

EXECUTIVE COMMITTEE MEETING

WEDNESDAY, JULY 21, 1999

U.S. Senate,
Committee on Finance,
Washington, DC

The meeting was convened, pursuant to notice, at 10:28 a.m., Dirksen Senate Office Building, Hon. William V. Roth, Jr., (chairman of the committee) presiding.

Also present: Senators Chafee, Grassley, Hatch, Murkowski, Nickles, Gramm, Lott, Jeffords, Mack, Thompson, Robb, Kerrey, Bryan, Graham, Conrad, Breaux, Rockefeller, Baucus, and Moynihan.

Also present: Mr. Donald Lubick, Assistant Secretary for Taxation, Department of the Treasury; Ms. Lindy Paull, Chief of Staff, Joint Committee on Taxation; Mr. Mark Prater, Chief Tax Counsel, Majority Finance; Mr. Russ Sullivan, Chief Tax Counsel, Minority Finance Committee.

Also present: Frank G. Polk, Staff Director and Chief Counsel; David Podoff, Minority Staff Director and Chief Economist.

1 OPENING STATEMENT OF THE HON. WILLIAM V. ROTH, JR., A U.S.
2 SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

3
4 The Chairman. The Committee will please be in order.

5 Good morning. I would first like to lay out the
6 schedule for this morning. And, for that purpose we will
7 recognize Mark Prater to provide the members with a brief
8 walk through of the modifications to Chairman's mark. I
9 would say to members of the panel that in a couple of
10 minutes we will have adequate copies of these changes to
11 give out to the members.

12 Next I'd like to -- I would like to remind members of
13 the ground rules for consideration of amendments including
14 necessary offsets. Then the bill will be open to amendment
15 and we will alternate from side to side considering the full
16 substitute or big picture amendments first and then moving
17 on to individual provisions last.

18 I believe that we can have a full discussion of the
19 issues and would urge my colleagues to keep in mind the fact
20 that we must finish our work today in order to comply with
21 our reconciliation instructions. So I want to thank you in
22 advance for your cooperation and I do look forward to our
23 reporting out the Taxpayer Refund Act of 1999 on a
24 bipartisan basis.

25 Now, at this stage I would like to call upon Mark to go

1 through the modifications to the Chairman's mark.

2 Senator Hatch. Thank you, Mr. Chairman. The
3 modification to the Chairman's mark begins with changes to
4 the IRA package.

5 The Chairman. Mark, could you pull that up closer so
6 we could hear you?

7 Mr. Prater. Yes, sir. How's that?

8 The Chairman. We want to know what you're doing. We
9 want the fine points.

10 Mr. Prater. The first part of the modification would
11 change the phase ups on the deductible IRA, AGI limits.
12 There are numbers in here discussing the change, the
13 increase would slow down to the extent of 1,000 for singles,
14 2,000 for married couples filing joint returns and 2,000,
15 and then in steps as it's specified there. Joint tax is
16 still finishing up the revenue table so some -- the sequence
17 of these steps could change. So I'd just make that comment.
18 What is in here is what we believe will be in the table as
19 well.

20 Number two would provide that legal tender coins could
21 be IRA investments.

22 On part B which is the expanding coverage package,
23 there is a proposal there that reflects a staff compromise
24 between the Grassley-Graham package and the Chairman's mark
25 with respect to the top-heavy rules. The modification would

1 provide that the compensation limit would not apply for
2 purposes of so-called "simple 401(k) plans." The
3 modification also would provide that the top-heavy rules
4 would apply in the three instances provided in the
5 modification, first with respect to matching contributions
6 for purposes of satisfying the minimum benefit requirement;
7 secondly with the family attribution ownership rule would be
8 eliminated with respect to that test; and, finally, there
9 would be a blanket provision that would provide that safe
10 harbor 401(k) plans are not top-heavy plans.

11 Senator Nickles. Mark, before you go on back to your
12 initial comment on your IRA contributions --

13 Mr. Prater. Yes, sir.

14 Senator Nickles. -- those limits right now for
15 deductible IRAs are what?

16 Mr. Prater. I believe we're at 51. Fifty-one for
17 married, 31 for single, Senator Nickles.

18 Senator Nickles. Fifty-one and then under your
19 proposal it would increase by how much?

20 Mr. Prater. A thousand for singles and 2,000 for
21 married couples.

22 Senator Nickles. Is that next year or --

23 Mr. Prater. Yeah, starting in 2001. So we would not
24 make it effective in 2000. It would be effective in 2001.

25 Senator Nickles. Is that the only increase, or is it

1 increased a thousand or 2,000 for a couple years or what?

2 Ms. Paull. Senator Nickles. It will increase in
3 steps. We are still trying to determine the step. Under
4 the mark it was increasing 2,000, 5,000 -- 4,000 for the
5 first few years and then moving to 2,500, 5,000 for the
6 second five years. And those steps are being determined
7 right now by our estimators so that they would be slowed
8 down, but you would ultimately get to 2,500 and 5,000
9 sometime in the second five years. And then in the year
10 2009, as under the mark, you would begin indexing those
11 amounts which --

12 Senator Gramm. What would they be when you started
13 indexing them?

14 Ms. Paull. I would have to get that to you because we
15 don't have the steps yet to where they're going.

16 Senator Nickles. But in general you're talking about
17 people could have deductible IRAs, right now it's for a
18 family less than 50 and we want to get it up to 60 or 65 --

19 Ms. Paull. Yeah.

20 Senator Nickles. -- and have that increase where a
21 higher middle class could actually have a deductible IRA?

22 Ms. Paull. That's correct. And these are annual
23 increases in those income limits. It's just we don't have
24 those steps yet.

25 Senator Rockefeller. Could I also ask just as we

1 begin here, just to get the ground rules straight. And
2 could you tell me whether it is true or not, and that is
3 that the joint tax committee's distributional table
4 calculations leave out a substantial -- they include middle
5 income provisions, but they exclude a lot of the upper
6 income tax cut measures. And I would embellish that by two
7 points. For the most part in many of these cases that it
8 only goes through the year 2004, the tables only cover the
9 years through 2004 and one of the things we've all come to
10 learn is that this whole tax cut thing explodes in the years
11 beyond 2004. So that the year 2004 wouldn't really tell us
12 very much in terms of distributional analysis calculations.

13 And, secondly, that the tables -- and I'm just not sure
14 of this, but I'd like to know the answer -- fail to include
15 several upper income tax cuts altogether such as the large
16 estate tax cut regardless of when it -- you know, when it
17 would begin, last year, or the year 2015. That's a fairly
18 basic sort of an intellectual premise of integrity from
19 which to begin and I need to know whether or not I'm right
20 or I'm wrong.

21 Ms. Paull. Okay.

22 Senator Rockefeller. And if I'm wrong, I'd like to
23 know where I can find that.

24 Ms. Paull. Okay. We have always only done
25 distribution tables for the first five years. We do not

1 have -- you know, we're not set up to do -- I mean, it's
2 hard enough to do them over the first five years, we do them
3 on a year-by-year basis now. We used to try to average it,
4 but we do them on a year-by-year basis because tax
5 provisions tend to be phased in, so you would want to look
6 at each year and see, you know, where we are on that.

7 So we have never done distribution tables beyond five
8 years. That's been the history of our staff. This is the
9 best information we have available to give to you.

10 Senator Rockefeller. Mr. Chairman, the last time I
11 guess we did this in a large way was in 1986, and I don't
12 know what the rules were then, but is it not -- if rules say
13 that we have to vote upon all of this by the end of this
14 day, or else we're out of sync with the rules of the
15 founding fathers, is it not impossible for us to vote upon a
16 tax package in which we don't know what the effect would be
17 from the year 2005 and onwards, particularly in that it's
18 generally understood and accepted that that's where the bulk
19 of the tax cut explosion takes place? Is this something
20 that we can in decent integrity, in fact, do during the
21 course of this day without having those figures?

22 The Chairman. Well, as Lindy has pointed out, what we
23 are doing is consistent with past practice.

24 Senator Rockefeller. I understand that, but --
25 Ms. Paull. Our modeling capabilities.

1 The Chairman. I am not finished yet. Let me also
2 point out that if you look at the distribution tables, they,
3 for example, do not include those working people that pay no
4 income taxes; isn't that true, Lindy?

5 Ms. Paull. Our tables do include people who don't pay
6 income tax. I mean, they're accounted for in our models,
7 and categorized, obviously, in less than \$10,000 of income
8 or wherever they fit. But we do take those into account in
9 doing our distribution tables.

10 With respect to your second point on estate taxes,
11 again, the Joint Committee Staff has never distributed
12 estate taxes. There is a disk -- you know, we keep -- our
13 model keeps track, we use the model data, tax return data by
14 income, income tax return data to categorize folks in these
15 distribution tables. And when you're talking about estate
16 taxes, of course, you're looking to somebody else rather
17 than the person who has derived income this year. So there
18 is a difficulty in trying to connect that kind of data
19 together.

20 So we have, again, our staff has never distributed
21 estate taxes in their distribution tables. And I'm not sure
22 --

23 Senator Rockefeller. Mr. Chairman, I understand that,
24 and I'm not trying to be difficult, but I'm just wondering
25 whether in an exercise so monumental as the one that we're

1 about to undertake, no matter on which side one stands on
2 this issue, whether we can in the tradition of the integrity
3 of the Finance Committee vote upon something generically for
4 which we have absolutely no statistics beyond the year 2004
5 on the basis that, quote, "that is the way it has always
6 been done" end quote.

7 The Chairman. Well, as I indicated, what we are doing
8 is consistent with past practice. And we think it's
9 important that we proceed along those lines.

10 Ms. Paull. And honestly, our modeling capabilities
11 right now. I mean, we would have to spend more money
12 figuring out how to distribute this stuff in the future. I
13 would say that our economists would feel very uncomfortable
14 about what we are providing now. We are providing, you
15 know, the best information we can give you. And beyond five
16 years they really feel like it's very difficult to try to
17 distribute income like this. So --

18 The Chairman. Mark, do you want to proceed?

19 Mr. Prater. Yes, sir.

20 Senator Graham. Mr. Chairman, before we leave the IRA
21 issue, could I ask another question?

22 The Chairman. Sure.

23 Senator Graham. The second item, what is the problem
24 that is causing us to expand the range of investments of
25 IRAs into U.S. legal tender coins, et al? Why are we doing this?

1 Mr. Prater. Senator Graham, currently gold bullion is
2 permitted as an investment. There was some concern in the
3 early '80s that gold coins could be treated like
4 collectibles, kind of a speculative asset. The staff and
5 the members are assured that there is enough stability
6 investment character to the gold coins so that like gold
7 bullion they are now an appropriate investment.

8 Senator Graham. I think it's a serious issue as to
9 into what areas we allow IRAs which secure the benefit of
10 significant taxpayer relief in order to assist people in
11 preparing for their retirement can then those proceeds be
12 invested. And that we have an obligation to be certain that
13 those investments are consistent with the objective of
14 allowing people to prepare for their retirement. This may
15 or may not meet that test. I would like, before we take
16 final action on this bill, to get the economic analysis that
17 has been done as to why this responds to some inadequacy of
18 range of investment by IRA participants and justifies being
19 included as an option.

20 Mr. Prater. Senator Graham, our staff will -- we have
21 some data on that point and we will provide it to your
22 staff.

23 The Chairman. Please proceed.

24 Mr. Prater. Yes, sir. Mr. Chairman, the final piece
25 of the pension package modifications would adopt the three-

1 year cliff vesting rule and six year graded-vesting schedule
2 from the Grassley-Graham pension package.

3 Number five is health care tax relief provisions.
4 There are a couple clarifications there with respect to the
5 above aligned deduction for health insurance expenses and
6 long-term care expenses. These are staff clarifications,
7 technical changes that the Joint Committee recommended.

8 Number six, small business tax relief provisions. The
9 farm and ranch risk management accounts, Senator Grassley
10 and other members of the Committee's proposal. That is
11 included in here under the small business tax relief
12 provisions.

13 VIII, tax exempt organization provisions. There is a
14 modification to the excess business holdings test for
15 private foundations raising that amount from the current 20
16 percent rule to 40 percent in 2007 and 49 percent in 2008.

17 International tax relief, there are two additions to
18 the package in the Chairman's mark. The first one would
19 repeal the 90 percent limit on foreign tax credit for AMT
20 purposes. And the second one would provide the full foreign
21 sales corporation benefit to defense products industry
22 products.

23 The Title X, housing and real estate tax relief, item B
24 there would make a conforming change on the historic home
25 rehabilitation credit making sure that there was a pass

1 through with respect to mortgage contracts.

2 Title XI, miscellaneous provisions. There are
3 modifications first of all with respect to rural airports
4 that are not accessible by road. They would be considered a
5 rural airport.

6 The second modification would allow farmer coops to pay
7 dividends on capital stock without reducing their patronage
8 dividends.

9 The third provision would repeal the five-year
10 limitation on treating life insurance companies as
11 includable corporations for consolidated tax return
12 purposes.

13 The fourth provision would modify the personal holding
14 company rules with respect to the single corporation test
15 for active business safe harbor and lending and finance
16 business.

17 Number five would allow a 50 percent tax credit for the
18 cost of complying with wheelchair accessibility requirements
19 on inner city buses. The final two modifications would
20 provide for an acceleration in the increase in current law
21 for meals for truckers and other workers who are subject to
22 Federal hours of service.

23 The final modification in the miscellaneous package
24 would allow private activity bonds for 15 pilot projects
25 under the Transportation Equity Act for the 21st Century.

1 Title XII would amend the -- would provide that the
2 Section 45 credit would be amended to include landfill gas.

3 Title XIII would make a technical change to an elective
4 withholding revenue raiser that's in the Chairman's mark.

5 And finally, under G, the loophole closers' title, item
6 seven would be modified with respect to S corps and ESOPs.

7 Senator Moynihan. Mark, I wonder if I could ask, just
8 how many thousand pages do you think this tax bill will come
9 to?

10 Mr. Prater. Senator Moynihan, we are still in the
11 process of drafting it. I could check on that for you
12 because we have pieces of the statute, but we do not have --

13 Senator Moynihan. Give us a ball park, 2,000 pages?

14 Mr. Prater. Under 500, Senator Moynihan.

15 Senator Moynihan. Wait until we're through today.

16 [Laughter.]

17 Senator Nickles. Mr. Chairman, could we ask a couple
18 of questions about these provisions?

19 The Chairman. Yes, Senator Nickles.

20 Senator Nickles. I don't know if you're planning on
21 adopting them or what, but just a couple of questions. One,
22 Mark, you mentioned private activity taxes and bonds be
23 issued to finance 15 pilot projects for financing under the
24 Transportation Equity Act?

25 Mr. Prater. Yes, sir.

1 Senator Nickles. What's the purpose of these bonds?

2 Mr. Prater. Senator Nickles, this was a program, a
3 series of pilot projects, I believe Senator Chafee and
4 Senator Moynihan were involved in basically looking at
5 public/private partnerships for toll roads and other kinds
6 of transportation methods. This proposal conforms to the T-
7 21 notion of these pilot projects. The reason that you have
8 to change the bond rules is that you have a public/private
9 partnership operating here and the finance committee
10 approved this amendment as part of the T-21 legislation that
11 our amendment -- the Finance Committee amendment, I believe
12 it was in '98 that we did it. So this is a provision that
13 kind of conforms to some policy in T-21.

14 Senator Nickles. So there could be \$15 billion of new
15 tax exempt for these pilot projects. Are those pilot
16 projects described in the amendment?

17 Mr. Prater. They are not described in the amendments,
18 Senator, the amendment cross-references the T-21
19 legislation.

20 Senator Nickles. So by cross-referencing the T-21
21 legislation those -- I'm just wondering how many of the 15
22 we have in Texas and Oklahoma and Mississippi --

23 Mr. Prater. Let's see.

24 Senator Nickles. I'm not asking that. I'll find out,
25 but I'm --

1 Senator Gramm. Just tell us about Texas, we don't
2 care about --

3 [Laughter.]

4 Mr. Prater. Senator Gramm, Senator Nickles, DOT
5 makes the selection based on the criteria in the T-21.

6 Senator Nickles. But are we given an advantage? For
7 example, you have private financing, I believe, on the toll
8 road that's going to Dulles, or the expansion in some of
9 those, is this giving an advantage over some to finance some
10 construction with tax exempt versus those, or are those tax
11 exempt and I don't know it?

12 Mr. Prater. The difference, Senator, in this case
13 you're right that there could be tax exempt bonds for
14 highway construction for government projects. In this case
15 because you have the private party as a partner, say with
16 the toll road, it may be involved in operating the toll
17 road. It's necessary to make this change if you want them
18 to be able to issue the bonds.

19 Senator Nickles. Let me move on to a different
20 subject. The next provision you had were to have a tax
21 credit for landfill gas used to produce electricity and it
22 qualifies for a Section 45 credit. What is a Section 45
23 credit?

24 Mr. Prater. Senator Nickles, under current law,
25 although it did, actually it expired with respect to

1 projects placed in service a couple weeks ago. Section 45
2 provides a production credit of roughly 1.7 cents per
3 kilowatt hour for electricity produced from two sources
4 currently, wind projects, and what is called "closed loop
5 biomass"; and so the current kinds of projects are basically
6 wind projects. That's our understanding. The credit is a
7 production credit that stretches out for a period of roughly
8 ten years from the time the facility is placed in service.

9 Now, that provision has expired with respect to
10 projects placed in service. Under the Chairman's mark we
11 extend that out and modify it with respect to poultry litter
12 and this landfill gas production. But it must be --

13 Senator Nickles. Which is methane.

14 Mr. Prater. Right.

15 Senator Nickles. I could think of different ways of
16 describing that.

17 [Laughter.]

18 The Chairman. Okay. I believe that completes the
19 modifications. So we will now proceed with amendments. But
20 before we call for amendments, let me remind the panel that
21 we will alternate from side to side and Senator Moynihan
22 will offer the first amendment.

23 I would also like to advise members that, as I have
24 previously advised, that amendments must be revenue neutral.
25 And in so advising members, I did that knowing that the

1 Chairman's mark would exercise the full limit of the
2 Senate's instruction to reduce revenues up to \$ 792 billion
3 over ten years. Therefore, amendments that cost revenue,
4 but provide insufficient offsets will cause us to violate
5 our instructions. And such amendments will be ruled out of
6 order as non-germane to our instructions.

7 Equally vexing are amendments with offsets that are
8 unworkable. Now, it's been a tradition of the committee to
9 hold conceptual markups, and this is, indeed, a significant
10 convenience to the members of this committee in offering
11 amendments. But it must be remembered that the purpose of
12 the conceptual markup is to facilitate the creation of
13 actual statutory language. Offsets that lack the concrete
14 specificity found in statutory language does place a strain
15 on the system. Offsets should be as specific as the
16 benefits paid for. Offsets should likewise be workable.

17 To suggest that provisions be paid for by pro rata
18 reductions and the hundreds of provisions of the mark
19 boggles the mind and creates very complex drafting problems.
20 If members were required to produce pay fors and statutory
21 text, doubtless this would stop. Please understand that
22 such vague pay fors are really no pay fors for all.

23 Now, I want to continue with our tradition, but we must
24 keep our wheels on the track, conceptual markups must
25 provide for will pay fors. I think this has been discussed

1 between Senator Moynihan's office and mine and we're in
2 agreement.

3 Senator Moynihan. Quite right, Mr. Chairman.

4 Senator Rockefeller. Mr. Chairman, I don't mean to be
5 a pest, but I just wanted to ask an additional question.
6 The rules of the day are that we have to vote by the end of
7 the day on the entire package; right?

8 The Chairman. That's it, yes.

9 Senator Rockefeller. And there will not be another
10 markup to adjust what it is that we voted on today; am I
11 right?

12 The Chairman. That's correct.

13 Senator Rockefeller. The reason that the business of
14 distributional tables is so important to me, and I suspect
15 probably to a number of others is that it appears to me and
16 it appears to others who have studied this more closely that
17 the advantage of these tax cuts weigh very, very heavily
18 towards those who as is traditionally said at least need
19 them, and that includes the citizens for tax justice as a
20 number of others who say that 76 percent of the tax cut in
21 your plan would go to the highest incomes and about 7
22 percent to others.

23 Now, then one looks at the distributional -- at the
24 estimated revenue effects of the democratic alternative
25 package which we will be voting on today, and at the top it

1 says, the analysis is very preliminary. Now, I don't know
2 what the word "very preliminary" means, but when we're doing
3 something of this magnitude, when the effect on people in
4 this country is so large, what is so sacred about the end of
5 the day that we would vote upon something which could have
6 consequences which none of us understand which we will know
7 as we vote, none of us understand what the consequences will
8 be. We also know that as of the end of the day or tomorrow
9 morning the Treasury Department will have distributional
10 analysis on all of this.

11 And one may or may not like what at Treasury has to say
12 about it, but they will have it on August 2004 on through.
13 And I'm just -- I really -- I mean, this is a powerful
14 committee with a powerful ability to affect the lives of the
15 American people for a generation based upon what we're going
16 to vote upon today, and my preliminary feeling is that we
17 don't know what it is that we're going to vote upon today
18 except in generic and general terms satisfying often sort of
19 long-held instincts that various people might hold. And I
20 would simply ask for a response from the Chairman.

21 The Chairman. Well, I would say to my distinguished
22 friend and colleague that each Senator will, of course, have
23 to vote their conscience. And the process that we have been
24 following has been consistent with the practices of the past
25 whether they said it was controlled by Republican or

1 Democrats. I would point out that we have instructions from
2 the budget resolution to complete this work by -- before we
3 let out for the August recess.

4 It's my intent to proceed as expeditiously as possible
5 in accomplishing that. And I would point out to the
6 distinguished Senator that I think this Chairman has very
7 carefully brought in both the majority and minority in
8 developing the legislation. We have called for comments, we
9 have worked very closely with the staff of both sides.

10 One can always, to be candid, sort of nitpick at this
11 that and the other thing. But we have to get the job done.
12 And I think the process we are following is reasonable, it
13 is fair. I think people have had the opportunity of knowing
14 what we are undertaking, and, again, as I said, of course
15 each Senator will ultimately have to vote their conscience.

16 Senator Gramm. Mr. Chairman, is it timely now to
17 begin offering amendments, and I think you said you wanted
18 to go with the substitutes first?

19 The Chairman. Yes, right.

20 Senator Gramm. Well, if you wanted to do that, if
21 someone else -- did you want to go first, Pat? If you do,
22 I'll step aside, if not, I'll go ahead and start it.

23 Senator Moynihan. That's the Chairman's
24 understanding, and, yes I do.

25 Senator Baucus. Mr. Chairman, I would like to make a

1 comment --

2 The Chairman. Senator Moynihan --

3 [Laughter.]

4 Senator Baucus. Before we begin, if I might, Mr.
5 Chairman, before we begin?

6 The Chairman. Yes, Senator.

7 Senator Baucus. I think the Senator from West
8 Virginia does raise a point that I think we all should
9 consider. First, Mr. Chairman, you have been very gracious
10 and working in a bipartisan way with members of this
11 Committee. That very much has been the tradition of this
12 Committee. It's a tradition that this Committee has prided
13 itself on, that is, it's being bipartisan and working with
14 joint tax and trying to come up with a good solid sound
15 based bill.

16 It is my impression, however, that we've sort of let
17 slip somewhat the degree of rigor and integrity that this
18 committee has examined tax bills and I have a couple of
19 examples. One is, this is the first time in my memory, I
20 could well be wrong that on a major tax bill that there has
21 not been a walk through of the bill. I have found in past
22 years that when we had a walk through it helps me, it helps
23 our staffs, it helps America get a better understanding of
24 what's in this bill. Because, after all, we are working for
25 the American people. I mean, that's our job, and it seems

1 the American people deserve to have a full explanation, as
2 much as possible as to what's in this bill.

3 I do find that somewhat disconcerting that we did not
4 have a walk through in this bill. A second disconcerting
5 development is that even though distribution tables have
6 historically been provided for only five years, this is a
7 ten-year bill and bulk of the tax provisions, at least the
8 magnitude of them, fall outside of the five-year window.
9 They fall -- they are in place after five years. And so
10 while it is true that the distribution tables have been --
11 are only five years in the past, it is also true that in the
12 past the effective date of tax cuts tended to fall in place
13 on a sort of proportionate basis; that is, they're
14 proportionately more in place in the first five years than
15 they are in this bill. And so the practice of backloading
16 and having the major provisions be in effect in the last
17 year in a certain makes the distribution table in the first
18 five years irrelevant. Not totally, but less meaningful.
19 And that's not good.

20 I understand that Treasury will come up with a ten-year
21 distribution table soon and I don't know how soon that is,
22 but it clearly would be, with that information available,
23 there are clearly members of this Committee would be in a
24 better position to know, you know, what we should vote on
25 what we should vote against.

1 So, Mr. Chairman, I do agree that it's clear that
2 you've been very gracious, but it's also my impression that
3 there's been some backsliding with respect to the rigor
4 which this Committee has provided solid information to
5 members on which we can make the solid choices. And I do
6 hope this practice does not continue.

7 The Chairman. Well, we're anxious to proceed with the
8 amendments, just let me make a brief comment. Thursday
9 night, of course, we did have a walk through at which time
10 people had the opportunity to ask questions, and then, of
11 course, yesterday after the opening statements were
12 completed, we opened the floor to any questions that at that
13 time any individual might want to make on the markup.

14 I would like now, if we could --

15 Senator Baucus. Mr. Chairman, I just think the record
16 should be correct. Thursday night we just had a 17-page
17 summary of the bill. We did not have a walk through of the
18 provisions that we had in the past. Just for the record.

19 The Chairman. As I say, we did go through it and it
20 was discussed by the staff as in the past.

21 At this time I would call on my distinguished friend
22 and colleague, Senator Moynihan.

23 Senator Moynihan. Thank you, Mr. Chairman, and the
24 honor and opportunity falls to me to present the democratic
25 alternatives to the measures we have seen develop in the

1 majority in the House and now in the Senate.

2 We have a wholly different view of how to manage our
3 affairs in the next decade. We are confident that there
4 will be a \$2 trillion surplus in the Social Security revenue
5 stream. And that is a stream that can be accurately
6 projected. It's almost an actuarial exercise. And one of
7 the fine things of this moment is that on both sides we
8 agree that money will be kept for debt reduction. We can
9 reduce the national debt by more than half in this period.

10 There is also projected a \$1 trillion on-budget surplus
11 to use our -- it is a much more tentative projection, all
12 manner of intervening events could change it and we think
13 it's much wiser to be careful about what we commit ourselves
14 to in the form of tax reduction and also much more important
15 to reserve monies should they come as we hope they will for
16 other matters.

17 Therefore, we propose to divide the putative trillion
18 dollars into three -- approximately three thirds. First we
19 would reserve about a third for the non-Social Security
20 surpluses for Medicare reform. That has to be done, we know
21 it, it's coming, we need it.

22 Another third we would use to restore the discretionary
23 spending priorities that we've had in our budget for half a
24 century and which were frozen in '97 are declining
25 precipitously absent any cost of living adjustment and which

1 will take place. We will raise those spending limits
2 regardless of what we now say because the nation has been
3 committed to those goals, not the least of which is national
4 defense.

5 And, finally, a third, as the Chairman graciously
6 noted, \$290 billion in tax relief. Now, to be specific on
7 this, the total costs of our proposal is \$317 billion. We
8 provide offsets which are small tax increases of 27 billion,
9 we think they are reasonable and doable, and the net cost is
10 290.

11 In sum, Mr. Chairman, we would review one of -- we
12 would provide \$189 billion in broad-based and marriage
13 penalty tax relief. We would increase the standard
14 deduction by 60 percent. That would simplify filing for
15 some 12 million taxpayers, 3 million of whom will leave the
16 tax rolls altogether and 9 million will now be able to claim
17 the standard deduction.

18 We would provide \$27 billion in health care
19 initiatives, including a tax credit to make health insurance
20 affordable for the uninsured.

21 We would provide \$31 billion in technology and economic
22 development incentives including a permanent extension at
23 long last of the research credit.

24 There you are, sir, the measure has been before us
25 several days in its details, but those are the general

1 principles which we prescribe, and which we hope will have a
2 positive influence on the other side of the aisle. I see
3 Senator Mack is smiling, that's a good sign.

4 [Laughter.]

5 Senator Moynihan. Senator Thompson is smiling.

6 Senator Gramm. He has fallen asleep.

7 [Laughter.]

8 Senator Moynihan. And there you are, sir, I submit
9 that as the first amendment offered to your committee
10 chairman's bill.

11 Senator Nickles. Mr. Chairman?

12 The Chairman. Yes, the Senator from Oklahoma.

13 Senator Nickles. Mr. Chairman, I might -- I notice my
14 friends on the democrat side have some tax cuts, and they
15 also -- which I compliment them for moving in the right
16 direction, but I notice they also had a little regression
17 and they had some tax increases, and I might ask staff, one
18 of which was restoring the phase out of the unified credit
19 for large estate. Now, the maximum tax rate for estates is
20 55 percent under current law, but there's a phase out, and
21 so what's the net impact of that provision?

22 Ms. Paull. The top statutory rate is 55 percent under
23 current law. In addition, there's a 5 percent bubble,
24 surcharge, whatever you want to call it, that phases out the
25 benefit of the lower rates, the lower rates in the estate

1 tax table.

2 Senator Nickles. So those are -- go ahead.

3 Ms. Paull. And then this would, on top of extend that
4 5 percent surtax to phase out the benefit of the unified
5 credit as well as the estate gets larger. So those States
6 that are in those phase outs would have a marginal tax rate
7 of 60 percent.

8 Senator Nickles. So net impact of this provision is
9 those estates that say are in the \$10 million or \$15 million
10 range would have a 60 percent rate continue?

11 Ms. Paull. Is it? I'm not sure exactly --

12 Mr. Sullivan. It's around 17 million.

13 Ms. Paull. it's in the 10 to --

14 Senator Nickles. Ten to 17 million if my memory
15 serves me correct. So that's one of the provisions. Also
16 it reinstates superfund taxes; is that correct in the pay
17 for?

18 Ms. Paull. That's correct.

19 Senator Nickles. Do they have the superfund bill? Is
20 that reauthorized in this amendment?

21 Mr. Sullivan. No, Senator Nickles, it is not.

22 Senator Nickles. I didn't think it was. Some of us
23 are kind of saying we ought to maybe extend the superfund
24 taxes when we pass superfund reauthorization. I just make a
25 couple of those points. I would, Mr. Chairman, just urge

1 our colleagues to not support this amendment.

2 Senator Moynihan. Mr. Chairman, may I just say on the
3 superfund. That is a matter which Senator Chafee and I have
4 been much committed to since 1970. I'm sorry, 1980 when
5 Senator Stanford put it together. The program goes on, the
6 legislation needs to be reenacted. This is not an increase,
7 this is just a continuation of measures that have been in
8 effect since 1980.

9 Senator Baucus. Mr. Chairman.

10 The Chairman. Yes, Senator Baucus.

11 Senator Baucus. With respect to the two matters
12 raised by the Senator from Oklahoma, number one, it's my
13 understanding that that change in the State tax is regarded
14 by the staffs of both sides as a technical change. That is,
15 the Republican and Democratic staff so regards it as a
16 technical change of a mistake that was in the current -- in
17 the previous law. Although for the full exposition of the
18 record here I think Chairman Archer on the other side calls
19 it a, you know, effectively a tax increase, but the staffs
20 over here, Republican and Democrat at the staff level,
21 anyway, have looked at that and felt that change was a
22 technical change to correct a prior mistake.

23 Second, with respect to superfund, the Environment and
24 Public Works Committee is working aggressively, Chairman
25 Chafee of that Committee will certainly attest to this, to

1 get a superfund bill out this year, that we've worked very
2 hard, that we've had a lot of meetings, we're committed,
3 Senator Chafee and I, to get that bill passed this year.

4 This bill before us, of course, could not contain the
5 superfund bill. This Committee does not have jurisdiction
6 over superfund legislation. But we are trying to get that
7 bill out. And, frankly, we're not that from agreement.

8 With respect to the extension of the superfund excise
9 tax and the corporate tax, essentially those -- the fund
10 that's needed to clean up sites is going to expire pretty
11 soon unless those taxes are extended. And I think everyone
12 agrees at those sites, the remaining sites should be cleaned
13 up. Otherwise, you have to ask the question, who is going
14 to pay for the clean up. If this is not extended then the
15 general taxpayers are going to end up paying for the sites.
16 Because the extension of superfund tax premise assumption is
17 that companies that own companies, petrochemical companies
18 pay for half of the tax and the other half -- I think it's a
19 credit against AMT, it's a corporate income tax credit AMT
20 on companies generally.

21 The question is, who pays for the clean up? Is it
22 going to be the general taxpayers who did not cause the
23 waste, or is it going to be, in a very generic general
24 sense, some of the companies that directly or indirectly
25 caused the waste. But we are trying to get that done, and

1 that's why we have the extension in our amendment.

2 Senator Nickles. Mr. Chairman.

3 The Chairman. Yes.

4 Senator Nickles. Just very briefly. One, I think it
5 would be a mistake to have the superfund tax until we have a
6 superfund bill. And, frankly, it would be my strong
7 intentions to see that we don't have a superfund tax until
8 we do have superfund reauthorization. I do want to
9 compliment my colleagues on the Democrat side who did offer
10 a net tax relief of 290, and I noticed from CBO today they
11 said the President's revised budget has a \$95 billion tax
12 increase over the next ten years, and so this is combined.
13 It's actually, instead of a tax increase, as the President
14 proposed, it is 290, so you're moving in the right
15 direction. I want to compliment you.

16 Senator Kerrey. If we find a different offset, would
17 the Senator support our amendment.

18 Senator Nickles. I doubt that.

19 [Laughter.]

20 Senator Kerrey. Well, I thought we were moving in a
21 constructive --

22 Senator Nickles. The President tried to increase
23 taxes over the next ten years, according to CBO, \$95
24 billion. My colleagues on the Democrat side have said that
25 out of a \$3 trillion surplus, let's give the American

1 taxpayers a little less than 10 percent. You're moving in
2 the right direction. We're going to hopefully make some
3 more progress.

4 Senator Moynihan. Could I plead with my friend from
5 Oklahoma that the President won't veto a Democratic tax
6 increase.

7 [Laughter.]

8 Senator Gramm. That's what we're afraid of.

9 [Laughter.]

10 Senator Kerrey. Mr. Chairman.

11 The Chairman. Just let me say that I'm very much
12 encouraged by the fact that the Democrats do have an
13 alternative tax proposal.

14 Senator Kerrey. Mr. Chairman --

15 The Chairman. We were very concerned at one time that
16 there would be no support for any tax cuts. So I think we
17 are moving towards a consensus. Yes.

18 Senator Kerrey. Mr. Chairman, if I could speak to
19 this amendment? Is it in order?

20 The Chairman. I think to be fair, I think Senator
21 Gramm has -- didn't you --

22 Senator Graham. My concern is, Mr. Chairman, this is
23 a very semiole moment that we are at. We are making a
24 decision which is going to have as much effect on the future
25 of that is country for the next decade as any that we are

1 likely to make. I think we ought to be looking at the
2 architecture of the consequence of what we're doing, not
3 poking our nose into the corner of the basement into
4 relatively insignificant issues such as we've discussed thus
5 far.

6 I think the fundamental questions are, how much of our
7 on-budget surplus that is currently projected should we
8 allocate to the issue of tax reductions? What are the
9 economic consequences of the alternatives that are available
10 to us in allocating those on-budget surpluses? And what is
11 the relative fairness among all of the stakeholders of the
12 American people in those allocations? To me, those are the
13 issues that we should focus on.

14 I will say for one that I believe we shouldn't be
15 considering any tax cut until we've dealt with first
16 business first. And that first business is the
17 strengthening of the Social Security system and the
18 strengthening of Medicare. Those should be the two
19 predicate issues before we consider an tax cut. I will
20 discuss in the form of an amendment that I will offer later
21 why I believe those are the right priorities. But this
22 discussion to be of benefit to the American people and to
23 our colleagues should focus on these very large implications
24 of what the options before us will entail for the
25 foreseeable future of the American people and our economy.

1 The Chairman. Senator Kerrey, please.

2 Senator Kerrey. Mr. Chairman, I too want to speak in
3 favor of this amendment. It's not just a tax cut, it's a
4 comprehensive look at the needs of the country for debt
5 reduction to sustain the fiscal discipline and economic
6 growth, the need to reform and restructure Medicare as well
7 as to adopt an urgently needed prescription benefit, and the
8 need to keep promises to our veterans, to keep the effort
9 under way that has enabled our people to say they feel safer
10 on the streets than ever before, and many other things that
11 are accomplished through our domestic spending efforts. So,
12 it is a comprehensive look. It's not just a tax cut.

13 My argument for a tax cut, and I declare that I -- Mr.
14 Chairman, you've done an excellent job with your bill as
15 well. I'm not troubled by cutting taxes by \$790 billion. I
16 hope to be able to vote for final passage of a tax cut bill.
17 Because I think taxes need to be cut. They're too high,
18 we're pushing now at historic levels of revenue and I
19 believe that if all we do is look at the world through this
20 on-off budget formula we don't see the most important
21 problem that we have with our budget today. Which is, that
22 the mandatory programs, Social Security, Medicare, Medicaid,
23 and the other means and non-means tested program today
24 consume 56 percent of the budget. And under CBO's
25 projections, in ten years they will consume 70 percent of

1 the budget. That's what is putting pressure on domestic
2 spending.

3 It is true that if we pay down debt we would get some
4 relief on that interest, but not enough to avoid a 4 percent
5 cut, Mr. Chairman, of domestic spending, 4 percent of our
6 current total budget. That's what is putting pressure on
7 domestic spending. It's the growth of mandatory programs.
8 And so not only do I think that we're at historic high
9 levels of taxes, and taxes need to be cut, but I also
10 believe cutting taxes will put pressure on Congress to get
11 us finally to address both Social Security and Medicare.

12 I agree with Senator Graham, I think we need to address
13 those first. We've heard the battle cry for the last two
14 years, let's fix Social Security first. I will offer an
15 amendment that does that. Not likely to enjoy a majority
16 support, but we know what needs to be done, we're just not
17 doing it. And so both for reasons that this amendment
18 addresses a comprehensive set of problems, but also because
19 I believe income taxes need to be cut I'll support this.

20 I would prefer, in my minimal address, to fix Social
21 Security and cut payroll taxes instead. But I hope that
22 this dialogue that we've got going right now which is the
23 Chairman has offered 790, ranking members offered \$300
24 billion. I hope that this Committee can play a very
25 constructive role in writing a tax bill that will eventually

1 enjoy broad bipartisan support that the President will sign,
2 because I think taxes do need to be cut. The other things
3 need to be done as well, and I think we can get that done
4 this year and it will be a big victory for the American
5 taxpayers, it can be a big victory for Medicare
6 beneficiaries, it can be a big victory for our children, for
7 our veterans, and other areas as well, but we just have to
8 -- I think we have to have the requisite patience and
9 listening capacity to be able to put together a bipartisan
10 bill in the end.

11 Senator Gramm. Mr. Chairman.

12 The Chairman. Yes, Senator Gramm.

13 Senator Gramm. Well, Mr. Chairman, let me first say
14 that I want to agree with Senator Kerrey, I think taxes are
15 too high and I just want to remind people who are talking
16 about the size of the tax cut that when Bill Clinton became
17 President, before his tax increase went into effect, the
18 Federal Government was taking 17.8 percent of every dollar
19 earned in the American economy. Today the Federal
20 Government is taking 20.6 percent of every dollar --

21 Mr. Sullivan. 28, I thought.

22 Senator Gramm. Well, that's -- you're using a newer
23 figure than I have. I have 20.6, but even if we took every
24 penny of the surplus, which with the new projection would be
25 \$200 billion more than you're talking about, Mr. Chairman,

1 as a tax cut. Even if we gave every penny of that, your
2 bill plus 200 billion back to the American people, the tax
3 burden would still be 18.8 percent of the economy, so the
4 tax burden would still be substantially above where it was
5 before the Clinton tax increase went into effect.

6 So we're not getting back to where we started with your
7 bill is the first point I want to make. I also want to just
8 join you in saying that I do believe that our Democrat
9 colleagues are going in the right direction, but I think
10 it's important to note that they give back only about a
11 tenth of the surplus to the taxpayer, they would repeal
12 about one-tenth as much marriage penalty as your mark does,
13 about one-seventh as much of the estate tax, and in the end
14 a third of what they're calling a tax cut is really spending
15 initiatives in the form of these targeted tax changes that
16 really force people to spend the money the way they want it
17 spent in order to get it.

18 So I think we are saying here that we reject what
19 President Clinton proposed, which was another tax increase,
20 but I would have to say that while the Democrats and the
21 substitute offered by Senator Moynihan is moving in the
22 right direction, I would, while applauding that, say it has
23 a way to go. So if Pat will identify with it, if this were
24 a student paper in our tax seminar, I would send it back and
25 say, you're moving in the right direction, more effort

1 needed incomplete.

2 [Laughter.]

3 Senator Kerrey. Mr. Chairman, if I could respond to
4 Senator's response to my statement about being over tax
5 rate. The key issue here is how much are we spending? It's
6 the spending that determines how well we're doing. And
7 you're quite right, when President Clinton came to office,
8 the tax rate was at -- the total taxes were some 17 percent,
9 but the spending was over 20 percent. We had a huge
10 difference between our spending and our taxes, and that was
11 called a deficit and we were borrowing money at \$300 billion
12 a year to cover it.

13 Today we do have tax rates at 20.7 percent or so, but
14 the spending now is down to 19.7. So there's been a
15 substantial change in the picture. I mean, I favor cutting
16 the income tax, but I don't want to take away from -- I
17 think we made tremendous progress in bringing spending in
18 taxes into balance.

19 Senator Conrad. Mr. Chairman.

20 The Chairman. Yes, Mr. Conrad.

21 Senator Conrad. Just to make the point, because I
22 think it's critically important and I think we are making
23 choices here that make an enormous difference to the
24 economic future of our country. You know, when you look at
25 the choices that are up here, you can't see it, I'll just

1 tell you what's there. We have got surpluses, that as
2 Senator Moynihan indicated, are about \$3 trillion over the
3 next ten years. But nearly two trillion of that is Social
4 Security. We have all agreed that we're not going to touch
5 that part of it. Then there is some additional interest
6 cost that has to be deducted and so you wind up with \$870
7 billion that is available for us to decide what to do with,
8 if we're not going to touch Social Security money.

9 \$870 billion, the Chairman's mark uses nearly all of it
10 for tax relief. I believe those are wrong choices. I
11 believe they are -- that is a dangerous choice to make. I
12 believe that puts the economic progress we've made in the
13 last six years in jeopardy. Because these are based on
14 projections, projections over ten years. I used to have the
15 obligation of projecting the revenue for the State of North
16 Dakota, that was part of my job.

17 Anybody who does projections will tell you five years
18 is murky. We already heard Lindy say the economists are
19 very reluctant to make five-year projections. These are
20 ten-year projections. It may not come true. And, yet,
21 we're ready to spend the money today as though it is all
22 going to come true, that we're assured of this happening.
23 And, in fact, we know this tax cut explodes in the second
24 ten years at the very time the baby boomers start to retire.

25 If that's not dangerous, I don't know what is. It took

1 us years to dig out of the mistakes that we made in the
2 '80s. Let's put up the chart that shows what was done here.
3 This one is much easier to see. The blue line is spending
4 as a percentage of the GDP. The red line is our receipts.
5 And it is true receipts have gone up.

6 It is also true that spending as a percentage of our
7 GDP has gone down. That's why we were able to balance the
8 budget. And in balancing the budget, we were able to
9 eliminate the deficits, take pressure off of interest rates,
10 and get this economy moving again.

11 It's a central reason, I believe, why we've enjoyed
12 this economic prosperity. The greatest economic expansion
13 in our history, the lowest inflation in 30 years, the lowest
14 unemployment in 30 years, and on the question of what's
15 happened to people's individual taxes, this is what the
16 respected firm of Deloitte and Touche tells us. It is true
17 as a percentage of our national economy revenues are at a
18 high. They're at a high because of this economic boom. The
19 wealthiest among us have had enormous capital gains
20 realizations. That's why the income is high. But reducing
21 spending and increasing the revenue is what allowed us to
22 balance this budget.

23 Let's look at what's happened to individual families,
24 what's happened to their taxes. Their taxes aren't at an
25 all time high. That's not what the accounting firm of

1 Deloitte and Touche tells us. Their taxes have gone down
2 from 79 to 99 family income of 35,000 their effective tax
3 rate has gone down from 11.2 percent to 10.5 percent. And
4 for a family income of 85,000, this is their combined tax
5 obligations, this is Social Security taxes and income taxes,
6 have gone down from 17 percent to 16.3 percent.

7 Now, that doesn't mean we shouldn't have additional tax
8 relief. I believe we should. But if we've got \$870 billion
9 that's available for all of the needs over the next ten
10 years, I believe the substitute offered by Senator Moynihan
11 is a reasonable distribution of that money. One-third for
12 tax relief, one third to strengthen Medicare, one-third for
13 domestic needs like education and defense and agriculture
14 and all the rest, the fact is, just to stay where we are now
15 would require \$580 billion for domestic discretionary
16 spending. \$580 billion. We are, in our proposal, only
17 offering half of that. In real terms we're cutting money
18 for domestic needs, not as dramatically as the Republican
19 plan does, but nonetheless, we are cutting money available
20 for domestic needs.

21 So the final choices, Mr. Chairman, under your
22 proposal, virtually all of the non-Social Security surplus
23 goes for tax cut. Under ours, we have money for Medicare,
24 yes, for tax relief, but also for domestic needs, and I
25 think those really are the priorities of the American

1 people.

2 The Chairman. The proponent of the substitute has
3 asked me to proceed with a vote.

4 Senator Baucus. If I could, Mr. Chairman?

5 The Chairman. Sure, I would ask him to keep it brief,
6 if he would.

7 Senator Jeffords. Mr. Chairman, I just have a small
8 comment to make at some point.

9 The Chairman. We will call on you next.

10 Senator Baucus. Mr. Chairman, I don't think we should
11 brush away too lightly just how important this decision is
12 and how much it's going to affect the people. Not only in
13 the next several years, but particularly on down the road.
14 And it's also noteworthy that here we are at the end of this
15 century, at the end of this millennium, we have this huge
16 surplus. It's a unique opportunity. We've never had this
17 before, and it just seems clear that we should sit back a
18 little bit with perspective and try to figure out what's the
19 best use of this surplus.

20 Now, I know it's tempting to say, tax cuts; and that's
21 always the politically expedient, instant gratification,
22 knee-jerk, immediate response. And I do believe that some
23 of this should be returned in tax reductions.

24 But if we are honest with ourselves, the American
25 people, I think, want us to establish a little bit of common

1 sense here, a little balance, a little perspective, and do
2 what's right. Well, what does right mean?

3 Right, I think, means being a little careful, being
4 prudent. The American people really don't trust these
5 estimates, these projections totally and fully. They've got
6 a lot of common sense. You know, they know that life
7 changes, things happen, and so they probably are not
8 putting, you know, 100 percent of their stock into these
9 estimates, and well they shouldn't, because these estimates
10 have not been accurate all the time.

11 The average, I think, is 13 percent deviation over five
12 years. So for ten years it's going to be compounded to a
13 much greater degree and we all know that there's a 25
14 percent mistake CBO made between January and July of this
15 year in the favor of the economy, but it could have gone the
16 other way.

17 So, number one, Americans are a little -- they are
18 probably a little nervous. What do they want? I think most
19 Americans want to pay down this debt. They know we have a
20 \$5 trillion debt roughly and they don't like that. They
21 also want to do something about Medicare. Seniors and the
22 baby boomers know that Medicare is in jeopardy and that we
23 probably should do something about Medicare. They probably
24 -- the American people don't know just how insidious the
25 backloaded nature of this plan is. That is that there will

1 be huge deficit increases in the second decade under this
2 bill.

3 And I say "insidious" because these are provisions that
4 will go into effect after the next president -- after the
5 next president is elected. I don't know that we want to do
6 that. Why do we want to place in law today provisions that
7 would be put in after two presidential elections?

8 There's this trend that has developed here that if we
9 don't take care of present problems, somehow we're taking
10 care of future problems in the sense of backloading these
11 provisions to mask, frankly, what we're really doing. It's a
12 bit of a shell game, frankly, the way this bill is designed.

13 And I'm stunned, frankly that we have a bill before us
14 that in my view causes these tremendous dislocations.
15 Particularly at time, it's been mentioned before, it must be
16 repeated, at a time when the baby boomers are retiring, at a
17 time when there will be so many more people on retirement.
18 Thirty years from now there will be twice as many people
19 over age 65 as today. And the number of people paying into
20 Social Security and Medicare as workers will be fewer per
21 retirees than today.

22 On thing we do know, demographics don't change very
23 quickly. We know how many older people there will be, 10,
24 20, 30 years from now. One thing we don't know with much
25 certainty is how many dollars will be available to

1 accommodate those people. We don't know that, because
2 these, as I said, are mere projections, they're mere IOUs,
3 it's not cash in the bank.

4 I also believe that even though we don't have the
5 precise answer to Medicare, the American people want us to
6 do something about Medicare. They want prescription drug
7 benefits of some kind, and they may not know if we need
8 structural reform of Medicare and Social Security or whether
9 we just need to put money into it. That's less of a real
10 concern for most American people.

11 We here are charged though to do what's right, and I
12 think most of us would agree that Social Security and
13 Medicare both need both structural reform and additional
14 resources to make them as solvent as you'd like them to be.

15 So I say, let's talk the amendment offered by the
16 distinguished Chair from New York, our ranking member,
17 because it's fair, it's balanced, it's a little conservative
18 because I think the American people when faced with a
19 prospect of a huge budget surplus are probably a little
20 careful or conservative or about it. And it also includes
21 funds for Medicare and at an appropriate date we could deal
22 with structural changes and if we do have a structural
23 Medicare bill, then that money will go to deficit reduction
24 which is helpful, and/or there will be time to change the
25 laws in any way we think makes sense.

1 So, you know, we can't let perfection be the enemy of
2 the good. This alternative is a good bill. It deals in a
3 rough sense with how to take care of Medicare. It deals in
4 a rough sense of how to send some taxes back to the
5 taxpayer. \$300 billion in tax reduction is no small matter.
6 It also is a bill which is constructed on the tax side to be
7 fair and balanced and particularly helps people who need the
8 help most, and that's the people in the middle income. So I
9 urge us to adopt the --

10 Senator Lott. Mr. Chairman, I'm doing my best to
11 restrain myself. I was in hopes we could go to a vote, but
12 if we go any longer, I'm going to need to seek extended
13 recognition also.

14 The Chairman. Let me call briefly on Senator
15 Jeffords.

16 Senator Jeffords. Yes, sir. First of all, to relieve
17 any anxiety, I'm not going to vote for the amendment, but I
18 do think there is one --

19 [Laughter.]

20 Senator Jeffords. -- there is one part of it that's
21 good policy and I would like to comment on that. And that
22 is the health care tax credit. I have a health care tax
23 credit proposal of my own which I offered yesterday and
24 withdrew. There are at least 43 million Americans with no
25 health insurance. And this number will grow too with

1 protected increases in health care premiums.

2 My proposal would provide a tax credit for the purchase
3 of health coverage. The credit would be targeted to low and
4 moderate income people who represent the majority of the
5 uninsured. Low and moderate income persons who do not have
6 access to employer sponsored coverage or who cannot afford
7 to pay their share of the premium for employer-sponsored
8 coverage will benefit most from a tax credit. The tax
9 credit approach offers several advantages over other tax
10 code proposals targeted at health care, such as the
11 deduction.

12 First among the tax code options the credit will do the
13 most to decrease the ranks of the uninsured which should be
14 our top priority.

15 Second, a tax credit is efficient because it targets
16 the benefit where it's most needed. Some 93 percent of the
17 uninsured Americans either do not owe tax, or are in the 15
18 percent tax bracket, and, therefore, the deduction would
19 provide little or no benefit.

20 Finally, a tax credit can move us towards a more
21 equitable system where higher and lower-paid employees enjoy
22 similar subsidies for health coverage where those with and
23 without employer-sponsored coverage have similar tax
24 benefits and where lower and moderate income people have
25 similar opportunities to obtain subsidized coverage. I know

1 Senator Breaux and Senator Grassley and others are
2 interested in addressing the problem of the uninsured
3 through the tax credit approach, and in the months ahead I
4 will pursue that.

5 The Chairman. I think the time has come to move
6 forward to a vote.

7 Senator Moynihan. Mr. Chairman, I did want to ask if
8 my neighbor and friend from Vermont might wish to abstain?

9 Senator Jeffords. No comment.

10 The Chairman. As I said, we've had an extensive
11 debate and I think the time has come where we ought to
12 proceed with a vote.

13 Senator Rockefeller. Mr. Chairman, we're going to
14 lose.

15 The Chairman. There are a number of people that if we
16 open it up again --

17 Senator Rockefeller. We are going to lose, Mr.
18 Chairman, and I think we have a right to defend -- you're
19 going to win, the end of the day is going to be yours. So,
20 I mean, I really -- I mean, there's something I very much
21 wanted to say which has not been mentioned before, and --

22 The Chairman. That's hard to believe.

23 Senator Rockefeller. -- if I can have that
24 opportunity I would like to, it will take two minutes.

25 The Chairman. Well, the problem is, if we give it to

1 you then the Senator for Virginia is going to want to speak

2 --

3 Senator Lott. Mr. Chairman, the Senator from Virginia
4 has been seeking recognition for some time.

5 Senator Rockefeller. Mr. Chairman --

6 The Chairman. All right.

7 Senator Baucus. This is a major bill.

8 The Chairman. Yes.

9 Senator Baucus. I mean, this is a major bill. I
10 think the Senator should be heard on this bill.

11 The Chairman. Let's proceed, we're trying to proceed
12 in a fair and equitable manner. I am going to accept, I
13 think the rule that contributions should be limited to three
14 minutes so that we can proceed and give more people the
15 opportunity of participating.

16 With that, I will call on Senator Robb and next I will
17 call on the majority leader.

18 Senator Robb. Thank you, Mr. Chairman. I'll be very
19 brief and I will eliminate any suspense. I plan to support
20 the alternative that is being offered by the distinguished
21 ranking member and Senator from New York.

22 Let me suggest that using the criteria applied by the
23 Senator from Texas that if he would have given this an
24 incomplete, I would suggest that the mark that we might give
25 to the majority mark in this case would be premature. At

1 this point it seems to me that we are anticipating revenues
2 that have not yet materialized. I agree with all of the
3 concerns about long-term revenue projections.

4 Let me say that I think that this is far and away the
5 more fiscally responsible. Within the ranks of those on
6 this side, I would have been even less generous in terms of
7 the number of dollars that I would have given back. But I
8 think it's important in some of the areas that we do that
9 have not yet been mentioned with the extension -- the
10 permitted extension of the R&E credit, these are the kinds
11 of monies -- dollars we're going to spend anyhow.

12 It doesn't lock us in to some new statutory means that
13 would be very difficult to overcome. To the extent we're
14 making dollars and investments in education, those are the
15 kinds of dollars we're going to spend and they're going to
16 have long-term benefit; I suspect that if the less rosy
17 projections were in effect at this point that the same
18 remedy would be applied. Let's cut taxes to stimulate the
19 economy. Well, the economy does not need to be stimulated
20 at this particular point, and I suspect that the number of
21 remedies that would be as anxious to go as far down the line
22 if we were looking at much less favorable revenue
23 projections would not be anything like as forthcoming as
24 they are when there appears to be money that we could either
25 spend or find a way to give back in tax cuts. So I applaud

1 the ranking member for offering an alternative that is at
2 least more responsible and I believe will better serve our
3 long-term interests.

4 Thank you, Mr. Chairman.

5 The Chairman. Senator Lott.

6 Senator Lott. Thank you, Mr. Chairman. I had not
7 planned to speak at this time because I thought we would
8 have some brief statements on this and move on to a vote.
9 But I think it's not fair for us to sit here and listen to
10 what's being said on the other side and not respond to a
11 degree.

12 First of all, I thought we had a general consensus that
13 the Social Security money, the FICA tax money would be spent
14 for Social Security. And we continue to advance the idea
15 of the Social Security lock box which the House has voted
16 for with 415 votes, the President has endorsed, and yet the
17 Senate, six times, has voted not to have the Social Security
18 lock box to lock this money up. But nobody is arguing that
19 we should do anything but leave that \$1.9 trillion for
20 Social Security. That's fine.

21 I also am an advocate of Medicare reform, and I thought
22 Senator Kerrey and Senator Breaux did an excellent job with
23 the Medicare Commission. They came up with real reform, it
24 included prescription drug benefit, they did an excellent
25 job. The President jerked the rug right out from under

1 them, a bipartisan commission. And I don't think anybody
2 has proposed spending the amount of money that's in this
3 proposal for Medicare.

4 The President has talked about a net of \$48 billion
5 non- -- you know, or surplus money -- off budget surplus
6 money. Our proposal -- I think it was a gross of 90, but
7 the net was 48. Most people think that, you know, what we
8 need to do would certainly not involve more than 100 billion
9 or something, 150 billion which clearly by the wildest
10 imagination, nothing of the magnitude of what's in this
11 proposal. And then what this -- really what this proposal
12 is, is what you always get in Washington. Oh, we have this
13 massive surplus. Geez, let's find a way to spend it.

14 What a novel idea that Republicans think that the
15 people that pay the taxes that are over taxed should get to
16 keep some of their money instead of sending it up here so
17 that we can grow the Washington government more. I don't
18 agree with that.

19 As a matter of fact, while this percent of GNP spending
20 may be down some, the Federal Government has continued to
21 grow every year -- every year. So a little returning of
22 money back to the people seemed like a good idea to me. I
23 mean, we don't want -- how are we going to quit -- are we
24 going to go talking about the marriage penalty tax and not
25 doing it? And I don't think this time we ought to give them

1 like a little fake, like, oh, yeah, we'll do a little bit
2 for you. We ought to either do it or not do it.

3 Death tax, I have never found anybody rich or poor that
4 thinks that it's a good idea that we have a death tax. We
5 tax people.

6 I was in Poplarville, Mississippi and I had a lady come
7 up, didn't look like an exactly rich lady, and she said, "I
8 just don't think it's right, Senator, that my family and I
9 should have to go to the bank and borrow money to pay the
10 tax on my mother and father's farm because my father died
11 and my mother had already died." And, you know, they
12 weren't rich people. And so I think what we ought to be
13 doing here is trying to find a way to return as much as we
14 can of this overpayment, the surplus to the people. And
15 there are a lot of good ideas on the table, and I think we
16 ought to move in that direction.

17 To try to say we're going to take a third of it for
18 Medicare, which is way beyond what anybody proposed, take a
19 third of it for the usual routine around here, more
20 spending, and only then have a little bit left for tax
21 relief for working Americans, I don't think that's fair.
22 Plus, if you throw in tax increases, that is even more
23 counterproductive. So I would hope that this package would
24 quickly be defeated and let's move on to working together
25 like I think we can to provide some real tax relief for the

1 American people.

2 The Chairman. Well, the Chair is going to resist
3 making comments at this time because I think the debate has
4 been pretty exhaustive. So do you want a roll call vote?

5 Senator Moynihan. May we have the yeas and nays, by
6 all means, sir.

7 The Chairman. Yes, sir.

8 Senator Rockefeller. As I indicated, Mr. Chairman, my
9 comments are very brief. But it's interesting to me that if
10 you look at what the average West Virginia family, which
11 makes about \$30,500, below the national average, granted,
12 would make out of the Republican tax bill and there would be
13 a small adjustment on the marriage tax penalty included in
14 the Roth bill. But the average tax reduction would be \$188.

15 Now, if on the other hand if we go with the Republican
16 tax cut of almost \$800 billion, I think it would be
17 virtually impossible to imagine that the Federal Reserve
18 would not raise interest rates. I'm certain of that. And I
19 don't think anybody in here on either side of the aisle or
20 anybody in front of us or watching has any other notion that
21 there would be an increase in the interest rate tax.

22 And, so, if you look at home mortgages in West
23 Virginia, and you look at car loans in West Virginia, and
24 you look at the average student loan payments in West
25 Virginia, West Virginians would save \$456 more per year on

1 home mortgage, they would \$300 more per month on cars, and
2 on student loan payments about \$142 more per year. No, I'm
3 sorry, per month.

4 So, I mean, you're talking about in increased interest
5 rates and the cost reflected therefore upon the people that
6 I represent and that we all represent just in varying
7 degrees of interest, I mean, not of interest, but of how the
8 interest rate would affect them, the Roth bill appears to
9 give -- the Republican bill appears to give a tax break.
10 Although I agree with Kent Conrad that taxes have not been
11 lower since 1979, that everybody wants to give a tax break,
12 but I'm suggesting that the Republican bill is way that will
13 cost West Virginians more because of increased interest
14 rates and the effect that will affect all of them in terms
15 of cars, homes, and education payments. So they will pay
16 more under the Republican bill, although the Republicans
17 think that they are giving them a tax cut. They are not.

18 Senator Nickles. -- inflation was at 11 percent.
19 Those are under control and you remember who was president
20 at that time. So I think that that argument is fallacious
21 and the reality is that if the people have mor money they're
22 going to do one of two things with it. They're either going
23 to save it, or they're going to go out and add to their
24 home, buy a new car, or whatever, all of which stimulates
25 the economy, and it suggests the Fed is going to increase

1 the interest rate. So I think it's unreal --

2 We are faced with a situation now where the American
3 public is very much aware of this surplus, and they feel
4 that that surplus belongs to them and it's up to us to meet
5 an obligation to share some of that surplus with those who
6 own it and that's the American taxpayer.

7 The Chairman. Let me point out, I know a number of
8 additional policy amendments coming up that will enable
9 people to debate the same points. We've been debating, I
10 think, the budget resolution long enough, and it's really
11 time that we proceed with a vote.

12 Senator Bryan. Mr. Chairman, let me just say that I
13 think what we are about to undertake is not only critical
14 for this fiscal year, but has an impact decades ahead. I
15 think that each of us ought to have an opportunity to say at
16 least something. This Senator has not spoken.

17 I think it ought to be my right to speak for at least
18 two or three minutes, and I think the record will reflect --

19 The Chairman. Please proceed for three minutes.

20 Senator Bryan. I want to respond to the allegation
21 with respect to the Democratic proposal as another example
22 of big spending. If the current level of spending adjusted
23 for inflation only were maintained over the next ten years,
24 it would require \$580 billion, \$580 billion just to keep the
25 level of spending in real terms what it is today, adjusted

1 for inflation only.

2 Now, the Democratic proposal does not keep pace with
3 inflation. It puts in \$290 billion. So with the Democratic
4 proposal the substitute that we're about to -- we don't keep
5 pace with inflation, in real terms over ten years spending
6 will be reduced.

7 Now, the Republican budget resolution contemplates in
8 terms of real spending a reduction of over \$700 billion.
9 Now, let me just say with great respect for my colleagues on
10 the other side of the aisle, this is absolute fantasy.

11 Yesterday in the Washington Post it was indicated that
12 the highly respected and distinguished Chairman of the
13 Senator Appropriations Committee is already suggesting that
14 the spending caps that are currently in effect will have to
15 be increased this year, not next year, five years, or ten
16 years, but next year. And yet we are proceeding on the
17 premise that we will reduce real spending by \$700 billion
18 plus in the next ten years. That simply is fantasy and not
19 reality.

20 Senator Gramm. If you're adding inflation the line
21 goes up, you need to tilt your chart like that.

22 [Laughter.]

23 The Chairman. We've had adequate debate. The clerk
24 will call the roll.

25 The Clerk. Mr. Chafee.

1 The Chairman. No by proxy.
2 The Clerk. Mr. Grassley.
3 The Chairman. No by proxy.
4 The Clerk. Mr. Hatch.
5 Senator Hatch. No.
6 The Clerk. Mr. Murkowski.
7 Senator Murkowski. No.
8 The Clerk. Mr. Nickles.
9 Senator Nickles. No.
10 The Clerk. Mr. Gramm of Texas.
11 Senator Gramm. No.
12 The Clerk. Mr. Lott.
13 Senator Lott. No.
14 The Clerk. Mr. Jeffords.
15 Senator Jeffords. No.
16 The Clerk. Mr. Mack.
17 Senator Mack. No.
18 The Clerk. Mr. Thompson.
19 Senator Thompson. No.
20 The Clerk. Mr. Moynihan.
21 Senator Moynihan. Aye.
22 The Clerk. Mr. Baucus.
23 Senator Baucus. Aye.
24 The Clerk. Mr. Rockefeller.
25 Senator Rockefeller. Aye.

1 The Clerk. Mr. Breaux.

2 Senator Breaux. Aye.

3 The Clerk. Mr. Conrad.

4 Senator Conrad. Aye.

5 The Clerk. Mr. Graham of Florida.

6 Senator Graham. Aye.

7 The Clerk. Mr. Bryan.

8 Senator Bryan. Aye.

9 The Clerk. Mr. Kerrey.

10 Senator Moynihan. Aye by proxy.

11 The Clerk. Mr. Robb.

12 Senator Robb. Aye.

13 The Clerk. Mr. Chairman.

14 The Chairman. No.

15 The Clerk. Mr. Chairman, the votes are nine yeas, 11
16 nays.

17 The Chairman. The amendment is not agreed to.

18 We will now turn to the Republican side for an
19 amendment and I will call upon Senator Gramm.

20 But let me -- because I do want to give everybody an
21 opportunity -- a fair opportunity to speak, we are going to
22 limit each contribution to three minutes. And let me say
23 that we want to give everybody the opportunity to speak
24 before we have the same Senator speak several times, so that
25 everybody does have a fair opportunity. With that, I call

1 upon my good friend Senator Gramm.

2 Senator Gramm. Well, Mr. Chairman, let me thank you
3 for calling on me and let me say that I, like many
4 conservatives, over the years have said I never met a tax
5 cut I didn't like. And my goal is to get through today
6 where I can say that tomorrow.

7 I have offered a substitute for the pending bill for
8 myself, for Senator Lott, for Senator Nickles, and for
9 Senator Mack, I certainly congratulate our Chairman for the
10 effort he's put into the bill, but our substitute is a very
11 simple alternative.

12 In fact, it contains only four provisions, you can put
13 it on sheet of paper, and I think it really embodies the
14 major themes that we ought to be talking about in a tax cut.
15 That's not to say that this can't be tweaked to include
16 certain small items that may be relevant to correct certain
17 anomalies in the tax code or problems. But we believe that
18 the focus of the tax cut ought to be on four things.

19 Number one, we want to cut taxes across the board for
20 every American taxpayer by 10 percent. And to shorten the
21 debate, I'm sure some of our colleagues on the Democrat side
22 of the aisle will jump up and say that if you're not paying
23 income taxes, you won't benefit from that provision and
24 that's absolutely true. This is a tax cut, it is not for
25 people who don't pay taxes. They get other benefits from

1 government, but they ought not to get a tax cut.

2 This is very easy to figure. Figure out how much taxes
3 you're paying and 10 percent of it you get back because
4 we're running a surplus and we don't need it to fund the
5 government, and we don't want to spend so much money that we
6 do need it. That means, if you're paying \$1,000, you're
7 going to get a \$100 tax cut. If you're paying \$10,000,
8 you're going to get a thousand. If you're paying \$100,000,
9 you're going to get ten thousand, but your tax burden as a
10 percentage is going to remain unchanged.

11 We eliminate the marriage penalty completely. We've
12 talked about it for years, both parties claim they're for
13 it. We've not done it, we eliminate it. It's an outrageous
14 policy that the average working couple where both of them
15 work outside the home pays the Federal Government \$1,400 a
16 year for the privilege to be married.

17 My wife is worth \$1,400, but I think she ought to get
18 the money and not the government, and this would give it to
19 her.

20 We repeal the death tax, 100 percent repeal. Not part
21 of it, all of it. We don't step up the basis so that you
22 still have a tax on any income that hadn't been taxed had a
23 capital gain build up, but we're in the situation that
24 happens everyday in America where people build up a little
25 farm or a little business, they invest their whole life in

1 it, every dollar they put into it is an after tax dollar and
2 yet when they die, their children have to sell the business
3 or sell the farm to give the government up to 55 percent of
4 its value, that's double taxation, it's anti-family, it's
5 anti-American, and it ought to be stopped.

6 And finally we deal with an equity problem, I want to
7 congratulate the Chairman for putting this provision in the
8 bill. This provision is the same as his provision, and
9 basically it says, no matter who buys your health insurance,
10 you're treated the same way. Whether you're self employed
11 or whether you work for somebody else, if General Motors can
12 buy it tax free, you should be able to buy it too.

13 It's a straightforward substitute. Again, we have a
14 second degree amendment which would allow other amendments
15 to it. I'm not going to offer that, Mr. Chairman, it's
16 clear we're not going to win on this amendment, but I think
17 we're not saying there are not other small provisions that
18 couldn't be or shouldn't be added, but basically we're
19 saying these represent the four clear provisions that we
20 think define our vision of what the tax cut ought to be.
21 This is not a revenue issue, this tax cut is the same size
22 as the underlying mark. It spends out at the same rate, it
23 just basically is a belief that we need to focus this tax
24 cut more on broad tax reduction that everybody benefits
25 from. And I thank the Chairman.

1 Senator Lott. Mr. Chairman.

2 The Chairman. Yes. The distinguished majority
3 leader.

4 Senator Lott. Mr. Chairman, just very briefly, I
5 would like to be heard in support of this proposal, this
6 alternative. Again, I think it's important that we try to
7 come together on a package, hopefully that we'll pass out to
8 the Committee in a bipartisan way, but I think it's also
9 important that we make some statements as to where we really
10 stand. The Democrats just had their proposal. This is
11 really where I would prefer to be. I think we should
12 eliminate the marriage penalty tax. I'm tired of talking
13 about it. I think we ought to do it. I just don't think we
14 ought to show up at the undertaker's place and say, give me
15 half of everything you've produced over your life. We ought
16 to repeal the death tax. We really want to help with health
17 insurance needs in America. We ought to have full
18 deductibility of health insurance costs. But the main thing
19 I like about it is the across-the-board tax rate cuts.

20 Now, in 1997 we came together on a package which we
21 passed in a bipartisan way, the President signed, and it
22 included some tax relief; tax credits for families with
23 children, families with children, the \$500 per child, I
24 believe it was. And that was positive, we had the Roth IRA,
25 we encouraged savings, that was good. We cut capital gains

1 a little, that was good. But I'll tell you what happened.

2 A lot of people got no benefit out of that.

3 If you were a young, single, working woman in Jackson,
4 Mississippi making \$31,000 a year and have been forced into
5 the 28 percent bracket because you kick into the second
6 bracket at too low a level, you go from 15 to 28, I guess at
7 25 or 26,000, but this young, single woman making about
8 \$31,000 paying in the 28 percent bracket got no help the
9 last time. And she said to me, "Dad" --

10 [Laughter.]

11 Senator Lott. -- "the next time you have a little tax
12 relief, remember us young, educated, working, single people
13 out here trying to make ends meet, you know, on 30, \$35,000
14 a year. In terms of fundamental fairness, and positive
15 impact on economy, and trying not to pick and choose winners
16 or losers, across-the-board tax rate cuts are the way to go.

17 I support this proposal.

18 The Chairman. Any further comment?

19 Senator Graham. Mr. Chairman, has this proposal been
20 assessed either by joint tax or the Treasury in terms of its
21 distributional impact.

22 Ms. Paull. We have not done a distributional impact
23 of this proposal, no.

24 Senator Graham. Has the Treasury?

25 Mr. Lubick. We have done it in connection with our

1 earlier estimation, we have done a distributional estimate
2 on the 10 percent across-the-board tax cut which we found
3 was heavily skewed in favor of the highest quintile of
4 taxpayers.

5 Senator Graham. Could you put some numbers behind
6 that analysis?

7 The Chairman. How can the distribution be skewed when
8 it's across the board?

9 Mr. Lubick. About two-thirds of the benefit of that
10 particular portion went to the top quintile.

11 Senator Graham. Two-thirds went to the top quintile?
12 What about the repeal of death taxes? Since this is
13 identical to the House Ways and Means Committee provision,
14 did you do an assessment of the distributional impact of
15 that?

16 Mr. Lubick. We do estimate the distribution of estate
17 taxes by comparing it with the income tax levels of the
18 decedents involved and, of course, since the estate tax does
19 not apply to anybody whose gross estate -- or whose net
20 estate actually is less than \$600,000. And in the case of a
21 married couple where you've had a marital deduction,
22 generally you're talking about \$1.2 million without taking
23 into account life insurance which generally can be removed
24 from the estate through insurance trusts or taking into
25 account inter vivos giving which can go at the rate of --

1 totally without tax of \$20,000 per donee, you'll find that
2 the estate tax applies to fewer than -- it's a fraction of a
3 percent of the persons who die each year. So the
4 distributional analysis shows that 64 percent of the estate
5 tax benefit would go to the top 1 percent of families. Over
6 99 percent of the estate tax burden is borne by families in
7 that top quintile that I talked about.

8 Senator Rockefeller. Could I ask the Senator from
9 Texas how he possibly -- how he possibly can defend
10 something so skewed towards those?

11 Senator Gramm. Yeah, I can respond very simply.
12 First of all, I don't know how you could say an "across-the-
13 board cut is skewed" when an across-the-board cut keeps the
14 distribution exactly as it is. You're not using the English
15 language. And I think you're prejudices show through.

16 Second, I don't care how much money you build up in
17 your lifetime, on an after-tax basis it belongs to you. And
18 if you've been successful, if you've become rich, you've
19 earned it, you've earned every penny of it. You've paid
20 taxes every step of the way along the way, and I don't think
21 we ought to take it away from your children. That's just a
22 pure simple philosophical viewpoint, and I feel very
23 comfortable with it. And I think the people of my State
24 feel comfortable. I think 90 percent of them agree with me,
25 even though they may not be affected. They don't think it's

1 right.

2 Mr. Lubick. Senator Gramm, I think --

3 Senator Nickles. Mr. Chairman --

4 Mr. Lubick. -- basically the estate tax has been
5 justified as a back stop to the income tax. To a great
6 extent the tax on estates makes up for the fact that a large
7 amount of income does escape taxation, and, therefore, has
8 not been taxed.

9 Senator Gramm. Well, the way I have it in my bill,
10 Mr. Chairman, is that you are taxed on the capital gains.
11 We're not eliminating, but we're not double taxing. And I
12 don't think we need a backstop for income taxes.

13 The inheritance tax is redistribution of wealth, and
14 whether you've got any or whether you don't have any, it's
15 wrong.

16 Senator Nickles. Mr. Chairman.

17 The Chairman. Senator Nickles.

18 Senator Nickles. Mr. Chairman, just a couple -- I'm
19 bothered by this word "skewed". An across-the-board tax cut
20 means it's a tax cut for taxpayers. Now, you could reverse
21 those words, if he's correct, and say well, two-thirds of
22 that benefit would go to the top quarter of taxpayers, that
23 means the top quarter of taxpayers are paying two-thirds of
24 the taxes.

25 Now, if you have an across-the-board tax cut, it's a

1 tax cut for taxpayers. You don't get a benefit unless
2 you've been paying taxes.

3 Mr. Lubick said, well, maybe some people don't pay
4 taxes. Well, you don't get a benefit under this provision
5 under the 10 percent unless you pay taxes. It's a tax cut
6 for taxpayers. It's as fair as it could possibly be. It
7 doesn't change the progressivity of the tax code. It
8 doesn't change it a bit, and it had been changing as my
9 colleagues are well aware of. It's changed significantly.
10 So, anyway, I compliment my colleagues for it.

11 And let me just make one final comment on estate taxes.
12 Because obviously many people in this Administration don't
13 want to cut estate taxes. Personally, there is thousands
14 and thousands of businesses today that spend as much time
15 trying to figure out how they can pass their property on to
16 their kids, or their business to their kids without Uncle
17 Sam coming in and taking a third of it, or taking a half of
18 it, and I absolutely believe, Senator Gramm, there's some in
19 Florida that want to be able to pass the restaurant on to
20 their kids without Uncle Sam saying we want 55 percent of
21 it. And the present law, we've done well, frankly, in the
22 past, when we've reduced tax rates, but we didn't reduce tax
23 rates in estate taxes. Serious mistake.

24 We've increased the exemptions so Mr. Lubick and others
25 can say, oh, we -- most people don't pay estate taxes. But

1 the problem is we didn't change the rates. We didn't change
2 the rates. And I want to compliment the Chairman, he has a
3 good estate tax provision in his proposal and so does
4 Chairman Archer. But I agree with Senator Gramm, we ought
5 to get rid of it and change the taxable event away from
6 death and change it to when the property is sold. And then
7 it's taxed as any other property is sold, at capital gains
8 rates. That's what we should do. We shouldn't be making
9 money off of the fact that somebody passes away and they
10 want to leave their property to their kids, and so in the
11 process the government is entitled to over half of it if
12 they happen to a taxable estate of \$3 million. That's
13 absolutely absurd, it needs to change. Those rates are too
14 high, and this amendment would do that.

15 Senator Graham. Mr. Chairman, I was asking some
16 questions when these defensive comments were injected.

17 [Laughter.]

18 Senator Graham. Let me ask one other question. I
19 note that, number one, it has a total ten-year cost of \$469,
20 it has a first five-year cost of \$74 which indicates that
21 there's a very steep increase in the revenue loss in the
22 second five years.

23 Is there any assessment based on analysis that was done
24 of the House Ways and Means Committee analogous provisions
25 as to what the next ten-year costs, that is the cost from

1 the year 2009 to 2019 would be under these proposals?

2 Mr. Lubick. You're talking about the 10 percent
3 across-the-board?

4 Senator Graham. Or since most of these are House Ways
5 and Means provisions, I assume there's been some analysis of
6 the multi-year impact for that purpose. Could you share
7 with us what that analysis is?

8 Mr. Lubick. We have done a distribution of the house
9 bill for the second ten years which shows it exploding
10 greatly for the second ten years.

11 Senator Graham. Could you put some numbers behind
12 that explosion?

13 Mr. Lubick. Yes. It goes from 862 billion to three
14 trillion in the second ten years.

15 Senator Graham. You're saying these four provisions
16 --

17 Mr. Lubick. No. We estimated the entire House bill.
18 We can give you some estimates of a couple of the
19 provisions. The estate and gift tax repeal in the House
20 bill which didn't put it into effect until the end of the
21 period went from a revenue loss of a billion dollars to --
22 I'm sorry, of \$100 billion to \$600 billion. And the 10
23 percent across-the-board rate cut --

24 Senator Mack. And what year are you talking about,
25 again?

1 Mr. Lubick. I'm talking about a comparison of the
2 first ten years with the second ten years.

3 Senator Mack. The second ten years that follows the
4 first ten years that nobody believes they can --

5 Mr. Lubick. I beg your pardon?

6 Senator Mack. -- can accept the numbers as they've
7 been presented? We're making estimates now out 20 years?

8 Mr. Lubick. We are making estimates of ten years
9 based upon the expected growth of the gross domestic
10 product. But it's apparent that if something doesn't come
11 into effect until ten years out that there's going to be an
12 explosive growth in the out years. So on the -- as I take
13 it, Senator Gramm's proposal, I don't know what the
14 effective date is of these proposals. So --

15 The Chairman. I would ask members of the panel to
16 limit their comments to answers -- to answering questions
17 raised by the panel because we do have a time squeeze.

18 I would like to ask Lindy a question. Is it not also
19 true that the same comments could have been made of the
20 Democratic substitute? In other words, I think three
21 quarters of the tax cuts take effect in the last five years,
22 and, again, there would be a sizeable impact on the second
23 ten years.

24 Ms. Paull. I would just note there are a number of
25 items in the democratic alternative that were phased in.

1 Again, we don't have the resources to re-estimate every
2 proposal to tell you exactly what that magnitude would be,
3 but the items dealing with married couples and earned income
4 credit, the above-the-line deduction, all of those, and the
5 tax credit for long-term care were all phased in over time.

6 Senator Conrad. Mr. Chairman. Mr. Chairman.

7 The Chairman. Who was the last? I had Senator Mack
8 next.

9 Senator Conrad. All right. And I will be brief.

10 Senator Mack. I find this discussion with respect to
11 the number of years fairly silly. We all know that the
12 projections are difficult to make for five years. Somewhere
13 along the line the process required us to do ten years, and
14 so now we're doing ten years.

15 Now, for the Administration and for the Treasury to
16 come down here and make projections as to what they think
17 this will occur out in the 11th, 12th, 13th, 14th, 15th,
18 16th, 17th, 18th, 19th, and 20th year, again, is getting
19 pretty silly to try to make an argument about why we
20 shouldn't proceed. That's the first point.

21 The second point is, with respect to the estate tax or
22 the death tax, I have spent most of my time in the 17 years
23 that I've been in the Congress focused on economic issues.
24 And I have a tendency to talk about numbers and statements.
25 And I have found that people really don't pay much attention

1 to that. One of the things that I have found out with
2 respect to the death tax is that people really do see it as
3 an unfair tax. It's just simply unfair. People in every
4 State of all income levels believe that taxing people at
5 death is just unfair.

6 Now, we all recognize that death and taxes are
7 inevitable. But they don't have to be simultaneous. And I
8 suggest that we repeal it.

9 Senator Conrad. Mr. Chairman.

10 The Chairman. Yes. The Senator from Arkansas.

11 Senator Conrad. Well, Mr. Chairman, the great thing
12 about this Committee and the great thing about
13 representative democracy is we have different views. And I
14 just have to tell you I think if you want the rich folks to
15 have all the money, this is a great way to go. Vote for the
16 amendment of the Senator from Texas because this is a great
17 device to concentrate wealth in the hands of a few.

18 Estate taxes, and no question, they're too onerous now,
19 need to be changed. But to eliminate the estate tax is to
20 guarantee that over time wealth will concentrate in the
21 hands of a few. Bill Gates, it was just announced, is now
22 worth \$100 billion -- \$100 billion -- one person. Great. I
23 have enormous respect for the contribution he has made to
24 society. But if you don't have an estate tax at some level,
25 wealth will accumulate in the hands of a few and that will

1 create enormous social instability over time.

2 Second, on the whole question of skewing, my friends on
3 the other side say, well, if you just give everybody the
4 same percentage, it's fair. That's not fair. That's not
5 fair. And the reason it's not fair is some folks have a
6 whole lot more to begin with. And if you give the same
7 percentage to everybody, if you've got \$800 billion you're
8 giving back under their idea, 80 percent of the benefit will
9 go to the wealthiest 20 percent in this country.

10 That's exactly what their proposal does. I don't think
11 that's fair. I don't think that's fair. I don't think
12 that's an appropriate distribution of returning taxpayers'
13 money. And I think this amendment will go down, it will go
14 down on a bipartisan basis because it should go down. It's
15 not fair. I think the Chairman.

16 Senator Hatch. Mr. Chairman.

17 The Chairman. Senator Hatch.

18 Senator Hatch. Mr. Chairman, I appreciate my
19 colleague, but, look, and I've sat here throughout this
20 whole thing just listening and enjoying the interchange,
21 but, look, does anybody think we would be where we are today
22 with the incomes that we have and the power in this economy
23 we have if we hadn't reduced marginal tax rates under your
24 leadership, Mr. Chairman, and the Roth-Camp bill from 70
25 percent down to 28 percent by 1986? All of those balanced

1 budget amendment fights, it helped to get people to have to
2 start thinking about balanced budget. The capital gains
3 rate reduction, we have the same argument there. That's
4 going to benefit the rich.

5 We now have information that indicate -- and there is
6 going to be a tremendous revenue loss. There's no revenue
7 loss. In fact, we know darned well the economy is
8 stimulated by it.

9 Now, as much as I disagree with some of the things that
10 Microsoft has done, I wish we had 100 Bill Gates. Those
11 type of people have literally created thousand and thousands
12 of jobs in this country that have benefitted every doggone
13 last one of us.

14 And, by the way, this economy is going well in large
15 measure because of this high-tech industry. So marginal tax
16 rates, bringing them down is a good thing. It also has made
17 it much easier for the Chairman of the Fed to do the job he
18 did, and I have to say it made it easier for Robert Rubin to
19 do the job he did.

20 On eliminating the marriage tax penalty, what in the
21 heck is wrong with that. My gosh, we're all sick and tired
22 of seeing people who won't get married today. They won't
23 get married because it's easier not to and they get gouged,
24 if they do, by none other than the Federal Government. We
25 ought to get rid of that doggone stupid penalty and do

1 something about it.

2 On death taxes it costs us, according to the Joint
3 Economic Committee, 65 cents to collect a dollar, and some
4 estimate as much as a dollar to collect a dollar. We get
5 about \$16 billion from the death taxes in this country, and,
6 by gosh, it costs us almost all of that to collect it. And
7 the injustices that are done because of the stupid death
8 tax. We ought to get rid of it. And, frankly, the top 20
9 percent pay 95 percent of all the taxes. Who else would
10 benefit from some of these things?

11 Last but not least, who can disagree with deductibility
12 for health insurance? You know, I just -- and then to talk
13 like this is going to benefit the rich at the expense of the
14 poor, I've got to tell you, it's time that people wake up
15 and realize that the top 20 percent pay 95 percent of all
16 the taxes, or thereabouts, and we have to stimulate this
17 economy continuously by getting people like Bill Gates to
18 continue to innovate and create jobs and opportunities for
19 so many other people. I just couldn't help but make a few
20 of these remarks because I'm very upset about listening to
21 that stuff.

22 Senator Baucus. Mr. Chairman. Mr. Chairman.

23 The Chairman. Senator Baucus.

24 Senator Baucus. Mr. Chairman, I appreciate the need
25 to reform estate and gift tax. We know, however, that about

1 98 percent of Americans, if that, are unaffected.

2 In my State of Montana, this is an embarrassment,
3 actually an embarrassing statement to make, we in Montana
4 rank, I think it's 48th, 49th in per capita income. We're
5 near the bottom of the barrel in per capita income. By far,
6 most of the people in my State are unaffected by whether a
7 estate taxes should be lowered or not lowered, it doesn't
8 concern them. I dare say that's true for, as I said, 98
9 percent of Americans. These are the people who really need
10 help, frankly.

11 My basic point on this whole discussion is that we have
12 this golden opportunity with this surplus and we just can't
13 blow it. We can't blow this opportunity. And I think we
14 run a very serious risk of jeopardizing continued economic
15 growth in this country with such a huge tax cut which I
16 think will tend, at least, runs the risk, of causing higher
17 interest rates, of causing the disruption in a bubble stock
18 market and is going to raise the rates -- the lending rates
19 and the mortgage rates for the 98 percent of Americans who
20 are unaffected by estate tax reform.

21 That's the basic point here. How are we going to
22 manage this surplus in a way that keeps stability, that
23 keeps confidence in the American economy because if we have
24 a huge tax cut, and no money essentially for Medicare which
25 people really do want, and no way to restore in some minor

1 way the deep, deep cuts and the chart over here offered by
2 the Senator from Nevada is very telling, that's going to
3 start to cause some instability and some angst. And I
4 appreciate the argument about the estate taxes, but it's
5 very important, I think, to keep our eye on the ball here.
6 Our ball here is to be stable and solid as we deal with this
7 surplus, give some of it back. Our proposal gives a third
8 back on the tax reductions. Roughly a third will go to debt
9 reduction, some for Medicare reform, it's balanced. And I
10 think the markets and the interest rates are more likely to
11 remain stable and rates at a lower rate with our general
12 approach than the one espoused by the majority, and
13 particularly by the amendment that's now before us.

14 Senator Baucus. Mr. Chairman.

15 The Chairman. The Senator from Tennessee.

16 Senator Baucus. Thank you, Mr. Chairman. It seems to
17 me that some of our conversation today simply reflects a
18 difference in our ideas toward the redistribution of income.
19 Some of that language keeps coming through. I think it has
20 to do with the extent to which we believe that our tax,
21 economic, and social policy should be focused in large part
22 on the redistribution of income.

23 I would suggest that that has been the focus of many of
24 our European allies and it has not enured to their benefit.

25 In the United States of America, our concern has not

1 been with getting a little piece of somebody else's pie.
2 Our concern has been trying to make the pie bigger for
3 ourselves.

4 On the issues of distributional effects that we keep
5 hearing time and time again, what is a distributional
6 effect, what is the distributional effect, and how that can
7 be justified. I wonder on the other hand what is the
8 logical effect of a tax policy that basically says, if we
9 have tax cuts in the future, there will be no distributional
10 effect. There will be no situation where those who are
11 paying more taxes will get the most relief. In other words,
12 it would be an equilibrium. Let's say in the future we
13 continue to have tax cuts and we make it so that the rich
14 don't get more. What is the logical extent of that? I
15 assume it would be taking more and more and more people off
16 the tax rolls altogether so that after a period of time we
17 would have 1 or 2 percent of the people paying all of the
18 taxes in this country.

19 I do not think that that is what the United States of
20 America is all about. And if I had any questions about this
21 amendment before the discussion started, I have none now. I
22 think it's a good amendment.

23 The Chairman. Well, we've had an extensive debate.
24 Let me just make a couple of comments and then we'll call
25 for a vote. I congratulate Senator Gramm, I think he has

1 provided us with a straightforward alternative to my
2 Chairman's mark. I compliment him on the clarity of his
3 approach, much of which I support. Let me be very clear as
4 the co-author of the Kemp-Roth tax cut I find across-the-
5 board tax cuts very appealing.

6 And I might point out that Jack Kemp and I were not the
7 first to propose that, but you go back to the sixties,
8 President Kennedy initiated across-the-board tax cuts. So
9 it can be a very significant positive factor. But even
10 though there is many things that appeal to me in Senator
11 Gramm's proposal, his substitute, frankly, I could not use
12 it as a basis for the Chairman's mark. Because very
13 frankly, his proposal contains proposals that would not get
14 a majority of the committee. And I have to say, I don't
15 think that the proposal would pick up much support on the
16 other side.

17 So --

18 Senator Moynihan. We're part of the Committee too,
19 you know. We're part of the Committee too.

20 The Chairman. Yes, indeed. The point I'm trying to
21 make is that I am trying to put through a legislation that
22 will result in a tax break, a tax cut for the American
23 people. Even though there's much that I like in your
24 proposal, I must oppose it because I do think it's important
25 that the American people who are paying too high taxes have

1 an opportunity for that surplus to be returned to them.

2 And make no mistake about it, in my opinion it's
3 critically important to give these dollars, this surplus
4 back to the American family because what we try to do in my
5 legislation is focus on the kind of problems every American
6 family is facing, the cost of education. There's nothing in
7 this proposal on that.

8 I agree that estate taxes are too high. I think we
9 have a meaningful proposal there. But the point I'm trying
10 to make is that I want to get legislation through this
11 committee and on the floor that will actually result in a
12 tax cut for the working people in America. It's only fair,
13 and I think they deserve it. So I must reluctantly oppose
14 this amendment. And with that, I ask the clerk to call the
15 roll.

16 The Clerk. Mr. Chafee.

17 The Chairman. No by proxy.

18 The Clerk. Mr. Grassley.

19 Senator Grassley. No.

20 The Clerk. Mr. Hatch.

21 Senator Hatch. Aye.

22 The Clerk. Mr. Murkowski.

23 Senator Murkowski. Aye.

24 The Clerk. Mr. Nickles.

25 Senator Nickles. Aye.

1 The Clerk. Mr. Gramm of Texas.
2 Senator Gramm. Aye.
3 The Clerk. Mr. Lott.
4 Senator Lott. Aye.
5 The Clerk. Mr. Jeffords.
6 Senator Jeffords. No.
7 The Clerk. Mr. Mack.
8 Senator Mack. Aye.
9 The Clerk. Mr. Thompson.
10 Senator Thompson. Aye.
11 The Clerk. Mr. Moynihan.
12 Senator Moynihan. No.
13 The Clerk. Mr. Baucus.
14 Senator Baucus. No.
15 The Clerk. Mr. Rockefeller.
16 Senator Rockefeller.. No.
17 The Clerk. Mr. Breaux.
18 Senator Breaux. No.
19 The Clerk. Mr. Conrad.
20 Senator Conrad. No..
21 The Clerk. Mr. Graham of Florida.
22 Senator Graham. No.
23 The Clerk. Mr. Bryan.
24 Senator Bryan. No.
25 The Clerk. Mr. Kerrey.

1 Senator Moynihan. No by proxy.

2 The Clerk. Mr. Robb.

3 Senator Robb. No.

4 The Clerk. Mr. Chairman.

5 The Chairman. No.

6 The Clerk. Mr. Chairman, the votes are seven yeas, 13
7 nays.

8 The Chairman. The amendment is not agreed to.

9 Senator Lott. Mr. Chairman --

10 The Chairman. Senator Baucus is --

11 Senator Lott. Could I inquire about the Chairman's
12 intent with regard to the schedule? We are probably going
13 to be having a vote on the floor beginning in about ten
14 minutes, or maybe even sooner, but approximately ten
15 minutes. How does the Chairman plan to proceed?

16 The Chairman. I intend to proceed straight ahead.
17 Because I do want to complete this mark up.

18 Senator Lott. So you want overtime go ahead and when
19 a vote begins let the Senators go and come and --

20 The Chairman. That's

21 Senator Lott. -- keep going during the vote?

22 The Chairman. I would like to try that.

23 Senator Gramm. You don't want to eat lunch? You
24 aren't hungry?

25 [Laughter.]

1 The Chairman. Some of you would be better without.

2 [Laughter.]

3 Senator Mack. My wife appreciates your help.

4 [Laughter.]

5 Senator Baucus. Mr. Chairman.

6 The Chairman. Senator Baucus is next.

7 Senator Moynihan. I just was curious, are there other
8 substitutes? As you know, I have one as well.

9 The Chairman. Yes, I think we're alternating, as I
10 said in the beginning between the Republican and Democrats.

11 Senator Moynihan. Sir, I believe this next measure is
12 from Senator Baucus and Senator Conrad.

13 Senator Baucus. Mr. Chairman, I do have an amendment
14 with respect to Medicare and Social Security. It's in the
15 nature of a lock box amendment. I understand that the
16 majority leader may have a second-degree amendment to this,
17 and I am just inquiring of you, Mr. Chairman, what your
18 intention is. It's how to sequence votes and how to manage
19 this. It would be my hope that we have an opportunity to
20 have a vote on my amendment which deals with Medicare, so
21 that is that we not be so rigid to parliamentary rules that
22 there might not be an opportunity for a vote. I was
23 wondering of the chairman could give me some indication of
24 whether I could have a vote on my amendment at some
25 appropriate time?

1 The Chairman. Let me point out that any amendment
2 that establishes lock box budget procedures falls within the
3 jurisdiction of the budget committee. And this is not
4 germane to our mark. So I've tried to dissuade members on
5 both sides not to raise the lock box issue here. I would
6 hope we could work out those differences.

7 Senator Baucus. Mr. Chairman, I appreciate that. I
8 actually was asking a different question. That is,
9 irrespective of germaneness, if I could inquire. This point
10 might be moot, depending upon the answer by the majority
11 leader. If the majority leader does not intend to offer the
12 amendment, then that answers my question.

13 Senator Lott. Mr. Chairman, I congratulate Senator
14 Baucus and Senator Conrad for, you know, now indicating they
15 want to support the lock box, which I hope we can get done
16 in the full Senate. I feel very strongly about this Social
17 Security lock box, and I filed two amendments to deal with
18 that because I'm trying to find a way to actually get the
19 Social Security lock box in place. But it is in the
20 jurisdiction of the budget committee and the Chairman
21 indicated that a point of order would, you know, be in order
22 and therefore these amendments would not be appropriately
23 added to this bill, and, therefore, I will not offer an
24 amendment to either the first or second degree because I
25 think that the Chairman's point is well taken, that's a

1 correct position and we should not add it to this bill.

2 I look forward to working with Senator Baucus on the
3 floor an amendment that could actually get this done.

4 Senator Baucus. Mr. Chairman, I appreciate the chair
5 leader's response. I would like to proceed with my
6 amendment and at the appropriate time I assume that you, Mr.
7 Chairman, will rule on the germaneness of the amendment and
8 under the Committee rules that there be a two-thirds vote be
9 required before this amendment can be in order, am I
10 correct?

11 The Chairman. That's correct.

12 Senator Baucus. I thank you very much.

13 Mr. Chairman, I believe that a concept of a lock box in
14 principle makes sense. That is the surplus generated by the
15 payroll tax of roughly \$2 trillion over the next ten years
16 should be dedicated to the Social Security trust fund.

17 I also believe that we should address another problem
18 which is much more dire. It's much, much more ominous than
19 Social Security, namely that's the Medicare trust fund under
20 Part A as well as the Medicare problems under Part B.

21 The Medicare trust fund is due to expire by about 2015
22 at a date much earlier than the date on which Social
23 Security trust fund is due to expire, even if we were not to
24 dedicate payroll tax surpluses to the Social Security trust
25 fund.

1 There's been a lot of talk about what to do about
2 Social Security and Medicare in view of the demographics and
3 the baby boom coming to put a lot more pressure on those
4 funds in future years.

5 We, at this point don't have a structural solution to
6 Social Security. We don't have a structural solution to
7 Medicare. Senator Breaux has worked mightily along with a
8 Congressman Thomas in the other body to try to come up with
9 structural Medicare reform. They've done a terrific job.
10 They've made a wonderful first step, or maybe a couple three
11 steps toward a solution. We're clearly not there yet. We
12 don't know what the exact solution is, but we have a budget
13 surplus today and it seems only prudent that we set aside a
14 portion of this surplus to help us find a solution to the
15 problems facing Medicare.

16 We know that we're going to have to make some
17 adjustment to the so-called "Balanced Budget Act" of 1997.
18 Teaching hospitals on the one hand of rural areas on the
19 other hand, rural hospitals, most hospitals indicated to us
20 that the BBA was just too severe, particularly as
21 implemented by HCFA. And we know we're going to make some
22 adjustments to the Balanced Budget Act with respect to
23 Medicare reimbursement.

24 The president already has on the table a roughly \$375
25 amount earmarked for Medicare. The President's prescription

1 drug benefit program would cost, I think, around \$118
2 billion. We know we're going to have -- at least we hope we
3 have some prescription drug provision for seniors enacted
4 this year. We don't know exactly what it will be, we don't
5 know how much, but it's clear that the American -- that we
6 in the Congress are trying to find a way to find a
7 prescription drug benefit.

8 Now, I think it was the majority leader, or maybe
9 Senator Gramm, somebody on the other side was a little bit
10 aghast when I said about a third of this one trillion or
11 roughly \$300 million should be available for Medicare. As I
12 mentioned, the estimates I've heard, the President has 374
13 plus BBA and because the Medicare trust fund is in such more
14 dire straights than the Social Security trust fund, I think
15 that \$300 million roughly is in the ballpark of what should
16 be just reserved.

17 This amendment does not say how it should be spent. It
18 does not say whether it should go to Part A, Part B, or
19 prescription drugs or whatnot. It just reserved. If it is
20 not used, I might say to my colleagues that then it will be
21 used in the meantime for deficit reduction and at an
22 appropriate time this Congress can reduce taxes, it can, you
23 know, use part of it for Medicare reform, along with
24 whatever structural Medicare reform we may hopefully come up
25 with at some future date.

1 So it's just the lock box nature just sort of parks it
2 over off to the side where it's used for deficit reduction,
3 and available if we use it. If we don't use it, this
4 Congress can make whatever -- do what it wants with it.
5 Again, tax reduction, possibly, or other provisions that
6 might make sense. The provision though does create a lock
7 box which means that it will be enforced through super
8 majority points of order that apply to the budget resolution
9 and other budget enforcement measures will be in place, and
10 it would be -- requires a reduction in tax cuts be pro rata
11 across the board in the bill before us except that extenders
12 and paid-for items will be unaffected.

13 So just in summation, it's a lock box Social Security,
14 lock box for one-third of the on-budget surplus for Medicare
15 to be used as this Congress sees fit at a later date. And I
16 think that's a very prudent course of action to take. You
17 know, there's been so much discussion about Social Security,
18 and now finally Americans are beginning to realize we need
19 equal attention on Medicare. Senator Breaux has done a
20 great job, others have too, but I think this will help and I
21 urge that we adopt it.

22 Senator Breaux. Mr. Chairman.

23 The Chairman. Senator Breaux.

24 Senator Breaux. Mr. Chairman, I appreciate --

25 The Chairman. If I may just make one comment. I

1 thought after you complete speaking I would rule on the
2 germaneness unless there is ardent desire on somebody else
3 to speak.

4 Senator Breaux. Well, if you're going to rule it's not
5 germane, I won't speak.

6 The Chairman. Not germane, that is right. Senator
7 Breaux.

8 Senator Breaux. Well, in light of that, maybe I
9 shouldn't say anything. I appreciate very much Senator
10 Baucus's effort to make sure that there's enough money to
11 take care of the Medicare problem. I am also equally
12 concerned about the whole concept of these lock boxes. I
13 think to a great extent we just lock ourselves into
14 positions of an inability to address the problems in a way
15 that they really need to be addresses. The lock box
16 suggestion by Senator Baucus says, I think, max may be what,
17 a third, about \$292 billion would be locked away for
18 Medicare without any guarantee that we're going to do
19 anything to reform the program. We're just adding more
20 money to the program. In addition to that, a program that
21 was financed for the payroll tax is now going into general
22 revenues to be paid for which was never the intent.

23 The other question which is even more important, I
24 think that if you -- say you're going to set aside almost
25 \$300 billion for Medicare, it really diminishes to a great

1 extent the need for any real structural reform to the
2 program. I mean, it's not going to be a lot of people
3 willing to make the difficult decisions that need to be made
4 on Medicare structurally if all of a sudden there's \$300
5 billion approximately sitting there that we can spend for
6 whatever reason we want to spend it.

7 The final point is that anybody know out there how much
8 we need? Can anybody give me a ball park figure for what
9 they would spend the money on and come up with an accurate
10 number? Do we need \$300 billion? The President suggested
11 we needed \$45 billion for a prescription drug program; 45
12 billion over the next ten years. It's not 300 billion.

13 We in the Medicare Commission made a recommendation
14 which did not get the super, super majority, but said, we
15 would give free prescription drugs for everybody from 135
16 percent of poverty and below and wouldn't have to pay any
17 premium at all. That costs \$61 billion and that was taken
18 out of scored savings by restructuring the program. So the
19 only point I would make is that I think we make a mistake by
20 setting aside money for the future without reforming the
21 program. These things have to be done together. Real
22 reform will require more money, but nobody has any concept
23 as exactly how much it would require. So I think we would
24 make a mistake by doing this before we reform the program.

25 Senator Breaux. Mr. Chairman. Mr. Chairman.

1 The Chairman. The Senator from North Dakota.
2 Senator Breaux. I am a co-sponsor of the amendment of
3 Senator Baucus. I offered this amendment in the budget
4 committee. I offered it on the floor during the budget
5 resolution. Because the hard reality is, Medicare is -- the
6 solvency of Medicare is threatened in the near term. In
7 fact, it's threatened sooner than is Social Security. And
8 the question is, do we need Medicare reform? Absolutely.

9 Senator Breaux has done a great service by putting his
10 finger on that problem. But even the Breaux Thomas proposal
11 only extends solvency for two or three years. That's not
12 enough. We ought to be assuring the solvency of Medicare
13 beyond that. One way to do it is to set aside funds now
14 that we have this surplus to safeguard Medicare long into
15 the future. And that's a responsibility we have on a
16 collective basis.

17 If we send the money back, we give all money back to
18 taxpayers, then the money is not available to extend the
19 solvency of Medicare. Then the money is not available to
20 address high-priority domestic needs like education and
21 defense, and agriculture and others that are clear
22 priorities. So I think this lock box proposal Senator
23 Baucus and I have offered is the right way to go. It says,
24 we've got -- of the non-Social Security surplus, about 870
25 billion. And that an appropriate distribution of those

1 funds is one-third for Medicare to extend it solvency, to
2 strengthen it, to preserve it, to provide a prescription
3 drug benefit, one-third for tax relief, and one-third for
4 high priority domestic needs like education and defense. So
5 I think it does have merit and we respect Mr. Chairman the
6 ruling that you have to make on the amendment.

7 The Chairman. I would say to my distinguished
8 colleague that I will now rule that this amendment as being
9 not germane as it is a matter for the Budget Committee and
10 not for the Finance Committee.

11 Senator Breaux. Mr. Chairman, I move that we consider
12 the amendment anyway.

13 The Chairman. The clerk will call the roll.

14 The Clerk. The vote is on the motion to waive.

15 The Clerk. Mr. Chafee.

16 Senator Chafee. No.

17 The Clerk. Mr. Grassley.

18 Senator Grassley. No.

19 The Clerk. Mr. Nickles.

20 Senator Nickles. No.

21 The Clerk. Mr. Gramm.

22 Senator Gramm. No.

23 The Clerk. Mr. Lott.

24 Senator Lott. No.

25 The Clerk. Mr. Jeffords.

1 Senator Jeffords. No.

2 The Clerk. Mr. Mack.

3 Senator Mack. No.

4 The Clerk. Mr. Moynihan.

5 Senator Moynihan. Aye.

6 The Clerk. Mr. Baucus.

7 Senator Baucus. Aye.

8 The Clerk. Mr. Rockefeller.

9 Senator Rockefeller. Aye.

10 The Clerk. Mr. Breaux.

11 Senator Breaux. No.

12 The Clerk. Mr. Conrad.

13 Senator Conrad. Aye.

14 The Clerk. Mr. Gramm of Texas -- Florida.

15 Senator Graham. Aye.

16 The Clerk. And Mr. Robb.

17 The Chairman. No, no, no, there are some others of us

18 here.

19 The Clerk. No proxies are allowed.

20 The Chairman. Two-thirds of the vote is present.

21 The Clerk. Is present.

22 Senator Robb. Am I being called, I can't hear you?

23 The Clerk. Mr. Robb.

24 Senator Robb. I vote aye.

25 The Clerk. Mr. Chairman the votes are --

1 The Chairman. My vote.

2 The Clerk. Mr. Chairman.

3 The Chairman. No.

4 The Clerk. Senator Bryan?

5 Senator Bryan. Aye.

6 The Clerk. Mr. Chairman, the votes are seven waives,

7 nine to not waive, two-thirds of those present being

8 required to waive. The germaneness rule is not waived.

9 The Chairman. So we will now call on the next
10 amendment. Senator Mack.

11 Senator Mack. Thank you, Mr. Chairman. And the
12 amendment that I am calling up is amendment No. 47, but it
13 is not my intention to call for a vote. I think that given
14 the vote on Senator Gramm of Texas amendment earlier, it's
15 not necessary for me to have a vote, but I do want to just
16 take a moment or two to talk about it.

17 When I put this plan together I attempted to take the
18 approach of saying, what is good economic policy? What
19 would be good for the nation and it's people in the long
20 haul. And I came up with three components to the plan. The
21 first was to give a tax relief to all income tax payers in
22 the country, and I did that by doubling the standard
23 deduction to \$14,400 and increasing the standard deduction
24 for singles to 7,200. That gives relief for the American
25 family and at the same time it addresses the issue of the

1 marriage penalty. In addition, I also called for rolling
2 back the 1993 Clinton tax increase on Social Security. That
3 tax increase was passed for one reason, and that was for
4 deficit reduction. It was very, very plain that we were
5 doing that for the purpose of deficit reduction, and it
6 seems to me it would be fair then at this point to repeal
7 that tax increase.

8 The second thing I did was to say, okay, what would be
9 good for economic growth? And clearly one of the things
10 that I feel strongly about and I think that it has been
11 proven out over time, ever since this was started under a
12 Democrat administration back in 1978, and frankly goes back
13 to 1960 as well, with President Kennedy, is to cut the
14 capital gains tax rate further.

15 We have said for years that if you cut the tax rate on
16 capital gains you're going to increase the revenues to the
17 Federal Government, not decrease them. And one very simple
18 reason for that is because capital gains it's a voluntary
19 tax, if you will. You only sell the asset when you believe
20 that the return to you is optimum. And so, therefore, a
21 lower rate would bring that about. Also call for indexing
22 of capital gains for inflation.

23 Secondly, I address the issue of a cut in the tax on
24 dividends. Now, everybody has talked on this committee and
25 most in the Congress about the importance of trying to do

1 something about savings. And it seems to me that we have
2 kind of an inverse policy, if you will, we punish dividends.
3 In fact, their dividend tax policy encourages corporations
4 to raise funds through borrowing as opposed to through
5 equity. So that needs to be changed.

6 Repeal the estate and gift tax, and index the
7 individual AMT exemption amount for inflation. Again, the
8 AMT was done for the purpose of trying to get those people
9 who were avoiding tax -- paying taxes at the high end, and
10 now we see as a result of not indexing that exemption, we're
11 seeing middle income tax payers being drawn into paying an
12 AMT tax.

13 The third component of my proposal is recognizing that
14 the growth that we have experienced in this country and
15 which has been recognized by the Chairman of the Federal
16 Reserve Board has come as a result of productivity
17 increases. And productivity increases have come because of
18 several things. One, our willingness to invest in research
19 and development at the Federal level, but at the same time
20 encouraging the development -- research and development at
21 the corporate level. So I think we need to make the
22 research and development tax credit permanent.

23 And I congratulate Senator Moynihan. That was one of
24 the reasons I was smiling a little bit earlier, I
25 congratulate you for including that in your plan and I hope

1 we'll have an opportunity to include it in ours as well.

2 And the last point is that I raised the expensing limit
3 from roughly 25,000 where it is today to up to \$500,000.
4 Now, one of the reasons for doing this and we're probably
5 going to address -- I think that Senator Conrad has an
6 amendment to offer later on having to do with depreciation
7 issues, we ought to allow companies to take advantage of
8 these new technologies just in the area of computers. I
9 think that as we listen to those who have testified before
10 our high tech summit, these new technologies are spinning
11 over at even faster and faster paces, so in order for our
12 businesses to be able to keep the new technology on the
13 shelf, if you will, or in their operations, we ought to
14 change the tax code to encourage them and allow them to do
15 that.

16 So, again, I have put this plan together, again, based
17 on what is good economic policy. I think at the same time
18 I've addressed the issue of fairness as well, because the
19 doubling of the standard exemption. I think it is a good
20 proposal, but I also know what the likelihood with respect
21 to the outcome of votes would be.

22 The last point that I would make, Mr. Chairman, is just
23 because I know that there will be those who are going to
24 make the his argument that somehow or another, if we follow
25 Senator Mack's plan that the Federal Reserve and Alan

1 Greenspan is going to respond by raising rates. Now, let's
2 be honest about that. That's a very convenient argument to
3 make, but I think most of my colleagues on the other side of
4 the aisle fall into the Kesian camp. It's hard to make the
5 argument that we're going to stimulate the economy with a
6 tax cut over a ten-year period of 790 some billion dollars
7 while at the same time we will have surpluses of something
8 like \$2.2 billion which most people would have said, I
9 think, from a Kesian perspective that that would be a drag
10 or it would cause a contraction in the economy. So I think
11 this is a good plan. But Mr. Chairman, I can count the
12 votes and so it is not my intention to call for a vote on
13 this plan.

14 The Chairman. Thank you, Senator Mack. Next we call
15 on Senator Breaux on behalf of himself, Terry Jeffords and
16 Chafee.

17 Senator Breaux. Mr. Chairman, thank you very much. I
18 think that we all would probably agree that the art of
19 governing really is to bring differing viewpoints together
20 to reach a consensus and thereby make government work better
21 for everyone. We are faced with a really unique situation
22 in the history of this Congress and that is what to do with
23 approximately \$1 trillion of surplus that we now are looking
24 at over the next ten years. And the two parties have two
25 different approaches and that's not unusual. That's

1 generally what parties do. The Chairman's approach and
2 those in the house and the Republican party have suggested a
3 tax cut out of that amount of money of about \$792 billion.

4 Our Democratic proposal on this side suggests that, no,
5 that it's too expensive that we should take the trillion
6 dollars and use it with approximately \$292 billion tax cut
7 and give that portion back to the people and reserve the
8 others for discretionary spending and other programs such as
9 Medicare.

10 So that's where we postured. Now, the art is, how do
11 we get out of this? Do we just stare each other down until
12 a bill is sent to the President and he vetoes it and we each
13 have a great political issue to use for the next election,
14 or do we make our political points now, but then try to
15 reach a consensus through the art of governing by reaching
16 an agreement between the two various proposals and modify by
17 each giving up a little and coming to an agreement and make
18 government work. I think that is an approach that is
19 favored, maybe not in Washington, but certainly the approach
20 that is favored by the vast majority of people outside the
21 beltway, and, quite frankly, I think are tired of political
22 arguments and the blame game of saying whose fault it is
23 that nothing gets done.

24 They would rather us work together, get something done
25 and then we can all argue about who should get the credit.

1 But I along with Senator Kerrey and Senator Jeffords, and
2 Senator Chafee have talked about and are presenting for
3 discussion at this point is a suggested, yeah, there's some
4 number in between that neither side may think is perfect, but
5 is something that is realistic, and we have suggested a \$500
6 billion dollar tax cut which would leave their additional
7 \$500 billion for Medicare to be determined what we need
8 later on, and also something to address the very serious
9 discretionary spending problem we had that we all know is
10 going to have to be addressed.

11 The president suggested adding \$328 billion back to
12 that to bring it up to a level that is more manageable. Our
13 \$500 billion would have plenty enough to do that as well as
14 having sufficient money to be used for a future Medicare
15 reform bill that makes sense.

16 I honestly think that, you know, hopefully some time in
17 September cooler heads will all come together around a table
18 and agree with something that all of us can point to with
19 pride as having accomplished something. I think this
20 suggestion moves us in that direction.

21 Senator Kerrey. Mr. Chairman.

22 The Chairman. Yes. Senator Kerrey.

23 Senator Kerrey. Mr. Chairman, I will just say as
24 briefly as possible that I believe what Senator Breaux has
25 just said is exactly most likely where we're going to end up

1 if we're going to have a tax cut bill. If we're not, why
2 we'll have an issue and nothing more. Because the president
3 has made it very clear that he intends to veto a tax bill
4 that is too large. And he said that -- he's indicated that
5 he would prefer \$300 billion and that he thinks \$800 billion
6 is too big and so the question for us is are we going to be
7 able to reduce income taxes, are we going to be able to do
8 it, or are we just going to have an issue.

9 And I know the Chairman has worked very hard. I
10 support what he's done, I support the bill that he's put
11 out, but I think what Senator Breaux is describing is a way
12 for us to achieve middle ground.

13 I addition, I would say one of the things that I think
14 we're apt to have to consider if we're going to end a
15 bipartisan bill more broadly that the president is going to
16 support is something that's in Senator Moynihan's proposal
17 earlier, and that is an increase in the standard deduction.
18 That very directly affects lower wage workers and it takes
19 \$3 million people off the tax rolls, it takes \$9 million
20 filers to a standard deduction as opposed to itemizers.
21 That middle ground, it seems to me, is what we're going to
22 have to look for because we passed the bill in August and
23 send it to the President, he's going to veto the bill. As
24 Senator Breaux said, I hope that cooler heads will prevail
25 behind you, Mr. Chairman, and you Senator Moynihan as well,

1 in September, so we can do a tax cut. I hope at that time
2 we're successful in marking up and moving Medicare out. As
3 Senator Gramm has indicated Social Security and Medicare do
4 need to be done first. So I think what Senator Breaux is
5 asking for is reasonable and I hope the rest of the
6 committee will support it.

7 The Chairman. Senator Jeffords.

8 Senator Jeffords. Yes, Mr. Chairman, first of all I
9 want to commend you and I intend to support your bill. But
10 I think it's important for all of us to recognize that what
11 we're doing here in my mind is pretty precarious in
12 expecting that there will be the \$792 billion available for
13 tax cuts. And I believe that the proposal that Senator
14 Breaux and we are putting together which is much more
15 realistic in looking at \$500 billion and I just cannot
16 conceive that the projections that have been made rather
17 precariously here on what is going to happen over the next
18 ten years the likelihood of them occurring are such that we
19 would be in danger by pushing too far to end up with very
20 bad and adverse results by not being able to carry out the
21 things we want to do. So I look forward to working with the
22 Chairman, certainly today, and hopefully we all can agree on
23 a more modest look at the tax cuts with a more reasonable
24 approach to what the anticipated revenues of this nation
25 will be.

1 Senator Breaux. Mr. Chairman. I know Senator Chafee
2 is not here right now, so I don't know if he needs to be
3 heard on this. I would just not ask for a record vote. I
4 think that it's important to have this out there in the
5 public domain, it is now there, and I would not ask for a
6 vote.

7 The Chairman. I thank the Senator for his
8 cooperation.

9 Senator Moynihan. Senator, but on our side, there's
10 no --

11 The Chairman. Senator Gramm, and I think Senator Robb
12 was going to join you.

13 Senator Graham. Mr. Chairman, If I am recognized, I
14 would like to offer an amendment which I am joined by
15 Senator Robb, Senator Rockefeller, Senator Bryan and Senator
16 Kerrey. The amendment would state that the effective date
17 of this tax program would be delayed until after the
18 enactment of legislation to extend the solvency of the
19 Social Security trust fund through 2075 and the Medicare
20 Part A program through 2027.

21 Mr. Chairman, I believe that this amendment responds to
22 what the American people want. They want us to do first
23 things first. And clearly what the American people feel is
24 first is the protection of Social Security and Medicare.
25 That is not just a statement gleaned from our statistical or

1 anecdotal contacts with the American people, it's also a
2 statement of the political and moral center of the Federal
3 Government. The president said in his State of the Union in
4 1998, Social Security first, he said in his State of the
5 Union in 1999, Social Security first plus Medicare. We have
6 had before this Committee today a proposal for a lock box
7 for Medicare aid. The suggestion that there should be a
8 lock box for Social Security, I believe that this is the
9 center of the American people and the American political
10 system.

11 Second, we are talking about allocating a surplus. We
12 are allocating either. There is no on-budget surplus this
13 year. There won't be for some time, and there won't be an
14 on-budget surplus of the scale that's being discussed today
15 until deep into the next decade. Where there is a surplus
16 is in Social Security. And, therefore, I think the people
17 who made that surplus possible, the working men in America,
18 men and women who have been paying the payroll tax ought to
19 be first in line to have their concerns that those payments
20 are going to result in credible benefits when they retire,
21 that contract ought to be honored first.

22 They are also going to be making a significant
23 contribution to allowing these on-budget surpluses to
24 materialize. When we put the amount of Social Security
25 surplus that we are estimating into reducing the debt held

1 by the public, we are going to be saving every year
2 approximately \$120 billion in interest costs. That money
3 goes to the benefit of the general Treasury and it is out of
4 that general Treasury additional surplus because of interest
5 savings that we are in part going to be even able to
6 consider the kind of on-budget tax cuts that are
7 contemplated in these measures today.

8 Third, is I believe that we don't need to decide this
9 afternoon how we are going to reform Social Security and
10 reform Medicare. There are many ideas. There are probably
11 as many ideas as there are members of this Committee. What
12 we do need to commit is that we are going to find that
13 common solution and that we are not going to reduce the
14 range of options as to what those solutions should be by
15 reducing the amount of on-budget surplus until we have found
16 that solution.

17 I'm not at this point required to argue that it's going
18 to take any particular number of the on-budget surplus to
19 either strengthen Medicare or render Social Security solvent
20 to the year 2075, but we should not by committing virtually
21 all of the on-budget surplus to tax cuts eliminate as an
22 option using a portion of that on-budget surplus. Let's do
23 first things first. And there are ripple implications of
24 the kinds of options that we might elect.

25 For instance, the Medicare reform proposal that Senator

1 Breaux and Representative Thomas suggested they said we
2 should fund graduate medical education not through the
3 Medicare program as we do today, but through discretionary
4 spending in an appropriation.

5 Now, if we are going to adopt that proposal, I assume
6 that means that we've got to relook at the expenditure line
7 for discretionary spending and make the adjustments
8 necessary to implement that policy should we decide the
9 policy is wise. My fundamental point is, let's don't
10 preclude ourselves from having a full range of consideration
11 by precipitous tax cut before we've dealt with Social
12 Security and Medicare.

13 And finally, it's the question of are we here as
14 legislators or actors? This is wonderful theater if you
15 happen to like this particular type of comedy-drama. But I
16 think we are most comfortable being legislators. And one
17 thing that we know is that the President has said repeatedly
18 as recently as yesterday that the first priority is Social
19 Security and then Medicare and everything else has to take
20 its place in line after that.

21 So why don't we focus our attention on Social Security
22 and Medicare so that we can deal with those two pressing
23 national issues and then as serious legislators, not as
24 thespians, be able to deal with the question of a tax cut.
25 So, Mr. Chairman, for those reasons I urge the adoption of

1 this amendment and the commitment that it will represent to
2 this committee focusing its attention seriously and for a
3 resolution of the two pressing national issues of the long-
4 term solvency of Social Security and the strengthening of
5 the Medicare program.

6 Senator Moynihan. Well said.

7 The Chairman. Senator Nickles.

8 Senator Nickles. Mr. Chairman, one, I would just make
9 a couple of comments. I very much support trying to figure
10 out solutions to the Social Security Act. I compliment
11 Senator Kerrey and Senator Breaux and others that have done
12 Yeoman's work both in Social Security and in Medicare, but
13 say we're not going to have a tax cut until we fix this
14 problem, I think would be a mistake. The Chairman's mark
15 says we're not going to use Social Security. And I tell my
16 colleagues we're going to give you another chance to vote on
17 lock box. I keep hearing people say they want to vote for
18 that, we've had six votes and unfortunately we haven't had
19 any Democrat votes yet. Maybe we'll get some on the next
20 time.

21 I know the President said he is in favor of it, the
22 House has already passed it and hopefully we'll pass it in
23 the not too distant future.

24 Another point I would make that if we pass the
25 amendment a point of order of would lie against the entire

1 bill, and correct me if I'm wrong, staff has informed me
2 that there be a point of order under Section 310(G) under
3 the Budget Act says no Social Security amendments would be
4 in the reconciliation. And so for that reason we couldn't
5 weigh the point of order. I don't think we should weight
6 point of order, so I would urge our colleagues to vote not
7 in the amendment.

8 Senator Graham. If I could respond to that. First,
9 everybody agrees that the Social Security derived surplus,
10 approximately \$2 trillion that we're anticipating should go
11 to Social Security through the form of reducing the debt
12 held by the public. That's not an issue. The only thing
13 that's in contest here is what to do with the on-budget
14 surplus.

15 My argument is that we may need some of that on-budget
16 surplus to deal both with Social Security solvency and with
17 Medicare and we should not preclude ourselves from that
18 option by a precipitous before we've dealt with Social
19 Security and Medicare major tax cut.

20 And, second, as to the point of order, all this
21 amendment says is that the effective date of any tax cut
22 shall be after we have assured the solvency of Social
23 Security to the year 2075 which is for three generations,
24 and second, Part A of Medicare through the year 2027. This
25 does not purport to be the solution to those problems, it

1 just states that those two objectives must be achieved
2 before this tax cut would go into effect.

3 Senator Nickles. Maybe I should ask staff, would the
4 point of order lie against this amendment? Or would a point
5 of order lie against this bill if this amendment was
6 adopted?

7 Ms. Paull. Well, I think you have to ask the budget
8 experts. It didn't seem to look like it from the face of
9 the amendment to us. But we are not the experts in the
10 budget rules.

11 Senator Nickles. The Budget Committee informed us
12 that it does.

13 Ms. Paull. Oh, they did.

14 Senator Nickles. I mentioned that to my colleagues,
15 that didn't come from me, it came from staff that said that
16 they inquired from Budget Committee and they thought a
17 budget point of order would lie against the bill.

18 Senator Graham. Well, that must give you comfort you
19 can vote for this amendment and then if it will be declared
20 out of order, it will be a no.

21 Senator Nickles. I really don't want to kill the
22 bill.

23 Senator Moynihan. Sir, I do understand and the
24 parliamentarian will decide. This does not change the
25 Social Security program, and therefore a point of order

1 would not lie.

2 The Chairman. Let me just make a couple of comments
3 because I think it's important for everyone to understand
4 that -- of course, we intend to complete the tax cut before
5 the August recess as I have said on a number of occasions
6 when we return our first priority is going to be reform of
7 the Medicare. It's my hope then that we can proceed with
8 the Social Security reform. Obviously that's going to take
9 cooperation between Republican and Democrats, between the
10 White House and Congress, but that is certainly our intent
11 and we will be having tomorrow afternoon our final hearing
12 on Medicare where the Secretary of HHS is going to appear
13 before us. So we will proceed expeditiously on that.

14 I think maybe the thing now is to call for a vote and I
15 ask the clerk to call the roll.

16 The Clerk. Mr. Chafee.

17 The Chairman. No by proxy.

18 The Clerk. Mr. Grassley.

19 Senator Grassley. No.

20 The Clerk. Mr. Hatch.

21 Senator Hatch. No.

22 The Clerk. Mr. Murkowski.

23 Senator Murkowski. No.

24 The Clerk. Mr. Nickles.

25 Senator Nickles. No.

1 The Clerk. Mr. Gramm of Texas.
2 The Chairman. No by proxy.
3 The Clerk. Mr. Lott.
4 The Chairman. No by proxy.
5 The Clerk. Mr. Jeffords.
6 Senator Jeffords. No.
7 The Clerk. Mr. Mack.
8 The Chairman. No by proxy.
9 The Clerk. Mr. Thompson.
10 The Chairman. No by proxy.
11 The Clerk. Mr. Moynihan.
12 Senator Moynihan. Aye.
13 The Clerk. Mr. Baucus.
14 Senator Baucus. Aye.
15 The Clerk. Mr. Rockefeller.
16 Senator Rockefeller.. Aye.
17 The Clerk. Mr. Breaux.
18 Senator Breaux. Aye.
19 The Clerk. Mr. Conrad.
20 Senator Moynihan. Aye by proxy.
21 The Clerk. Mr. Graham of Florida.
22 Senator Graham. Aye.
23 The Clerk. Mr. Bryan.
24 Senator Bryan. Aye.
25 The Clerk. Mr. Kerrey.

1 Senator Kerrey. Aye.

2 The Clerk. Mr. Robb.

3 Senator Moynihan. Aye by proxy.

4 The Clerk. Mr. Chairman.

5 The Chairman. No.

6 The Clerk. Mr. Chairman, the votes are nine yeas, 11

7 nays.

8 The Chairman. The amendment is not agreed to.

9 It's my understanding that there will be a vote at
10 1:15, so it's my thought maybe we would recess for 30
11 minutes. Then we are going to start promptly at the end of
12 that period, so I would ask everybody to return.

13 The Committee is in recess.

14 [Whereupon, at 1:15 p.m., the Committee recessed to
15 reconvene this same day at 1:45 p.m.]

1 AFTERNOON SESSION

2 The Chairman. The Committee will please be in order.

3 At this time I will call upon Senator Kerrey to offer
4 an amendment.

5 Senator Kerrey. Mr. Chairman, I do have an amendment
6 that I'm going to put forward. I'm not going to ask for a
7 vote on it. It's one of those non-germane amendments that
8 would require a much larger vote than I'm likely to get.
9 But the amendment is to adopt the Social Security reform
10 legislation that myself and three of the members of this
11 committee have written and introduced. The three others
12 being Senator Breaux, Senator Grassley, and Senator
13 Thompson.

14 And I wanted during the process of discussing this
15 legislation to make a couple of points. One, there's a real
16 urgency to act here, and I've heard, for the last, I don't
17 know what's it been, two or three years, save Social
18 Security first. And I'm beginning to believe that save
19 Social Security last may be the more appropriate battle cry.
20 Because this is not a difficult subject matter. It's not
21 like Medicare or youth violence. It can get very
22 complicated in a hurry. This is a very straightforward
23 problem. And the question is, are we going to solve it?

24 And the urgency to solve it, say, Mr. Chairman, and I
25 know you know this and I know the ranking member does as

1 well, is that in '83 when we raised the taxes higher than
2 was necessary to pay the bills, the transaction was, we're
3 going to prefund the baby boom generation, and that was the
4 idea. And the promise that we made in 1983 was that we were
5 going to be able to fund every single beneficiary. And by
6 "beneficiary" we meant those who are eligible today, and
7 those that will be eligible in the future.

8 The 75-year number that we hear all the time that we
9 need to keep Social Security solvent for, that's not just a
10 number. That's to ensure that Americans who are born this
11 year, we have promise on the table that we can keep to them.

12 So when Social Security runs out of money in 2034 and
13 the actuaries say there will be a 25 to 33 percent cut in
14 benefits for those individuals, what we are basically doing
15 by taking no action is saying that for 150 million Americans
16 under the age of 45 who expect to live ten years beyond the
17 time they're eligible, they're going to experience a 25 to
18 33 percent cut in benefits. So that's issue number one.
19 There's an urgency to act.

20 And in doing so, Mr. Chairman, not only can we keep the
21 promise that we have on the table of the beneficiaries, but
22 we can also in our proposal, we propose to cut \$928 billion
23 worth of taxes, payroll taxes. Still leaving a trillion
24 dollars for debt reduction, still leaving \$300 billion for
25 Medicare, still leaving enough money, \$300 billion for

1 domestic accounts, indeed, still leaving enough that you
2 could do \$100 billion worth of income taxes on top of it.
3 It would be the largest tax cut of any proposal we have. We
4 could immediately, I think, rush to get bipartisan support
5 for it, but the hurdle is this follow-on question, well, if
6 we're going to fix Social Security first, then why aren't
7 we? What's the problem?

8 And I say with great respect to those who have not made
9 a proposal, this is not complicated. And I hope that
10 members of the press and citizens how are watching this
11 debate will press beyond, well, I haven't figured it out
12 yet; and say, when are you going to figure it out? When are
13 you going to select an option? Because failure to do so
14 means that the reduction in benefits or the tax increases,
15 whichever you choose to fix the program and we -- as I've
16 indicated, we chose a tax cut. We changed the funding
17 formula and a number of other things, but the sooner we
18 solve this, the better.

19 And as I said, I don't anticipate that this amendment
20 is going to be accepted or adopted, and, thus, I'm not going
21 to force members to vote on it. But I believe that there's
22 a very, very strong urgency for us on behalf of 150 million
23 Americans who are under the age of 45 to whom we've made a
24 promise that we cannot keep under current law, there's an
25 urgency for us to act.

1 The Chairman. Well, let me respond briefly to your
2 amendment. As you know the Budget Act prohibits any
3 provision affecting Social Security in a reconciliation
4 bill. So that rules it out.

5 But I want to congratulate you and thank you for your
6 initiative and leadership in this most important matter. As
7 I have said earlier, it is my intent that when we come back
8 in September that we will move ahead with Medicare. And
9 it's my hope that after that we can likewise do something to
10 address Social Security. I do think we all have to
11 understand that in order to make any real progress that
12 there has to be bipartisan support and that we do have to
13 have leadership from the White House. Otherwise the whole
14 issue, the whole process could become politicized and I
15 think that's in no one's interest.

16 Senator Kerrey. Mr. Chairman, I agree, and I thank
17 you for your statement. I failed to mention Senator Robb is
18 also a cosponsor of this effort. It's the only bipartisan,
19 bicameral effort, and I cannot pass up as well the
20 opportunity to thank Senator Moynihan for his leadership,
21 longstanding leadership on this issue. He has a proposal
22 that likewise fixes this problem. And he understands better
23 than anybody in the Congress the urgency and importance to
24 reestablish confidence in this extremely valuable
25 intergenerational program. And right now younger people

1 simply don't have the confidence and their lack of
2 confidence is well placed.

3 Senator Thompson. Mr. Chairman.

4 The Chairman. Yes, just let me make one comment.
5 Senator Moynihan, I think, was among the very first to come
6 up with a specific proposal. I too congratulate him.

7 Yes.

8 Senator Thompson. Mr. Chairman, thank you. I think
9 this is one of the areas that truly is encouraging that's
10 going on with the United States Senate, and that is the
11 bipartisan consensus that I think we have of the necessity
12 to face up to these long-term problems. It's coming
13 together. It wasn't that way for a long time, but Senator
14 Moynihan and certainly Senator Kerrey, and the proposal he
15 sets forth. Because, as he says, it's not a matter of
16 basically even what we have to do, we disagree on the
17 details, but how long we can avoid doing it. And I would
18 hope that all of this expression of concern that we've heard
19 today about the demographics and how it's going to be
20 catching up with us and that will be eating us up can be
21 used not to defeat a tax cut, but to have that concern go to
22 fix this long-term problem.

23 From what I hear, you know, it's a worldwide problem.
24 It's a European problem. They're in worse shape than we are
25 in some of these respects, and even that's going to play

1 into it.

2 The Chairman. Japanese problem as well?

3 Senator Thompson. Beg your pardon?

4 The Chairman. Very serious problem in Japan.

5 Senator Thompson. Yes. I personally don't think
6 we're talking about Social Security going bankrupts, it's
7 not going to go bankrupt. I don't even think benefits will
8 be cut. What we're looking at is a massive tax increase
9 down the road and we're fooling ourselves if we -- if we
10 think otherwise. So I want to commend Senator Kerrey for
11 this and pledge my continued support for this effort.

12 The Chairman. Thank you.

13 Senator Moynihan. Mr. Chairman, may I join Senator
14 Thompson. Senator Kerrey has not the first time
15 distinguished himself heroically in this regard. By the
16 year 2034, we will only have about two-thirds the funds
17 necessary to maintain the present level of benefits. And
18 that breaking word, and that perhaps explains why the
19 majority of non-retired adults don't think they'll get
20 Social Security. Now, you don't want a government that is
21 not trusted on something this fundamental. We can do it, I
22 welcome the Chairman's suggestion that we attend to Medicare
23 and then go to Social Security. We can be remembered for
24 that. And might even be thanked.

25 [Laughter.]

1 The Chairman. Senator Grassley.

2 Mr. Grassley: I want to join in the call that Senator
3 Kerrey has made of not letting this issue languish and in
4 the process of doing that thank him for his leadership over
5 a long period of time in this area and I joined the effort
6 of Senator Kerrey just within the last couple months, and
7 I'm glad to do it particularly since he was responsive to my
8 desire that in the legislation that he would include more
9 for the unique situation of women being in and out of the
10 workforce and particularly the plight of widows in our
11 society. And I think we have worked out very well that
12 area. And so we are at a point where people -- a few people
13 in Washington are encouraging us to move ahead as members
14 and people outside. And then we have others who want to
15 make sure that all the ducks are in a row before we actually
16 do go ahead in regard to this. And I suppose the latter
17 would be ideal. But I think also we're in a situation where
18 the people of this country is maybe expressed somewhat by
19 Senator Thompson or at least he's pleading, but I think they
20 also are way ahead of the political leaders in this.

21 Senator Moynihan and I had an opportunity to be co-
22 chairs of an organization called Americans discuss Social
23 Security and there were other efforts going on simultaneous
24 with that organization's efforts to have town meetings
25 around the country during 1998. But as a result of that

1 work, of that organization and a lot of other organizations
2 including the President of the United States that had four
3 public hearings on it around the country, I think you can
4 conclude that Americans want Congress to move forward and
5 that we don't have to necessarily plead that everybody's got
6 to be on board in Washington, D.C. before a few people could
7 go ahead and have a productive piece of legislation.

8 Senator Kerrey. Mr. Chairman, I have no further
9 statement to make on this, other than, as I said, I wanted
10 to make a point that it is possible and in the process of
11 fixing Social Security which I think is urgently need to cut
12 a trillion dollars in payroll taxes still do a \$100 billion
13 in income tax cuts and still have \$300 billion both for
14 discretionary and for Medicare and reduce the debt by a
15 trillion dollars. So all the requirements that have been
16 described by both sides of this thing can be done
17 simultaneously with changing the laws so they can keep the
18 promise to 145 million Americans under the age of 45 for
19 whom we currently have a promise on the table that can't be
20 kept. And I thank that Chairman's indulgence.

21 The Chairman. As I understand, you're withdrawing the

22 --

23 Senator Kerrey. Yes.

24 The Chairman. -- the amendment.

25 It's my understanding that you have a second --

1 another amendment?

2 Senator Kerrey. I do. The second amendment is
3 essentially identical to the first with the addition that I
4 describe how it's possible to do a \$100 billion worth of
5 income tax, \$300 billion for Medicare, I basically describe
6 the same thing, both of them are non-germane, both of them
7 would require a three-fourths vote which is not going to
8 occur. I'm not going to ask for a roll call vote on either
9 one. I withdraw both.

10 The Chairman. Well, again, I thank you for your
11 leadership in what I consider one of the most critical
12 issues facing America today

13 Senator Kerrey. Thank you, Mr. Chairman.

14 The Chairman. Senator Grassley.

15 Mr. Grassley: I have an amendment, does this thing
16 work.

17 The Chairman. I hope not.

18 [Laughter.]

19 Mr. Grassley: I guess I've never had any trouble
20 being heard anyway.

21 The amendment that I want to offer at this point is the
22 amendment on biomass. I would suggest first of all that the
23 Chairman has been very welcoming to many of my initiatives
24 that I've made that are in this bill and I'm not going to
25 enumerate them, but a lot of my ideas that I've expressed

1 for good tax policy, the Chairman has included, and I don't
2 offer this amendment in any way saying that I am
3 unappreciative of what's already been done. But I have been
4 a leader in wind energy tax credit as an example. The
5 Chairman has included the extension of the wind energy tax
6 credit in his legislation. It's been expanded by an
7 interest from the State of Delaware in another provisions
8 that's already been referred to in this debate by Senator
9 Nickles. There's been some other expansions.

10 Now, Senator Murkowski and I have an interest in
11 expanding it in areas that have not proved workable in the
12 present Section 45 closed loop biomass provisions. So in a
13 sense we've had a biomass provision in Section 45, but it's
14 never been used. The clean controlled combustion of biomass
15 which could be wood chips, agricultural byproducts,
16 untreated construction debris, or in my State some growing
17 of switch grass which is baled and burned with coal for the
18 generation of electricity as an example. It's a very proven
19 effective technology that currently generates numerous
20 pollution avoidance and waste management public benefits
21 across the country.

22 Now, this is where I plead with the Chairman and other
23 members of the Committee that instead of just expanding
24 Section 45 to include chicken waste, we ought to be helping
25 other opportunities and other interests expressed here on

1 this Committee in this issue as well, and I would include in
2 that biomass materials. With both industry and
3 environmental groups supporting this, I really don't
4 understand why we don't have it in the package. Because
5 this sort of tax incentive is a win for everyone. I have
6 also reduced the costs of limiting the facility eligible for
7 credit to those that would be placed in service before the
8 year 2003.

9 I haven't been able to get hard numbers from joint tax,
10 but in discussing it with them in an informal way, we should
11 be under \$400 million over ten years and probably closer to
12 \$350 million. I would offset it with provisions in the mark
13 by making necessary modifications to provision 7(c)
14 regarding increase in the annual gift tax exclusion and this
15 is a delay or reduce increasing the exemption. And that
16 would be an offset for this. And I have a single offset.

17 So my pleading is with the Chairman. I don't know
18 whether he feels that these other products ought to have the
19 same consideration as chicken waste, but that would be my
20 plea and maybe we wouldn't need a vote on this. But,
21 anyway, I've offered my amendment and the offset

22 The Chairman. Senator Bryan.

23 Senator Bryan. Mr. Chairman, if my friend from Iowa
24 would yield for a question, I'm supportive of what he's
25 trying to accomplish here. My question is as to the scope

1 of coverage. And let me describe a situation that may or
2 may not be included in your provision. In the forest around
3 the Lake Tahoe basin, as a consequence of protracted drought
4 in the 1980s, beetle infestation devastated much of that
5 wood. And so much of that is now being cleared in the form
6 of salvage operations

7 My question would be, would that product be covered
8 within the scope of your amendment?

9 Mr. Grassley: Absolutely.

10 Senator Bryan. I'm for the amendment.

11 [Laughter.]

12 Senator Murkowski. Mr. Chairman.

13 The Chairman. Yes, the Senator from Alaska.

14 Senator Murkowski. I can't speak to the volume of
15 chicken waste that might be accumulated by what is in the
16 mark, but I have some knowledge -- I see I've got the
17 attention of my Democratic colleagues -- of the significance
18 of a program that was designed back in 1992 in the IRS code
19 to provide a production tax credit of 1.7 cents per kilowatt
20 hour of electricity generated by a wind energy facility or
21 the terminology then was a closed-loop biomass energy
22 facility.

23 Now, the problem is that no closed loop biomass
24 facility ever existed, nor will it ever exist. It suggests
25 that you have an energy plantation if you will and the

1 economics of planning and harvesting material for the sole
2 purpose of producing electricity. It just is not economic.
3 Because of the use of land and resources there is no
4 anticipated environmental benefit. But business -- excuse
5 me, but biomass power facilities around the country are
6 using agriculture, wood waste, or chicken manure have not
7 been available for the tax credit. Since its inception the
8 biomass industry has not received one penny of Federal
9 incentive. The Congress recognized the value of the biomass
10 power when the credit was created.

11 Now, the biomass facilities have survived until now
12 under the PURPA contractual mandate, but have been losing
13 money, and these are necessary associated with the output of
14 areas where you might be clearing timber because of beetle
15 kill, bug kill associated with the waste of pulp mills and
16 saw mills, and for the benefit of my friend who is
17 interested in barks and a cherry, utilization of bark which
18 has very little other utilization along with chicken waste,
19 but nevertheless --

20 [Laughter.]

21 Senator Murkowski. -- rather than to delve too deeply
22 into this --

23 [Laughter.]

24 The Chairman. You already have done that.

25 Senator Murkowski. Well, you know what happens when

1 you go out in a field and you see a cow pie and you poke it
2 with a stick, don't you?

3 Senator Gramm. No.

4 Senator Murkowski. Well, try it some time.

5 Senator Hatch. I'm getting tired of chicken waste
6 being disparaged around here is all I can say.

7 Senator Murkowski. In any event, I support my good
8 friend from Iowa on his proposed amendment because it
9 expands the definition to include waste from agriculture and
10 forest-related sources that otherwise would go to waste and
11 as a consequence the reduction in total emissions which
12 we're all concerned about as we look at the alleged global
13 warming and emission controls, this would provide for a 96
14 percent reduction of total emissions over open field burning
15 because there would be a market for the product. The
16 avoidance of 52 million tons per year of greenhouse gases,
17 and the avoidance of 2 million tons per year of methane
18 compared to land filling, and potentially the displacement
19 of about 40 million barrels of imported oil per year.

20 It's my understanding, Senator Grassley, that the
21 biomass facility portion of the bill is approximately 220
22 million over five years is the figure we have.

23 Mr. Grassley: I've got a ten-year figure of 400
24 million.

25 Senator Murkowski. That's about right.

1 The Chairman. I would ask Lindy, could you tell us
2 what the cost of this --

3 Ms. Paull. 151 million over five years, 492 million
4 over ten years relative to the mark.

5 Mr. Grassley: That's a more solid figure than we had
6 in our informal conversation?

7 Ms. Paull. Apparently.

8 Senator Murkowski. Does that include chicken waste?

9 Ms. Paull. No, the mark already includes the chicken
10 waste.

11 Senator Murkowski. What is the mark for chicken
12 waste?

13 Ms. Paull. I don't have that broken out right now.

14 Mr. Grassley: So you're saying 90 million more than
15 what we had talked about informally as a firm figure?

16 Ms. Paull. Yes; that's correct. 492 over ten.

17 The Chairman. And how is that being paid for?

18 Ms. Paull. Actually, I wanted to get a little bit of
19 guidance on this. It's basically a trim back on the
20 increase in the gift tax exclusion that's in the mark which
21 is scheduled under the mark to go up to \$20,000 over time
22 from \$10,000 a year. So I would need some guidance on how
23 you would want to trim that back.

24 Mr. Grassley: Just what it would take to get that
25 amount of money.

1 Ms. Paull. Did you anticipate that --

2 [Laughter.]

3 Mr. Grassley: Not one billion more.

4 Ms. Paull. I understand that, but did you anticipate
5 that you would trim the delay or you would trim the dollar
6 increase back or -- I just didn't know what you had in mind.
7 I'm sure we'll be able to meet the target -- get some
8 guidance.

9 Mr. Grassley: I think it would be -- to me the best
10 way to do it would be to have that slight reduction as
11 opposed to the delay. But it could be done either way.

12 Ms. Paull. Okay. You're giving me some --

13 Mr. Grassley: Well, after all, I want to be flexible.

14 Senator Jeffords. Will the Senator yield for a
15 question?

16 The Chairman. Yes.

17 Senator Jeffords. Does it include cow manure?

18 Mr. Grassley: No.

19 Senator Jeffords. Do you have something against cow
20 manure?

21 [Laughter.]

22 Mr. Grassley: Cow manure with chicken manure.

23 Senator Murkowski. What I want to do is, I want to
24 keep this as a serious issue.

25 [Laughter.]

1 Mr. Grassley: Here's how serious it is. We had a
2 wind energy tax credit that worked very well. It expired.
3 The Chairman included that in the bill.

4 Ms. Paull. Exactly.

5 Mr. Grassley: There's a provision in Section 45 that
6 ran out that has nothing to do with biomass, but it's this
7 landfill gas, that was included. He had an interest in his
8 own State that he wanted to satisfy, and there's no problem
9 with that. That's included here. All I'm just saying is,
10 it seems common sense if this is a good provision, and it is
11 a good provision because six years of it working for wind
12 energy has been very successful. I can take you to
13 Northwest Iowa and show you where just a massive amount of
14 electricity is being generated now by wind energy that
15 wouldn't otherwise be generated. And we ought to include
16 other environment friendly approaches and to eliminate waste
17 or take advantage of waste. And that's exactly what Senator
18 Murkowski and I are trying to do through the biomass
19 extension.

20 Senator Jeffords. I just hope you keep an open nose
21 to cow manure

22 The Chairman. Let me just make a couple of comments.
23 I've been very sympathetic, to be candid, with both the
24 Senator from Iowa and the Senator from Alaska on some issues
25 affecting their State and we have tried to accommodate those

1 where it seems appropriate. We have a lot of good ideas
2 that ought to be covered, but the question is, we do have a
3 limitation as to how much we can do. We do have to set some
4 priorities. And I have to say, many people have come to me
5 and talked about the importance of doing something about
6 death taxes. And so we came up with a proposal that I think
7 a number of people -- it doesn't go as far as some want, but
8 generally speaking, I think people think it's a very
9 sizeable step ahead. And so I -- going to the gift tax
10 which was \$10,000 in the early '80s, if we would end that,
11 it would be roughly \$20,000 today. So we are trying to put
12 together a package in the area of estate and gift taxes that
13 is helpful.

14 Senator Gramm. Mr. Chairman.

15 The Chairman. And the problem to pay for this we're
16 going to have to back off some of that.

17 Again, there are a lot of things we all would like to
18 do. And I will say to both sides, I've tried to listen to
19 both sides and include things of importance to the
20 individual where we thought it was appropriate and we have
21 made a number of concession. I would hope that the
22 Committee would stand by what we proposed here and as I do
23 have some hesitancy about the offset. This is only 10
24 percent of the gift tax provisions of your bill.

25 Senator Gramm. Mr. Chairman.

1 The Chairman. Yes.

2 Senator Gramm. And I'll be brief. I think we all
3 want to try to get some things in this bill, but I think
4 when we start going back on our effort to reduce the burden
5 of inheritance taxes to inject these little amendments that
6 push the boundary of one add on versus another, It know
7 we're making a mistake. I think this offset is a bad
8 precedent to be backing up on our inheritance tax reduction
9 and I think this amendment ought to be defeated.

10 The Chairman. I would just urge that we take it to a
11 vote now. The clerk will call the roll.

12 The Clerk. Mr. Chafee.

13 The Chairman. No by proxy.

14 The Clerk. Mr. Grassley.

15 Senator Grassley. Aye.

16 The Clerk. Mr. Hatch.

17 Senator Hatch. Aye.

18 The Clerk. Mr. Murkowski.

19 Senator Murkowski. Aye.

20 The Clerk. Mr. Nickles.

21 Senator Nickles. No.

22 The Clerk. Mr. Gramm of Texas.

23 Senator Gramm. No.

24 The Clerk. Mr. Lott.

25 The Chairman. No by proxy.

1 The Clerk. Mr. Jeffords.
2 Senator Jeffords. Aye.
3 The Clerk. Mr. Mack.
4 Senator Mack. Aye.
5 The Clerk. Mr. Thompson.
6 Senator Thompson. No.
7 The Clerk. Mr. Moynihan.
8 Senator Moynihan. No.
9 The Clerk. Mr. Baucus.
10 Senator Baucus. Aye.
11 The Clerk. Mr. Rockefeller.
12 Senator Rockefeller. Aye.
13 The Clerk. Mr. Breaux.
14 Senator Moynihan. Aye by proxy.
15 The Clerk. Mr. Conrad.
16 Senator Conrad. Aye.
17 The Clerk. Mr. Graham of Florida.
18 Senator Graham. Aye.
19 The Clerk. Mr. Bryan.
20 Senator Bryan. Aye.
21 The Clerk. Mr. Kerrey.
22 Senator Kerrey. Aye.
23 The Clerk. Mr. Robb.
24 Senator Robb. Aye.
25 The Clerk. Mr. Chairman.

1 The Chairman. No.

2 The Clerk. Mr. Chairman, the votes are 13 yeas, seven
3 nays.

4 The Chairman. The amendment is not agreed to.

5 [Laughter.]

6 The Chairman. All right. We're open to further
7 amendments. I think Senator Conrad.

8 [Laughter.]

9 The Chairman. Senator Conrad, do you have an
10 amendment?

11 Senator Conrad. Mr. Chairman, if I could just make
12 the observation I thought the only tactical mistake the
13 Senator from Iowa made was to start talking about wind
14 energy in the midst of that last vote.

15 [Laughter.]

16 Senator Mack. Mr. Chairman, I have an amendment that
17 deals with leasehold improvements. Leasehold improvements
18 are improvements made by business owners to store fronts or
19 property in a mall, and right now we require them to
20 depreciate those leasehold improvements over 39 years. That
21 is just totally unfair and irrational. The economic life of
22 these leasehold improvements pretty much tracks the life of
23 the lease. There are very few leases that go more than ten
24 years. I would prefer to change the depreciation, life of
25 leasehold improvements to ten years, but it appears that our

1 best chance is by reducing the depreciation to 15 years.
2 That more clearly matches the economic lives of these
3 leasehold improvements and will improve the fairness of the
4 tax code.

5 This is endorsed by a large number of groups, small
6 business groups, real estate groups, the Building and Office
7 Managers Association have endorsed it, the International
8 Council of Shopping Centers, the National Association of
9 Industrial and Office Properties, the National Association
10 of Realtors, the National Association of Real Estate
11 Investment Trust and the National Realty Committee.

12 Mr. Chairman and members of the Committee, the cost
13 estimate by the joint committee is 2.7 billion over ten
14 years and we have paid for it by delaying and adjusting item
15 9A of the Chairman's mark with respect to the allocation of
16 interest expense on a worldwide basis by delaying the
17 effective date by one year.

18 Again, I'd just say to my colleagues, it just makes no
19 rational economic sense to require leasehold improvements to
20 be depreciated over 39 years. That's not the effective life
21 of these assets and we shouldn't have that in the tax code.
22 This would change the depreciation to 15 years to more
23 closely match what truly is the economic life of these
24 improvements. This makes sense, I think from every
25 standpoint.

1 I thank the Chairman.

2 Senator Mack. Mr. Chairman. Mr. Chairman.

3 The Chairman. Senator Mack.

4 Senator Mack. Mr. Chairman --

5 The Chairman. Yes, we want to switch back and forth.

6 Senator Mack. Again, I want to speak in support of
7 the amendment. I think it makes sense that depreciation
8 should reflect the useful life of the improvement. The
9 present laws of disincentive for improving existing
10 structures. It makes no sense to have a depreciation
11 schedule for 39 years for leasehold improvements, so I
12 support the amendment.

13 The Chairman. Yes. We have to go back and forth.
14 Senator Baucus.

15 Senator Baucus. Mr. Chairman, I think this is an
16 eminently, not only reasonable, but almost in the category
17 of necessary amendment. We just need to catch up with the
18 times. Leasehold important depreciation today is much less
19 than 39 years and I compliment the Senator for offering this
20 amendment. This is similar to an amendment that I also -- I
21 think is in our substitute amendment which was not passed.
22 That's all the more reason I think that this amendment
23 should be passed.

24 Now, I have a slight concern about the offset. I'm
25 happy to hear that the offset is a one-year delay. The

1 provisions of the Chairman's mark with respect to allocation
2 of interest -- allocation of interest expense on a worldwide
3 basis and I think that's --

4 The Chairman. I would like to ask Lindy how this is
5 being paid for.

6 Ms. Paull. Well, actually, I'm not sure, so I'm
7 looking at a cost estimate for the 15 year of 3.5 billion
8 over ten years. You said it was 2.7. Obviously there's a
9 change in the effective date.

10 Senator Conrad. Yeah, the effective date with respect
11 to the improved, these are improvements made after 12/31 of
12 '02.

13 Ms. Paull. '02, I see. And --

14 Senator Conrad. We had to do that to reduce the cost
15 per discussions that were made at a staff level.

16 Ms. Paull. All right. And then you are delaying the
17 item in the Chairman's mark dealing with interest allocation
18 in the international context for one year?

19 Senator Conrad. That's correct.

20 Ms. Paull. Again, I would have to verify with our
21 estimators. It doesn't look on its face that they match up,
22 but, Steve, have you been -- I don't know where these
23 numbers came from because we weren't informed ahead of time.
24 SO I would have to check with our estimators to see if this
25 matches up with --

1 The Chairman. I guess the question is, is it paid
2 for?

3 Ms. Paull. Well, what it does is the intent of the
4 amendment is to reduce the cost of a provision that's in the
5 bill by delaying the effective date for one year, and
6 clearly delaying the effective date for one year is going to
7 be in the \$2 billion or more range, I just don't know, I
8 have to check with my estimators.

9 Senator Conrad. We have been told that it is 26.

10 Ms. Paull. 26?

11 Senator Conrad. That saves 26 on your proposal.

12 Ms. Paull. Once again, then they don't match up,
13 because you're saying that the cost of this provision is 2.7
14 and you're delaying a provision that -- and I don't know, I
15 mean, I have to check with our estimators to check out this.
16 We just didn't know in advance if it matches up. It
17 doesn't look like it does precisely.

18 Senator Conrad. We are pleased to adjust our
19 effective date to make the two match if they do not. If
20 your estimators believe that it is off by perhaps a hundred
21 million --

22 Ms. Paull. Yes.

23 Senator Conrad. We would be glad to adjust the
24 effective date so they match.

25 Ms. Paull. All right.

1 Senator Conrad. Mr. Chairman, I think they are very
2 close.

3 Ms. Paull. That's fair.

4 The Chairman. Let me make an observation that a study
5 is underway, I believe, by the Treasury on depreciation. I
6 think that is supposed to be completed sometime early next
7 year. In our discussions with Congressman Archer, he made
8 it very clear that he didn't want to address depreciation on
9 a piecemeal basis, that there are a number of things that do
10 need to be done, and to reform the whole area. But that he
11 thought it would be a mistake for us to begin doing it
12 piecemeal. And obviously if we start here and get it
13 through the floor, there's going to be more proposals.

14 So I would hope that we could withhold this proposal
15 for the time being so that when the study is completed we
16 can address the whole question of depreciation in a more
17 informed basis. Because I think that it is an important
18 subject. There are many ideas out there that are important
19 and need careful study. But, I would hope we could wait
20 until that study is completed.

21 Senator Nickles. Mr. Chairman.

22 The Chairman. Yes, Senator Nickles.

23 Senator Nickles. Mr. Chairman, first -- and I'm going
24 to ask staff for a little clarification on the pay for, but
25 as far as the amendment from our colleague from North

1 Dakota, I happen to agree with that. I think leasehold
2 expense improvements should be expended over a much shorter
3 period of time. I think we even introduced legislation
4 together over ten years and the amendment is 15. And so I
5 agree with the substance of it, but I'm concerned about the
6 pay for.

7 And I might ask staff to explain what was in the
8 amendment that is to be deleted or postponed -- I guess
9 delayed one year, and interest expended in with
10 international corporations. Would they give us some
11 explanation? Because I think there's some inequity in the
12 tax code that needs to be corrected.

13 Mr. Prater. Senator Nickles, this proposal is
14 patterned after the Finance Committee position from the 1986
15 Tax Reform Act. That position did not prevail in conference
16 and so we have in current law the House provision. We have
17 had testimony before the Committee with respect to the
18 international tax reform, and one of the key areas is the
19 effect of interest allocation on foreign tax credit. And if
20 the effect of it is that in many cases it can -- for U.S.
21 companies, vis-a-vis their international competition result
22 in disadvantage. So that this proposal is designed to
23 address that inequity. It is delayed somewhat, this would
24 delay it further.

25 Senator Nickles. Mark, that doesn't explain it well

1 enough. If you have -- Lindy, maybe you can help, if you
2 have an international corporation and they have a
3 multinational corporation and they have a subsidiary in
4 Europe that subsidiary has debt, are they able to deduct
5 that interest in accordance with the subsidiary's operation
6 or are they denied a part of the interest deduction?

7 Ms. Paull. The way we do our foreign tax credit is
8 you look to that foreign subsidiary or foreign operations,
9 you figure out what the income from the foreign source is,
10 you figure out the U.S. tax on it, and then you get a
11 foreign tax credit for the foreign taxes that are paid.
12 Now, in making that computation of what your foreign source
13 income is, the way the current interest allocation rules
14 work, if some of your domestic interest expense gets
15 allocated to your foreign under the current law, your
16 foreign source income therefore goes down, therefore the
17 amount of foreign tax credits you can take against it is
18 reduced. And that's the inequity that this provision is
19 trying to t.

20 Senator Nickles. Part of your debt expense, your
21 interest expense is allocated to your foreign --

22 Ms. Paull. Foreign operations, right.

23 Senator Nickles. -- foreign operations and that
24 reduces the amount.

25 Ms. Paull. But it's only for purposes of figuring out

1 what your foreign tax credit which is supposed to eliminate
2 double taxation on your foreign earnings. It's only for the
3 purpose of determining how much foreign tax credit you can
4 get.

5 Senator Nickles. Mr. Chairman, I agree with the
6 underlying amendment. I do have -- I think we're making a
7 mistake by postponing the effective date on the allocation
8 rules of interest expense. I think that does continue
9 almost a double taxation for multinational corporations
10 which I'm not sure we want to do. I'd like to work with him
11 and see if we can't make this happen, but maybe find a
12 different pay for and offset, and I haven't had a chance to
13 work on that. I didn't know it was this expensive. I was
14 thinking it was closer to the 2 billion instead of the 2.7.
15 But I'll be happy to work with our colleague and try to make
16 that happen.

17 Senator Robb. Mr. Chairman.

18 The Chairman. Senator Robb.

19 Senator Robb. Thank you, Mr. Chairman. Let me just
20 say that while I share the concern about the pay for and the
21 effect of pay for, I think that the amendment is eminently
22 sound, in fact, I'm sorry that we can't find a way to do it
23 in ten years which would reflect the actual experience and I
24 think certainly current provision of 39 years discourages
25 those improvements in a way that is counterproductive and so

1 I am fully supportive. If it requires some additional
2 negotiation, I would be happy to work with the distinguished
3 Senator who is offering the amendment and others to see if
4 we can't work that out. But the idea is one that I hope
5 that this committee will embrace and continue to support
6 whether it's here or whether its on the floor.

7 Senator Conrad. Mr. Chairman, might I just conclude
8 on this? Let me just say, I don't think we should wait for
9 another study. I don't know what any study would tell us,
10 other than 39 years on leasehold improvements is absurd. It
11 is absolutely absurd.

12 Senator Nickles. Absolutely.

13 Senator Conrad. It is absolutely absurd. And we
14 ought to take this opportunity to fix it. This is affecting
15 small businesses up and down every Main Street in America.
16 It is affecting small business that is in malls, it is
17 affecting those small business who lease these properties
18 and we've got something here that makes no economic sense.
19 So I'd hope we would vote for this. I'm happy to amend the
20 effective date if that's needed to match. I think we are --
21 if we aren't there, we're very close. And it really is
22 something we should do. Frankly, it's an embarrassment to
23 have this in the tax code. It just makes us look stupid.
24 And I know no member wants to look stupid.

25 [Laughter.]

1 Senator Nickles. Mr. Chairman.

2 The Chairman. Yes, Senator Nickles.

3 Senator Nickles. Mr. Chairman, just thinking out
4 loud. Knowing that the House has a comparable provision, I
5 would say that we adopt the amendment and then we work on
6 trying to make sure that we eliminate some of the inequities
7 in taxation on multinational corporations on deductions, but
8 adopt the amendment and work on the pay for possibly either
9 on the floor or when we go to conference.

10 The Chairman. My understanding is that the House does
11 not contain such a provision.

12 Senator Nickles. That's correct. They don't have the
13 leasehold provision, but they do have the interest
14 allocation. My point being that we can work on --

15 The Chairman. That's correct.

16 Senator Nickles. -- we can put in the leasehold
17 deduction much closer, and, frankly, I think 15 years is
18 long. But to put this in I think is important, the interest
19 allocation is in the house bill so we still have some room
20 to try and make sure we do some good work in that area as
21 well.

22 The Chairman. Is there any more comment? I suggest
23 we vote on this by voice vote. Those in favor signify by
24 saying aye.

25 All those in favor say aye.

1 Senator Rockefeller. Get close to your microphones.

2 [Laughter.]

3 The Chairman. Everybody but Jay.

4 [Laughter.]

5 The Chairman. All those in favor say aye.

6 [Chorus of ayes.]

7 The Chairman. Opposed, nay.

8 [No response.]

9 Senator Graham. We didn't have to get so close after
10 all.

11 The Chairman. All right. Senator Mack?

12 Senator Mack. Yes, I have an amendment to offer if
13 you want me to proceed.

14 The Chairman. Yes, please proceed.

15 Senator Mack. The amendment that I am going to offer
16 has to do with the District of Columbia. If you will recall
17 a couple of years ago we passed some initiatives that
18 provided for a D.C. homebuyer credit -- first-time homebuyer
19 credit and a zero capital gains tax rate for the District
20 that was changed in conference setting up particular areas
21 of the District where the zero capital gains would be
22 effective. The amendment that I am going to offer is to
23 extend the first-time homebuyer credit to the end of the
24 year 2001. Now, the amendment that I had submitted called
25 for it to go to the year 2004, but I've scaled it back

1 because of the cost.

2 On the capital gains issue, what we created when we
3 established the law two years ago through conference was we
4 -- there are situations where some businesses are getting
5 the benefit of the zero capital gains on one side of the
6 street and not on the other side of the street. And we made
7 that claim that these kind of things were going to happen
8 and so I am saying to my colleagues, I think it's time that
9 we changed that. I think that the two provisions that we
10 passed a couple of years ago have had a very positive impact
11 on the District. There's been a 50 percent increase in the
12 sale of homes in the District, 70.1 percent of the
13 purchasers within the District in 1998 claimed the credit;
14 51 percent of those who claimed the credit said the credit
15 caused them to buy at this time. The credit was especially
16 helpful for the middle class and 87 percent of those
17 purchasing homes were in the income range of somewhere
18 between \$30,000 and \$60,000 a year.

19 Now, the whole purpose of these initiatives were to
20 reverse what has been happening to the District of Columbia.
21 I mean, all of us, I think, ought to be concerned if the
22 District doesn't come back and create a strong based both
23 economically and residentially, then the District is going
24 to constantly be looking to us for more funding. And this,
25 Mr. Chairman, I think is a way to continue to address the

1 concerns of the District. And so while there will be those
2 who will claim that times are good now, we don't need to do
3 that, I am under the impression that there is still a
4 continued loss in population in the District. And, again, I
5 go back to the point that these have drawn into the District
6 of Columbia exactly the kind of folks that they want to have
7 coming in, that's the middle income and so I would urge my
8 colleagues to support this.

9 The offset that I am proposing -- first of all the cost
10 of this, the homebuyer extension to the end of 2001 has been
11 estimated, I believe, at 25 million and for going
12 Districtwide on the capital gains is 118 million, and so I
13 would propose that we reduce the increase in IRA
14 contribution limits in 2001 and 2002 as necessary. I am
15 under the impression that what we're talking about is about
16 \$60 a year. So instead of the IRA limit going from 2,000 to
17 3,000, it would go from 2,000 to 940, and then in the
18 following year, instead of the 4,000, it would go to 3,940.
19 And I think this is, again, this is a reasonable approach to
20 address a very significant problem with respect to the
21 District of Columbia.

22 Senator Conrad. Mr. Chairman.

23 The Chairman. Yes.

24 Senator Conrad. Might I just say when Senator Mack
25 proposed this previously I supported it, but I really didn't

1 know if it would have the beneficial effect that he was
2 hoping for. I can say now that I am absolutely convinced
3 that it is having the beneficial effect that he intended.
4 And just in talking to young couples, including people who
5 are in my staff, who have been looking for homes, this
6 credit makes a significant difference in their decisions and
7 where to locate. And if we're going to see the District
8 continue to revive, they need this help. I think it is
9 making a very substantial difference. And if the District
10 of Columbia is going to have a chance to come back, we need
11 to continue this credit. So I would hope my colleagues
12 would support it.

13 I am now absolutely persuaded this is making a
14 difference. I just had a young couple move in across the
15 street from us, exactly the kind of people you need to have
16 coming into the District of Columbia. Both of them
17 professional, high income earners, going to be paying good
18 taxes to the District. They're good in the neighborhood.
19 And they told me one of the reasons they made this decision,
20 one of the things that helped make the decision was this
21 credit. Because the income taxes are higher in the District
22 than surrounding jurisdictions. So I really think Senator
23 Mack has got a good proposal.

24 Senator Mack. Can I make -- I just need to add one
25 additional point which I didn't mention with respect to the

1 amendment. We raise the income phase out for joint filers
2 to twice that of single filers. In other words, we go to an
3 adjusted gross income of between 1.40 and 1.80.

4 Senator Lott. Mr. Chairman, could I ask the sponsor
5 of this amendment just a couple of quick questions?

6 You had two separate amendments, but you have joined
7 them into one now?

8 Senator Mack. Yes, it would be my --

9 Senator Lott. That provides the first-time homeowner
10 tax credit, the zero capital gains tax rate, and it also
11 eliminates the marriage penalty and the homebuyer tax
12 credit?

13 Senator Mack. That's correct. That's correct.

14 Senator Lott. I think this is an excellent proposal.
15 It's been helpful. I believe that elected officials in the
16 District of Columbia support it, and I think we ought to
17 continue this. It is only -- it is a one-year extension; is
18 that right?

19 Senator Mack. To the year 2001, that's correct.

20 Senator Nickles. Mr. Chairman, can I ask that my
21 colleague --

22 The Chairman. Sure.

23 Senator Nickles. -- because I may agree with part of
24 it, but I may not agree with all of it.

25 So you provide a tax credit for first-time homebuyers

1 of how much? Is it up to \$5,000?

2 Senator Mack. Yes, that's correct.

3 Senator Nickles. Now, I know we did this last year,
4 but I have a problem with that. I think it's very
5 inequitable. We're telling people, okay, it's okay if you
6 buy a home in the District of Columbia, we're going to give
7 you \$5,000 tax credit, \$5,000 of your tax to buy a home in
8 D.C., but not in Virginia, not in Maryland, not anyplace
9 else. I have two kids that live in the District of Columbia
10 that are working here, but I just don't know that we should
11 be doing that. I understand the essence of what you're
12 trying to do, a capital gains disburse, economic growth and
13 development and maybe I have some reservations about it, but
14 the \$5,000 gift for people to buy homes in D.C., I think
15 it's a mistake.

16 Senator Lott. Your children may want to take
17 advantage of that.

18 Senator Nickles. They won't agree with my position.

19 Senator Mack. Well, I don't know that I'm going to
20 change your mind on it, but, again, this has been designed
21 to address a problem. And there's no question that the
22 people who decide not to buy a home who would qualify in the
23 District would not benefit from the \$5,000 tax credit. But,
24 again, the purpose is to address a problem in the District
25 of Columbia and I think, in fact, as my colleague has

1 indicated, it has, in fact worked and I don't want to end it
2 at this point.

3 Senator Rockefeller. Mr. Chairman, if I could just
4 add to that. I think I would say to the Senator from
5 Oklahoma that there's kind of a general bipartisan consensus
6 from recent events in Washington, D.C. that it is in the
7 nation's interest, it is not a matter of picking winner and
8 losers, that Washington, D.C. has always been in the
9 position of being a loser, and never been in a situation of
10 having a fair shot from others, witness what's happening in
11 health care and hospitals in Washington. This is one chance
12 for one type of economic activity to give Washington, D.C.,
13 the nation's capital where we work and which is the symbol
14 of the nation a chance to have an equal opportunity. And I
15 think it's a very good amendment.

16 Senator Baucus. Mr. Chairman.

17 The Chairman. Yes, Senator Baucus.

18 Senator Baucus. Mr. Chairman, I understand the
19 purpose of this, but it strikes me as being a little ad hoc.
20 I mean, to have an idea, it might help, it probably does
21 help residents in the District and it might encourage more
22 people to live in the District, and it might do something
23 to, quote, "improve" the image of the District.

24 Since the election of the new mayor the image of the
25 District has come up dramatically. I mean, real estate

1 values in the District have come up a lot. People are
2 moving back to the District from the suburbs and a lot of
3 this is already happening. And I just don't know how much
4 more of this is really necessary. And maybe it is, I just
5 don't know. Which leads me to my second point, namely, you
6 know, it's sort of helpful to have some kind of a
7 comprehensive policy with respect to the District, and I
8 don't know quite what that policy is. Whether the D.C.
9 either Appropriations Committee or the authorizing, or the
10 relevant committee, and the question is the degree to which
11 this fits in or doesn't.

12 But my main point is that the District has revitalized
13 and significantly, particularly with the election of the new
14 mayor. People are coming back. They're coming back. And I
15 just don't know how important this is then.

16 Senator Mack. Let me say this --

17 Senator Baucus. How necessary this is.

18 Senator Mack. I don't claim any role in the election
19 of the new mayor, but was involved, I think Senator Lott
20 will remember at one particular meeting a couple of years
21 ago suggested that I head up a group of individuals
22 interested in trying to develop a plan that would, in fact,
23 help the District of Columbia. That had to do with a
24 pension issues, it had to do with prison issues, it was a
25 wide range of issues before the Congress and of specific

1 concern for the District. And included in that were the
2 economic components of the plan. And I just -- it would be,
3 I think, a terrible mistake at this stage of the game to
4 stop the economic component of the plan. We'll have that
5 opportunity ahead of us in a couple of years to take another
6 look at it, but it is working. But to conclude that it
7 solved all the problems that D.C. faces, I think is just
8 incorrect. It is part of an overall effort is what I'm
9 saying to you.

10 Senator Baucus. Mr. Chairman, I wonder if we could
11 ask the Treasury depending on particularly the pay force
12 which of these they agree with and which ones they do not
13 agree with.

14 Mr. Lubick. Mr. Chairman, first of all, on the
15 amendment itself, we have no objection to the extension of
16 the credit. We have a commitment as well to the District of
17 Columbia --

18 Senator Baucus. Mr. Secretary, could you pull the
19 microphone a little bit closer, please?

20 Mr. Lubick. We have no objection to the extension of
21 the housing credit. We have a commitment to the District
22 and to a stable residential base in the District. We do
23 oppose the extension of the capital gains treatment to the
24 entire District. It was originally conceived to stimulate
25 business investment in poverty areas. And to extend it to

1 the entire District seems to us to be contrary to the
2 original purpose.

3 As far as the pay for is concerned, I think as has been
4 stated we're not terribly happy with the general increase in
5 the limits for fears that we have as to the impact upon the
6 employer pension plan system. But the difference of \$60
7 seems to be minute and not of great consequence.

8 Senator Baucus. So you favor -- if I might, just a
9 clarification of what the homebuyers provision --

10 Mr. Lubick. We have no objection to the homebuyer
11 part. We do think it's not appropriate to extend the
12 capital gain relief to those parts of the District that do
13 not have the poverty component.

14 Senator Baucus: Thank you.

15 Senator Nickles. Mr. Chairman.

16 The Chairman. Yes, Senator Nickles.

17 Senator Nickles. In an effort to better understand
18 Amendment 1, how much does the amendment cost over ten
19 years?

20 Ms. Paull. The homebuyer credit one year extension
21 and the increase in the income limits is 21 -- well, excuse
22 me, 25 million over ten years.

23 Senator Nickles. And what about the cap gains?

24 Ms. Paull. The capital gains is 118 million over ten
25 years.

1 Senator Nickles. And let me ask you a question, on
2 capital gains, so it applies to any property in the
3 District?

4 Ms. Paull. Right now the capital gains applies to the
5 zero capital gains right applies to business investment, but
6 it can only be in areas where the poverty rate is not less
7 than 10 percent. This would remove the poverty threshold,
8 this amendment would.

9 Senator Nickles. Let me just ask --

10 Ms. Paull. So it could be any business investment in
11 the District of Columbia.

12 Senator Nickles. If I owned the Hyatt --

13 Ms. Paull. Zero capital gains for a five-year
14 investment.

15 Senator Nickles. If I bought and sold the Hyatt Hotel
16 next to the convention center, and made a nice gain, say, in
17 five years and doubled my investment in that period of time,
18 or bought some real estate anywhere in the District of
19 Columbia then that would have a zero cap gains rate?

20 Senator Mack. No. No, it must meet the 1397B
21 enterprise zone definition with 80 percent of its total
22 gross income coming from active conduct of a business in the
23 zone.

24 Senator Nickles. Okay. So if you owned the Capitol
25 Hyatt and you bought and sold it in that five years, is that

1 a zero capital gains rate?

2 Senator Mack. I don't believe so, no.

3 Ms. Paull. I guess, you know, you're parsing --
4 there's some parsing over words. The operation of a hotel
5 would be an active business; right?

6 Senator Mack. Yes, but 80 percent of the total gross
7 income refers to gross income, not the sale of a real estate
8 asset.

9 Ms. Paull. That's for purposes of the five -- for
10 the D.C. business for the five-year test, right? Then
11 you're selling your business. You've operated a hotel for
12 five years.

13 Senator Mack. I would be shocked if in my
14 negotiations with the Administration two years ago that they
15 would have allowed that to have occurred. Do you have a
16 comment on that?

17 Mr. Lubick. Well, I believe the hotel you're
18 referring to probably is located in one of the poverty
19 areas.

20 Senator Mack. It just so happens that I think right
21 across the street the hotel is not which is part of the
22 point of my amendment as well.

23 Mr. Lubick. You are correct. There is an
24 arbitrariness in drawing the lines. And, of course, we did
25 not favor the zero capital gains rate at that time in those

1 negotiations.

2 Senator Mack. I remember that.

3 Senator Lott. I'd like to just respond to my
4 colleague from Oklahoma. After all, our ultimate goal is
5 zero cap gains, and if in fact we have a zero --

6 [Laughter.]

7 Senator Lott. -- zero capital gains in the District
8 of Columbia, and it does marvelous things in the District of
9 Columbia then we can say, hey, it works here, it will work
10 everywhere. How about that approach?

11 Senator Nickles. Mr. Chairman, this final comment and
12 I'm not going to speak on it any further. I have a little
13 problem when we get into using the tax code to direct
14 investment and make capital decisions or telling people
15 where to buy their home, or telling people where to buy and
16 sell property is more advantageous than someplace that
17 government decides. I think that's misguided.

18 The Chairman. If there is no further comment, I think
19 we'll voice vote this unless there's any other request.

20 Those in favor, please signify by saying aye?

21 [Chorus of ayes.]

22 The Chairman. Opposed, nay.

23 [Chorus of nays.]

24 The Chairman. The ayes have it. The amendment is
25 agreed to.

1 Senator Mack. Thank you, Mr. Chairman.

2 The Chairman. We will next call on Senator Hatch who
3 will offer an amendment which I am willing to accept.

4 Senator Hatch. I have an amendment number, but let me
5 just make it short. I have an amendment number 15, to make
6 the R&D tax credit permanent. I've modified the offset and
7 understand that the Chairman will accept my amendment.

8 I want to thank the Chairman for working with me on
9 this, I also want to thank my colleagues, Senator Lott and
10 Senator Mack, of course, Senator Robb on the Democrat side
11 for their hard work on this amendment as well. And I'll put
12 my statement in the record, Mr. Chairman, if that's all
13 right with you.

14 The Chairman. That is fine.

15 Senator Mack. Mr. Chairman.

16 The Chairman. Yes..

17 Senator Mack. Yeah, I'll put a statement in the
18 record too, and I just appreciate your willingness to work
19 with us on this. As you know, we had this high tech summit
20 just a few weeks ago and the message over and over and over
21 again is to make permanent the R&D tax credit. So this is a
22 very important thing for the development of new technology
23 and for research and development and so I thank you for
24 this.

25 Senator Baucus. Mr. Chairman.

1 The Chairman. Senator Baucus.

2 Senator Baucus. Mr. Chairman, this is long overdue.
3 I am very happy to see this amendment. It also was in the
4 democratic substitute to make the R&D tax credit permanent.
5 In the past there's been a yoyo, up and down, six months, 18
6 months, it's been a great disservice to efforts to approve
7 research and development in our country. I am very happy to
8 see it in the bill, and I hope that we can pass it in the
9 House too and finally put this issue behind us and make R&D
10 tax credit permanent.

11 Senator Nickles. Mr. Chairman.

12 The Chairman. Yes, Senator Nickles.

13 Senator Nickles. Mr. Chairman, I'll ask the staff,
14 I'm glad to see that it was paid for. I would like to ask
15 the question, one, how was it paid for and then I have
16 additional questions of the staff of the offset.

17 Mr. Prater. Senator Nickles, the offset is to change
18 the IRA or the IRA rules in the proposed Chairman's mark,
19 AGI limit for contributions to deductible IRAs would be
20 modified so that the IRA increase after this amendment the
21 AGI limit would increase by a thousand for singles, 2,000
22 for married couples for 2000 and 2009 by 2,500 for singles,
23 5,000 for married couples for 2010. And they would be
24 indexed for inflation in 2010.

25 Senator Nickles. All right. So we reduce the number

1 of people who are eligible for before-tax IRAs?

2 Mr. Prater. That's correct.

3 Senator Nickles. Now, let me ask you one other
4 question. On R&D, and I know the votes are here, and I'm
5 not going to make a mess about it, but what percentage of
6 R&D expenses are salaries? Salaries and benefits, wages,
7 personnel expense?

8 Ms. Paull. Roughly 80 percent.

9 Senator Nickles. Mr. Chairman, just to make a general
10 comment, and I know the votes are here, but absolutely in
11 running a business every business in America can deduct 100
12 percent of their personnel expense with very, very few
13 exceptions. You can deduct your personnel expenses. And
14 what we're saying, if somebody -- again, this government
15 wisdom we've decided that well, if they're doing work in
16 research and development that's special. So not only can
17 you deduct it, we're going to make it tax credit. We
18 decided that we really want you to spend your money here.
19 Instead of spending your money maybe in equipment or other
20 investigation, we've decided in our infinite wisdom, we know
21 that you should be spending this person and allocating their
22 expense in R&D and we'll give you a tax credit.

23 I think that's micro-managing by us and saying that we
24 have the wisdom into how people should be spending their
25 money. I think everybody should be able to expense 100

1 percent of their wages, their expenses, their personnel
2 costs, but to give it a tax credit, I think, is a mistake
3 and I know where the votes are, so I want to make that
4 comment.

5 Senator Chafee. Well, I would just say that it's the
6 incremental amount.

7 Mr. Prater. That's right.

8 Senator Chafee. You have to select a base year or a
9 base several years, and then it's above that. So it isn't
10 that you can go right down to zero and take it all as a
11 credit, you have to be above the incremental amount above
12 the base year.

13 Senator Hatch. Mr. Chairman. Mr. Chairman.

14 The Chairman. Senator Rockefeller.

15 Senator Rockefeller. Mr. Chairman, just to give some
16 balance to this, I support the amendment and I think it's an
17 important amendment. But in our zeal to encourage private
18 research and development, let's not forget the fact that 70
19 percent of all patents based in this country are based upon
20 research and development that has been done in the public
21 sector. If you take a company like IBM, for example, only
22 21 percent of the patents that they hold are based upon what
23 they have done themselves. The rest is based upon what has
24 come out of government research.

25 Now, why do I say that? I simply say that to say that

1 to make the point that what we do in government research and
2 development is incredibly important in our budget process.
3 That's not within the jurisdiction of this Committee, but
4 it's a point that needs to be made. In our zeal for one,
5 let's not forget the cornucopia of what happens from the
6 other.

7 Senator Hatch. Mr. President -- Mr. Chairman.

8 The Chairman. Senator Hatch.

9 Senator Hatch. Just 30 seconds. You know, many
10 Americans are the beneficiaries of the R&E tax credit. You
11 know, when you stop and think about it, a study by KPMG,
12 Peat Marwick concluded that a \$1 reduction in the after-tax
13 price of R&E stimulates about \$1 of additional private R&E
14 spending in the short run and about \$2 of additional R&E in
15 the long run. So this tax credit is a credit for
16 investigation economic growth and job development creating
17 new jobs. So it's really a very important amendment and I
18 hope that -- I'm happy my colleague is willing to accept it.

19

20 Senator Conrad. Mr. Chairman.

21 The Chairman. Yes, Senator Conrad.

22 Senator Conrad. Can I just briefly add my voice of
23 support to this. You know, what we are doing now just makes
24 no sense at all. We've got out there companies don't know
25 whether we're going to extend it or we're not going to,

1 sometimes it lapses. It's another thing that kind of, I
2 think, loses confidence in government when we don't have a
3 consistent policy. And clearly one of the things that makes
4 us the world leader is the research and development that we
5 do in this country.

6 We are not going to stay number one unless we're number
7 one in research both in the private sector and the public
8 sector, and this is an incentive for companies to be on the
9 cutting edge. And I very much hope we pass this amendment
10 and I hope we pass it by a resounding margin out of this
11 committee.

12 The Chairman. If there is no further comment, those
13 in favor signify by saying aye.

14 [Chorus of ayes.]

15 The Chairman. Opposed, nay.

16 Senator Nickles. No.

17 The Chairman. The ayes have it. The amendment is
18 agreed to.

19 We now will call on Senator Chafee.

20 Senator Chafee. Mr. Chairman, as many others are
21 interested in alternative fuel vehicles, each of the major
22 automobile manufacturers in the U.S. are producing
23 alternative fuel vehicles with considerable success as far
24 as the vehicle goes, but however, the cost of them because
25 of the low production and high initial costs are preventing

1 their widespread use. And so the incremental costs, the
2 additional costs for the alternative fuel equipment on such
3 a vehicle is reducing its market penetration and consumers
4 are reluctant to pay more for these clean vehicles which
5 really make extraordinary achievements.

6 Alternative fuel vehicles emit between 20 and 30
7 percent less greenhouse gases than conventional vehicles.
8 And the benefits for air quality are really extraordinary.

9 This amendment would provide for a tax credit of 25
10 cents for each gallon of gasoline equivalent of natural gas,
11 propane, or hydrogen. And also there would be a tax credit
12 for 50 percent of the incremental costs, the incremental
13 being the difference between what a regular vehicle would
14 cost and what one of these would cost. A 50 percent for
15 those that met California's ultra-low emission standards and
16 85 percent of the incremental cost of one certified to meet
17 California's super-low emissions.

18 Mr. Chairman, I believe deeply in this amendment, but
19 we've had trouble getting the scoring on it and I'm not sure
20 what we do have, Lindy, on that, in the final analysis.

21 Ms. Paull. This is exactly the amendment you filed.

22 Senator Chafee. Yes.

23 Ms. Paull. Okay. It's \$519 million over ten years.
24 Over five years it's \$191 million.

25 Senator Chafee. And I don't have an offset for that.

1 So I won't press the amendment. But, Mr. Chairman, I hope
2 we can all keep it in mind and perhaps as we move through
3 this, what I consider will be a lengthy process, we can give
4 it some more consideration when we get there.

5 Senator Hatch. Mr. Chairman.

6 The Chairman. I believe the amendment is withdrawn.

7 Senator Hatch. Could I just say a few words on it?

8 Yeah, I think one of the biggest issues I hear about it
9 in my home State of Utah is clean air. And I support
10 Senator Chafee on this amendment. It provides an incentive
11 to increase the alternative fuel vehicles and alternative
12 fuels. And by encouraging the use of these fuels and
13 vehicles, we see our air quality increase significantly.
14 And in addition, we would enhance our energy security for
15 the future. I'll put the rest of my remarks in the record,
16 but this is a very important amendment and I hope we can
17 work together and maybe get this done.

18 Senator Chafee. Well, I want to thank Senator Hatch
19 very much for his kind comments on this. There will be
20 other days when we can give it shot. Thank you.

21 The Chairman. Senator Conrad.

22 Senator Conrad. Mr. Chairman, I have an amendment
23 that addresses the shortage of technology workers in the
24 country. We currently have a shortage of 340,000. The
25 Labor Department tells us that shortage is going to grow by

1 \$130,000 a year every year for the next ten years.

2 In my State business is telling me the number one issue
3 for them is labor shortage, specifically technology worker
4 shortage.

5 This proposal provides a tax credit for information
6 technology training, the tax credit would be equal to 20
7 percent, not to exceed \$6,000 per employee in a taxable
8 year. The cost according to the Joint Committee is \$386
9 million over ten years. We're suggesting the pay for be a
10 slow down in the proposed increase and the maximum
11 contribution limits for IRAs, for individuals age 50 and
12 above in item 3C(1) of the Chairman's mark. For example,
13 instead of a 10 percent every year, the increase could be 5
14 percent for the first three years, rising to 10 percent
15 thereafter. And I understand the Joint Committee is working
16 on an acceptable revenue stream; is that --

17 Ms. Paull. Yes, that's correct. There's a lot of
18 interactions going on right now with the changes to the
19 deductible IRAs that have been made today, so we were unable
20 to get your precise numbers, but if you give us some leeway,
21 we would be able to --

22 Senator Conrad. Well, we're glad to do that.

23 Mr. Chairman and colleagues, if I could just say, this
24 amendment is endorsed by the American Society for Training
25 and Development, CISCO System, Communications Industry of

1 America, the Computing Technology Industry Association, EDS,
2 Ernst & Young, Global Knowledge Network, Information
3 Technology Association of America, the Information
4 Technology Training Association, INTEL, Microsoft, Novell,
5 The Northern Virginia Technology Council, the Software and
6 Information Industry Association, SABRE, the Society for
7 Information Management, Silvan, SRA International, Texas
8 Instruments, and many others in the technology field who
9 say, we've got a crisis here of not having sufficient number
10 of technology workers

11 Senator Nickles. Mr. Chairman.

12 The Chairman. Yes, Senator Nickles.

13 Senator Nickles. Maybe I'll ask a question first. At
14 Nickles Machine Corporation, we have a lot of technology
15 people that run computer-oriented machines, would they
16 qualify for this \$6,000 tax credit?

17 Senator Conrad. Yes, you're training of them, you
18 could train them yourself and they would qualify.

19 Senator Nickles. Mr. Chairman.

20 The Chairman. Senator Nickles.

21 Senator Nickles. I absolutely oppose this amendment.

22 [Laughter.]

23 Senator Nickles. I think it's ridiculous and you
24 couldn't answer the question, I was going to pose it either
25 way. There is no limit. Just to give you an example --

1 Senator Thompson. Okay. I'm changing my answer.

2 [Laughter.]

3 The Chairman. That's better.

4 Senator Nickles. The example, and part of my
5 arguments on R&D are somewhat the same. You take an
6 employer, they hire people, every employer, manufacturer,
7 and so on, they have a lot of people that are in high tech.
8 And to say, okay, well, if you hire these people, we're
9 going to give you a \$6,000 credit, they're going to hire
10 those people because they need them anyway; not because they
11 get a \$6,000 credit.

12 Now, the high-tech area is booming, that's great. And
13 there may be a shortage, that's great, those are all good
14 jobs, that's fantastic, but we don't need to try and solve
15 the problem by saying, for this group of employees we're
16 going to give you a \$6,000 tax credit.

17 It happens to be the most profitable, I don't know if
18 it's the most profitable, it's the fastest growing sector of
19 our economy. To come out and say, well, we've decided we're
20 going to give you a tax credit if you hire people in this
21 particular area, I think is -- again, is a serious, serious
22 mistake. And there's no limit, most companies would have
23 different groups that would qualify and they would get the
24 credit well and good, but frankly they don't need it,
25 they're going to hire these people and they're going to

1 train them anyway. This tax credit would be a nice little
2 handout to them, but frankly it's not necessary and I think
3 it would be -- I think it's bad tax policy.

4 Senator Conrad. Mr. Chairman, Could I respond?

5 The Chairman. Let Senator Rockefeller --

6 Senator Conrad. All right.

7 Senator Rockefeller. Maybe I can help my colleague
8 from North Dakota. I can't imagine -- no, let me rephrase
9 that more politely. I think the Senator from Oklahoma is
10 very wrong. I think that one of the two or three great
11 problems that America faces is in fact technology training.
12 That whether or not the Nickles Machine shop qualifies for
13 this of momentary import, but does not prove a point.

14 Several years ago California imported 50,000 French
15 information technology workers and there was a hue and
16 outcry, I suspect from many members of this committee, the
17 labor movement, lots of Americans, and the point was that
18 America is really doing nothing short of the E rate and what
19 the information technology business itself is doing through
20 grants to train our workforce. And at the time that those
21 50,000 French people were imported and caused such a ruckus,
22 only 15 percent of California classrooms were wired to be
23 able to be accessible to the internet.

24 In other words, we are not doing what we need to be
25 doing in the most basic way, and we are on what they call

1 the very, very close edge of a major digital divide which is
2 going to be the new definition of rich and poor. We're
3 making one definition of that in this bill that we're
4 evidently going to pass, but there's going to be a much more
5 severe one if we don't train our people to be
6 technologically able. I think this -- whether or not this
7 affects Nickles Machinery Company or not, this is a very,
8 very important amendment for America.

9 Senator Conrad. Mr. Chairman. Mr. Chairman.

10 The Chairman. Yes.

11 Senator Conrad. Can I just say to my friend, the
12 Senator from Oklahoma, this isn't for hiring technology
13 workers, this is for training them. The problem that we've
14 got is a dramatic shortage in people who are trained.

15 The business community of my State held a meeting last
16 year and for the first time ever in my career they
17 identified their number one problem is a lack of technology
18 trained workers. Always before it had been taxes. Now it
19 is a question of not having people who are trained and they
20 came to me and said, look, we need to do something to get
21 people trained because we've got hundreds of positions in
22 North Dakota that are going unfilled and we're losing
23 contracts off shore because we don't have the people trained
24 to do the work. And the Labor Department, the Commerce
25 Department tell us the current shortage in this country is

1 340,000. They say, we're going to have an additional
2 shortage every year for the next ten years of 130,000.

3 We're forcing this work offshore because we don't have
4 a sufficient number of trained, high-tech workers. We ought
5 to provide an incentive to get that job done so we don't
6 lose the business offshore. That's just a good economic
7 initiative for this country.

8 Senator Gramm. Mr. Chairman.

9 The Chairman. Senator Gramm.

10 Senator Gramm. Mr. Chairman, I would just like to
11 point out that training is already tax deductible. When you
12 give it a tax credit, people are going to use it up to point
13 where its value to them is worth what it costs. And when
14 you in essence say that Government is going to pay for it up
15 to \$6,000, I think you're setting up a non-economic
16 situation. I think we do have a problem with high-tech
17 workers, and I think the way we -- we have numerous programs
18 to deal with it, we have training programs. We raised the
19 H1B program to let more highly skilled people into the
20 country. I think we need to do it again. But I think this
21 idea of having a tax credit for whatever our little project
22 at the moment is, this is not a tax cut. This is an
23 expenditure.

24 Basically it's an expenditure where for the first
25 \$6,000 every penny of it is the Federal Government's it's

1 money you would have sent to Washington, they let you keep.
2 But only if you use it for that purpose. So if it weren't
3 tax deductible to train people, I would think that would be
4 a reasonable proposal to make, that we need high-tech people
5 so it ought to be tax deductible to provide the training
6 and therefore the company has an incentive to be sure the
7 right makes sense and is productive. But I think when you
8 convert it into a tax credit instead of a deductible so that
9 all of the money is the Federal Government's money, I think
10 you set up a bunch of non-economic circumstances and I think
11 we should not adopt this amendment.

12 Senator Robb. Mr. Chairman.

13 The Chairman. Senator Robb.

14 Senator Robb. Thank you, Mr. Chairman.

15 Let me just say in response to my good friend from
16 Texas, this is not just a little problem, every little
17 problem of the moment. This is a major and growing problem
18 in the Northern Virginia area alone in which a number of the
19 members have at least a temporary residence. We have 23,000
20 unfilled technology jobs today and the number gets bigger
21 every single time. Anything we're doing now is not enough.
22 And precisely as Senator Conrad said, these jobs, if they
23 can't find a workforce to fulfill those jobs, they're going
24 to go elsewhere. So it seems to me that this is the type of
25 industry that we're trying to encourage, and not only is it

1 high technology, it's the kind of activity -- economic
2 activity that provides all of the benefits and very little
3 of the downside in terms of pollution or whatever, it
4 provides high economic wages, considerably more than any of
5 the other industries, and we don't have a sufficient
6 incentive now.

7 I agree with the Senator that we're providing an
8 incentive, we're just not providing enough and as the
9 problem continues to get worse, we become placed at a
10 competitive disadvantage in terms of the international
11 community and this is the area where the United States
12 leads.

13 Senator Gramm. This is a permanent provisional law.
14 What happens if in ten years we've got a glut of this kind
15 of work.

16 Senator Rockefeller. We can change it in ten years.

17 Senator Robb. Change it and celebrate.

18 Senator Gramm. Good luck.

19 Senator Chafee. Mr. Chairman.

20 The Chairman. Senator Chafee.

21 Senator Chafee. Mr. Chairman, I have trouble with
22 this amendment. I don't quite see why it's limited to
23 information technology. If we're going to go down this
24 direction, my State is a major health care and hospital --
25 with major hospitals and health care provider, and

1 presumably we'd do well if we had such a thing that applied
2 to hospital care or health care. But this doesn't.

3 But not solely for that reason, I just think what we're
4 doing is we're paying up to \$6,000 to somebody who is going
5 to do what they're going to do anyway, and this is really a
6 bonanza. So I'm enthusiastic about it. Thank you.

7 The Chairman. We'll call on Senator Baucus for a
8 brief comment and then Senator Nickles, and then we'll have
9 a vote.

10 Senator Baucus. Mr. Chairman, a couple of times we've
11 heard Senators say, well, why give a credit to companies who
12 are going to do something anyway. That's a false
13 assumption. Companies aren't doing this anyway. And in my
14 State at least, the State of Montana, I've heard time and
15 time again, small companies, these are technology companies,
16 mid-tech companies, high-tech companies trying frankly to
17 expand to make a go of it. I mentioned earlier that the
18 capped income in my State is either 50th or 49 depending
19 upon how you want to calculate it, so there are a lot of
20 small companies who are on the verge of just trying to make
21 a go of it, but can't. They can't. Why can't they?

22 They can't because of the shortage of people in this
23 area. They can't get them. And where there's a shortage
24 clearly that some of the bigger companies that can pay
25 higher salaries are going to attract them.

1 It's clear to me, just a gut sense, and putting the
2 economic theory aside, just putting it all, just pure
3 pragmatics of what's happen and what's not happening, but
4 time and time again small business people tell me if only we
5 had some way to get more technology workers, more people
6 that could work for us in our company, and I can just tell
7 you, I wish you would come to Montana -- I say to my friend,
8 the Senator from Oklahoma -- because there are so many
9 companies that need something like this to give extra
10 incentive to train somebody to do the work. But that's not
11 there now. And it's their judgment and it's my judgment
12 that the extra incentive could well make the difference so
13 they can train some more technology workers and these
14 companies can finally be able to make something happen.

15 The Chairman. Senator Nickles.

16 Senator Nickles. Mr. Chairman, just a comment. If we
17 do this, we'll regret it. Now, I'll just tell you this
18 right now, this thing will grow like crazy, everybody will
19 come on and say, well, wait a minute, we gave a tax credit
20 of \$6,000 for high tech, now we have a shortage in some
21 other area, maybe it's in health care, maybe it's in some
22 other field, and then somebody is going to come up and say,
23 well, wait a minute, we're giving a tax credit for companies
24 like CISCO and Intel, and I love them, that's great, I'm
25 glad they're growing, but we didn't do it for mid-size

1 manufacturers, we didn't do it for small companies that have
2 just as much problem hiring skilled people, training people.

3 I can tell you the biggest challenge we've had at
4 Nickels Machine Corporation in 20 years is hiring and
5 training competent people. But you're going to say, these
6 industries get the tax credit, these industries don't. The
7 ones that don't are going to come knocking on the door and
8 say, Congress, we want help, give us a tax credit. Some
9 painting service is going to say, we need trained painters,
10 give us a tax credit, help us pay for it. We shouldn't do
11 this. It will grow just like Section 49. Section 49
12 started out at wind, and then we added biomass, and then we
13 added chicken stuff.

14 [Laughter.]

15 Senator Nickles. Then we added bark and it grew and
16 grew, and that's the same thing that would happen to this
17 tax credit if we passed it. I sure hope this committee
18 doesn't make that mistake.

19 The Chairman. I think this has been fully debated.

20 Senator Conrad. Mr. Chairman. Mr. Chairman, can I at
21 least address my amendment before it's voted on? Because
22 Senator Nickels has said things that are just inaccurate
23 about the amendment. This isn't something that is limited
24 to this industry. It's available to small size business, to
25 mid-size business, to large business, if they're training

1 technology workers. That's the shortage that exists,
2 340,000 a day and going to grow by 130,000 a year and it is
3 deductible now. Clearly that isn't enough. It's not
4 getting the job done. And what we're doing by a failure to
5 train workers in this country is to push the business
6 offshore. We're sending business to India.

7 I had a major company come and tell me, you know,
8 Senator, because we are failing to training technology
9 workers rapidly enough in this country, we're sending
10 hundreds of millions of dollars of business to India.

11 Now, I say to you, this is an investment in the
12 technology future of America. It is endorsed by company
13 after company, by association after association that
14 understands the technology future of America and we
15 shouldn't turn our back on that opportunity.

16 Senator Robb. Mr. Chairman.

17 The Chairman. Senator Robb.

18 Senator Robb. A very brief comment. I would invite
19 my colleagues' attention to the military pay and benefits
20 bill that we passed, the very first bill of this session, we
21 targeted critical MOSSs, those critical specialties that we
22 needed to have a special incentive to attract and retain the
23 people we needed in order to be able to defend our interest
24 in the United States. It's the same thing that we're doing
25 here. Thank you, Mr. Chairman.

1 Senator Gramm. And that's what business is doing by
2 paying higher salaries.

3 Senator Nickles. Mr. Chairman, just to comment. Now
4 Senator Conrad said that this would apply to small
5 businesses like Nickles Machines, I will tell you, we've got
6 a lot of employees, you just gave us thousands and thousands
7 of dollars of tax credit that we're going to train these
8 employees whether you give it to us or not, because we have
9 to. But now you're telling us, as long as we're profitable,
10 you're amendment is great for profitable companies, it
11 doesn't do anything for companies that aren't profitable, so
12 you increase that inequity, I just think it's a serious
13 mistake, and it's going to be a lot more expensive. If it
14 is applied as broadly as Senator Conrad just explained, a
15 lot of companies are going to find a lot of people in the
16 training business.

17 The Chairman. I think this has been fully explored.
18 The clerk will call the roll.

19 The Clerk. The vote is on the motion to waive.

20 The Clerk. Mr. Chafee.

21 Senator Chafee. No.

22 The Clerk. Mr. Grassley.

23 Senator Grassley. No.

24 The Clerk. Mr. Hatch.

25 Senator Hatch. No.

1 The Clerk. Mr. Murkowski.
2 Senator Murkowski. No.
3 The Clerk. Mr. Nickles.
4 Senator Nickles. No.
5 The Clerk. Mr. Gramm of Texas.
6 Senator Gramm. No.
7 The Clerk. Mr. Lott.
8 Senator Lott. No.
9 The Clerk. Mr. Jeffords.
10 Senator Jeffords. No.
11 The Clerk. Mr. Mack.
12 The Chairman. No by proxy.
13 The Clerk. Mr. Thompson.
14 The Chairman. No by proxy.
15 The Clerk. Mr. Moynihan.
16 Senator Moynihan. Aye.
17 The Clerk. Mr. Baucus.
18 Senator Baucus. Aye.
19 The Clerk. Mr. Rockefeller.
20 Senator Rockefeller. Aye.
21 The Clerk. Mr. Breaux.
22 Senator Breaux.
23 Senator Breaux. Aye.
24 The Clerk. Mr. Conrad.
25 Senator Conrad. Aye.

1 The Clerk. Mr. Graham of Florida.
2 Senator Graham. Aye.
3 The Clerk. Mr. Bryan.
4 Senator Bryan. Aye.
5 The Clerk. Mr. Kerrey.
6 Senator Moynihan. Aye by proxy.
7 The Clerk. Mr. Robb.
8 Senator Robb. Aye.
9 The Clerk. Mr. Chairman.
10 The Chairman. No.
11 The Clerk. Mr. Chairman, the votes are nine yeas, 11
12 nays. The amendment is not agreed to.
13 Senator Gramm. Mr. Chairman, I think this bill is
14 good enough. We can quit.
15 [Laughter.]
16 Senator Gramm. How do you improve on perfection?
17 Senator Graham. I move to reconsider the original
18 amendment offered by Senator Moynihan.
19 The Chairman. Yes, Senator Murkowski.
20 Senator Murkowski. Let me bring to your attention an
21 inequity that exists in our territories, in Puerto Rico and
22 the Virgin Islands. It's my understanding that
23 consideration of this was given in the Democratic package by
24 Senator Moynihan. And my Committee, the Committee on Energy
25 and Natural Resources has oversight for the territories.

1 We've got an extraordinary situation, particularly in the
2 Virgin Islands, and I've had an opportunity to meet with the
3 Governor and they're trying to get their fiscal house in
4 order.

5 But last month, Mr. Chairman, at the trade mark up you
6 included a provision that temporarily allows the full \$13.50
7 excise tax, the so-called "Rum Tax" to be returned to the
8 Virgin Islands and Puerto Rico as a rebate. Currently we
9 are withholding \$3.50, the balance of \$10 is rebated to
10 those territories.

11 Their situation is really tragic. They've had the
12 difficulties associated with the hurricanes and they're
13 trying to rebuild their infrastructure, the water and sewer,
14 they've had disaster loans, they've got interest payments
15 that far surpass their ability to service their debt, and
16 this is unique to that particular part of the world, this
17 application of the Rum Tax.

18 It's interesting to note as well, as we enjoy about
19 4.4. percent unemployment, unemployment in the Virgin Island
20 is running about 12 percent. Now, what we've got here is a
21 difficult situation because, you know, I don't have an
22 identifiable offset, but I have a suggestion. It's my
23 understanding, Lindy, that over ten years this is about \$600
24 million or thereabouts and I don't want to upset the
25 Chairman with that, but I'm wondering if we could extend

1 this one year to October 1st, allow the full rebating back
2 of the 13.50 which is actually 3.50.

3 That would be of great assistance to them as they try
4 and get their house in order. Because they're going to have
5 to have some loan forgiveness, they've got some of the
6 disaster loans that they've got to restructure, and this is
7 about the only relief that they can look forward to. And
8 this would not put an undue burden on that Chairman's mark
9 to extend it for a year and see if we can't help them get
10 their house in order.

11 For what it's worth, I understand the Administration
12 supports lifting the cap to both Puerto Rico and the Virgin
13 Islands and I've got an estimate here of 12,000 per year to
14 the Virgin Islands and about 38,000 to Puerto Rico. I would
15 defer to the professional staff. Excuse me, million, Puerto
16 Rico.

17 So what I would propose to you for consideration is a
18 one-year extension to October 1st which I believe would cost
19 about \$48 million.

20 Ms. Paull. I think it's more around 65 million to be
21 able to do it for an entire one year. That would be October
22 1 to September 30th; is that what your suggestion is?

23 Senator Murkowski. Well, I have a little different
24 figure and I would defer obviously to you.

25 Ms. Paull. Yes.

1 Senator Murkowski. But if we could -- if you concur,
2 Mr. Chairman, it would be my proposal to defer for one year
3 65 million.

4 The Chairman. Let me say to the distinguished Senator
5 that this was not submitted as an amendment. It's, I think,
6 already included in the CBI; is that correct? In the CBI
7 there's no provision for how it should be paid. It was my
8 understanding that the Senator wanted to bring it up for
9 discussion, but not for a vote.

10 Senator Murkowski. Well, obviously I didn't have a
11 proposal to pay for it for ten years, but I felt that there
12 was justification as they attempt to get their fiscal house
13 in order --

14 The Chairman. I would ask the Senator not to bring it
15 up because the rule is that the amendments have to be
16 submitted, and that's not the case here.

17 Senator Murkowski. Well, it was submitted in part of
18 the Democratic package, but it wasn't submitted as a
19 separate amendment. But you've got a hardship case here,
20 Mr. Chairman, and I -- you know, there's only so much blood
21 in the turnip and they're looking to this Committee for
22 whatever assistance it could give, and I thought perhaps a
23 one-year extension might be justified. It's not the
24 Christmas season, I know, but --

25 Senator Nickles. On behalf of all the rum drinkers of

1 America -- it could be -- this could be big.

2 The Chairman. I would have to rule --

3 Senator Nickles. Now, you're getting into --

4 The Chairman. I would have to rule that it's not

5 germane because we have to proceed. If we let one person

6 bring up an amendment then the die is cast. So I would ask

7 the distinguished Senator not to submit this.

8 Senator Murkowski. Well, not hearing a loud cry,

9 otherwise it appears I have no other choice, but I would ask

10 you to reflect as you leave here today, and when you go to

11 sleep at night to think --

12 Senator Nickles. If you have a rum toddy tonight,

13 think about it.

14 Senator Murkowski. I have one more amendment, Mr.

15 Chairman. I would like to hear from my friend from New York

16 who I know feels very strongly about this.

17 Senator Moynihan. I could not be more supportive of

18 my friend from Alaska, but I do say we will have the CBI on

19 the floor, we'll have the African support bill coming over,

20 and, sir, we will have this done before this session of the

21 Congress is out, or shame on us.

22 The Chairman. All right.

23 Senator Murkowski. I appreciate that statement,

24 Senator Moynihan.

25 I have one trailing amendment that I believe is

1 germane.

2 The Chairman. Let --

3 Senator Murkowski. Excuse me. Go ahead, Mr.
4 Chairman.

5 The Chairman. We are alternating between Democrats
6 and Republicans and I think Senator Breaux or --

7 Senator Murkowski. I know you wanted to get through.

8 Senator Breaux. I'm sorry, Chuck, go ahead.

9 The Chairman. Senator Robb, do you want to proceed?

10 Senator Robb. Thank you, Mr. Chairman.

11 Mr. Chairman, I filed an amendment regarding Federal
12 employees to try to correct an inequity that occurred in the
13 Balance Budget Act whereby we asked Federal employees to
14 contribute an additional percentage to their retirement
15 income with no additional benefit to them. It was designed
16 to bring the budget into balance. We're in the process of
17 correcting inequities at this point. I recognize that the
18 proposed solution would come under your ruling and for that
19 reason I will not pursue the amendment at this time.

20 But I do want to bring to Mr. Chairman, to the
21 attention of the Committee, the inequity that does exist.
22 Because this was put in, it would end in 2003 in any event.
23 It was a stop gap "pay go" if you will, for the Balanced
24 Budget Amendment. We now have a situation which is
25 decidedly different than when the 1997 Act was passed, and

1 yet we're still requiring Federal employees to pay an
2 additional amount which does not accrue in any way, shape or
3 form to their benefit, and so I would just like to alert the
4 Committee that in the appropriate venue, and at appropriate
5 time that I hope to be able to address this.

6 What I would like to do is repeal it since that would
7 not be within the jurisdiction of this Committee. I will
8 look to work in a different jurisdiction to do so, but it is
9 a serious problem with just straightforward inequity, and
10 for that reason I thank you for the opportunity to discuss
11 the amendment, but I will hereby withdraw the amendment.

12 The Chairman. Thank you, Senator Robb.

13 Do you have an amendment?

14 Senator Nickles. Mr. Chairman.

15 The Chairman. Senator Nickles.

16 Senator Nickles. Mr. Chairman, I have one, I believe
17 that you're going to agree to. It's my amendment No. 26,
18 and it would basically, well the grand cost of \$9 million
19 over five years and ten years, and it's basically to have
20 some consistency in depreciation life schedule for natural
21 gas lines. That's what they've always been is deducted or
22 depreciated over seven years. There was an IRS case that
23 said it should be 15 years, IRS lost, and so you have a
24 situation where what I'm trying to do is clarify that we'll
25 continue at seven years which is what it's been forever.

1 It's always been seven years.

2 The Chairman. The Chair will accept the amendment.

3 Ms. Paull. Excuse me.

4 The Chairman. Well, we have to alternate.

5 Ms. Paull. What did you say the revenue loss was?

6 Senator Nickles. My amendment says it reduces revenue
7 impact by 9 million over five years and ten years. And the
8 reason is, I think the Committee determined that because of
9 the court case it was going to stay at seven years anyway.

10 Ms. Paull. What is the effective date for your
11 amendment?

12 Senator Nickles. The date of passage, I would guess.
13 The entire country is still depreciating these over seven
14 years. IRS came up in one jurisdiction and said, hey, it
15 should be over 15 years. The IRS lost in court. I'm just
16 wanting to clarify that it stays at seven years which is
17 consistent with a depreciation over wellhead, consistent
18 over a depreciation of equipment at processing plants,
19 trying to keep it all at seven years which is what
20 historically it's always been.

21 Ms. Paull. Except for, I think your amendment might
22 be retroactive on the effective date; is that correct?

23 Senator Nickles. Seven years has always been the
24 case. It's kind of like what we got into with the gasoline
25 station. When one court case said, oh, we should

1 depreciation those over a longer period of time, we said,
2 no, you're wrong.

3 Ms. Paull. I think as a general principle that the
4 Chairman had hoped that the proposals would be prospective.

5 Senator Nickles. Just again clarify, we do have a
6 scoring that says it's a total cost over five and total cost
7 over ten was \$9 million -- 9 million.

8 The Chairman. Any further comments?

9 Ms. Paull. So, I guess, you know, the question is, is
10 it good enough to make the clarification on a prospective
11 basis and not go retroactive which is generally I think the
12 standard that was utilized by both Chairmen in trying to
13 establish their mark. That doesn't mean --

14 Senator Nickles. I think we should -- what we are
15 trying to do is eliminate a lot of litigation. Again, it
16 has historically been seven years. And that's what I'm
17 trying to clarify. So --

18 Ms. Paull. I understand. It's just a question of
19 whether or not you would be willing to clarify it on a
20 prospective basis.

21 The Chairman. I would urge the Senator to do that.

22 Ms. Paull. With no inference language, you know, no
23 inferences to whatever, you know, these taxpayers have won
24 in court, as you have said.

25 Senator Nickles. Fine, Mr. Chairman. Mr. Chairman,

1 do you want the 15 percent?

2 The Chairman. Well, we're going back and forth.
3 Senator Breaux has a proposal he wants to bring up and then
4 I think withdraw.

5 Senator Breaux. Yeah, I'll just take a minute to
6 discuss it with the members of the Committee. Mr. Chairman,
7 I think everybody on the Committee has probably been
8 apprised of the problem that we have in the wholesale liquor
9 industry between the producers of distilled spirits and the
10 wholesalers. I want everybody to know, we don't produce any
11 of it in Louisiana. We drink a lot of it, but we don't
12 produce it.

13 [Laughter.]

14 Senator Breaux. But I think everybody has probably
15 been contacted at one point or another. I mean, basically
16 the problem is fairly simple. There is a discrepancy
17 between how the Federal Excise tax is paid depending on
18 whether a wholesaler buys domestically produced distilled
19 spirits, or whether they buy foreign distilled spirits. If
20 they buy a foreign distilled spirit the wholesaler does not
21 have to pay the Federal excise tax on that purchase until
22 they sell that product to the retailer to put it in the
23 chain of commerce.

24 However, if that same wholesaler buys a domestic bottle
25 of spirits, then they in fact have to pay the excise tax

1 immediately and it creates a competitive disadvantage, I
2 think, for domestic wholesale spirit producers and I think
3 it doesn't make a lot of sense.

4 Now, this issue has been around as Don Lubick and Lindy
5 and all of them know for a long period of time as we've
6 tried to find a way to resolve this. There's still no
7 consensus among the industry, but the House bill has
8 something in it which addresses this issue and it is my hope
9 that the Chairman and other members who may be involved in
10 the conference can try and help come up with a resolution of
11 this problem once and for all that brings about equal
12 treatment between the wholesalers buying domestically
13 produced spirits and foreign produced spirits. This is
14 something that is very important, it shouldn't be that
15 complicated. We're just going to have to get the industry
16 together in the same room and see who comes out. Hopefully
17 they'll both walk out together.

18 But I just wanted to make the point it should be
19 addressed in the conference.

20 Senator Baucus. Mr. Chairman, could I just add an
21 historic note. It's late in the afternoon. I wanted to
22 ask, what was the first law passed by the Congress, and sure
23 enough it was the oath of allegiance. We didn't have one,
24 no king, so -- well, that led to the next question, what was
25 the second law passed by the Congress? The second law

1 imposed a 10 cent a gallon tariff on Jamaican rum so America
2 could consume more corn whiskey made in America. This has
3 been with us a long time.

4 The Chairman. So you have withdrawn --

5 Senator Breaux. I do not have an amendment, I'm just
6 suggesting that we deal with it in the conference which is
7 in the House bill.

8 The Chairman. Next we'll call on Senator Nickles.

9 Senator Nickles. Mr. Chairman, Senator Lott, and this
10 is kind of a combination of an amendment I was working on
11 and found out that Senator Lott has basically the identical
12 amendment. The thrust of this amendment is to make a kind
13 of reprogramming and how some of the money in the bill is
14 used, and that is to cut the 28 percent tax bracket. The 28
15 percent tax bracket for individuals kicks in at taxable
16 income of \$25,750. I want to move that up. And so here is
17 what we're doing. And for joint taxpayers, if a joint
18 couple has income above \$42,350 they pay 28 percent taxes on
19 any income above that. I want to move that up.

20 And so what I do is in the Chairman's mark, he has a
21 reduction in the 15 percent income tax rate to 14 percent,
22 and that basically is a \$216 billion tax cut over the ten-
23 year period of time. And then he also has \$81 billion, and
24 I appreciate the Chairman doing this, in moving up the 15
25 percent bracket somewhat, but very, very small. So what I

1 do is the amendment we have proposed is taking the \$298
2 million combination that the Chairman has in Title I, the
3 broad-based tax relief provisions, take that \$298 billion
4 and use that to expand the 15 percent bracket.

5 People who are currently paying 28 percent on the low
6 end of the 28 percent tax bracket, make them 15 percent
7 taxpayers. And so just to give you a couple of examples, if
8 you have an individual that -- and I've asked Joint Tax how
9 high can we move it up? And Lindy just FYI, they gave us
10 some information they think it would do, somewhat similar to
11 the Coverdale-Torricelli that would increase it by 5,000 for
12 individuals and 10,000 per couple. I'm not sure exactly
13 where it is, but that's the estimate that they have given.

14 So what that would mean is that for an individual
15 instead of being taxed at a 28 percent rate at 25,750, it
16 would be 30,000. So the individual could have \$30,000
17 before they go into a 28 percent tax bracket. That's real
18 rate reduction for an individual with taxable income between
19 25,000 and 31,000. Conversely, for a couple, right now at
20 42,000 they go into a 28 percent bracket, that would move it
21 up to 52,000. And I think that's awfully important because
22 these are people who are paying not only the 28 percent
23 bracket, but they're also paying Social Security taxes. And
24 if they happen to be self-employed, they're paying both
25 sides of the Social Security taxes. They're paying not only

1 the 28 percent, but they pay the 15.3 percent; 15.3 percent
2 and 28 percent, that's 43.3 percent of any additional dollar
3 that these individuals make. So I'm targeting the tax
4 relief for a lot of the tax relief on lower middle income
5 who I think through the combination of taxes both Social
6 Security and Federal income taxes, the 28 percent just hits
7 them too quick, too early. So the essence of this amendment
8 is to move the 28 percent bracket up or give those taxpayers
9 who are paying 28 percent Federal income tax on the lowest
10 end, make them 15 percent taxpayers.

11 I think Senator Coverdale, Senator Torricelli, a lot of
12 us have been talking about this, these are people who are
13 really squeezed.

14 I might mention, too, Mr. Chairman, their marginal
15 rate, Federal income taxes marginal rate is higher on those
16 individuals than it is on Bill Gates on any additional
17 dollar they make, if they're self-employed, because they're
18 paying both sides of their Social Security tax. I think
19 that's too high, and I think we should give them some
20 relief, and so that's the essence of the amendment.

21 Senator Graham. Mr. Chairman.

22 The Chairman. Yes.

23 Senator Graham. Could I ask Ms. Paull or Mr. Lubick
24 for the distributional analysis of this amendment and the
25 provision which would be replaced?

1 Ms. Paull. Well, once again, we do not have a
2 distribution analysis for the amendment. The provision in
3 the bill that reduces the 15 percent rate to 14 percent rate
4 affects all taxable returns, which is roughly 98 million tax
5 return units. That's more taxpayers because of course there
6 are married couples.

7 This particular -- the best I can do for you here is,
8 when you adjust the endpoint of the 15 percent bracket so it
9 gets wider which I believe is what the his amendment does,
10 affects 36 million tax returns. So the number of people who
11 are benefitting are shifting here. And, of course, so
12 everybody who got a benefit from the 14 percent, now it's at
13 the endpoint of the 15 percent bracket and up. And that
14 will -- the break points, I believe, are stated in the mark
15 up document, but for taxable income it's 25,000 roughly for
16 individuals and 43,000 roughly for couples. Of course,
17 that's their taxable income after their deductions.

18 Senator Graham. Well, I have some information that
19 76.6 percent of American taxpayers would not benefit under
20 this plan which would indicate that approximately 24 percent
21 would benefit.

22 Senator Nickles. Would the Senator yield? Anybody
23 would benefit if they happen to be -- if they have income --
24 I'll give it to you exactly. Anybody, I don't have the
25 numbers, but any single individual with taxable income above

1 25,000 would benefit. Any married couple or joint return
2 with income above 42,000 would benefit. And they would
3 benefit the most. This is targeted towards that group of
4 taxpayers.

5 Senator Graham. But there are 76 percent of Americans
6 who are below those thresholds.

7 Senator Nickles. I don't think that's accurate.

8 Senator Graham. According to the sheet that I have,
9 this is from the -- based on Joint Tax Committee data and
10 estimates, those Americans who pay no tax are 30.2 percent,
11 those who pay --

12 Senator Nickles. They didn't benefit under my
13 amendment.

14 Senator Graham. Those who pay at the 15 percent rate
15 are 46.4 percent. So none of those Americans would benefit
16 by this --

17 Senator Nickles. The Senator is correct.

18 Senator Lott. Mr. Chairman.

19 The Chairman. Yes.

20 Senator Lott. I know the hour is late, and I'll be
21 brief, but I do want to speak in support of this and just
22 make two or three observations.

23 First of all, this is, as I understand it, basically
24 the Coverdale-Torricelli proposal that was -- or this is a
25 major component. They also had a component dealing with

1 interest and dividends and some other provisions, but this
2 is what they had recommended with regard to the bracket
3 changes.

4 I understand that this would benefit 36 million
5 taxpayers. Now, it's a fact that if you don't pay any
6 taxes, you know, you don't get any benefit. But here's my
7 point, the thing that really strikes home with me, and it's
8 a point I made earlier today. If you make \$26,000 a year,
9 you are in the 28 percent bracket. I think that that is
10 too, you know, that level should be moved way up. You
11 shouldn't -- and I think to move the singles up to 30,000,
12 actually I would like to move it up higher. I think that
13 that 28 percent bracket shouldn't kick in until about
14 35,000.

15 But for couples, you know, a young couple making
16 \$42,000 a year, you know, to move that up to 52,000, I think
17 is a very positive thing.

18 I think what the Chairman proposed is a positive change
19 in the rates I would prefer an across-the-board tax rate
20 cut. But we didn't get that. And then I would prefer that
21 we move up these brackets so that low-income people are not
22 being taxed at 28 percent. And so that would be, again, my
23 preference. And, therefore, I do support this amendment.

24 Senator Conrad. Mr. Chairman. Mr. Chairman.

25 The Chairman. Yes, Senator Conrad.

1 Senator Conrad. Mr. Chairman, I think this amendment
2 ought to be defeated. The entire benefit go to the top 24
3 percent of income earners in this country, the entire
4 benefit, the top 24 percent.

5 We want to talk about people and things that are unfair
6 for low-income people. A single individual starts paying
7 Federal income taxes at \$8,000 a year. Now, you talk about
8 unfair, if you're concerned about people who are low income
9 paying Federal taxes, vote for our plan. We take three
10 million people off the income tax rolls altogether. We have
11 another nine million people that would have dramatic
12 reductions who are the lowest level of the income ladder who
13 are paying Federal taxes.

14 You talk about something that's unfair, having people
15 start paying Federal taxes when they're below the poverty
16 level, now that makes no sense. And the proposal of Senator
17 Nickels, well, I happen to agree, 28 percent comes too soon.

18 The effect of his proposal is to give all of the
19 benefits to the top 24 percent of the income earners in this
20 country. That's just not equitable. It's not fair.

21 Senator Gramm. Mr. Chairman.

22 The Chairman. Senator Gramm.

23 Senator Gramm. Mr. Chairman, I think our Democrat
24 colleagues have identified basically the problem here, and
25 that is Senator Nickles doesn't understand that people

1 making \$26,000 a year are rich.

2 [Laughter.]

3 Senator Conrad. How about 8,000?

4 Senator Gramm. And the idea that we would give them a
5 tax cut or that we would provide incentives for people to
6 maybe take a second job or take a risk to get a little bit
7 higher paying job knowing they could continue to be taxed at
8 15 percent, just obviously draws a distinction which exists
9 between the two parties. To our colleagues \$26,000 a year
10 is rich. And the Senator Nickels is trying to help these
11 people and trying to take them out of the 28 percent
12 bracket, and I can see how someone would get outraged about
13 it.

14 Senator Graham. Well, excuse me. I think if I could
15 ask my --

16 Senator Gramm. Well, wait, I was talking on my own
17 time here. I just would like to say that I think that
18 people that are making \$26,000 a year are probably working
19 pretty hard and I think the idea of stretching this bracket
20 out so they can be taxed at 15 percent for a little bit more
21 income makes perfectly good sense and I'm for it.

22 Senator Graham. Can I ask a question of my teutonic
23 cousin because I may not understand the arithmetic of this.

24 [Laughter.]

25 Senator Graham. Basically the amendment would

1 increase that bracket by \$10,000 for a married couple; is
2 that right?

3 Senator Nickles. That was the estimate.

4 Senator Graham. All right.

5 Senator Nickles. I would hope that it would do more.

6 Senator Graham. Now, the difference between a 15
7 percent tax and a 28 percent tax is 13 percentage points.

8 Senator Nickles. That's correct. It would be \$1,300.

9 Senator Graham. Now, suppose I -- I'm not a \$26,000
10 earner, suppose we got a very wealthy person who is a
11 million dollar earner, would they get the \$1,300 benefit?

12 Senator Nickles. That's correct.

13 Senator Graham. So it's not just the \$26,000 person,
14 it's everybody from 26,000 to infinity who would benefit; is
15 that correct?

16 Senator Nickles. That's correct.

17 Senator Graham. And those people from 26,000 to
18 infinity are 24 percent of the American taxpayers.

19 Senator Nickles. I'm not sure that that is accurate,
20 but I hear what you're saying.

21 Senator Gramm. Yeah, it's accurate.

22 Senator Graham. You can ask the joint --

23 Senator Gramm. You're taxed at that rate up to that
24 point and then you're taxed at a higher rate.

25 Senator Graham. So everybody above the \$26,000 level

1 or in the case of the married couple above the \$36,000 level
2 is going to save \$1,300 on their tax bill.

3 Senator Nickles. An individual would save that.

4 Senator Gramm. If they make -- no, they won't save a
5 penny unless --

6 Senator Rockefeller. I think the Senator is on the
7 Florida Senator's time.

8 Senator Gramm. No, actually it wasn't, but go ahead.

9 Senator Graham. So the issue is, do we want to have
10 100 percent of the American taxpayers benefit by having the
11 lowest rate reduced by 1 percentage point, or do we want to
12 have the 24 percent of the highest taxpayers benefit by an
13 average of \$1,300 if they are -- if they can take the full
14 benefit of this from that level up to the wealthiest,
15 highest income earners in the country. Aren't those the
16 choices?

17 Senator Nickles. Mr. Chairman, let me just make a
18 couple of comments.

19 Senator Graham. But is the -- are those the two
20 groups?

21 The Chairman. Could I ask that we expedite the
22 discussion because there are -- we have everybody here. I
23 think one Senator is --

24 Senator Nickles. Mr. Chairman, I'll be very quick,
25 and I'm happy to vote.

1 Senator Rockefeller. But doesn't the Florida Senator
2 have a question that he's asked that he wants a response to?

3 Senator Graham. Is there -- to me the two parties who
4 are contesting here are 100 percent of the American
5 taxpayers who are all going to get some benefit by having
6 the beginning rate reduced by one percentage point, or 24
7 percent of the taxpayers who are going to get -- if they are
8 full beneficiaries -- all the way to the highest taxpayer in
9 the country \$1,300?

10 Senator Nickles. Let me just make a couple of
11 comments. Yes, we target the benefit for anybody who makes
12 above \$25,000. We target the benefit for taxpayers. What
13 I'm trying to do is provide relief for a young person,
14 single, and the single only gets half the benefit that
15 you're discussing. For that single individual that makes
16 \$40,000, I don't think they should be in a marginal rate if
17 they're self-employed 43 percent.

18 Senator Graham. Why don't you cut it off for those
19 people at 40 and don't give the benefit to all the people
20 who are above 40,000?

21 Senator Nickles. Well, I don't want to do that.

22 [Laughter.]

23 Senator Nickles. I want to give a tax cut for
24 taxpayers. And I'm absolutely serious.

25 The Administration took a 31 percent rate and turned it

1 into 39.6. And so now you have demographics where the
2 Assistant Secretary is saying, hey, the upper quartile, they
3 get 80 percent of the benefit from Senator Gramm's language,
4 that means that evidently the upper quartile pays 80 percent
5 of the taxes.

6 My point is, we should give a tax cut for taxpayers and
7 the targeted amount of benefit is targeted towards the
8 people who are just moving into the 28 percent tax bracket,
9 they receive the bulk of the tax cut. I don't think -- I'll
10 just give you an example.

11 I've got a daughter who works in the Senate. She's
12 making maybe not quite that amount, and I've got another
13 daughter who works and makes a little bit more than that, I
14 don't think the government should take 43 percent of each
15 additional dollar they make and that's without State income
16 tax or city income tax; and I absolutely think it's wrong
17 for the government to be taking that marginal rate of 50
18 percent.

19 The Chairman. Could I ask the Senator to please bring
20 it to --

21 Senator Nickles. I told you I'm wrapped up. I'm
22 ready to vote.

23 The Chairman. Let me compliment the Senator. I think
24 he's offered a very interesting and worthwhile proposal. I
25 happen to think what we have in the Chairman's mark is also

1 a very attractive proposal.

2 Senator Lott. I think, Mr. Chairman, that the Senator
3 from Florida endorsed your proposal during his comments
4 here.

5 The Chairman. So I --

6 Senator Graham. It's better than the alternative.

7 The Chairman. -- think we've got everyone here and I
8 would like to proceed. If we could go ahead and have the
9 vote subject to your amendment which we'll take up
10 afterwards, but that's all right.

11 Senator Murkowski. As long as you'll take my
12 amendment, Mr. Chairman, I have no objection.

13 Senator Gramm. Mr. Chairman, I want to object to an
14 amendment after we're finished.

15 Senator Murkowski. Why?

16 Senator Gramm. Because I don't want your --

17 The Chairman. In any event, let's proceed with a vote
18 on the Nickels-Lott amendment. The clerk will call the
19 roll.

20 The Clerk. Mr. Chafee.

21 Senator Chafee. No.

22 The Clerk. Mr. Grassley.

23 The Chairman. Aye by proxy.

24 The Clerk. Mr. Hatch.

25 Senator Hatch. Aye.

1 The Clerk. Mr. Murkowski.
2 Senator Murkowski. Aye.
3 The Clerk. Mr. Nickles.
4 Senator Nickles. Aye.
5 The Clerk. Mr. Gramm of Texas.
6 Senator Gramm. Aye.
7 The Clerk. Mr. Lott.
8 Senator Lott. Aye.
9 The Clerk. Mr. Jeffords.
10 Senator Jeffords. No.
11 The Clerk. Mr. Mack.
12 Senator Mack. Aye.
13 The Clerk. Mr. Thompson.
14 Senator Thompson. Aye.
15 The Clerk. Mr. Moynihan.
16 Senator Moynihan. No.
17 The Clerk. Mr. Baucus.
18 Senator Baucus. No.
19 The Clerk. Mr. Rockefeller.
20 Senator Rockefeller. No.
21 The Clerk. Mr. Breaux.
22 Senator Breaux. No.
23 The Clerk. Mr. Conrad.
24 Senator Conrad. No.
25 The Clerk. Mr. Graham of Florida.

1 Senator Graham. No.

2 The Clerk. Mr. Bryan.

3 Senator Moynihan. No by proxy.

4 The Clerk. Mr. Kerrey.

5 Senator Kerrey. No.

6 The Clerk. Mr. Robb.

7 Senator Robb. No.

8 The Clerk. Mr. Chairman.

9 The Chairman. No.

10 The Clerk. Mr. Chairman, the votes are eight yeas, 12
11 nays.

12 The Chairman. The amendment is not agreed to.

13 Senator Moynihan. Mr. Chairman, would you think of
14 reconsidering the proposal we offered earlier today which is
15 so much in harmony with your views as we have just seen.

16 The Chairman. Well, I would say that a number of your
17 provisions follow very much what I propose, but I have to
18 say I very strongly disagree with the dollar amount. What
19 I've tried to put together, I would say to my distinguished
20 colleague, is a proposal that will carry a majority.
21 Because what I'm interested in is tax cutting, but actually
22 giving some relief to the American people.

23 So what I would like to do now is go ahead on the
24 reporting the bill out and then subject to an amendment by
25 my distinguished Senator from Alaska. So I will now move to

1 report --

2 Senator Moynihan. Mr. Chairman, may I just make the
3 point that we do have a fundamental difference as to the
4 amount of the tax cut. We are in good harmony on many
5 details, but it is the amount that defies us.

6 The Chairman. So with that I now move to report
7 favorably the Taxpayer Refund Act of 1999 as amended to the
8 Senate with the understanding that Committee staff be
9 permitted to make any technical and conforming changes,
10 including changes to facilitate compliance with the Budget
11 Act that may be necessary.

12 The clerk will call the roll.

13 The Clerk. Mr. Chafee.

14 Senator Chafee. Aye.

15 The Clerk. Mr. Grassley.

16 Senator Grassley. Aye.

17 The Clerk. Mr. Hatch.

18 Senator Hatch. Aye.

19 The Clerk. Mr. Murkowski.

20 Senator Murkowski. Aye.

21 The Clerk. Mr. Nickles.

22 Senator Nickles. Aye.

23 The Clerk. Mr. Gramm of Texas.

24 Senator Gramm. Aye.

25 The Clerk. Mr. Lott.

1 Senator Lott. Aye.
2 The Clerk. Mr. Jeffords.
3 Senator Jeffords. Aye.
4 The Clerk. Mr. Mack.
5 Senator Mack. Aye.
6 The Clerk. Mr. Thompson.
7 Senator Thompson. Aye.
8 The Clerk. Mr. Moynihan.
9 Senator Moynihan. No.
10 The Clerk. Mr. Baucus.
11 Senator Baucus. No.
12 The Clerk. Mr. Rockefeller.
13 Senator Rockefeller. No.
14 The Clerk. Mr. Breaux.
15 Senator Breaux. Aye.
16 The Clerk. Mr. Conrad.
17 Senator Conrad. No.
18 The Clerk. Mr. Graham of Florida.
19 Senator Graham. No.
20 The Clerk. Mr. Bryan.
21 Senator Moynihan. No by proxy.
22 The Clerk. Mr. Kerrey.
23 Senator Kerrey. Aye.
24 The Clerk. Mr. Robb.
25 Senator Robb. No.

1 The Clerk. Mr. Chairman.

2 The Chairman. Aye.

3 The Clerk. Mr. Chairman, the votes are 13 yeas, seven
4 nays.

5 The Chairman. I want to thank my colleagues for their
6 cooperation and I particularly appreciate the bipartisan
7 support for the Chairman's mark. And with that, we will
8 proceed to the amendment --

9 Senator Moynihan. Mr. Chairman, could we have order.

10 The Chairman. This will not take very long, I don't
11 think.

12 Senator Murkowski. Thank you, Mr. Chairman.

13 The Chairman. I would ask Senator Murkowski to
14 proceed.

15 Senator Murkowski. Let me be very brief. We've got a
16 little inequity associated with operating aircraft in my
17 State of Alaska and it's our dependence on sea planes, and
18 what we have here is a proposal, again, to waive the air
19 passenger tax to sea planes and the rationale is because
20 they fly at low altitudes of 1,000 to 1,500 feet in what is
21 known as "uncontrolled air space". They are not tracked by
22 the FAA, they don't land at airports, they land on the
23 water, the lake, the beach, whatever, and we think there's
24 an inequity in why they should have to pay the tax when they
25 are not using the FAA facilities. The proposed cost is

1 barely a million dollars a year. I've got an offset for it,
2 and it's been submitted to the committee. It would require
3 the basis of property transferred in part gift, part sales
4 transaction to be allocated between the gift force and the
5 sales portion based on the fair market value of the property
6 and the consideration paid. According to the joint tax, the
7 proposal would establish consistency among the rules for
8 circulating the base in a charitable bargain sale and a part
9 sale, part gift transaction.

10 I would encourage the Committee to accept it. It's
11 very, very small and unique, unlike any other area. We by
12 the very nature have a lack of airports in the proximity of
13 a situation where we don't have roads, depend on sea planes
14 and they don't use the FAA.

15 The Chairman. The concern I have with the proposal is
16 that you do use radar and other --

17 Senator Murkowski. No, these are not -- these
18 aircraft don't have any identification IDs where you press a
19 button on your cockpit and you're monitored by radar. These
20 operate under 1,500 feet, they're VFR, they're 180, 185
21 Beavers that creep along at 80 knots and they don't use
22 airports.

23 The Chairman. I would ask Lindy to explain the
24 proposal.

25 Ms. Paull. Well, I'm a little confused here because

1 you may well be talking about -- and we would be happy to
2 look into it for you. It was my understanding that many of
3 these sea planes do use services from the FAA. They do use,
4 for example, the weather, limited air traffic control, their
5 pilots are certified by the FAA. Their airworthiness is
6 certified by the FAA. The fact that they don't use the
7 airport is, you know, obvious because they are sea planes.
8 But that in terms of the total cost of, you know, our
9 airport programs and FAA programs, the use of the airport,
10 the funds we provide to the airports is really about 20
11 percent of the cost of the overall program. That they're
12 still getting a fair amount of services.

13 Now, I would be happy to look into this further.
14 You're indicating that these may not be, but it was our
15 understanding they did get all of these services.

16 Senator Murkowski: Well, they don't. Factually, all
17 pilots are certified by the FAA. So there's nothing unique
18 or distinct about if you're checked out in a sea plane. But
19 the fact is they fly in what is known as uncontrolled air
20 space. So the FAA does not control their air space and
21 that's the most significant service. Obviously weather, you
22 can get weather from the FAA, get weather from the Coast
23 Guard, you can get weather from anybody. And this is so
24 insignificant, Mr. Chairman, and so important and we don't
25 use airports, and the facilities provided by the FAA, the

1 facilities that are provided is you've got a little strip on
2 the beach. You can't bury your fuel tank anymore because
3 the EPA won't allow you to do that, so you've got to put it
4 up on a metal stand and you have to have a truck come by and
5 put 60 gallons of fuel in your tank and drain it by gravity
6 control. I mean, that's the circumstances. Yet, these
7 people are required to pay the same amount as though they
8 would with a real airplane that was operating under
9 controlled air space.

10 Ms. Paull. Hopefully they are a real airplane.

11 Senator Murkowski. And I hate to make the point of
12 it, but it's just so unique and the monetary amount is so
13 small, I would encourage the --

14 Ms. Paull. Are you suggesting that they only fly in
15 uncontrolled air space and that your amendment would be
16 limited to that?

17 Senator Murkowski. They operate in uncontrolled air
18 space. In other words, they are not monitored in flight by
19 the FAA from point A to point B. They fly visual, they fly
20 point-to-point, and they operate independently.

21 Ms. Paull. So the amendment would be limited to that
22 kind of an operator.

23 Senator Murkowski. Sea planes. I mean, these are
24 three- and four-passenger aircraft.

25 Ms. Paull. And they would pay the general aviation

1 fuels tax --

2 Senator Murkowski. Yes.

3 Ms. Paull. -- it's my understanding under this
4 amendment in lieu of the tax.

5 Senator Murkowski. I'm not waiving the fuel tax.

6 Ms. Paull. I think maybe with some of those
7 clarifications.

8 Senator Baucus. Mr. Chairman, though, if I might.

9 The Chairman. Go ahead.

10 Senator Baucus. We're talking about the airline
11 ticket tax here; is that correct?

12 Ms. Paull. Yes.

13 Senator Murkowski. Yes.

14 Senator Baucus. So the question is should the
15 passengers that fly on sea planes have to pay the airline
16 ticket tax; is that the question?

17 Senator Murkowski. No, the question is, these
18 carriers are not getting any service from the FAA --

19 Senator Baucus. No, no, no. We're talking about the
20 airline ticket tax?

21 Senator Murkowski. That's the question. They're not
22 getting any service from the FAA.

23 Senator Baucus. Who is charged today? Are the
24 passengers on sea planes charged today?

25 Senator Murkowski. It's part of the fare.

1 Senator Baucus. It's part of the fare. Frankly, Mr.
2 Chairman, I don't see any reason why they should be exempt.
3 I understand they're --

4 Senator Murkowski. In your State of Montana, you've
5 got a few sea planes.

6 Senator Baucus. And I think they a passenger --

7 Senator Murkowski. And what service --

8 [Laughter.]

9 Senator Murkowski. What services does the FAA
10 provide?

11 Senator Baucus. It's a long ways to the sea from
12 where we are.

13 [Laughter.]

14 Senator Murkowski. I know. Think about -- this is an
15 issue of equity and, you know, you're either going to
16 recognize that they're not providing any service, so why
17 should they have to pay for it?

18 Senator Baucus. Well, I think they are getting FAA
19 service in various ways and --

20 The Chairman. Let me --

21 Senator Baucus. -- I just don't think it makes sense
22 to --

23 The Chairman. -- the hour is late and Lindy has
24 offered to make an investigation. I would suggest that we
25 have her do so and we can discuss the matter when it comes

1 to the floor.

2 Senator Murkowski. Mr. Chairman.

3 Ms. Paull. I'll report back to you, you know, on the
4 details of that.

5 Senator Murkowski. Mr. Chairman.

6 The Chairman. I guess there is a question of its
7 germaneness on the floor so that we have to include it now.
8 And when we find the facts to the contrary, we'll take it
9 out.

10 Senator Murkowski. Thank you, Mr. Chairman.

11 The Chairman. So, again, let me thank everyone for --

12 Senator Kerrey. Mr. Chairman.

13 The Chairman. Yes.

14 Senator Kerrey. Mr. Chairman, you and I have talked
15 about an issue having to do with public power in a
16 deregulated environment. Senator Gorton and I have a bill
17 that we've introduced and there are 16 co-sponsors to it I
18 was going to offer as an amendment. At your request I did
19 not.

20 There is a companion piece having to do with private
21 power on the House bill that would -- Senator Murkowski is
22 very much aware of that bill. I don't think the two are in
23 conflict, personally, but I would hope that if in conference
24 if we get to conference and there's an offer by the house to
25 accept this, I would hope that you would either urge that

1 the House drop that provision or that we include this
2 provision for public power.

3 Senator Baucus. Mr. Chairman.

4 Senator Moynihan. Well said.

5 Senator Murkowski. Mr. Chairman. You're talking
6 about, if I may respond? You're talking about
7 decommissioning?

8 Senator Kerrey. The decommissioning, yes, sir.

9 Senator Murkowski. Yes. And it's my understanding
10 that you had a position on exempting municipal utilities?

11 Senator Kerrey. It doesn't exempt them, Senator. It
12 says -- Senator Gorton and my bill would say that if the 24
13 States have already deregulated, if you're in a deregulated
14 environment, then a public or municipal power entity could
15 offer non tax exempt bonds to go into a competitive
16 environment. -- So it provides an exemption for them. Right
17 now they are not allowed to do that. And so if you're going
18 to have a competitive -- if we end up deregulating either
19 nationally or at a State level and 24 States have, this will
20 enable them to do that.

21 Senator Murkowski. I would suggest to the Chairman
22 that I would be willing to participate in a hearing on it
23 should he so desire on this issue because the counter to
24 this is the question of tax exempt municipal bonds and what
25 it was designed to be used for vis-a-vis what it's used for

1 in the issue of public and investor owned power.

2 Senator Kerrey. I think it would be very helpful,
3 especially if it was you and Senator Gorton holding a
4 hearing on this.

5 Senator Murkowski. Well, that can be arranged because
6 he's on my energy committee, so -- and as you know we're
7 taking up electric deregulation.

8 The Chairman. But I want to emphasize that we think
9 it's a prudent course in this area not to handle it in a
10 piecemeal approach, but rather in a comprehensive manner.

11 Senator Kerrey. Mr. Chairman, my concern was that we
12 not end up in conference yielding to the House. If we're
13 going to yield to the House on the provision to help nuclear
14 power plants decommission, my hope, if you're going to yield
15 in that fashion, my hope is that you would add the provision
16 that Senator Gorton and I --

17 The Chairman. I don't intend to yield on anything.

18 [Laughter.]

19 Senator Mack. Mr. Chairman. Mr. Chairman. Mr.
20 Chairman.

21 The Chairman. Yes.

22 Senator Mack. Yes, I just want to raise one issue. I
23 do have another amendment which obviously I'm not going to
24 offer, but it's a Section 809 issue. Some people will say,
25 well, this is a rightful shot that has to do with one

1 company. From that perspective they are correct, but it is
2 -- the result of it would be one company is because of
3 action we took in 1997.

4 The reason I'm not going to offer the amendment is
5 because there's a fair difference of opinion with respect to
6 the cost of the amendment. I just want to raise this and
7 ask you if you would work with me on this as we go to the
8 floor.

9 The Chairman. I would be happy to take a look at it.

10 Senator Mack. Thank you.

11 Senator Baucus. Mr. Chairman, on the -- not that
12 matter, but the preceding matter, I just, for the record I
13 think it's important that it's not only public power and
14 private power, but the coops also have to be treated
15 equitably. And so if it ever gets to conference or whatever
16 forum it might be in, I'd just like to tell the Senator I
17 would like to work with him so long as coops are part of the
18 solution.

19 The Chairman. That, of course, is what I mean by
20 comprehensive approach. So with that --

21 Senator Moynihan. Mr. Chairman, may I just note for
22 the record that we will file minority views.

23 The Chairman. Very good. Supporting the majority
24 position?

25 [Laughter.]

1 Senator Moynihan. Supporting your generosity, but
2 deploring your extravagance.

3 [Laughter.]

4 The Chairman. Well, I thank everyone for their
5 patience and cooperating.

6 Senator Moynihan. And thank Lindy Paull and --

7 The Chairman. Thank you staff.

8 Senator Kerrey. Mr. Chairman.

9 Senator Moynihan. -- and Mr. Lubick.

10 The Chairman. Yes, I want to thank the panel very
11 much.

12 Senator Kerrey. Mr. Chairman, before we go, there was
13 also an issue relating to and it was a Nebraska corporation
14 that approached me to assist this interest allocation issue
15 and I told them that we were not doing something like this
16 because it would be a single shot. And they're informing
17 that this will affect lots of businesses that they're not
18 able to make the asset test. I did not offer it because I
19 respect very much, and I think the Chairman's position is
20 correct, we should not do rifle shots in tax legislation,
21 but if this company is able to persuade me that there's lots
22 of other businesses affected, I do intend to talk to the
23 Chairman later on.

24 The Chairman. I particularly want to thank Joint
25 Taxation for their assistance and cooperation. It's always

1 a pleasure to work with you.

2 The Committee is in recess.

3 [Whereupon, at 4:43 p.m., the Committee was adjourned.]