
7 we have made for ourselves with our tax credit, our
8 employment tax credit, with respect to new firms coming into
9 an industry, into an area, and, in effect, taking a large
10 advantage from their being newly formed as against compar-
11 able sized firms which are stable and are in business, but
12 not adding any employees, and therefore do not get any
13 jobs tax credit.

14 This is particularly the case for casual or seasonal
15 employment such as construction, maritime. A simple
16 example, supposing there are two entrepreneurs in the
17 apparel business. One has a workshop going with fifty
18 employees. Another sees an opportunity to start up a work-
19 shop with fifty employees.

20 The one that just starts up would get a \$52,000 advantage
21 over the one that has just been going along steady under
22 our proposal. The potential for finagling and turning in
23 a lot of activities is really very large.

24 It invites instability, and Senator Bentsen recognizes
25 this and would be willing, as I am told, to accept, in effect,

1 an amendment and I believe the staff, Mr. Shapiro, recognized
2 this problem and it was suggested possibly that the increase
3 in 1977 FUTA wages over 1976 could be limited to 50 percent
4 or 33 percent, something like that, to diminish this impact,
5 which very likely could be considerable, despite what we
6 do.

7 Senator Curtis. This arises out of the job credit?

8 Senator Moynihan. Yes, sir.

9 Senator Curtis. What your concern is that one firm
10 might discontinue, leave, and set up a new firm to qualify
11 as a new firm?

12 Senator Moynihan. Yes.

13 You might think of it as any small business in America
14 that has been established and has just gone along doing its
15 work, it is suddenly a target of opportunity for someone
16 who wants to start up the exact equivalent business by hiring
17 new employees and getting this \$50,000 advantage.

18 Mr. Shapiro. This is one of the suggestions we had
19 in pamphlet three for consideration of the Committee. One
20 of the concerns that has been raised by the House bill, when
21 you have an incremental credit, those that are new
22 businesses get a tremendous benefit over existing businesses
23 because all the employees are new and their base year is
24 zero.

25 As Senator Moynihan pointed out, you would have existing

1 businesses that would have tremendous growth that would also
2 have a tremendous benefit out of this.

3 It is not that you are trying to take away the
4 benefit. You are trying to provide something of an equalizer
5 to recognize, especially in the case of new businesses, since
6 there is no base year you are trying to reduce the benefit
7 to 50 percent of the FUTA wage, wages for the new year.

8 That is a criticism of the House on the incremental
9 basis and this approach would deal with that specific
10 situation.

11 The Chairman. For a new business, the base would be --
12 they would get 50 percent of the benefit?

13 Mr. Shapiro. For a new business, that would be the way
14 the provision as I understand it, is being proposed now.
15 For new businesses, you looked at your '77 FUTA wages and
16 you put a 50 percent ceiling. They cannot get more than
17 50 percent of that for a new business.

18 Since the base is zero, that would be the result of the
19 50 percent rule.

20 Many of your businesses that have been in existence since
21 1976, this would have no application because they would be
22 clearly above 50 percent, unless they are a rapidly growing
23 business or was just started up at the end of the year and
24 the business is small.

25 * Generally speaking, it is a general rule for the entire

1 provision, but it has its main application in the case of
2 new businesses.

3 The Chairman. Is that all right with you, Mr. Woodworth?

4 Mr. Woodworth. We do not have any objection.

5 Senator Matsunaga. Does this mean that instead of
6 \$1050 credit the ones opening up a new business would only
7 get \$500?

8 Mr. Shapiro. One-half.

9 The point that is being made, the one who opens up a
10 new business would get all new employees, therefore, for
11 example --

12 Senator Matsunaga. I realize that. Whenever you open
13 up a new business, the first couple of years -- sometimes
14 the first four years -- you do not expect to make any
15 money.

16 The Chairman. Here is the point he is making. Say in
17 the garment industry, here is a fellow who has a going
18 concern, going along all right. He says, look at this
19 tax credit. So he arranges to let all of his employees go
20 and hire them back the same day on another payroll. He
21 picks up \$50,000. He can still gain \$25,000 by doing this.

22 Senator Moynihan. He will.

23 The Chairman. They might be doing it that way. If it
24 is too much of a good thing, you would be putting him in a
25 position that they would pick up all of that money.

1 Senator Matsunaga. I wonder how many dishonest small
2 businessmen there would be?

3 Senator Moynihan. It would not be dishonest.

4 The Chairman. Not dishonest, clever, smart.

5 Senator Hansen. The point is well made, Mr. Chairman.
6 A lot of times, as Senator Curtis was just saying to me in
7 an aside, it is not unusual for a Chamber of Commerce to
8 bring new businesses in town to take action to recommend
9 procedures that militate against the ongoing, taxpaying,
10 job producing businesses right in the town. That is what
11 you are trying to help.

12 Senator Moynihan. That is the general thrust.

13 The Chairman. It seems to me that you should deny
14 for about the first quarter, or something like that -- if
15 they wanted to switch over for a couple of months --

16 Mr. Shapiro. The first quarter of the benefit?

17 The Chairman. For new businesses. You could not claim
18 it for the first three months you were in business.

19 Mr. Shapiro. This is on an annual basis. The difficult
20 thing there is what is a new business. Sometimes there are
21 differences.

22 For example, you have a business that --

23 The Chairman. I understand it. I will not press the
24 point. I think we are agreed.

25 Senator Danforth. May I ask a question?

1 What would be the situation with respect to mergers?

2 Mr. Shapiro. The way the rules work, you take the base
3 years of both corporations and they are aggregated. You try
4 to treat them as together in the aggregate, in the base
5 year.

6 The Chairman. Do you have another amendment to offer?

7 Senator Moynihan. It is not drafted. The proposition
8 would be 50 percent, would be a reasonable rate. I would
9 like to propose that, sir.

10 Senator Curtis. We think that should be.

11 The Chairman. Without objection, 50 percent rate for
12 what?

13 Senator Moynihan. For the benefit of newly formed
14 firms would get their --

15 Mr. Shapiro. As a general rule, we are saying that
16 you cannot get more than 50 percent of your 1977 wages,
17 FUTA wages. It is like a floor in the sense that it would
18 really have a primary effect with respect to new businesses.

19 The Chairman. All in favor, say aye.

20 (A chorus of ayes.)

21 The Chairman. All opposed, no?

22 (No response)

23 The Chairman. The ayes have it.

24 Mr. Woodworth. If we could raise one that relates to
25 the employment credit that we think is an administrative

1 problem; there is a provision in the House bill that requires
2 you to deny the credit in those cases where the individual
3 is fired in order to have someone else hired. The IRS
4 thinks they are going to have a great deal of difficulty in
5 enforcing that provision. They do not have the capacity or
6 knowledge to do so.

7 We think that it probably is not going to be an effec-
8 tive provision, and we would suggest that that one be
9 eliminated because we do not see how anybody can administer
10 it.

11 The Chairman. Without objection, agreed.

12 Senator Moynihan?

13 Senator Moynihan. Thank you, Mr. Chairman.

14 One of the things, sir, that I would like to introduce
15 is a proposal -- I believe Senator Danforth has a similar
16 proposal. The one that I have here, we are asked to
17 consider, the nine Northeastern Governors who have sent us a
18 telegram asking us to consider this.

19 This is a stimulus package and we are concerned about
20 those areas of the country that are really not recovering
21 very well and are specifically doing less well than others.

22 These are economic regions, they are not geographical
23 ones. One state next to another is in a very different
24 situation with respect to unemployment, for example,

25 The proposal, in its simplest way, is to enable firms

1 to use depreciation rates which are twice those presently
2 allowed. The object -- and this is to be the privilege of
3 firms in states that have a five-year moving average of
4 unemployment that exceeds 6 percent, and to make the point
5 that this is not a geographically regional thing, could
6 I just say that, using that 6 percent average for 1972 to
7 '76, where you find Connecticut is such a state, you find
8 Oregon is such a state, you find Delaware is such a state,
9 you find Hawaii is such a state, you find New York is such
10 a state, you find Louisiana.

11 This is not just a chunk of a country. There would be
12 a cost directly to the Treasury, but, of course, that cost
13 is picked up later on when the depreciation, having run out,
14 is no longer taken by the manufacturer.

15 The object is to stimulate investment in areas where
16 investment is much lower than it is in other ways. A roughly
17 speaking 6 percent cut-off would give you twenty-seven states
18 that would be eligible. The estimated cost to the Treasury
19 in the first instance for fiscal '77 is \$4.45 billion; in
20 fiscal '78, \$1.1 billion.

21 This gets recovered down the line. The actual
22 economic effect, in practice, this becomes an interest free loan
23 to the manufacturer.

24 There is a great deal of support for this among certain
25 states, Mr. Chairman. I can go on longer.

1 Senator Curtis. If you would yield for a question,
2 what this does is provide an accelerated rate of depreciation
3 for high unemployment areas?

4 Senator Moynihan. That is right.

5 Senator Curtis. That is a part of the Minority's
6 package set forth in S. 735. I think it is a good idea.

7 Senator Danforth. Mr. Chairman?

8 Senator Curtis. We may disagree on definitions of areas
9 and so on, but if this is adopted, we would comment to the
10 staff the proposal in S. 735.

11 Senator Moynihan. The exact formula is one that we
12 could be flexible about, 6 percent, 6.5 percent. Senator
13 Danforth is talking about 7 percent.

14 Senator Curtis. And the definition of a high unemploy-
15 ment area.

16 Senator Danforth. Mr. Chairman, the differences
17 between these two proposals, the one that Senator Curtis
18 is talking about, S. 735, and the one Senator Moynihan is
19 talking about are as follows. The geographical areas involved
20 in Senator Moynihan's proposal are states, statewide employ-
21 ment rates.

22 The geographical areas in 735 are CETA prime sponsor
23 areas, so they are much smaller geographical areas, much
24 more carefully targeted in 735.

25 The trigger rate for the accelerated depreciation in

1 Senator Moynihan's proposal, 6.5 percent; the trigger rate
2 in 735 is 7 percent.

3 The period of time over which the unemployment rate
4 is considered is a 5 point moving average in Senator
5 Moynihan's proposal; it is the prior quarter in 735.

6 The useful life provisions, I think, are -- no, they
7 are different. As far as machinery is concerned, the useful
8 life for machinery would be five years in 735 and it would
9 be half the present useful life in Senator Moynihan's
10 proposal.

11 Do you have buildings depreciated in yours?

12 Senator Moynihan. No, just manufacturing equipment.

13 Senator Danforth. There are two definitions of equip-
14 ment. I am not clear which is which. For buildings, they
15 are not covered in Senator Moynihan's proposal. They are
16 covered in 735 at one-half the useful life.

17 The cost in 1978 of Senator Moynihan's proposal would
18 be about \$1.1 or \$1.2 billion; the cost of 735 in 1978 would
19 be \$200 million.

20 Senator Curtis. I think, Senator Moynihan, while there
21 are various provisions here, as a matter of judgment, as to
22 what the formula should be and so on, I think that one rather
23 important point that I do believe should be considered and
24 that is the area covered. It is entirely possible that
25 you would have a state that could not qualify, but a very

1 sizable area in that state could have some very severe
2 unemployment problems. I think that should be taken into
3 account.

4 Senator Moynihan. Senator, it seems to me these are
5 questions of judgment. If we have some agreement in principle,
6 I am sure that we can work out some common position.

7 The trouble is, if I can cite it, if you get smaller
8 areas, your unemployment data gets fuzzier. Even state data
9 is not that good.

10 Senator Curtis. That is the reason we took the
11 established CETA areas.

12 Senator Moynihan. That helps you there.

13 May I say the idea of using the calendar quarter preceding
14 ~~does make~~ for volatility. I am not sure if we looked at
15 the historical experience, you might find that this is
16 ~~bringing people in~~ and out much too fast for anybody to
17 make an investment decision.

18 I think that the staff, with Senator Danforth and
19 myself, could find a position where we probably would come
20 in with something in common.

21 Is that possible?

22 Senator Danforth. Yes.

23 The Chairman. What is the Treasury position? Do you
24 favor the amendment?

25 Mr. Woodworth. The Treasury would have to oppose this

1 amendment. There are very substantial amounts of money
2 involved in this: \$600 million, \$1.3 billion and \$2.1
3 billion and it really does not disappear in the sense that
4 any time you give people an accelerated depreciation
5 initially, they have, in effect, cut their taxes. That is
6 the effect of accelerated depreciation.

7 The statement that you make it up after awhile, first
8 of all, you never make it up if you continue the program.
9 The only way you could make it up eventually is in the
10 sense that the new equipment does not come in and he is not
11 eligible for it after the three year period. The first
12 three years, all the new equipment in that time period
13 keeps getting the advantage and there is a continuing
14 revenue loss during the entire period.

15 The whole question of what kind of incentive for
16 capital formations you want to provide, you are using the
17 funds that would have to go; if you put this in here
18 obviously recommendations will have to be trimmed back on
19 funds for capital formation and subsequent proposals to the
20 Congress.

21 This is a significant, substantial revenue loss which
22 we seriously question.

23 The Chairman. Give me those figures again, the
24 estimates on revenue?

25 Mr. Woodworth. \$600 million, attributable to calendar

1 year '77; \$1.3 billion attributable to calendar year '78;
2 and \$2 billion, attributable to calendar year '79.

3 We are assuming on this that the effective date on
4 this is January 1, 1977. If that is not true, then these
5 revenue losses would obviously be moved up.

6 Senator Curtis. What would be the losses in the bill
7 we are talking about?

8 Senator Danforth, have you had a chance to look at
9 that?

10 Mr. Woodworth. I do not have that with me. I can get
11 it.

12 Senator Danforth. It is S. 735.

13 Mr. Shapiro. 735 is much more restrictive and the
14 revenue estimates are less.

15 The Chairman. Where would we stand on the budget
16 problem?

17 Mr. Shapiro. Let me give you the two figures. The
18 figure we have right now is that for fiscal year '77 you
19 are minus \$460 compared to the House bill and in the slack
20 year you would be minus \$400.

21 For fiscal '78, you would have a \$1 billion slack as
22 opposed to the House bill and you are up to just a little
23 over \$9 -- \$15 or 925, so you only have \$75 million in
24 '78.

25 If you exceed those levels, then you would be in

1 violation of the Third Budget Resolution and your proposed
2 request to the Budget Resolution for fiscal year 78.

3 Mr. Woodworth. The treatment that you provided for
4 heads of households, the revenue cost of that increased
5 appreciably when you went to the different standard deduc-
6 tion proposal. Now, instead of \$300 million, it is up around
7 \$600 million.

8 Mr. Shapiro. We have taken that into account in these
9 figures.

10 The Chairman. Here is the fact that I was thinking about.
11 I would dislike for us to come out of this Committee with
12 an amendment that goes over to the Budget Resolution. If
13 the Senate wants to do it, the Senate -- by the time we
14 have that big Tax Reform Bill out there, when we got
15 through with all the screaming about how the Budget Committee
16 did not appreciate how we recommended staying within the
17 budget, they then proceeded to break us right through the
18 budget ceiling with the Chairman of the Budget Committee
19 leading the charge to break the budget.

20 So there is plenty of precedent that we can put up a
21 tax bill beyond the Budget Resolution. When the Chairman
22 of the Committee himself leads the charge to go beyond that.
23 I would like to keep the Committee within that, and I would
24 hope, Senator, you would offer the amendment on the Floor.
25 Anybody who wants to get behind it, support it on the Floor.

1 Senator Moynihan. Would that be acceptable to you,
2 Mr. Chairman.

3 Mr. Shapiro. I would like to make a suggestion. There
4 are a number of technical drafting deficiencies in these
5 proposals. To the extent that Senator Moynihan and Senator
6 Danforth want their proposals to be united, I would like
7 their staffs to work with the staff.

8 I would think any proposal, we would like to take care
9 of the technical drafting problems that we see.

10 Senator Moynihan. Mr. Chairman, I would be more than
11 happy to follow that course, if Senator Danforth wishes to.

12 Senator Danforth. Leave it for the Floor?

13 Senator Moynihan. It is understood we will propose it
14 on the Floor.

15 The Chairman. That would avoid the problem of the
16 Committee going out over the Budget Resolution.

17 Offer it on the Floor. This was discussed in the
18 Committee and it went over the Budget Resolution. I have
19 no doubt, with the amendments in this bill, the Senate is
20 going to take us over the budget figure anyway. I would
21 not be surprised to see us go over with the Budget Committee
22 leading the charge again.

23 Senator Danforth. I would be happy to suggest some-
24 thing that you could cut.

25 The Chairman. What happened last year, we had a big

1 bill. We confined ourselves within the budget limitations
2 in the Committee, and then the Senate proceeded with the
3 Chairman of the Budget Committee offering the amendment,
4 just smashed the budget objectives to smithereens, and then
5 we had to go to conference and put the package together
6 where we tried to fit the pieces together to fit inside the
7 budget.

8 If I had any doubt about it that they were going to
9 take us over that budget again, it would be different.

10 Let us have the fiscal restraint that we did not
11 go over the budget.

12 Would that be all right with you, Senator?

13 Senator Moynihan. Yes.

14 The Chairman. Senator Curtis suggested to me that we
15 would go over. There may be some other amendments the
16 Senators might offer.

17 Senator Matsunaga. Mr. Chairman?

18 The Chairman. We will come back at 10:00 o'clock
19 Monday and the Senators can offer the amendments, if they
20 wish.

21 Senator Matsunaga. May I ask that the staff give me
22 figures on what it would cost to raise the \$1050 figure in
23 the Bentsen amendment to a compromise figure of \$1750?

24 The Haskell amendment called for \$2205 and the Bentsen
25 called for \$1050. I would like to strike a compromise figure,

