

ORIGINAL

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HEARINGS

Before the

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

MARKUP OF PENDING LEGISLATION

Washington, D.C.

May 25, 1983

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1 MARKUP OF PENDING LEGISLATION

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Wednesday, May 25, 1983

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United States Senate

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Committee on Finance

7

Washington, D. C.

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9 The Committee met, pursuant to notice, at 10:26 a.m., in
10 Room SD-215, Dirksen Senate Office Building, the Honorable
11 Robert Dole (Chairman of the Committee) presiding.

12

13 Present: Senators Dole, Roth, Danforth, Chafee, Symms,
14 Long, Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley,
15 Mitchell and Pryor.

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18 The Chairman: Let may say as I understand there is some
19 hope that we might be able to adopt the debt ceiling, which
20 we reported yesterday, free and clear of amendments, and
21 hopefully we can do that yet this evening. I have had a
22 discussion with the Chairman of the Ways and Means Committee,
23 as I am certain Senator Long has, and also the Ranking
24 Republican, Congressman Conable.

25

26 They both advise me if we even change a comma in the debt
27 ceiling the House is going up in smoke or something. So they
28 feel very strongly about not sending anything back that may
29 be contrary to what they forwarded to us. But that is

1 normally the House position. I do not suggest we should be
2 dictated to by the House, but I think in this case,
3 particularly on the debt ceiling, they feel rather strongly.

4 What I would like to do is to offer a Committee
5 amendment, and after that is approved I know other Members
6 have amendments they might like to offer. But first let me
7 explain what the Committee amendment would contain and why I
8 believe that we need to try to limit any amendments to those
9 that are going to be in the Committee amendment, though I
10 understand Members certainly have a right to offer amendments
11 in the Committee or on the floor. I would hope they might
12 withhold until we reach the floor.

13 The Committee amendment that I propose to H.R. 2973, in
14 addition to dealing with the interest and dividend
15 withholding issue -- and I would say to Members on both sides
16 that we intend to repeal withholding; there is not going to
17 be any doubt about whether it is going to be postponed. It
18 will be repealed.

19 We are adding some compliance measures. It would seem to
20 me that would satisfy the concerns of most everyone on that
21 issue. Some would rather not have any compliance, but it
22 seems to me we do have an obligation, and I will call on Dave
23 Brockway when I finish this brief statement to sort of
24 outline the withholding compliance provisions and tell us
25 what revenue we might pick up. He tells me about half we

1 could still save.

2 But, in addition to withholding, the Caribbean Basin
3 Initiative. This measure passed the House of Representatives
4 last year and was approved by the Finance Committee last
5 December. This year we again held Committee hearings on CBI
6 and it was approved by the Committee on May 12 by a 15-to-2
7 vote.

8 The Trade Reciprocity Act was reported out of the Finance
9 Committee early last year and was unanimously reported by the
10 Committee early this year. It passed the Senate on April 21,
11 1983. It was a freestanding measure which the House
12 rejected.

13 The Enterprise Zone Tax Act was reported out of the
14 Finance Committee last year, was approved by the Committee
15 again this year on May 17 by a 14-to-2 vote.

16 Each of these measures that I propose adding to the
17 Committee amendment on withholding has the support of the
18 Administration, has had hearings in the Finance Committee,
19 was favorably acted upon by the Finance Committee last year,
20 has been fully considered by the Committee in the
21 regularly-scheduled markup session, and has been adopted by
22 the Committee by an overwhelming margin.

23 Accordingly, I propose that we limit the proposed
24 Committee amendment to the matters that I listed, plus the
25 provision dealing with interest and dividend withholding,

1 which is the subject matter of H.R. 2973.

2 I know that, as I have indicated, a number of Members
3 have other amendments, many of which probably have merit, but
4 I would suggest that I do not know of any others where we
5 have the same pressure, time pressure or other pressure, that
6 we have on the withholding matter and on the matters that
7 have been fully considered, marked up and otherwise proposed
8 by the Committee. I would guess we all have amendments that
9 we would like to offer.

10 I have, as suggested by the distinguished former
11 Chairman, Senator Long, had a discussion -- as I think you
12 had -- with Chairman Rostenkowski. I must say he does not
13 jump with joy at the thought of anything coming back to the
14 House which did not originate in the House. But I also
15 suggest that I think there may be some flexibility unless it
16 is on the debt ceiling.

17 I understand you had a meeting on the debt ceiling. But
18 he called me after that meeting, as did Congressman Conable,
19 just adamant about any change in the debt ceiling or any
20 amendments to the debt ceiling. I have indicated to them
21 that I would make every effort to keep off prayer, abortion,
22 busing, the MX or whatever we want to add to the debt
23 ceiling -- withholding, mortgage revenue bonds, reciprocity,
24 enterprise zones, Caribbean Basin from the debt ceiling.

25 But I also suggest that we might need to address some of

1 those when we take up the repealer on the calender of
2 dividend and interest withholding.

3 Having said that, I wonder if I might first ask Dave
4 Brockway --

5 Senator Danforth: Mr. Chairman, could I inquire? What
6 was Chairman Rostenkowski's answer?

7 The Chairman: His answer is what you might expect from
8 the Chairman of the Ways and Means Committee -- that they
9 would rather not have anything.

10 Senator Danforth: So, in other words, his position is if
11 the Senate agrees not to put anything extraneous on the debt
12 ceiling then his position in return for that is not to want
13 anything extraneous put repeal of interest and dividends?

14 The Chairman: Right. It is customary. If in fact we
15 keep the debt ceiling clear, he is willing to let us do
16 that.

17 [Laughter.]

18 The Chairman: But if we clutter up anything else, we are
19 not going to have any meaningful conference.

20 Senator Danforth: I do not see any incentive to keep the
21 debt ceiling in place.

22 The Chairman: That is what I tried to tell Mr.
23 Rostenkowski, that I had members who wanted to put all this
24 stuff on the debt ceiling, and if we were not going to be
25 accorded careful consideration in conference on some other

1 tax measure, we might as well load up the debt ceiling.

2 Senator Danforth: I wonder if we could go back to them
3 and inquire what his position is again on the other because I
4 do plan to go to Missouri on Friday, but I could certainly
5 postpone that, if more time is necessary to consider the debt
6 ceiling.

7 The Chairman: I hope you are able to go to Missouri and
8 not come back -- I mean, not come back for a week.

9 [Laughter.]

10 The Chairman: Because I hope we have resolved it by
11 Friday.

12 Senator Danforth: We do not want to rush.

13 The Chairman: But I think it helpful for you to raise
14 that concern. Sometimes -- Chairman Long has had more
15 experience than I have in dealing with the House, but they do
16 have that feeling that since the Constitution says they
17 should originate revenue measures that we should not even
18 have the right to amend, which the Constitution also
19 permits.

20 So my view is that the adopt the Committee amendment, we
21 attach it to whatever the number of the House repealer is,
22 and we go to conference and we try to salvage a great deal of
23 that for the Senate. I mean, we are also a part of the
24 Congress.

25 Senator Long: Mr. Chairman, if I might speak to that for

1 a moment, I sympathize with the Chairman's desire to bring
2 some of these matters that he has discussed here to the
3 attention of the House and seek to reach a decision.

4 I agree with the Chairman of this Committee that we ought
5 to try to pass the debt limit bill just exactly the way the
6 House sent it. I think there is serious doubt that the House
7 can pass that measure if it goes back over there. They just
8 lucked into a situation where they could pass that by a voice
9 vote. I have got my doubts that they could pass that bill if
10 anybody insisted on having a roll call vote over in the
11 House.

12 And I think that what they passed is a good bill, and we
13 ought to go along with them on that, just send it on down to
14 the President. The best way to see that it works out that
15 way, because in fact it is such a good bill, there are going
16 to be some of our friends who do not want to let that become
17 law, because that bill implements the judgment of the Senate
18 Finance Committee and we suggested that we would like to
19 restore the debt limit to being a viable restraint on
20 spending.

21 And by doing what they have done in their bill, which we
22 recommended on a previous occasion, that would have that
23 effect. So in due course -- sometimes when I have more
24 time -- I will just show Senators the figures on how we
25 managed to limit the deficit back in the years prior to the

1 time that we had the debt limit as a restraint and what a
2 disaster it has been since we abandoned that, and it was done
3 completely inadvertently.

4 One of the men who believed in restraining spending as
5 much as anybody in the Congress, Senator Harry Byrd, Sr.,
6 thought that we would have a temporary increase in the debt,
7 a temporary debt increase, and that at the end of that period
8 that they should be back inside the old debt limit. Instead,
9 that worked out to be a device where it made no point, where
10 you could not very well avoid going and voting for a bigger
11 debt limit, because if you did not, everything had to come to
12 an end.

13 Now I thoroughly agree with the Chairman and I just hope
14 he is as strongly in favor of what we are recommending out of
15 this Committee as I am because I think if we have to do it I
16 think we should just go ahead and run the clock out and the
17 whole government just has to take a momentary pause until
18 that matter is resolved, because that, I think, would set the
19 stage for controlling spending in the future, or at least a
20 restraint on spending that we do not have right now.

21 Now with regard to this withholding on interest and
22 dividends, this is the first time in many, many years --
23 someone said about thirty years -- that the Ways and Means
24 Committee has been discharged from consideration of a
25 measure. I do not think the Chairman or anybody over there

1 is particularly pleased about that matter and when they were
2 discharged they simply took the view that they would report
3 out the bill that was there, which was a clean repealer.

4 And if we send back the type thing that is being
5 suggested, it could very well pick up additional amendments
6 on the Senate floor and by the time it gets there it sets the
7 stage for the Chairman over there to say now, we were
8 discharged on this bill. We did what the House wanted to
9 do. We sent a clean repealer over there. All the Senate had
10 to do was pass it, but they did not choose to do that. They
11 chose to send up a Christmas tree bill.

12 I think he is likely to take the view that he was not
13 mandated to pass any Christmas tree bill; he was mandated to
14 pass a bill on withholding.

15 I am predicting -- I am not speaking of Mr. Rostenkowski;
16 I have talked to him just like the Chairman and others
17 have -- and I am just here to predict from my experience what
18 I think is going to happen. I think that if we pass this
19 Christmas tree bill and send it over there, then it is just
20 going to sit at that Speaker's desk. That is all it is going
21 to do.

22 Now the House rules, as I understand it, are such that to
23 consider that measure only the one who is approved by the
24 Ways and Means Committee to make that motion can pick that
25 sheaf of papers up off the Speaker's desk and make a motion

1 with regard to it.

2 So if it works out the way I fear and I fully anticipate
3 will happen, that bill will still be sitting there come next
4 January and we will have to find some other way to act on the
5 withholding issue.

6 Now I would hope that the Chairman would accord us --
7 those of us who feel that we just ought to pass it and send
8 it on down to the President and let him do whatever he wants
9 to do with it. He can sign it or veto it, whichever way he
10 wants to do it, but if he wants to veto it we have a chance
11 to override. Just pass a clean repealer, which is what the
12 House did and just let the thing play its course.

13 If the President wants to veto and can be sustained,
14 okay, more power to him. If he cannot be sustained -- I
15 mean, if we cannot override, then we will have to make our
16 plans from there. But I would like a vote on just passing
17 the House bill and sending it on down to the President.

18 Please understand, Mr. Chairman, I fully respect the
19 Chairman taking his position. I hope he respects mine. My
20 thought is we should just have a clean outright repealer.

21 Senator Bentsen: Mr. Chairman, if I might comment on
22 that, I certainly support Senator Long's position and I, too,
23 met with the Chairman of the Ways and Means Committee, the
24 Speaker and Jim Wright yesterday, and I do not believe there
25 is any way we are going to be able to add the amendments to

1 the debt ceiling.

2 They are going to be going out, about 40 or 50 of them
3 leaving early, as I understand it, and then we will be gone
4 on Monday and then you run into an absolutely impossible time
5 frame if we try to change what has happened on the debt
6 ceiling.

7 Then you get to the other issue and the question of
8 withholding. I support the CBI and I suppose if I looked at
9 some of the other amendments that the Chairman is referring
10 to I would be sympathetic to them. But I think what you do
11 is you cloud the issue so that finally the repeal of
12 withholding is defeated.

13 Now there are those that would be quite delighted with
14 that end result, but I think that is what the result would
15 be, that the House would not choose to pull that bill down
16 and that those who were not really for repeal would have won
17 their objective.

18 We have all had our experience with the House and how
19 they treat amendments, and particularly one like the CBI,
20 which I do not believe has really had the hearings and action
21 on the part of the House that we have had here in the United
22 States Senate.

23 So the easiest course for them would be to leave the bill
24 at the desk and that would be the end of it, and withholding
25 would not have been repealed and the idea would be then that

1 well, withholding had taken effect, that it was being
2 utilized, and perhaps time -- those that prefer to support
3 that point of view -- that time would take care of them.

4 I do not want to see that the end result.

5 The Chairman: Well, I wonder if we might -- and again I
6 do not quarrel. I know the House is part of the process, but
7 they are not all the process, and the fact that they were
8 discharged may be precedent-setting and it has not happened
9 in a long time, but I do believe that in a case where they
10 passed the Caribbean Basin Initiative, where it is supported
11 by the Administration, where the Chairman of the House Ways
12 and Means Committee supported it last year, it passed the
13 House by I do not know how many votes, so we believe in that
14 case -- in fact, the House was pushing us last December to
15 enact that legislation and we just could not get it done.
16 There was not enough time.

17 Senator Long: Since that time, Mr. Chairman, what I get
18 over there is that many people feel that the new Members are
19 there expressing some sympathy for labor's arguments against
20 that measure. They think they have a better chance this year
21 than they had last year, and even if they do not prevail they
22 think that they ought to have their day in court.

23 And there are a lot of people on the House side,
24 particularly the Democratic side of the aisle, who think that
25 they ought to at least have their day in court, they ought to

1 have a chance to have their hearings and a chance to
2 importune Members to see it their way or to amend the bill to
3 their advantage.

4 The Chairman: I wonder if we might briefly have Dave
5 Brockway give us a rundown of the compliance provisions. In
6 other words, we would repeal withholding, and that is what
7 the majority of the Senate has indicated they want to
8 happen -- not this Senator, but the majority of the Senate --
9 and bind to the will of the majority and knowing we do not
10 hold enough votes to sustain a veto, it seems to me that
11 rather than play games on postponement where you require
12 affirmative votes of two Houses, which is never going to
13 happen at least by 1986 or 1987, it seems to me a distinction
14 without much difference.

15 So we have suggested repeal, but I do not really
16 understand how we can suggest, regardless of what happens in
17 the House or the feelings of those in the Senate or anyone
18 else interested in this measure, that we should not insert
19 some compliance provisions to try to save some of the
20 revenue.

21 I think we have had input from Treasury, from the Joint
22 Committee, from anybody else who has had an interest in this
23 issue, and maybe Mr. Chapoton and Mr. Brockway and members of
24 our staff -- I do not know who wants to take the lead here --
25 but let us run down that quickly and give me the revenue

1 figures for the next several years.

2 Mr. Brockway: Yes, Mr. Chairman.

3 The compliance package in addition to the repeal proposal
4 would be made up of two basic parts. One is to expand the
5 current backup withholding provisions that were adopted last
6 year and to apply those in situations where there is a
7 mismatch of the information returns with the return the
8 taxpayer filed, or if the taxpayer files no return at all, no
9 1040, and the mismatch indicates there is some tax due,
10 backup withholding would go into effect.

11 Also, there would be an expansion of the
12 information-reporting provisions in the current law, an
13 increase in the penalties, to secure better information
14 reporting and better taxpayer identification numbers so that
15 the collection of tax on interest and dividends can be more
16 effectively accomplished because of the desire to do it
17 without withholding.

18 The Chairman: What we have before us now represents a
19 scaling back even of the so-called Dole-Kasten compromise, is
20 that correct?

21 Mr. DeArment: That is correct. It is just that we have
22 tried to fine tune it and make changes.

23 The Chairman: We have addressed several concerns
24 expressed by the American Bankers Association and others.

25 Mr. DeArment: We have.

1 The Chairman: Now what revenue do we over, say, a four
2 or five-year period, as compared to the withholding
3 provision, what is our revenue picture?

4 Mr. Brockway: Well, Mr. Chairman, the withholding
5 provision, as enacted in last year's bill, would have
6 raised -- withholding and information-reporting provisions
7 would have raised \$17.7 billion over the 1983-88 period, over
8 that six-year period. That is comprised of \$4.4 billion from
9 expanded information reporting and \$13.4 billion from
10 compliance. There is a \$100 million difference here because
11 of rounding, but the compliance part then was \$13.4 billion
12 over that period.

13 This expanded compliance package in lieu of withholding
14 would leave the \$4.4 billion from information reporting, and
15 of the \$13.4 billion from repeal of withholding it would pick
16 up \$4.9 billion over that period. So that roughly you will
17 be picking up still half of last year's legislation. Out of
18 \$17.7 billion over the period you pick up \$9.2 billion.

19 In the last year, one substantial reason for the
20 difference in revenue in the two proposal is that withholding
21 would have gone into effect basically a month from now, and
22 by adopting this system there is a significant delay. By
23 1988, once the alternative proposed here would be fully
24 operative in the compliance area, you would be picking up
25 about \$2 billion a year, compared to \$2.9 billion a year

1 under withholding.

2 So it is roughly 70 percent of what would have been
3 picked up in the compliance area, and, in addition, it would
4 also be picking up the information-reporting revenue.

5 The Chairman: Now does the Administration support these
6 compliance provisions?

7 Mr. Chapoton: Yes, Mr. Chairman. We have worked with
8 the staff on the modification of the Dole-Kasten amendment
9 and we think this is workable and we agree with the figures
10 Mr. Brockway gave.

11 Mr. Brockway: Mr. Chairman, I should point out that the
12 numbers here, as in the Dole-Kasten compromise, obviously are
13 contingent on securing the funding, and there are provisions
14 in the bill providing for or in the proposal providing that
15 the Treasury should come up and notify Congress how much it
16 will cost to implement the system, so there could be an
17 additional appropriation to carry it out.

18 The Chairman: Are there any questions?

19 Senator Danforth: Yes, Mr. Chairman.

20 I would like to inquire about the procedural status on
21 repeal of withholding. Now the Senate passed the reciprocity
22 bill, a Senate bill, and an amendment to that bill was the
23 so-called Kasten-Dole compromise.

24 Now what happened to that bill?

25 Mr. DeArment: That bill, S. 144, was sent to the House.

1 The House passed House Resolution 195, returning S. 144 to
2 the Senate. So they have basically sent 144 back.

3 Senator Danforth: So they have sent 144 back. Now the
4 House, then, has passed a bill which does nothing more than
5 repeal withholding. Is that correct?

6 Mr. DeArment: They have passed a bill, H.R. 2973, which
7 repeals withholding and makes a technical change with respect
8 to estimated tax payments.

9 Senator Danforth: All right. Now if the Senate were to
10 do nothing further on withholding, if we were not to pass a
11 bill repealing withholding, we would not be able then to go
12 to conference with the House. Is that right?

13 Mr. DeArment: That is correct, if we did not pass 2973.

14 Senator Danforth: What is 2973?

15 Mr. DeArment: That is the withholding repeal.

16 Senator Danforth: That is the bill before us here in the
17 Committee?

18 Mr. DeArment: It has not been referred to the Committee.

19 Senator Danforth: Oh, but that is the one we are
20 discussing. But that bill, if that is not passed, there
21 would be no reason to go to conference with the House, no
22 basis for going to conference with the House?

23 Mr. DeArment: That is correct.

24 Senator Danforth: And withholding is due to become law
25 on July 1?

1 Mr. DeArment: That is correct.

2 The Chairman: I would just add to that some suggest
3 well, we should not do any compliance now. We ought to wait
4 a while. But I do not know why we should wait a while. We
5 are giving up a great deal. We are giving it up because we
6 do not have the votes, not because it is a bad tax policy.
7 But we have been -- you know, if there are not enough votes
8 to retain withholding, then it would seem to me we ought to
9 try to salvage what we can, and we can do that without
10 hardship.

11 In fact, I have a letter from the American Bankers
12 Association. They have been, I must say, less than candid on
13 this issue even now, saying they support the Dole-Kasten
14 compromise, but they also, I think, have been working for
15 repeal. So it is pretty hard to tell what the ABA, or who
16 speaks for the American Bankers, but I can tell you the
17 bankers in Kansas support the compromise. They believe that
18 people should pay their taxes and they support the compliance
19 provisions.

20 I can advise that Senator Kasten supports the
21 compromise. There is no reason -- we just had a budget
22 resolution that I did not vote for last Friday night,
23 whenever it was. It passed 50-49 and we were trying to raise
24 revenue. I am willing to do that if we can do it in
25 compliance areas and looking at some of the "loopholes", but

1 not disturb the third year or indexing.

2 So I would hope that, you know, we would not give up,
3 what, \$7 billion or \$8 billion here over a five-year period
4 unless there was some good reason for it. There really is
5 not any good reason to give up any, except we do not have the
6 votes to retain it.

7 Senator Long: Now could I just explore this a moment,
8 Mr. Chairman?

9 Mr. Brockway, you worked for both sides. You have worked
10 with the House side; you have worked for the Senate side. So
11 you are a pretty good person to help us communicate between
12 the two.

13 Now when the House sent that bill back to us, did they
14 send it back on the basis that under the Constitution revenue
15 bills must originate in the House of Representatives?

16 Mr. Brockway: That is correct.

17 Senator Long: Now in that particular case, we were
18 sending them a measure that from the point of view of the
19 sponsors of that amendment was a revenue loser. It was not a
20 revenue gainer, right?

21 Mr. Brockway: Yes, sir. That is correct.

22 Senator Long: But we put that amendment on a bill that
23 was not a revenue bill. Is that not correct?

24 Mr. Brockway: That is correct.

25 Senator Long: So in that case they were doing what they

1 have done to us many, many times, and they do it to us on
2 appropriation bills, they do it to us on our bills too, where
3 we amended a bill that was not a revenue bill with an
4 amendment that would not gain revenue. It was not a bill to
5 raise revenue. It was one which would lose revenue.

6 So by the clear language of the Constitution, that
7 provision of the Constitution was not violated because our
8 amendment was an amendment to a bill, but the amendment did
9 not make the bill a measure to raise revenue, to use the
10 words of the Constitution.

11 Now they sent it back on the theory that it was, and they
12 have done that type thing to us many times with regard to
13 appropriation bills, as well as with regard to measures that
14 lose revenue. Now in this case what they are sending us is a
15 bill that loses revenue. It does not gain or raise revenue.

16 If Mr. Dole's amendment goes on that bill, that proceeds
17 to make it a bill to raise revenue, which then is clearly
18 unconstitutional by the clear language of the Constitution.

19 Mr. Brockway: Well, Senator, I believe the position of
20 the House, that the House takes on this, is that they
21 interpret that language to deal with bills dealing with the
22 raising of revenue and that if it is a tax bill or a Customs
23 bill, tariff bill, it is dealing with the raising of
24 revenue. They believe it should originate in the House,
25 whether or not the particular provision repeals a tax

1 provision or raises a rate.

2 And certainly when you have situations such as S. 144,
3 the bill that they most recently sent back, which has both a
4 repeal of withholding and other provisions, they would also
5 view that as revenue-raising bill. They would not look at a
6 revenue estimate.

7 Senator Long: All I am saying is that you do not need to
8 engage in those far-fetched constructions of the Constitution
9 to see the basis upon which any single person in the House
10 has a right to make the point that what the Senate has sent
11 them is a bill to raise revenue, and that is not
12 constitutional because it was put on a bill that does not
13 raise revenue. And that being the case, I just think they
14 would have a far better basis to send it back.

15 Now quite apart from that, these so-called revenue
16 estimates do not take into account what your alternative is.
17 Now let me say this: I strongly favor the alternative. The
18 alternative is to go out and get the money whoever is
19 chiseling on interest as well as whoever is chiseling on
20 anything out to be paying us. We are paying \$3 billion in
21 there to raise more than \$600 billion through the IRS, so the
22 ratio is 200-to-one.

23 Now if we make that much money with \$3 billion of
24 expenditures to get the money in, it would seem to me that if
25 we double that figure we ought to pick up, goodness knows,

1 maybe ten -- I would think that you ought to at least be able
2 to get a ten-to-one yield, and if you did you would be
3 picking up many times, ten times, what Mr. Dole is talking
4 about with his amendment, and I do not know why you should
5 not look upon these people just like all the other people out
6 there, millions of them, who are not paying what they owe
7 us.

8 Now I would like for you people to share the joy with me
9 of being audited for eight years in a row. I have enjoyed
10 that, you know. Last year, they gave me a check for \$10,000
11 by the time they got through. Thank you, Treasury, thank
12 you, Mr. Chapoton, you fellows, for that \$10,000. It is an
13 interesting experience to have the Internal Revenue come and
14 visit you every year. More citizens ought to have that
15 experience.

16 And all you have got to do is just increase what you are
17 doing and they will be able to enjoy the same experience I
18 have had so many times and meet a lot of new people, get
19 acquainted with folks, have a chance to judge their
20 competence and experience and all that, and in some respects
21 even educate some of them about things that they ought to
22 know about the law.

23 [Laughter.]

24 Senator Bentsen: The Senator has gone to meddlin' now.

25 Senator Long: The Treasury itself sent recommendations,

1 did you not, Mr. Chapoton? You sent recommendations down
2 here that we ought to hire more revenue agents. In one of
3 these bills to seek to help reduce the deficits we put in
4 there that we are going to make money for the government by
5 hiring more revenue agents, did we not?

6 Mr. Chapoton: That is correct, yes, sir.

7 Senator Long: Well, that is what we ought to do.

8 Senator Mitchell: Mr. Chairman?

9 The Chairman: Could I just ask? As I understand, it is
10 still a revenue loser, is that correct, Mr. DeArment?

11 Mr. DeArment: That is correct. On balance, it still
12 just does not lose as much revenue as the House bill.

13 And another point that should be made is while the
14 Constitution says revenue-raising measures, it is the
15 position of a lot of constitutional experts that have studied
16 the origin of that particular phrase that that phrase means
17 revenue collection rather than increase or decrease. That is
18 the position that the Senate Legal Counsel is taking in
19 litigation right now.

20 The Chairman: I doubt that we could settle the
21 constitutional question this morning. I would rather not, if
22 we could leave that up to the Supreme Court, because they do
23 no have as much to do as we have.

24 Senator Mitchell.

25 Senator Mitchell: Mr. Chairman, I support the repeal of

1 withholding. I also support many, indeed most, of the
2 compliance provisions that are in the compromise. I cannot
3 speak for others, but I believe that there are many other
4 Senators who feel that way but are concerned that the
5 procedure now being proposed will have as its effect --
6 whether or not it is the intention -- of frustrating the
7 repeal of withholding because of the procedural problems that
8 Senator Long has described.

9 Now if it is clearly the will of the majority -- and I
10 believe it is -- to vote in favor both of the repeal of
11 withholding and the compliance provisions, is there not a
12 mechanism for separating the two now, passing as soon as it
13 is procedurally possible H.R 2973 in the Senate, report it
14 out of this Committee as soon as it is referred here, and
15 then adopting separately the compliance provisions and
16 attaching them at the earliest possible opportunity to some
17 other mechanism?

18 That, it seems to me, will accomplish the objective which
19 those who favor repeal want and also put into effect the
20 compliance provisions.

21 The Chairman: Well, I would just say we are certainly
22 willing to explore those possibilities.

23 What I would like to do now is just vote on the Committee
24 amendment so that others may offer amendments to the
25 Committee amendment. You know, we are negotiating all the

1 time, but it would seem to me that you should not give up
2 everything just because -- what I am really afraid of, very
3 honestly, if we ever have flat-out repeal, then the same
4 groups who said they might be for a compromise would be out
5 saying, oh, we do not want any compliance now that we have
6 already got it repealed.

7 But I want to read a letter, at least a sentence or two,
8 from the American Bankers Association, Mr. Gerald M. Lowry,
9 who is Executive Director, Government Relations, dated April
10 29. It says: "The Dole-Kasten compromise on repeal of
11 withholding on interest and dividends addresses in a
12 constructive way both the necessity for improved taxpayer
13 compliance and the need for increased revenue from existing
14 taxes."

15 I will put the entire statement in the record.

16 [The information referred to follows:]

17 [COMMITTEE INSERT]

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1 The Chairman: So I want to suggest that we believe we
2 have the support of those who are opposed to withholding but
3 who do support our efforts for tax compliance, and that is
4 essentially what this is.

5 Senator Mitchell: But, Mr. Chairman, the converse of
6 that is the concern which I expressed among many people who
7 hold that position but who are concerned that this whole
8 exercise will have the effect of leaving withholding in
9 place. Whether or not that is anyone's intention, that is
10 plainly one possible effect.

11 And, indeed, if Senator Long is to accepted and he
12 certainly with his experience should be given some
13 credibility, it is the likely result. So if someone is in
14 fact for repealing withholding and is for these compliance
15 provisions, then it seems to me that a separation of them and
16 their immediate adoption at the earliest possible opportunity
17 is the manner most likely to accomplish the result that both
18 sides say they want.

19 The Chairman: My own view is this is the earliest
20 possible opportunity and it can be an opportunity lost unless
21 we couple repeal of withholding with compliance.

22 Mr. Chapoton: Mr. Chairman, I just might say partially
23 in response to Senator Long that this compromise does go
24 along the route you are suggesting, Senator Long, in that it
25 does provide and contemplate more resources to the Internal

1 Revenue Service to deal with a problem which in all debate
2 people agree was a serious problem -- that is, lack of
3 reporting in this area of dividends and interest.

4 It does it by encouraging through penalties and through a
5 backup system of withholding where the failure to report
6 occurs, strengthening the present system of information
7 reporting and failure to fully report on your return. It
8 does do it. As you suggest, it does require additional
9 resources of the IRS.

10 The Chairman: Could I just say before I yield to Senator
11 Long that I would like to put in the record a letter from the
12 Chairman of the Appropriations Committee, because we did
13 contact Senator Hatfield indicating, as Senator Long has and
14 everyone else, that if we are going to make it work and we
15 ought to be out trying to collect taxes we have got to have
16 the resources.

17 And the letter indicates that he has noted our concern
18 and he understands the need for more resources, and he is
19 going to try to help us get that support. I would like that
20 letter made part of the record.

21 [The information referred to follows:]

22 [COMMITTEE INSERT]

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1 Senator Long: Now that point does not have to be coupled
2 with this bill. All they have got to do is put that in an
3 appropriations bill and pass it. I would be glad to support
4 it, speak for it and help pass it. I voted for it in this
5 Committee and would be glad to vote for it again and support
6 it wherever we happen to be.

7 And I think most Members of the Committee feel the same
8 way. But now I have seen bills killed around here before
9 when you have plenty of votes to pass them. But I have seen
10 this technique used where you load them down.

11 In fact, John Williams, my Ranking Member for a while, he
12 was fantastic at that technique. On occasion some bill would
13 come along that he did not like and I would not like it
14 either. He would say, all right, let us load this one down.
15 So you start putting baggage on top of it and after a while
16 you have got so much baggage on the bill it just cannot go
17 anywhere.

18 I recall John Williams' last year. He did a monumental
19 job on President Nixon's family assistance plan. By the time
20 he got through loading that thing down, you could not move it
21 from here to the Senate chamber it had so much baggage on
22 it. So it just died a natural death without ever getting to
23 a vote in the United States Senate.

24 And this type thing just means that you are not going to
25 have it. Now I do not know what this fellow who signed that

1 letter up here thinks about the matter too well, but I have
2 had my administrative assistant get on that telephone and
3 call representative bankers around the State of Louisiana to
4 see what they think.

5 And they want just a direct repeal. You can talk about
6 all this other stuff later on, as far as they are concerned.
7 I had not read the letter. I would be glad to read the whole
8 letter, but I am aware of the fact that the people up here in
9 Washington who speak for these banks feel that there are
10 other things they are more interested in and they are willing
11 to go along with withholding.

12 But I do not think that the bankers of this country
13 generally, especially these small bankers, are going to be
14 pleased to be told, well, you see now you had withholding at
15 ten percent, so we saved you from that. I would like for
16 Senator Mitchell to hear this.

17 They are going to say -- you will be saying to them,
18 well, you see, they had this withholding at ten percent. We
19 saved you from that. What we gave you was backup withholding
20 at 20 percent. So they have still got to withhold.

21 The Chairman: That is from the cheaters, though, only --
22 only those who are not paying. It is the same thing you want
23 to do -- go after those that are not paying.

24 Senator Long: I am not talking about getting involved
25 with the people who are not the cheaters. The banks are not

1 the cheaters.

2 The Chairman: I am talking about they are going to
3 withhold from the people who do not pay.

4 Mr. Chapoton: That is correct. It is aimed at the
5 people who are not reporting and not filing.

6 Senator Long: I heard you. I understand that. But that
7 does not create any better relationship between the banker
8 and his customer. I do not care whether the guy failed to
9 pay or whatever he did. They are going to be left out of
10 this. So they are not the ones who fail to pay; it is one of
11 their customers.

12 So I do not think it is going to be any great good news
13 to the average bank in the country, a savings and loan, to be
14 told, well, look what we did for you. We saved you from the
15 withholding. All you have got is a backup withholding at 20
16 percent. Even that is not going to become law when you send
17 this thing over there. That is going to be the end of it.

18 The Chairman: I wonder if we might vote on the Committee
19 amendment because other Members want to offer amendments
20 afterwards.

21 Senator Roth: May I ask a question, Mr. Chairman? My
22 understanding is you want to adopt the so-called Committee
23 amendment. Then those of us -- I intend to offer an
24 amendment on mortgage revenue bonds. That will become, if
25 adopted, part of the Committee amendment?

1 The Chairman: If adopted, yes.

2 Senator Bentsen: Mr. Chairman, at some point I can
3 understand voting on the Committee amendment and certainly
4 that is your prerogative, but at some point, operating as we
5 do under the rules of the Senate, I would like to see a
6 straight up-and-down vote on repeal of withholding.

7 Senator Long: Some of us would like to vote to simply
8 pass -- like to go on record just in favor of passing the
9 House bill, just as it is, padd it and see.

10 Senator Mitchell: I would like to offer, at an
11 appropriate time, the earliest appropriate time, a proposal
12 that would repeal withholding and, although a single vote, in
13 a separate legislative vehicle adopt the compliance
14 provisions. I think that is what most people in this body
15 favor and I think that would be an appropriate mechanism.

16 Senator Long: You are talking about it as a separate
17 bill?

18 Senator Mitchell: A separate bill. We would, at the
19 same time, express our support for the compliance and vote
20 for that as well.

21 The Chairman: It is like sending a get-well card after
22 the patient died.

23 Senator Mitchell: No, it is not, Mr. Chairman. I think
24 it expresses the will of the majority and I think the
25 resistance to it indicates that the real intention here is to

1 kill the repeal of withholding and let withholding go into
2 effect.

3 The Chairman: Well, let us vote on the Committee
4 substitute and then we can try to vote on the others.

5 Mr. DeArment: Mr. Packwood.

6 The Chairman: Aye.

7 Mr. DeArment: Mr. Roth.

8 Senator Roth: Aye.

9 Mr. DeArment: Mr. Danforth.

10 Senator Danforth: Aye.

11 Mr. DeArment: Mr. Chafee.

12 Senator Chafee: Aye.

13 Mr. DeArment: Mr. Heinz.

14 The Chairman: Aye.

15 Mr. DeArment: Mr. Wallop.

16 The Chairman: Aye.

17 Mr. DeArment: Mr. Durenberger.

18 The Chairman: Aye.

19 Mr. DeArment: Mr. Armstrong.

20 The Chairman: Aye.

21 Mr. DeArment: Mr. Symms.

22 The Chairman: Aye.

23 Mr. DeArment: Mr. Grassley.

24 The Chairman: Aye.

25 Mr. DeArment: Mr. Long.

1 Senator Long: No.

2 Mr. DeArment: Mr. Bentsen.

3 Senator Bentsen: No.

4 Mr. DeArment: Mr. Matsunaga.

5 [No response.]

6 Mr. DeArment: Mr. Moynihan.

7 [No response.]

8 Mr. DeArment: Mr. Baucus.

9 [No response.]

10 Mr. DeArment: Mr. Boren.

11 [No response.]

12 Mr. DeArment: Mr. Bradley.

13 [No response.]

14 Mr. DeArment: Mr. Mitchell.

15 Senator Mitchell: No.

16 Mr. DeArment: Mr. Pryor.

17 Senator Pryor: No.

18 Mr. DeArment: Mr. Chairman.

19 The Chairman: Aye.

20 The ayes are eleven, the nays are three, and the absent

21 members may be recorded.

22 Did you want to offer something now on that?

23 Senator Mitchell: Yes, Mr. Chairman.

24 The Chairman: What is your proposal?

25 Senator Mitchell: My proposal would be that this

1 Committee would just be directed --

2 The Chairman: Pretty much the same vote we just had
3 except you would uncouple the two -- you would repeal and in
4 effect approve the compliance, but separately?

5 Senator Mitchell: It would be the direct repeal
6 identical to the House bill, so that we would accomplish the
7 repeal of the withholding, and then we would adopt the
8 compliance provisions in a separate vehicle.

9 The Chairman: Do you want a vote on that?

10 Senator Mitchell: Yes, Mr. Chairman.

11 Senator Bentsen: Mr. Chairman, could we have a division
12 on that?

13 Senator Mitchell: If a division would be preferred, I
14 would have no objection to that.

15 The Chairman: We have just voted to repeal withholding
16 in the Committee amendment.

17 Senator Bentsen: I would like to see a separate vote
18 straight up and down, just as the House bill is presented.

19 The Chairman: Okay.

20 Senator Mitchell: I accept a division, have a vote --
21 two in succession.

22 Senator Danforth: Mr. Chairman?

23 The Chairman: Senator Danforth.

24 Senator Danforth: Just to refresh my recollection on the
25 situation that we would be in if we in the Finance Committee

1 voted the simple repeal of withholding, that bill would then
2 go to the Senate floor and be considered at some time, I
3 suppose, on the floor of the Senate, and it would be open to
4 debate.

5 Now as I recall the first battle on the repeal of
6 withholding it was on precisely this issue and Senator Dole
7 pretty much singlehandedly carried the debate against the
8 repeal on withholding and, as I recall, that argument went on
9 for two or three weeks on the floor of the Senate.

10 The Chairman: It seemed like a long time.

11 Senator Danforth: I can assure Senator Dole that he
12 would have some additional and very energetic help if he
13 chose to fight a straight repeal on withholding. It is my
14 view that any repeal of withholding must be coupled, must be
15 coupled, with these other provisions -- not some of them, but
16 all of them.

17 And I, for one, would very much like to find out what the
18 position of the Ways and Means Committee is before we dispose
19 of the debt ceiling question. I understand that the Ways and
20 Means Committee is anxious to make various trips to Paris and
21 so on.

22 I was sitting here in some wonder when I listened to
23 Senator Long and Senator Bentsen describe the really rather
24 pathetic role that is played by the Senate Finance
25 Committee. As I understand, we are like the House of Lords.

1 That is to say, we more or less discuss issues but without
2 any real say as to what is involved.

3 The House takes the view that not only appropriations
4 bills but also tax bills must originate in the House, not
5 only tax bills but trade bills must originate in the House,
6 not only tariff-type trade bills but any type trade bills
7 must originate in the House.

8 Their view is that the House must originate everything
9 and their further view is, as I understand it, that nothing
10 that passes the House which is within the jurisdiction of the
11 Ways and Means Committee can be amended in the Senate. And
12 if that is the case, why are we here? What are we doing?

13 We have received not one but two ultimatums today -- one
14 ultimatum with respect to the debt ceiling. They must get
15 that back, as the Chairman said, without even a comma
16 changed. And now on withholding they must get precisely
17 their bill on withholding -- no additions, nothing with
18 respect to compliance, nothing with respect to reciprocity or
19 the Caribbean Basin Initiative or enterprise zones --
20 nothing.

21 The Senate is to do nothing, add nothing, rubber-stamp
22 the House and send it back, or otherwise the House will not
23 entertain it.

24 Well, Mr. Chairman, from my standpoint that is just fine
25 if they do not want to entertain it. I could not care less

1 about either raising the debt ceiling or passing withholding
2 on interest and dividends, and I would hope that before we
3 proceed any further on the debt ceiling -- has a unanimous
4 consent agreement ever been reached on voting on the debt
5 ceiling on the floor of the Senate?

6 Mr. DeArment: I am unaware that one has.

7 Senator Danforth: I know that the Majority Leader was
8 shopping for one yesterday. But I certainly would like to
9 know because I do not understand why we have to rush into
10 anything. If they want to go to the Paris Air Show, maybe
11 they can take the Concord back and vote on it at an
12 appropriate time. But I do not think the Senate Finance
13 Committee is quite as weak and puny as has been indicated by
14 Senator Long. He was our Chairman, a great Chairman, of this
15 Committee.

16 The Chairman: It has deteriorated since he left.

17 [Laughter.]

18 Senator Danforth: Well, Mr. Chairman, I would hope that
19 we could find out from Chairman Rostenkowski exactly what his
20 views are on the Committee amendment that has just been
21 adopted by the Senate, because I would like to know. And if
22 his view is nix. If his view is no go on adding this to
23 withholding, then it is my view that I, for one, will do
24 everything I can possibly do to prevent the Senate from
25 passing the withholding bill -- everything I can do starting

1 right now.

2 And I wonder if there is some way to check with Chairman
3 Rostenkowski, perhaps even now, as to what his intentions
4 are.

5 The Chairman: I would be happy to do that. I think the
6 better one to check with might be Senator Baker, who may be
7 shopping around for an agreement on the debt ceiling. He
8 called me a few minutes ago. But I think you have made a
9 good point.

10 You know, obviously the House has a great deal of power
11 and they took a lot of heat on this withholding issue. They
12 held out for two days.

13 [Laughter.]

14 The Chairman: And that is an indication of the strength
15 over there. But, you know, we held out for a few weeks
16 anyway. I lost my toaster and my dishes and everything I had
17 that I got from the bankers is now gone, including those two
18 who contributed in one of my campaigns.

19 [Laughter.]

20 Senator Long: Let us look at the record now for a
21 moment. Now the best I can make of it Mr. Rostenkowski and
22 the majority of his Committee were for the withholding and
23 they were not for repealing it up until they were mandated by
24 the House to report a measure out. So they reported it out;
25 the House passed it.

1 Now what is being contrived over here in the Senate, with
2 all good intentions I am sure, is a scenario under which the
3 bill would die a natural death when the Congress finally
4 adjourns sometime next year. So when the Congress adjourns
5 sine die the bill will lapse into oblivion, and I do not know
6 why Mr. Rostenkowski should shed any tears about that. He is
7 against the blamed thing to begin with.

8 The Chairman: He is a good man. I do want to leave the
9 record perfectly clear, as we used to say around here, that I
10 do not quarrel with the Chairman of that Committee. I think
11 he should know that we do not all operate depending upon what
12 the House Ways and Means Committee would like to do. We have
13 a lot of free spirits. The last time I counted, there were
14 20 on this Committee who have their own ideas of what ought
15 to be in the legislation.

16 Some of it I do not like and I am going to try to keep
17 those amendments off this legislation. I am not going to try
18 to Christmas tree it, and I tried to limit the Committee
19 amendment to the measure that has been marked up. We have
20 had hearings, passed the Senate or passed the House. So we
21 have tried to limit it that way.

22 But I want to clarify one area with Mr. Brockway. We did
23 change slightly even the estimated language in the House
24 provision.

25 Mr. Brockway: That is correct, in the House bill. You

1 both have the repeal plus you waive the penalties for people
2 who made lower estimated tax payments because they thought
3 there would be withholding. We just made it clear at the
4 staff's suggestion that for people who had lower estimated
5 tax payments for the first half of the year they have to make
6 whole in their next estimated tax payments rather than wait
7 until the end of the year.

8 So it is just clarifying language. I think that was the
9 intent of the House bill.

10 Senator Bentsen: Mr. Chairman, I would hope that we
11 could get a vote. We voted on the Chairman's amendment. I
12 have no illusions about our winning, but I would like to get
13 on the record as to being for the House bill.

14 Senator Mitchell: Could we have a vote on my proposal,
15 Mr. Chairman?

16 The Chairman: As I understand it, you are going to
17 separate and have a vote on each one.

18 Senator Mitchell: A division and make clear that the
19 second vote would be exclusively limited to the compliance
20 provisions. That would not involve the Caribbean Basin
21 Initiative or the enterprise zones or anything.

22 The Chairman: Do you have an effective date on
23 compliance -- this decade, this year?

24 Senator Mitchell: Well, if you are seriously in favor of
25 compliance, I think you could probably find some vehicle to

1 put it on this year.

2 The Chairman: I have got one.

3 Senator Mitchell: Other than that one.

4 The Chairman: Okay, let us call the roll on the
5 repealer, right?

6 Senator Danforth: Mr. Chairman, what are we voting on?

7 Mr. DeArment: As I understand it, the voting would be an
8 amendment that would approve the House-passed repeal bill.

9 The Chairman: Which is not before us because somebody
10 would not let it come to our Committee.

11 What I want to do is pass the bill without any
12 amendments. That is what we are talking about -- pass the
13 bill. The motion, as I understand it, would do two things --
14 one, pass the bill that is out there at the desk and then on
15 subsequent legislation we undertake to pass some compliance
16 provisions that are being suggested.

17 Senator Danforth: What good does it do to vote for
18 something if it is not before the Committee?

19 Senator Long: You just got through voting on it.

20 The Chairman: This would be in the nature of a Committee
21 amendment. Okay.

22 Mr. DeArment: Mr. Packwood.

23 The Chairman: No.

24 Mr. DeArment: Mr. Roth.

25 Senator Roth: No.

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

1 [No response.]

2 Mr. DeArment: Mr. Boren.

3 Senator Long: Boren, aye.

4 Mr. DeArment: Mr. Bradley.

5 [No response.]

6 Mr. DeArment: Mr. Mitchell.

7 Senator Mitchell: Aye.

8 Mr. DeArment: Mr. Pryor.

9 Senator Pryor: Aye.

10 Mr. DeArment: Mr. Chairman.

11 The Chairman: No.

12 Now we will vote on --

13 Senator Mitchell: The compliance provisions.

14 The Chairman: The nays are eleven, the ayes are five.

15 The amendment is not agreed to and we will call the roll on

16 compliance.

17 Senator Long: I just want to make this clear. In view

18 of the fact that the first motion did not carry, I am not

19 going to vote for the second.

20 Mr. DeArment: Mr. Packwood.

21 The Chairman: Aye.

22 Mr. DeArment: Mr. Roth.

23 Senator Roth: Aye.

24 Mr. DeArment: Mr. Danforth.

25 Senator Danforth: Aye.

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

1 [No response.]

2 Mr. DeArment: Mr. Bradley.

3 [No response.]

4 Mr. DeArment: Mr. Mitchell.

5 Senator Mitchell: Aye.

6 Mr. DeArment: Mr. Pryor.

7 Senator Pryor: Aye.

8 Mr. DeArment: Mr. Chairman.

9 The Chairman: Aye.

10 Mr. DeArment: Senator Danforth, did you vote aye?

11 Senator Danforth: Yes, I did.

12 The Chairman: On this vote, the ayes are thirteen and

13 the nays are two. The motion is agreed to.

14 Senator Chafee: Mr. Chairman.

15 The Chairman: I think I had agreed to recognize Senator

16 Roth. You just want to discuss it. He wants to offer

17 something.

18 Senator Chafee: I just wanted to ask a question. During

19 the course of the Dole-Kasten negotiations the withholding on

20 dividends was dropped. The opposition to the withholding

21 came 99.9 percent on the subject of interest.

22 I could never understand why the withholding on dividends

23 went down the tube at the same time. Is that in concrete?

24 Does the Chairman feel that because of the negotiations he

25 has with Senator Kasten that it is impossible to revive

1 withholding on dividends?

2 I personally found very little objection to that, at
3 least in the mail received in my office. I never understood
4 why that was repealed and I would appreciate any
5 enlightenment I might see. Otherwise, I might offer an
6 amendment to reinstate the withholding on dividends.

7 The Chairman: Well, I would just say that there was not
8 the same opposition to withholding on dividends. In fact, it
9 was our hope that we might exchange that withholding on
10 dividends for shortening the holding period. There was a lot
11 of support for that.

12 I do not know, but I think it was a practical matter of
13 trying to explain if you did not have withholding on interest
14 why do you have withholding on dividends, even though you can
15 justify to a greater degree withholding on dividends because
16 the compliance rate is lower than it is on interest and it is
17 much easier to do.

18 But we did. In the course of the negotiations I think it
19 became a political problem more than an administrative
20 problem. It was people trying to distinguish how can I say
21 well, I am against withholding if I am for it on dividends
22 and not on interest. And I think that was the problem.

23 Mr. Chapoton may have --

24 Mr. Chapoton: I would just add the one further thought
25 that when it appeared that the repeal on interest was going

1 to receive a lot of support the suggestion you made was
2 certainly considered at length.

3 The payers of dividends had incurred costs to institute
4 systems, just as the payers of interest, and while the
5 complaints, you are right, were not nearly as loud on the
6 dividend side, the problem, we finally decided, was simply
7 because they set about doing it, whereas the financial
8 institutions took most of their time in objecting.

9 The problems in implementation which we always recognized
10 here were start-up concerns, but I think they exist in both
11 cases and it does not seem to be a valid reason to repeal
12 one. You did not seem to be able to come up with an
13 explanation of why you would leave it on dividends if you
14 would repeal it on interest.

15 Senator Chafee: Well, Mr. Chairman, I know that we
16 should not conduct business based on the squeaky wheel theory
17 that those who squeak the most get satisfaction around here,
18 but I think a rationale can be worked out that there are far
19 more interest-bearing accounts that affect far more people.
20 The arguments raised could perhaps more apply to interest
21 than to dividends.

22 It just seems to me that there is a large source of
23 revenue. We are in this terrible jam of \$200 billion
24 deficits, which we have all discussed.

25 In summary, Mr. Chairman, do you feel that you are bound

1 as a result of the negotiations you had?

2 The Chairman: Excuse me?

3 Senator Chafee: Do you feel that you are bound as a
4 result of the negotiations you had?

5 The Chairman: Yes, I think, not that that would be
6 paramount, but we did indicate in discussing it with not only
7 Senator Kasten but a number of other Senators that it would
8 be difficult to make the distinction.

9 I must say, though, we checked with a number of corporate
10 people in the securities industry and we got no loud cry of
11 opposition to withholding on dividends, if it could be
12 coupled with reducing the holding period from 12 months to
13 six months. I still think that would have been the way to
14 go, but I did not seem to have the votes in some of the
15 meetings.

16 I do not know of a single corporation -- in fact, I have
17 had corporations tell me that rather than costing Proctor and
18 Gamble, for example, even \$50,000 it would cost less.

19 Mr. Chapoton: I think they said it would cost \$31,000.

20 The Chairman: And one employee for withholding.

21 Senator Chafee: Could I ask Mr. Chapoton a question?

22 Mr. Chapoton, what is the result of reducing the
23 withholding period? Last year, in 1981, when we reduced the
24 withholding period on capital gains, it resulted in larger
25 income.

1 Mr. Chapoton: When we reduced the rate in 1978, in 1979
2 there were higher realizations, that is correct.

3 Senator Chafee: I understand that, than when you reduced
4 the rate you got greater income. But also I thought when you
5 reduced the holding period -- I guess we did not reduce the
6 holding period.

7 Mr. Chapoton: No, we did not.

8 Senator Chafee: What would be the result if we reduced
9 the holding period, income-wise, revenue-wise?

10 Mr. Chapoton: We think there would be a very small
11 adverse revenue impact. It is an unusual calculation. You
12 have to assume what it does on timings of realizations of
13 income and of losses as well because obviously long-term
14 gains you reduce the benefit from losses of those sales
15 between six months and 12 months if you reduce it to six
16 months.

17 So you would affect realization of losses as well. The
18 revenue is not a significant factor either way, but we find a
19 small revenue loss.

20 Senator Bentsen: Mr. Chairman, if I might interrupt for
21 just a moment on a previous vote, I was opposed to any
22 amendments and that we ought to take the House bill up or
23 down. Obviously that is not going to be the case, and since
24 we are going to have amendments, then I would want my vote
25 changed for the taxpayer compliance amendment of Senator

1 Mitchell on the second part of that division, if you would
2 vote me aye.

3 The Chairman: Senator Moynihan.

4 Senator Moynihan: Not to delay, Mr. Chairman, but
5 Secretary Chapoton, you may recall it was my amendment that
6 led to the reduction in the rates on capital gains and the
7 Treasury at the time predicted very considerable losses and
8 was pleasantly surprised at the opposite case. The tax rate
9 was too high. There was an inelasticity curve of some kind
10 there, and I think that without any question of a serious
11 estimate, since the estimate was wrong the last time, it
12 might be wrong this time on withholding.

13 I wonder if we could just have you send up your
14 calculations so we could look at them and make a judgment.

15 Mr. Chapoton: It is sort of interesting to me, Senator
16 Moynihan, that a lot of people do think that if you reduce
17 the holding period somehow it is such a different factor than
18 reducing the rate, and you are right. The Treasury
19 underestimated the releasing impact of the '78 reduction.

20 We are, by the way, in line with the mandate of Congress,
21 preparing a study of the effects of capital gain rates in
22 general on capital formation and other items, which will be
23 available this summer.

24 Senator Moynihan: So you might just send us your present
25 thinking about withholding.

1 Mr. Chapoton: The withholding period is not dealt with
2 in that study, but we would be happy to do that.

3 Senator Moynihan: I would appreciate that.

4 Senator Chafee: Mr. Chairman.

5 The Chairman: Yes.

6 Senator Chafee: One other question on this related
7 subject. There currently exists, and Mr. Chapoton can be of
8 assistance in this, for foreign persons a 30 percent
9 withholding on interest from both U.S. Government and
10 corporate securities. Am I correct in that?

11 Mr. Chapoton: That is correct, absent the existence of a
12 treaty between the country of the payee and the United
13 States.

14 Senator Chafee: So the way to get around this is a very
15 complicated device using the Netherlands Antilles. Is that
16 correct?

17 Mr. Chapoton: Either the Netherlands Antilles or some
18 other similar vehicle, yes, sir.

19 Senator Chafee: So what in effect we have is a deterrent
20 from foreign persons buying U.S. corporate and U.S.
21 Government securities, and we are talking solely bonds now.
22 Is that correct?

23 Mr. Chapoton: The withholding tax does apply to
24 dividends as well, but I think you are discussing bonds.
25 Most of the discussion has centered around portfolio bonds,

1 yes.

2 Senator Chafee: Now as I understand it, if they do not
3 owe it then obviously they can come and get the refund, the
4 foreigners can, and frequently they are way less than the 30
5 percent.

6 Mr. Chapoton: There is no refund. That is a misnomer.
7 The withholding is indeed the tax. These are non-residents.
8 The payee does not file a U.S. tax return. If he receives
9 \$100 in interest, \$30 is held as his tax liability by the
10 U.S. Government, so there is no refund mechanism.

11 Senator Chafee: Oh, I did not understand it. So there
12 is a flat 30 percent tax.

13 Mr. Chapoton: That is correct.

14 Senator Chafee: But there is a way around this.

15 Mr. Chapoton: Well, the way that the impact of the tax
16 is avoided often is through the treaty mechanism in general.
17 That is, through most of our treaties we reduce the rate of
18 withholding tax on interest to zero under the assumption that
19 the country of the payee's residence will tax him on that
20 income.

21 The treaty network, and particularly our treaty with the
22 Netherlands Antilles, has been utilized, we think, and some
23 question the manner in which it has been used as a gateway to
24 investment in this country to avoid our withholding tax.
25 That is right.

1 Senator Chafee: Now it is the Treasury's position, as I
2 understand it, that this should be repealed.

3 Mr. Chapoton: We think yes. The withholding tax on
4 portfolio bonds should be repealed.

5 Senator Chafee: Because it is a deterrent to investment
6 in the United States and thus deprives us of an additional
7 pool of capital.

8 Mr. Chapoton: That is correct. It does tend to deprive
9 us of access to the Euromarkets.

10 Senator Chafee: Now if the American invested in French
11 bonds or British bonds, what would be the result?

12 Mr. Chapoton: Well, you picked two countries with whom
13 we have treaties, so the rate would be determined under the
14 treaty, but it would depend on the local law of the country.
15 Some countries do have withholding tax on such interest; some
16 do not.

17 Senator Chafee: Well, Mr. Chairman, as I understand it,
18 this is a law that we have that discourages investment in
19 U.S. capital. There is a way around it, but it is a very
20 intricate way around it, and the law does not make a great
21 deal of sense. I am never anxious to give up revenue. What
22 about the revenue consequences?

23 Mr. Chapoton: We think repeal of the withholding tax on
24 interest would have a slight revenue pickup effect, and that
25 is because there is a large volume of such bonds, our

1 companies issuing bonds into the Eurodollar market now, going
2 through treaties of other countries, particularly the
3 Netherlands Antilles treaty, at which point a charge of some
4 sort in the guise of a tax is imposed and our companies are
5 able to credit that tax against their U.S. tax liability.

6 Therefore, that mechanism has some net cost to the
7 Treasury. If you repealed the withholding tax altogether,
8 you would avoid that cost.

9 Senator Chafee: Would this contribute to employment in
10 the United States -- not massive blue collar jobs, but I
11 presume it would help in the financial markets in the United
12 States to some degree, plus result in increased investment in
13 the U.S., I presume. Is that correct?

14 Mr. Chapoton: It would certainly make it easier, less
15 expensive to attract capital from the Euromarket,
16 absolutely.

17 Senator Bentsen: Mr. Chairman, if I might, I was very
18 much involved in this particular amendment at the time it
19 passed. It passed the Congress in the 96th Congress through
20 the House and passed through the Finance Committee. It was
21 not acted on on the floor, as I recall. And then in the 97th
22 Congress we ran into the problem of it having passed this
23 Committee unanimously and it was not acted on in the closing
24 days in December of the last session.

25 There is no question but what, from the Treasury's point

1 of view, this actually picks up some revenue -- \$35 million
2 to \$50 million, as I recall, in your letter that you wrote to
3 Congressman Sam Gibbons. Congressman Gibbons and, I believe,
4 Barber Conable have been the ones that introduced it on the
5 House side, as I recall.

6 Mr. Chapoton: That is correct.

7 Senator Bentsen: But it does away with having to resort
8 to some intricate legal mechanics of setting up an Antille
9 corporation to try to avoid this, and meets the problem in a
10 very forthright way and does mean that you have some
11 additional capital coming into this country, and hopefully
12 that will compete to the point of holding interest rates a
13 little lower or perhaps even contributing to a lowering of
14 those interest rates.

15 And it certainly seems to me to be to the advantage of
16 this country. I hope that we can finally, finally, get this
17 piece of legislation into the law and I join with the Senator
18 from Rhode Island. I assume he is sponsoring the amendment.
19 I have a copy of my bill here. I do not know if he has, but
20 I would like to work together and see that it is presented
21 and this Committee acts on it, Mr. Chairman.

22 The Chairman: Senator Bradley.

23 Senator Bradley: Mr. Chairman, I am sorry I did not hear
24 Mr. Chapoton. What is the amount of capital that is
25 presently subject to the holding provision?

1 Mr. Chapoton: Senator, I do not have -- there is a very
2 small amount of interest paid abroad. The net revenue
3 collection on withholding on interest paid abroad is
4 extremely small. I do not have available with me that exact
5 amount, though.

6 Senator Bradley: So this would apply to a foreign
7 investor who would take his interest in the form of a payment
8 remitted to him in his country of origin or in another
9 country?

10 Mr. Chapoton: That is correct. The typical situation
11 would be a foreign investor buying bonds of a U.S. company.

12 Senator Bradley: Of the U.S. Government?

13 Mr. Chapoton: No, of a U.S. corporation.

14 Senator Bradley: We do not have any idea what size?

15 Mr. Chapoton: Well, there is a tremendous volume in the
16 Euromarket now. I think that is estimated at approximately
17 \$40 billion, but it does go through the treaty network so it
18 is not now subject to withholding.

19 Senator Bradley: Do we know how much is now?

20 Mr. Chapoton: We do not have an exact figure, but in the
21 neighborhood of \$40 billion outstanding in the Euromarket is
22 the figure I see.

23 Senator Bradley: What, then, is the argument that this
24 is a disincentive to invest in America? I think the case is
25 a strong case.

1 Mr. Chapoton: I think the argument is that there is a
2 serious legal question on whether the route through the
3 treaty network of a country, when the ultimate payee is not a
4 resident of that country, whether it in fact works and indeed
5 there are audits pending before the Internal Revenue Service
6 that deal with exactly that question.

7 So the companies that have used that route to raise funds
8 in the Euromarket are very concerned whether that market is
9 still available to them, will be available to them in the
10 future. It causes a lot of uncertainty in raising capital
11 that way.

12 Senator Bradley: So this applies only to corporate bond
13 issues?

14 Mr. Chapoton: I believe Mr. Gibbons' and Mr. Conable's
15 amendment applies to -- yes, to corporate bond issues, and I
16 am not certain whether it applies to U.S. Government bonds or
17 not.

18 Senator Bradley: And this applies presently. If a
19 government entity, foreign government entity, bought
20 corporate bond issues, they would have their interest
21 withheld if there was no treaty?

22 Mr. Chapoton: That is correct. If there were no treaty
23 and a resident of a foreign country, an individual or
24 corporate resident is who you are usually talking about, and
25 they buy bonds directly from a U.S. corporation. Interest

1 paid on that bond is subject to a 30 percent withholding tax
2 under U.S. law.

3 Senator Bradley: Would this affect in any way private
4 placements that the U.S. Government concludes with foreign
5 central banks?

6 Mr. Chapoton: If the Gibbons amendment -- and I am
7 sorry -- I am pretty sure it does apply to U.S. Government
8 bonds, but it would cover private placements as well, yes.

9 The Chairman: I wonder if, Senator Chafee, we have a
10 standing objection that we cannot sit beyond noon, and I have
11 promised Senator Roth that we would hear him on an amendment,
12 and I do not have any quarrel with the amendment. I hope
13 that is something we might be able to address on the Senate
14 floor. I would hope that would be true of any amendment.

15 Senator Moynihan has amendments and others may have
16 amendments, and again I want to make the record clear I am
17 not going to support amendments because I think we could be
18 properly charged by the House and the Chairman of the Ways
19 and Means Committee that are just loading up a big vehicle.

20 As I understand this particular amendment, it is somewhat
21 relevant to the matter before us. Is that correct?

22 Mr. Chapoton: Well, it is relevant, I guess, in the
23 name.

24 Senator Chafee: Well, I will hold off, Mr. Chairman. I
25 am not sure I will bring it up on the floor, but I certainly

1 am not going to press it further now.

2 The Chairman: Then could I just make certain we have
3 taken care of the question Senator Long raised with respect
4 to the Caribbean Basin, the Bermuda problem? Has that been
5 addressed?

6 Mr. Chapoton: We explained that yesterday. I do not
7 think the Committee acted on it, though.

8 Mr. DeArment: We need a clarification that the Committee
9 amendment would include that.

10 The Chairman: Without objection, then, we will make that
11 change.

12 Senator Roth.

13 Senator Roth: Mr. Chairman, on behalf of Senator
14 Mitchell and myself I am offering as an amendment a proposal
15 to repeal the sunset provisions to the mortgage revenue
16 bonds. Hearings have been held on this program, at which
17 Senator Packwood presided and Senator Mitchell and I
18 attended.

19 At these hearings there was very substantial testimony,
20 particularly on the part of the Conference of Governors, upon
21 the part of local government, that this is a program that is
22 working. It provides flexibility. It provides the
23 opportunity for local government to attack the problem of
24 providing housing, particularly for those who are purchasing
25 for the first time.

1 I would point out, Mr. Chairman, that 90 percent of the
2 mortgage proceeds of this program went to first-time home
3 buyer, that as far as the purchase price limitations were
4 concerned we do have 110 percent of average area purchase
5 price within this program. In 1982, 75 percent of the
6 mortgages went to families with incomes less than \$30,000 a
7 year. The average price of homes purchased under the
8 program, financed under the program, in 1982 was \$48,800.

9 As I say, this has the strong support of state and local
10 government. I think it is also important to understand that
11 in the Senate we have 76 co-sponsors. On the House side, we
12 have 299 co-sponsors. So I think this legislation will help
13 the package, will strengthen the package because of its broad
14 bipartisan support.

15 I would also point out that this legislation, my
16 proposal, has a majority of the Finance Committee, as well as
17 a majority of the Banking and Housing and Urban Affairs
18 Committee, its Chairman. It has also got the support of a
19 majority of the members of the Budget Committee.

20 So I would urge its adoption and would yield, if I may,
21 to Senator Mitchell.

22 Senator Mitchell: Mr. Chairman, I know that time is
23 pressing, so I will briefly associate myself with Senator
24 Roth's remarks, commend him for his leadership in this area.
25 This is important legislation.

1 Last year when the housing industry was in very serious
2 straits this program led to the construction of 150,000 units
3 and the creation of over 80,000 jobs in the country,
4 substantially targeted to persons of middle and lower income
5 in areas where the need was greatest.

6 I would add one statistic to that of Senator Roth. The
7 median income of mortgage bond program beneficiaries in 1981
8 was \$18,000 a year, as opposed to a median income of
9 homebuyers who received loans from conventional S&L financing
10 of \$39,000 a year. This program has, in fact, been targeted,
11 notwithstanding arguments to the contrary.

12 The median price of a new home purchased last year was
13 \$83,000. The median price of a home purchased through a
14 mortgage revenue bond was \$48,000. In terms of income, value
15 of home, targeting, this has been a beneficial program, very
16 important to the housing industry and, as Senator Roth
17 indicated, with broad support.

18 I urge the members of the Committee to support its
19 continuation.

20 The Chairman: Senator Pryor.

21 Senator Pryor: I would like to ask a question of Senator
22 Roth or Senator Mitchell just so I will know now. What are
23 we amending? Are we amending the repeal of the ten percent
24 withholding? Is that right? This amendment would go into
25 that?

1 The Chairman: It does onto the Committee amendment.

2 Senator Pryor: All right. Once again, so I will know,
3 now tell me what issues are going to be in that one piece of
4 legislation.

5 The Chairman: We are going to have the withholding
6 modification, which repeals withholding but adds compliance.

7 Senator Pryor: We will have housing bonds?

8 The Chairman: Not if I can help it.

9 We are going to have the Caribbean Basin, which we have
10 acted on twice, the enterprise zones, which we have passed
11 twice, and reciprocity, which has passed at least twice and
12 passed the Senate. I am sure it was not even a record vote.
13 As I recall, it was a voice vote.

14 Senator Pryor: I would just like to say that I am
15 strongly supportive of extending the revenue bonds. I think
16 I am one of the 75 or 76 co-sponsors. I must say that I am
17 very concerned at putting all of this into one package,
18 whether it relates to the repeal of the ten percent
19 withholding or not.

20 I just think that we are adopting an omnibus bill here,
21 sort of a continuing resolution. That worries me a great
22 deal.

23 Senator Roth: If I could answer the distinguished
24 Senator's concern, I would just reiterate the fact that this
25 legislation on the House side is co-sponsored by 299, as well

1 as 76 on the Senate side. So I do not think we are adding to
2 the burden of getting the legislation adopted. Instead, I
3 think it really makes it more appealing to more people.

4 The Chairman: Could I just say there have been hearings
5 on this, but the GAO is still preparing its report. They
6 tell us we get \$1 in benefits for every \$4 spent. So I think
7 that is an area we ought to address.

8 Their preliminary report was that bonds are poorly
9 targeted, are grossly inefficient in delivering subsidies to
10 homebuyers. More than \$2 billion in 1981-82 could have been
11 saved had direct subsidies or tax credits been used instead
12 of bonds. That is the only quarrel I have. I do not quarrel
13 with the fact that there is a lot of interest in this area,
14 but can we save money through tax credits or direct subsidies
15 or some other approach?

16 What I would hope is -- and I have discussed this with
17 Senator Roth; I know he feels strongly about the issue --
18 that we would not add it to this package. The only thing
19 that we have added to the package is a modification of
20 withholding and other issues that have been heard and marked
21 up and passed at least twice by this Committee by votes of
22 14-to-2 or greater, some by voice votes.

23 You know, rather than do that, if we might even agree to
24 maybe a year extension of the sunset to give us time to come
25 up with a better package, although I know the Administration

1 does not support that either. But again, you know, we are
2 cutting spending in the front door and we are shoving out the
3 back door, with all of these different tax credits and
4 subsidies not to homebuyers but to underwriters and people in
5 that business, and we are not really getting much in it for
6 the homebuyer.

7 And why should we not design a better program?

8 Senator Mitchell: Mr. Chairman, may I respond to that on
9 the GAO?

10 The Chairman: Yes.

11 Senator Mitchell: First, the Treasury, which used the
12 GAO report to oppose this legislation, also vigorously
13 opposed the alternatives that the GAO report suggested were
14 more cost efficient. So it is not a case of anybody being
15 for an alternative to this one. They are against all of
16 them, and they are even more against the other alternatives.

17 The Chairman: They might be persuaded.

18 Senator Bradley: Mr. Chairman, if I understand what the
19 Chairman said, however, it was let us not rush into this
20 proposal right now and make this a Christmas tree and that
21 indeed we will look at this and see if we cannot come up with
22 another way to handle the problem. That is what I understood
23 the Chairman to say.

24 Senator Mitchell: I had not finished my answer, if I
25 could finish my response.

1 Secondly, as to the assertion that this is poorly
2 targeted -- and we are not rushing. We have had hearings.
3 There are 76 co-sponsors. It turned out that the GAO
4 definition of an affluent family and a high income family was
5 a family with an income of between \$20,000 and \$30,000 a
6 year. That is the basis for the conclusion that this is a
7 poorly targeted program.

8 Now I do not think that there are many people on this
9 Committee, I do not think there are many people in this
10 country who agree that a family with an income of between
11 \$20,000 and \$30,000 is an affluent, high-income family.

12 This is a generally well-targeted program. It has been
13 very successful in delivering those services.

14 The Chairman: Senator Moynihan.

15 Senator Moynihan: Mr. Chairman, we want to be
16 cooperative. We feel you have always been with us. I have a
17 number of small amendments. One has passed this Committee,
18 one the Treasury would be happy to accept, but I take it you
19 do not want us to put more things on the present bill.

20 Do I take it that you would like to find a vehicle, a
21 general tax measure, that we could bring up in some
22 reasonable time?

23 The Chairman: Certainly anybody can offer amendments.
24 If they have the votes, they can be added. But particularly
25 in the case where we have not had a markup, we have not

1 looked at alternatives, we have had one hearing, and we have
2 not fully heard from the Administration, and we had hoped to
3 hear --

4 Senator Roth: We heard pretty fully the other day.

5 The Chairman: We could not all attend. But I would just
6 suggest that here -- you know, the deficit is not going to go
7 down if we adopt this. It is going to go up and we should
8 not kid ourselves by saying we are for cutting spending on
9 programs while we are for giving away revenue on the other
10 end.

11 My only point is there may be a more effective way to do
12 this, maybe just appropriate money to the homebuyers, take
13 out the middle man or whoever. But the homebuilders came to
14 town two weeks ago. They applauded the President 19 times.
15 They had seven standing ovations because he was cutting
16 spending, and they all marched to the Hill and said extend
17 mortgage revenue bonds, and they blame me for holding it up.

18 I am not trying to hold it up. It does not even expire
19 until the end of the year, so we have a lot of time, and the
20 fact that there are 76 co-sponsors makes it almost in a class
21 with repealing withholding. I mean, it has got a lot of
22 juice, but I just hope we would have a chance to look at it.
23 We might find some better way.

24 Senator Roth: Mr. Chairman, because time is running out
25 I would urge we go ahead and vote.

1 The Chairman: Could we hear from Mr. Chapoton?

2 Mr. Chapoton: Mr. Chairman, if I could just make a
3 couple of points, I will try to be very brief.

4 We strongly oppose the extension of the sunset, as
5 Senator Mitchell is correct that we have a question about the
6 need for a subsidy here at all. But if there is a subsidy,
7 if that is the determination, then we suggest there are many
8 more efficient ways to do it than this, and I would agree
9 with the Chairman that those ought to be reviewed
10 thoroughly. The Ways and Means Committee is going to have a
11 hearing on this matter on June 14.

12 But our opposition is one three basic grounds: one, the
13 damage it does to the public purpose tax exempt market.
14 Private purpose bonds now consume about 50 percent of the
15 total tax exempt market. That is a cost to the states and
16 localities and each state and locality cannot see it when it
17 issues the bonds, but it drives up their cost because it
18 drives up their interest rates when you flood the market with
19 tax exempt issues. The result is they have got to reduce
20 services or increase local taxes.

21 Our second ground for opposition is the inefficiency that
22 Chairman Dole mentioned.

23 Senator Roth: Mr. Chairman, can we ask him to be brief
24 so we can have a vote?

25 The Chairman: Oh, we are going to get a vote.

1 Mr. Chapoton: And the third, Senator, is the revenue
2 loss. An extension of even one year, of course, has a
3 revenue loss out for the 18, 20, 30 years that the entire
4 bonds are outstanding.

5 If we see fit to consider extension of the sunset, we
6 suggest that you ought to consider doing something for other
7 private purpose bonds that prevents the mushrooming of the
8 total consumption of the tax exempt market through private
9 purpose bonds.

10 We think this is a very serious problem.

11 Senator Baucus: Mr. Chairman, I will be brief. I feel
12 just as strongly it is a good bill. It is a good program.
13 We should repeal the sunset. It has worked very well in
14 Montana for various reasons -- basically it is jobs and
15 homes.

16 I was particularly upset with the GAO assumption of
17 \$20,000 to \$30,000 income. I think that is nowhere on target
18 and I would like to submit a statement for the record, too,
19 but I wanted to voice my strong feeling for this program. It
20 has worked out very well.

21 The Chairman: I would say I do not know whether it is
22 the program that we are opposed to. We have the Government
23 Accounting Office to give us independent information, and
24 then we do not agree with if it does not agree with our
25 position. They indicate rather strongly that this does not

1 address the lower income. I do not know what the report
2 shows.

3 We are going to vote before we leave. Again, I would say
4 to those who want to -- maybe I should not say that because I
5 am not certain.

6 Mr. Chapoton: The program was amended last year. The
7 statistics we look at for 1981 are misleading. The
8 amendments last year did move the recipients of this benefit
9 into higher priced homes and to partially non-first home
10 buyers, and into higher income families.

11 Now since there is a cap on the program, a state-by-state
12 cap, and all states are now going to approach their cap, what
13 we do is that tends to move the benefits up the income scale
14 because obviously if you are going to make loans you would
15 prefer to make them to the higher income groups. GAO pointed
16 that out.

17 Senator Bradley: Does Senator Roth's amendment have the
18 effect of making the mortgage revenue bond permanent?

19 The Chairman: Yes, is that right?

20 Senator Roth: That is correct.

21 Senator Bradley: Mr. Chairman, I would like to try to do
22 something about it, but if your commitment is to try to do
23 something about it in a little bit more deliberative
24 atmosphere I would be prepared to take that assurance and not
25 do it at this time.

1 The Chairman: Again, I assume there are a lot of people
2 for this general program, and I am certainly not opposed to
3 it, but I would hope we would not start loading up this
4 measure if in fact we are going to make an argument with the
5 House, that we should not send them a Christmas tree. We are
6 going to have other tax bills this year. We may have another
7 one within a month.

8 If we get to some hiatus in the conference on
9 withholding, we will have an extra House vehicle. But I did
10 promise Senator Roth we would have a vote, and I think we
11 will.

12 Mr. DeArment: Mr. Packwood.

13 Senator Roth: Aye by proxy.

14 Mr. DeArment: Mr. Roth.

15 Senator Roth: Aye.

16 Mr. DeArment: Mr. Danforth.

17 Senator Danforth: Aye.

18 Mr. DeArment: Mr. Chafee.

19 Senator Chafee: Aye.

20 Mr. DeArment: Mr. Heinz.

21 [No response.]

22 Mr. DeArment: Mr. Wallop.

23 [No response.]

24 Mr. DeArment: Mr. Durenberger.

25 Senator Roth: Aye by proxy.

1 Mr. DeArment: Mr. Armstrong.
2 [No response.]
3 Mr. DeArment: Mr. Symms.
4 Senator Symms: No.
5 Mr. DeArment: Mr. Grassley.
6 [No response.]
7 Mr. DeArment: Mr. Long.
8 Senator Long: Aye.
9 Mr. DeArment: Mr. Bentsen.
10 [No response.]
11 Mr. DeArment: Mr. Matsunaga.
12 Senator Matsunaga: Aye.
13 Mr. DeArment: Mr. Moynihan.
14 [No response.]
15 Mr. DeArment: Mr. Baucus.
16 Senator Baucus: Aye.
17 Mr. DeArment: Mr. Boren.
18 Senator Boren: Aye.
19 Mr. DeArment: Mr. Bradley.
20 Senator Bradley: Pass.
21 Mr. DeArment: Mr. Mitchell.
22 Senator Mitchell: Aye.
23 Mr. DeArment: Mr. Pryor.
24 Senator Pryor: Aye.
25 Mr. DeArment: Mr. Chairman.

1 The Chairman: No, and Senator Armstrong, I think, no.

2 Senator Roth: Mr. Heinz votes aye by proxy.

3 Senator Long: Senator Bentsen wants to be voted aye by
4 proxy.

5 Senator Bradley: Mr. Chairman, what is the vote?

6 The Chairman: The ayes are thirteen, the nays are three,
7 so the amendment is agreed to and will become part of the
8 Committee amendment.

9 Now we are not authorized to sit beyond noon, but did you
10 want to raise the sugar thing, Sparky?

11 Senator Matsunaga: Not at this point.

12 The Chairman: I would say to other Members who have
13 amendments if there is something we can look at between now
14 and the time it comes to the floor maybe we can deal with
15 them then.

16 Senator Bradley: Mr. Chairman, may I record my vote on
17 the last one as no?

18 The Chairman: Yes. Mr. Bradley votes no.

19 Senator Moynihan: Mr. Chairman, just so you will know
20 and the Members of the Committee would hear, last September
21 we voted in this Committee to include the provision of
22 faculty housing at cost in the general prohibition against
23 the taxation of fringe benefits until we get a complete
24 report by 1983. It is a small matter, but it is a large one
25 to the universities and colleges involved, and at some time I

1 would like to add that.

2 Another provision which Treasury has no objection to
3 whatever that deals with the corporations and such bodies
4 being owners of cooperative apartments.

5 The Chairman: Let me take a look at those between now
6 and when this comes to the Senate floor.

7 And since we are beyond the hour of 12:00, our legal time
8 to do business, is there anything else?

9 Mr. DeArment: Mr. Chairman, on these amendments and
10 tuition tax credits, does the staff have the standard
11 technical drafting authority?

12 The Chairman: Staff will have authority to make
13 technical amendments, and if it involves any member of the
14 Committee be certain that Member is contacted. The same is
15 true with the Committee amendment if there are technical
16 errors that need to be taken care of.

17 Anything else?

18 Mr. Chapoton: No, sir.

19 The Chairman: Thank you very much.

20 [Whereupon, at 12:04 o'clock p.m., the Committee
21 adjourned, to reconvene upon the call of the Chair.]

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