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Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE

UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

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SUMMARY: IMPACT OF CONGRESSIONAL BUDGET ACT ON FINANCE COMMITTEE

The Congressional Budget Act of 1974 (titles I–IX of Public Law 93–344), provides the mechanisms and procedures for Congress to establish its own annual Federal budget and to consider spending, revenue, and debt limit legislation in the context of that budget. The provisions of the bill would have a number of effects on the consideration of legislation handled by the Committee on Finance.

The major changes affecting the Finance Committee are the following:

1. Beginning October 1, 1976, the fiscal year will begin October 1 instead of July 1.

2. By March 15 of each year (starting this year), the Finance Committee will have to submit a report to the newly created Budget Committee estimating the effect that Finance Committee legislation will have on expenditures, revenues, and the debt limit during the next fiscal year, and presenting the Committee's views and estimates with respect to revenues and the debt limit.

3. Certain kinds of legislation will have to be handled before specific dates. Revenue and debt limit legislation for the upcoming fiscal year, and legislation increasing expenditures in such areas as social security and welfare, cannot be considered by the Senate before May 15. However, procedures are provided for waiving these restrictions, ordinarily by obtaining Budget Committee approval of a resolution permitting immediate Senate consideration.

4. If the Finance Committee reports legislation affecting welfare, medicaid, social services, and other non-trust-fund entitlement programs, and it exceeds the amount budgeted in the most recent concurrent budget resolution, the legislation is to be referred to the Appropriations Committee for 15 days.

5. In September of each year, the Congress will debate and adopt a concurrent resolution setting appropriate spending, revenue, and debt limit levels for the coming fiscal year. The resolution can direct the Finance Committee to report legislation raising taxes or cutting back on spending programs within the Committee's jurisdiction.

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 (PUBLIC LAW 93-344)

1. Overall View

OUTLINE OF CONGRESSIONAL BUDGET PROCESS UNDER PUBLIC LAW 93-344

On April 15 of each year, the new Budget Committees of the House and Senate would report to their respective Houses a concurrent resolution which would, in effect, be a Congressional budget document setting forth appropriate levels for spending, revenues and public debt for the coming fiscal year. The spending levels would be broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee would be subject to debate and amendment. When agreed to by House and Senate (by May 15), the resolution would represent Congressional judgment of the appropriate fiscal situation for the coming year, although the amounts set forth in it would not otherwise be binding.

After the May 15 adoption of the concurrent resolution, action on spending and revenue bills would proceed through early September. In the first half of September, a second concurrent resolution on the budget would be considered by the Congress which would revise or reaffirm the earlier resolution and which could direct the appropriate Committees to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, Committees directed to do so would report the legislation called for by the resolution, and this legislation would then be debated by Congress as part of a "reconciliation bill." Public Law 93-344 calls for action on this reconciliation bill to be completed by September 25, 5 days before the start of the new Federal fiscal year which will run from October 1 to September 30.

WAIVER OF RULES REGARDING BUDGET PROCEDURE

All the rules applicable to Senate procedures under the Congressional Budget Act can be suspended by a majority vote of the Senate. In addition, the Act includes a special waiver procedure in connection with the provisions requiring that authorization bills not be acted on after May 15 and that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before May 15. If a Committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for waiver of the rule. This resolution would be referred to the Budget Committee which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is approved by the Budget Committee (or after 10 days in any case), the resolution of waiver would be voted upon by the Senate, and, if it is approved, the Senate could proceed to consider the legislation.

THE ISSUE OF IMPOUNDMENT

The Congressional budget established by the bill takes the form of a concurrent resolution which is passed by both House and Senate and consequently represents Congressional judgment of what would be appropriate levels of Federal spending, debt, and revenues. The resolution is not signed by the President, however, and accordingly does not have the force of law. The levels of spending which the concurrent resolution sets forth as appropriate in the view of Congress could not, therefore, be used as a legal justification for impoundment actions. In addition, Title X of the new law, entitled the "Impoundment Control Act of 1974", sets limits on the extent to which the President can defer the expenditure of appropriated funds and establishes procedures for Congressional review of such deferrals and of rescissions of budget authority which the President may propose.

2. Impact of Public Law 93-344 on Finance Committee

LEGISLATION WHICH RESULTS IN ADDITIONAL FEDERAL SPENDING

Annual report to Budget Committee.—Each year, prior to the consideration of the first concurrent resolution on the budget, each Committee would be required to make a report to the Budget Committee estimating the amount of additional Federal spending during the coming fiscal year which will result from legislation under the Committee's jurisdiction. This report would be due no later than March 15.

Limitation on consideration of spending bills.—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare or medicaid) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the Senate prior to the May 15 adoption of the first concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the Senate to suspend this rule. The Act also requires that action on legislation of this type be completed by the seventh day after Labor Day.

Deadline for reporting authorizing legislation.—Legislation which authorizes appropriations (but does not necessarily require them) would have to be reported by May 15 preceding the fiscal year for which the appropriations are authorized. (The bill includes a procedure under which this deadline could be waived by Senate resolution; the rule could also be suspended by a majority vote of the Senate.) The Committee on Finance has jurisdiction over some programs which fall in this category, such as grants to States for child welfare services and for maternal and child health. However, if such authorizations are included in entitlement or trust fund bills (which may not be reported prior to May 15) this provision would not apply.

Impact of concurrent budget resolutions on legislation.—The first concurrent resolution, which would be passed about May 15, would set targets for spending in various areas, but would not be mandatory. A second concurrent resolution, however, would be passed in mid-September, and this resolution would not only set appropriate spending levels but could direct the Committees having jurisdiction over spending legislation to report measures which would rescind previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Finance, this could include a requirement that the Committee report legislation which would defer or reduce benefits under entitlement programs including both trust fund programs (such as unemployment insurance or social security) and non-trust-fund programs (such as welfare, social services or medicaid).

After the beginning of a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution passed just before the beginning of that year to be exceeded. In the case of the Committee on Finance, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new concurrent resolution could, however, be passed to authorize such additional spending, or the rule could be suspended by a majority vote of the Senate.)

Appropriations Committee review of entitlement bills.—Legislation in such areas as supplemental security income, welfare, social services, or Medicaid creates an entitlement to payments on the part of individuals or State or local Governments even though these programs are funded through appropriation acts. The new law requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the first Budget Resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such amendment is approved by the Senate, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues. It would also not apply to legislation amending the general revenue sharing program to the extent that such legislation included an exemption from that requirement.

Required report on spending legislation.—The Congressional Budget Act would require the Committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent concurrent budget resolution and showing the extent to which the legislation provides financial aid to States and localities. In addition, the report would be required, to the extent practicable, to provide a projection for five fiscal years of the spending which will result from the legislation.

LEGISLATION RELATING TO REVENUES AND DEBT LIMIT

Annual report to the Budget Committee.—The March 15 annual report to the Budget Committee which is described above would, in the case of the Finance Committee, also have to present views and estimates of the Committee with regard to revenues and the debt limit.

No revenue legislation prior to May 15.—Under the new law, debt limit or revenue legislation for the upcoming fiscal year would not be in order for consideration by the Senate (or House) prior to the adoption of the first concurrent resolution on the budget (about May 15). This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the Senate.)

Impact of budget resolution.—As with spending measures, the first concurrent resolution adopted in mid-May would set targets with respect to revenue and debt limit legislation, and the second concurrent resolution in September could direct the Committee on Finance to report legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determined to be appropriate. Such legislation would have to be reported in time to be included in the reconciliation bill which would be acted upon before the October 1 start of the fiscal year.

Required report on tax expenditures.—The Congressional Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the Committee report accompanying legislation to provide new or increased tax expenditures include information as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to the extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years.

CHARTS AND DESCRIPTION

Chart 1

March 15 Report to Budget Committee

- Views and estimates of Finance Committee on:
  - Expenditures
  - Revenues
  - Tax expenditures
  - Public debt
- Relating to:
  - Existing law
  - Proposals to change existing law
- For the periods of:
  - Fiscal year 1976 (July 1975 to June 1976)
  - July 1976 to September 1976 (transition quarter)

Chart 1

March 15 Report to Budget Committee

Under the Congressional Budget Act of 1974, the Committee on the Budget is required by May 15 of each year to report to the Senate a concurrent resolution on the budget which is, in effect, a proposed Congressional budget document setting forth appropriate levels of Federal expenditure and revenue, surplus or deficit, and related matters. To assist the Budget Committee in making the judgements necessary to develop such a Congressional budget, the Act also mandates that each Committee send to the Budget Committee its views and estimates on those aspects of the budget which fall within its jurisdiction. This report is due by March 15 of each year, starting this year.

In the case of the Committee on Finance, the March 15 report to the Budget Committee must cover the expenditure programs under Finance Committee jurisdiction which are listed on chart 3, Federal revenues, tax expenditures, and the public debt. With respect to each of these matters, the Committee is required to provide its views and estimates as to the levels anticipated under existing law or under any changes to existing law which the Committee expects. The period to be covered by the report to the Budget Committee is the coming fiscal year, which, after this year will be the 12 month period starting October 1 and ending the following September 30. In this year's report, the Committee will deal with fiscal year 1976 (July 1, 1975–June 30, 1976) and with the three month transition quarter (July, August, September, 1976).

The text of that part of the Congressional Budget Act which deals with the March 15 report to the Budget Committee is reprinted at the end of this pamphlet as Appendix A.

Chart 2

Economic Assumptions

(dollars in billions)	1974 Actual	1975 Pres. Budget	1975 Staff Range	1976 Pres. Budget	1976 Staff Range
GNP	$1,397	$1,498	$1,485 to 1,525	$1,686	$1,659 to 1,725
Increase over 1974 in the Inflation rate	---	11.2%	11.7% to 10.4%	20.0%	21.2% to 19.2%
Personal income	$1,150	$1,232	$1,214 to 1,270	$1,365	$1,350 to 1,439
Wages, salaries	$751	$792	$763 to 818	$884	$854 to 922
Corporate profits	$141	$115	$105 to 137	$145	$135 to 165
Unemployment rate	5.6%	8.1%	8.5% to 7.7%	7.9%	8.6% to 7.2%

Chart 2

Economic Assumptions

The March 15 report to the Budget Committee which is required by the Congressional Budget Act of 1974 represents the Finance Committee's views as to revenues, expenditures and other budgetary matters for the coming fiscal year both under existing law and under any anticipated changes. The level of these items, however, is affected not only by legislation but also by various economic factors about which there can reasonably be differences of opinion. These differences can reflect divergent viewpoints as to how the economy will operate and also divergent viewpoints as to the type of legislation which may be enacted to affect the operations of the economy. Different programs are particularly sensitive to different aspects of the economy. For example, expenditures under social security are sensitive to the consumer price index since that program includes an automatic cost-of-living increase provision. The unemployment insurance program does not incorporate such a provision but is, of course, particularly sensitive to the unemployment rate. Revenues, similarly, are heavily affected by personal income and by corporate profits and, in the case of payroll tax revenues, by wages and salaries.

This chart presents a selection of the most significant economic indicators showing both the actual experience in 1974 and projections for *calendar years* 1975 and 1976. For 1975 and 1976 the economic assumptions underlying the President's budget as published in the budget document are shown. In addition the staff has developed and indicated on this chart a range of alternative assumptions for each indicator. In preparing these alternative assumptions, the staff has attempted to present a reasonable range of options.

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Chart 8

Major Expenditure Programs under Finance Committee Jurisdiction

- Social security cash benefits
- Supplemental security income for the aged, blind, and disabled
- Welfare programs for families:
  - Aid to families with dependent children
  - Work incentive program
  - Child support
- Social services
- Unemployment compensation
- Health programs:
  - Medicare
  - Medicaid
  - Maternal and child health
- Revenue sharing
- Sugar Act
- Interest on the public debt

Chart 3

Major Expenditure Programs Under Finance Committee Jurisdiction

This chart lists the major programs involving an expenditure of Federal funds which come within the legislative jurisdiction of the Committee on Finance. Each of these programs is covered in more detail in the following charts. Interest on the public debt is included as an expenditure program since it does constitute a significant part of the Federal expenditures budget even though the level of expenditure in this category is not subject to legislative control by the Committee in the same sense as expenditures under the other programs listed.

Chart 4

Social Security Cash Benefits: Existing Law
(dollars in billions)

	Pres. Budget	Staff Low	Staff High
F.Y. 1975:			
Income	$66.1		
Outgo	64.6		
Net increase	+1.5		
F.Y. 1976:			
Income	70.2	68.2	72.4
Outgo	74.3	74.3	74.3
Net decrease	-4.1	-6.1	-1.9
July-Sept. 1976:			
Income	18.2	17.9	18.7
Outgo	20.5	20.5	21.0
Net decrease	-2.3	-2.6	-2.3

Chart 4

Social Security Cash Benefits: Existing Law

The President's budget estimates that the outflow in benefits and related expenditures from the old-age, survivors, and disability insurance trust funds will be $64.6 billion in fiscal 1974 rising to $74.3 billion in 1976 and with a further increase to $20.5 billion (an annual rate in excess of $80 billion) in the July-September 1976 quarter. These estimates reflect projected benefit increases under the automatic cost-of-living provisions of 8.7 percent effective with the July 1975 checks and of 9.2 percent effective with the July 1976 checks.

The level of expenditure under the social security program is highly sensitive to changes in the cost-of-living since benefits are automatically increased as the Consumer Price Index rises. However, the increase which will be effective during fiscal year 1976 will be based on CPI data prior to April 1975. Thus, the staff alternative economic assumptions do not affect outgo for fiscal 1976.

The income from FICA taxes would be substantially affected by the alternative assumptions on chart 2. Under these alternative assumptions, income could range from $68.2 to $72.4 billion for fiscal 1976. Thus, the net decrease in the trust funds could under the staff assumptions be as low as $1.9 billion or as high as $6.1 billion as compared with the Administration estimated deficit of $4.1 billion. (Under the "staff low" assumption of a $6.1 billion deficit in fiscal 1976 and a $2.6 billion deficit in the transition period, the assets of the funds as of October 1, 1976 would be $36.7 billion.)

Chart 5

Social Security and Supplemental Security Income
(dollars in billions)

	FY1975	FY1976	July to Sept. 1976
Present law			
Social security cash benefits	$64.6	$74.3	$20.5
Federal fund payment to trust funds	0.5	0.5	0.1
Supplemental security income for the aged, blind, and disabled	4.9	5.5	1.5
Proposed legislation			
President's budget:			
Limit cost-of-living increase to 5%:			
Social security	---	-2.5	-0.7
SSI	---	-0.1	*
Bar certain retroactive social security payments	*	-0.4	-0.1
Apply earnings limit on an annual basis only (not monthly)	*	-0.2	-0.1
Other proposals:			
Cost-of-living increase retroactive to Jan. 1975	+2.4	---	---
Increase earnings test exempt amount to $3,000	---	*	+0.1
Reduced widows' benefits at 55	---	+0.2	+0.2
Liberalized benefits for blind persons	---	+0.2	+0.1

*Less than $50 million

Chart 5

Social Security and Supplemental Security Income

The two major income support programs for aged, blind, and disabled persons under the jurisdiction of the Committee on Finance are the old-age, survivors, and disability insurance programs (Social Security) and the new supplemental security income (SSI) program. Under the President's budget, the Social Security cash benefits program is estimated to involve expenditures of $64.6 billion in fiscal year 1975 rising to $74.3 billion in 1976. SSI will cost $4.9 billion in 1975 and $5.5 billion in 1976.

The Administration has proposed reducing the level of expenditures under these programs in fiscal 1976 and in the transition quarter in several ways. The first proposal would limit the cost-of-living increase this July to 5 percent rather than the 8.7 percent now estimated. This would reduce Social Security payments by $2.5 billion and SSI payments by $85 million.

A second Administration proposal would end the practice of allowing applicants for Social Security benefits to elect to get benefits for up to a year prior to the date of application in those cases where these benefits would be actuarially reduced because they are taken prior to age 65. This proposal, which assumes a March 1, 1975, effective date, would reduce payments by $45 million in 1975 and by $443 million in 1976.

The Administration also proposes to change the retirement test under Social Security by eliminating a provision under which an individual who has less than $210 a month in income now gets his full Social Security benefit for the month even if his annual income substantially exceeds the $2,520 annual earnings test amount. This proposal, also assuming a March 1, 1975 effective date, would result in a savings of $15 million in 1975 and $205 million in 1976.

In addition to the Administration proposals, there are certain other proposals which the Committee may wish to consider. One such proposal would make the estimated 8.7 percent increase in Social Security and SSI effective retroactive to January, 1975. Under existing law, these increases will take place in July. This would increase fiscal 1975 costs by $2.4 billion. There are also three changes in the Social Security program which were included in legislation passed by the Senate in the 93rd Congress but not considered by the House Conferees. One of these provisions would allow widows to receive reduced benefits under Social Security as early as age 55 (rather than age 60). A second provision would increase the amount of earnings an individual can have with no loss of benefits to $3,000 per year (this exempt amount is now $2,520). The third provision would liberalize several aspects of the disability insurance program as they apply to blind persons. The cost estimates assume that these proposals would be effective in January, 1976.

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Chart 6

Welfare Programs for Families: Present Law

(dollars in billions)

	FY1975	FY1976	July to Sept. 1976
President's Budget			
Aid to Families with Dependent Children	$5.0	$5.3	$1.3
Work Incentive Program	0.2	0.3	0.1
Changes for Committee consideration			
Quality control regulations	+ 0.1	---	---
Work Incentive Program	+ 0.1	*	---
Child support	*	*	*

*Less than $50 million

Chart 6

Welfare Programs for Families: Present Law

The President's budget estimates that the cost of the Aid to Families with Dependent Children program and certain other related programs will be $5.0 billion in fiscal year 1975, rising to $5.3 billion in fiscal year 1976. These figures include the cost of administering family welfare programs as well as benefit payments. Also included are: State and local training costs ($53 million in 1975 and $60 million in 1976); child welfare services ($46 million in each year); research costs ($9 million in 1975 and $12 million in 1976); and emergency assistance ($31 million in 1975 and $37 million in 1976).

Closely related to the AFDC program is the Work Incentive (WIN) Program which is aimed at enabling AFDC families to become self-supporting through employment. The Administration is recommending appropriations for this program at a level of $210 million for fiscal 1975 and $330 million for fiscal 1976.

The Administration has proposed a number of changes in the AFDC program which would reduce the cost of this program. These changes are described on Chart 7. In arriving at its estimates for fiscal year 1975, the Administration assumed a savings of $240 million as a result of its new Quality Control Program. Under this program, States must reduce their error rates to 3 percent ineligibility and 5 percent underpayments by June 30, 1975 or face reduced matching levels in accordance with the actual percentages of ineligibility found by that date. While the quality control regulations are currently being challenged in the courts, the outcome of that challenge is not clear at this time. However, the Committee may wish to question the full estimated savings in view of prior over-estimates by the Department in this area. Accordingly, an additional cost of $60 million is shown for Committee consideration on this chart.

The Work Incentive Program was significantly amended at the end of 1971 by the Committee with a view towards improving its operations. In fiscal year 1975, the 1971 amendments apparently began to take hold to the extent that the requirements of the program for the first time exceeded the amount that could be met under the appropriation. The Committee may wish to consider suggesting that the funding level of this program be increased by $70 million in fiscal 1975 and $40 million in fiscal 1976 over and above the amounts provided in the President's budget.

The Congress at the end of last year enacted a new child support program as a part of Public Law 93-647. The Administration has announced its intention of seeking legislation to repeal major parts of the child support program. The Committee has already indicated its disagreement with this approach in directing the Chairman to send a letter recommending additional funding to the Appropriations Committee. The Committee may wish to increase the estimates of the Administration, therefore, by $18 million in fiscal 1975 and $40 million in fiscal 1976 for child support activities.

Chart 7

Welfare Programs for Families: Proposed Legislation

(dollars in billions)

	FY1975	FY1976	July to Sept. 1976
President's Budget			
Modify earned income disregard	-$0.1	-$0.2	-$0.1
AFDC payments based on 3-month accounting period	*	-0.1	*
Reduce Federal matching in 12 States	*	-0.1	*
Repeal new child support provisions	*	-0.1	*
Repeal new social work training provisions	*	*	*

* Less than $50 million

Chart 7

Welfare Programs for Families: Proposed Legislation

The Administration has announced its intention of submitting legislative proposals which would reduce expenditures under the AFDC program in a number of ways. This chart presents the estimated budgetary impact of these changes. It should be noted that the fiscal year 1975 savings are predicated by the Administration on an effective date of March 1, 1975.

INCOME DISREGARD

One proposal would reduce the amount of income that can be disregarded in determining the amount of payments for which an AFDC family is eligible. Current law allows earned income equal to $30 per month plus one-third of earnings above $30 to be disregarded in addition to deducting child care and other work expenses. The proposal would instead disregard a flat $60 per month plus child care expenses and one-third of additional earnings above this level. A proposal somewhat similar to this Administration's recommendation has been passed by the Senate on two occasions in the past. The Administration estimates savings from this proposal of $63 million in fiscal 1975 and $200 million in fiscal 1976.

ACCOUNTING PERIOD

The Administration is proposing legislation to change the income accounting period for determining benefits from a one month period to a three month period and to change the frequency of redetermination of AFDC eligibility from 6 months to three months. The Department estimates that this will save $20 million in fiscal 1975 and $146 million in fiscal 1976.

REDUCED MATCHING

Under existing law, States have the option of using the matching formula in the AFDC title of the law which is based on the first $32 average monthly payment or of having their entire AFDC expenditures matched according to the same percentage as applied for determining the Federal share of their Medicaid expenditures. Twelve States (Alabama, Arkansas, Delaware, Florida, Georgia, Louisiana, Mississippi, Missouri, Nevada, South Carolina, Tennessee and Texas) presently use the regular AFDC formula rather than the Medicaid matching rate. The Department's proposal would eliminate the regular AFDC formula, thus requiring those 12 States to use the Medicaid matching rate. The Department estimates that this change would reduce Federal payments to these States by $20 million in fiscal 1975 and by $60 million in fiscal 1976.

CHILD SUPPORT REPEAL

The Administration opposed many aspects of the new child support program which was enacted by the Congress last year. Although this legislation was signed into law, the Administration proposes to seek repeal of the provisions it objected to and estimates that such a change would reduce expenditures for child support activities by $10 million in 1975 and by $90 million in 1976.

SOCIAL WORK TRAINING REPEAL

The Social Security Act provides 75 percent Federal matching for State welfare agency training costs. In the past, States have used this authority to underwrite graduate and undergraduate college programs of social work education. At the end of 1974, Congress enacted legislation specifically authorizing this use of the training cost provision, thus blocking an HEW proposal to disallow matching for institutional training. The Department has announced that it will propose legislation to repeal last year's enactment. The President's budget estimates that such repeal legislation would save $10 million in fiscal year 1975 and $30 million in fiscal year 1976.

Chart 8

Social Services
(dollars in billions)

	FY 1975	FY 1976	July to Sept. 1976
Present law			
President's budget	$1.9	$1.9	$0.5
Effect of Social Services Amendments of 1974	...	+0.2	+0.1
Proposed legislation			
President's budget: reduce Federal matching from 75% to 65%	...	-0.4	-0.1

Chart 8

Social Services

The President's budget estimates that Federal matching for social services will come to $1.9 billion in each of the two fiscal years 1975 and 1976. The 1976 estimates are based essentially on data received prior to the enactment of the Social Services Amendments of 1974, amendments which were designed to assure greater flexibility to the States in the use of social services funds. It was generally believed that State use of this program has been restricted during fiscal year 1975 because of uncertainty over the status of the program. This uncertainty has now been largely removed through the enactment of the new legislation. There is, accordingly, reason to believe that fiscal 1976 expenditures may increase by approximately $200 million over the $1.9 billion estimated in the President's budget.

The President has announced his intention of proposing legislation which would reduce the Federal matching rate for social services from 75 percent to 65 percent effective with fiscal 1976 with a further reduction to 50 percent to take place effective with the start of fiscal 1977. The Administration estimates that this change in the law would reduce Federal spending under this program by $448 million in fiscal year 1976.

Chart 9

Unemployment Compensation
(dollars in billions)

	Pres. Budget	Staff range
Unemployment trust fund:		
F.Y. 1975:		
Income	$9.8	
Outgo	13.0	
Net decrease	-3.2	
F.Y. 1976:		
Income	9.8	$9.3 to $12.1
Outgo	15.9	14.3 to 19.2
Net decrease	-6.1	-5.0 to -7.1
July-Sept. 1976:		
Income	2.5	2.5 to 3.3
Outgo	3.5	3.1 to 4.4
Net decrease	-1.0	-0.6 to -1.1

	FY 1975	FY 1976	July to Sept. 1976
Federal fund advances to trust fund	1.9	1.9	0.5
Trade adjustment assistance:			
President's budget	*	*	*
Trade Act of 1974	*	+0.3	+0.1

* Less than $50 million

Chart 9

Unemployment Compensation

The Committee on Finance has jurisdiction over the various unemployment benefit programs which are funded through the Unemployment Insurance Trust Fund. This fund covers regular State unemployment insurance benefits which are paid for through taxes collected by States but deposited into the Federal trust fund. It also covers the extended benefits program which provides an additional 13 weeks of benefits which are 50 percent Federally funded and the emergency unemployment compensation program, enacted at the end of 1974, which provides a further 13 weeks of benefits with 100 percent Federal funding. Federal funds in the trust fund come partially from the Federal share of the unemployment payroll tax and partially from repayable general revenue advances to cover any inadequacies in the payroll tax. The unemployment trust fund also covers State and Federal administrative costs of the program.

The President's budget estimates that the outgo from the trust fund will amount to $13.0 billion in fiscal 1975 and will rise to $15.9 billion in fiscal 1976. Income in both years is estimated to be $9.8 billion.

The alternative staff economic assumptions result in substantial variations in the level of benefit payments primarily because of the difference in unemployment rates assumed. Under one alternative assumption the calendar 1976 unemployment rate would be 7.7 percent rather than the 8.1 percent estimated in the President's budget and benefit payments would be somewhat less. Under the other alternative assumption the unemployment rate in calendar 1976 would be 8.5 percent which would result in fiscal 1976 outgo from the trust fund of about $3.3 billion more than is estimated in the President's budget.

The President's budget estimates that in both fiscal 1975 and fiscal 1976 a general revenue advance to the trust fund of $1.9 billion would be required. (This is included in the $9.8 billion income figure.) These advances are to cover the shortfall in the Federal accounts which provide 50 percent Federal matching for extended benefits, 100 percent reimbursement for emergency benefits, and loans to States as needed to cover shortages in State benefit accounts. Because of the low balance in the Unemployment Trust Fund, the increased outgo under certain economic assumptions would necessitate an increase in the amount of the general revenue advance. This larger general revenue advance is reflected in the increased income to the trust funds shown in the staff assumptions.

The President's budget estimates that trade adjustment assistance payments will require funding of $34 million in fiscal 1975 and $26 million in fiscal 1976. These figures, however, do not take into account the revised trade adjustment assistance program enacted as part of the Trade Act of 1974. This Act will require a level of funding of $0.3 billion in fiscal 1976 and $0.1 billion in the transition quarter.

Chart 10

Health Programs: Existing Law

(dollars in billions)

	FY 1975	FY 1976	July to Sept. 1976
President's Budget			
Medicare trust funds:			
Hospital insurance:			
Income	$12.5	$13.6	$3.3
Outgo	10.2	11.7	3.1
Net increase	2.3	1.9	0.2
Suppl. medical insurance:			
Income	4.3	5.0	1.4
Outgo	4.0	4.7	1.3
Net increase	0.3	0.3	0.1
Federal fund payment to Medicare trust funds	2.8	3.6	0.9
Medicaid	7.0	7.8	2.0
Maternal & child health	0.3	0.2	0.1
Changes for Committee consideration			
Maternal & child health	...	+0.1	...

Chart 10

Health Programs: Existing Law

MEDICARE

Benefit and administrative outlays under Medicare are estimated for FY 1976 at $16,370 million. Of this amount, benefit payments account for $15,525 million. This represents an increase of slightly more than 15 percent over the FY 1975 benefit payments. The primary factor accounting for the increase is inflation in medical care costs.

Hospital insurance expenditures generally account for about 75 percent of the Medicare benefit payments. In FY 1976, $11,380 million in benefit outlays are estimated under Part A (hospital insurance). Part B, the supplemental medical insurance program, accounts for $4,145 million.

Income to the Trust Funds in FY 1976 is estimated at $18,553 million, an excess over outlays of $2,183 million. Federal fund payments to the Trust Funds for FY 1976 are $3,609 million.

MEDICAID

Total Federal-State Medicaid costs for FY 1976 are projected under present law to be $14,099 million, of which the Federal share is $7,766 million. Of the Federal amount, $7,439 million represents payments for benefits, with the remaining $327 million going for administrative costs. This represents a total increase over FY 1975 costs of slightly over 11 percent.

States match Federal expenditures under the Medicaid program, with total State expenditures accounting for approximately 45 percent of total program costs. In FY 1976, State Medicaid costs are estimated to be $6,333 million.

MATERNAL AND CHILD HEALTH

The President's budget includes $212 million for the Maternal and Child Health Program in FY 1976. Of this amount, $194 million is for formula grants to the States, with the remainder supporting research related to maternal and child health. This request represents a 28 percent reduction from the FY 1975 appropriated amount of $295 million (of which $267 million was allocated to formula grants), one of the largest reductions proposed in the health budget.

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The Administration has requested a recision of $30 million of the FY 1975 budget, in order to reduce the FY 1975 funding level to $265 million. The recision would reduce the amount for formula grants to $244 million.

CHANGES FOR COMMITTEE CONSIDERATION

In 1967, the Congress supplemented the formula grant Maternal and Child Health program with a series of project grants. Originally scheduled to run for five years, separate statutory provision for project grants was extended; by FY 1975, all funds were to flow through the formula grants to States, with the expectation that States would have sufficient additional funds to continue funding worthwhile projects. In some States, however, the additional State grant was less than the amount previously given to the projects within the State. To deal with this situation, the Committee included a provision in Public Law 93-53 authorizing a sufficient level of funds to each State to assure they were not disadvantaged by the change-over.

The cuts in the Maternal and Child Health program proposed by the Administration would result in expenditures below the FY 1975 level, a level of appropriation which carried out the Committee provision.

Chart 11

Health Programs: Proposed Changes
(dollars in billions)

President's Budget	FY1975	FY1976	July to Sept. 1976
Medicare:			
Increase in beneficiary cost-sharing	-$0.3	-$1.4	-$0.4
Limit on yearly increases in reasonable cost	---	-0.1	*
Supplementary medical insurance premium change	---	*	*
Medicaid:			
Reduce Federal matching percentage	-0.2	-0.6	-0.2
Increase in Medicare cost-sharing	*	+0.1	*
Other Medicaid provisions	*	-0.1	*
Other items for Committee consideration			
Hospital insurance for unemployed workers	+0.3	+1.8	---
Other major expansion in Federal health role: start-up costs	---	+0.1	*

*Less than $50 million

Chart 11

Health Programs: Proposed Changes

PRESIDENT'S BUDGET

Medicare.—The Administration is submitting two legisaltive proposals which would reduce Medicare outlays. One of the proposals would modify Medicare's cost-sharing structure by requiring the beneficiary to pay coinsurance equal to 10 percent of hospital charges above the deductible amount, and an increase in the supplementary medical insurance (Part B) deductible—presently $60—by the same percentages as Social Security cash benefits increase. A maximum cost-sharing liability of $750 per benefit period under hospital insurance and $750 per calendar year under supplementary medical insurance would also be instituted. The proposal for future increases in the Part B deductible would cause the deductible to increase as medical care costs rise.

Under the Administration proposals, virtually all users of Medicare would find their cost-sharing obligations had increased.

Since the Administration assumes an effective date of March 1 for these proposals, they estimate a reduction in outlays of $255 million in FY 1975 and a savings of $1,364 million in FY 1976 (a $1,279 million reduction in trust fund outlays and an $85 million reduction in Federal fund payments to the trust funds.)

The second legislative proposal would limit the yearly increases in hospital costs recognized as reasonable by the Medicare program. While the Administration does not appear to have worked out the details of this proposal, they indicate that ceilings or limits would be placed on the amount by which over-all costs could increase over some base period costs. Any costs in excess of the limits would not be reimbursed. This proposal is estimated to reduce outlays by $100 million in 1976.

The Administration is proposing an additional legislative amendment related to the amount of the Medicare Part B premium which would not affect outlays for program benefits but would reduce the amount of Federal general revenue payments into the Trust Fund by $25 million.

The SMI program is financed through enrollee premiums and matching Federal contributions. When the Congress in Public Law 93–233 changed the dates for computation of cost-of-living increases in Social Security cash benefits, an inadvertent result was to stop similar adjustments in the SMI premium and to freeze it at its current level. Since SMI benefit payments per beneficiary are increasing while each enrollee's contribution to the SMI trust fund cannot go up, the Federal funds must bear an increasingly disproportionate share of the cost of this program. The original intent of the cost-sharing provisions of the Medicare law would allow the premium to rise as costs rise. The Administration's proposal would permit this increase at a rate in proportion to Social Security monthly benefit increases.

Medicaid.—The changes in Medicare cost-sharing and reasonable cost calculators described above would have the effect of increasing Medicaid costs by $98 million, since Medicaid pays the Medicare deductible and coinsurance amounts for aged and disabled persons covered under both programs, and generally follows the Medicare reasonable cost formula. Without the enactment of these Medicare changes, this cost increase would not occur.

The Administration proposes to shift Medicaid costs from the Federal Government to the States by lowering the minimum Federal matching rate from 50 percent to 40 percent. This change would affect the following 13 States by reducing their matching rate from 50 percent to the percent shown: Alaska (40%), California (43%), Connecticut (40%), Delaware (43%), District of Columbia (40%), Hawaii (42%), Illinois (41%), Maryland (47%), Massachusetts (46%), Michigan (48%), Nevada (40%), New Jersey (40%), and New York (40%). The Federal share of the total Medicaid costs would drop from about 55 percent now to 51 percent. Assuming a March 1 effective date, the Administration estimates a Federal savings of $202 million in FY 1975 and $636 million in FY 1976. Unless States cut benefits, State costs would increase by these amounts.

Other Medicaid provisions.—The Administration is resubmitting legislation to eliminate the provision of non-emergency dental services to adults under Medicaid. This provision would affect primarily aged and disabled persons in 39 States which now provide a dental benefit. Savings of $10 million in FY 1975 and $81 million in FY 1976 are attributed to this provision.

The Administration also proposes mandating clinic services under Medicaid at a cost of $20 million in FY 1976.

OTHER ITEMS FOR COMMITTEE CONSIDERATION

In keeping with the Congressional Budget Act, the Committee should include in its submission to the Budget Committee the potential cost impact of any significant legislation which might be considered and acted upon in the health area. Consideration might be given to suggesting a possible need for contingency funds in the areas of providing hospital insurance coverage for the unemployed, for example, in view of the Committee's announcement of hearings in this area. Similarly, although it seems unlikely that any benefits would be paid under any other major expanded Federal health financing programs before FY 1977, the Committee may wish to recommend allocation of funds for planning and start-up functions related to mounting an expanded program.

Chart 12

(dollars in billions)

	FY 1975	FY 1976	July to Sept. 1976
Revenue Sharing			
President's budget	$6.2	$6.4	$1.7
Sugar Act			
President's budget	0.1	---	---
Changes for Committee consideration	---	+0.1	*
Interest on the Public Debt			
President's budget	32.9	36.0	9.7
Staff estimate	32.9	36.7	9.9

*Less than $50 million

Chart 12

General Revenue Sharing

The general revenue sharing program provides for outlays in fiscal years 1975 and 1976 of $6.2 and $6.35 billion, respectively, with one-third going to State Governments and two-thirds to local Governments. The present program provides for the distribution of funds to the State and local Governments through December 31, 1976. Over the five-year authorized life of the program, $30.2 billion of Federal funds will have been distributed. The Administration has proposed that the general revenue sharing program be extended through 1982. The proposed legislation would continue the authorization and appropriation of specific annual amounts, increasing $150 million annually to $7.2 billion for 1982. The total cost for the five-year and 9 month proposed extension would be approximately $39 billion. However, no additional cost is anticipated until 1977.

Sugar Act

In fiscal year 1975, $86 million was appropriated to cover Sugar Act program payments for the 1974 crop year. The President's budget includes no funds in fiscal year 1976 to cover program payments for the 1975 crop year. The Committee may wish to consider making allowance for payments should the Sugar Act be extended.

Interest on Public Debt

Budget outlays for interest on public debt will rise by $3.6 billion in 1975 and by another $3.1 billion in 1976 to a level of $36 billion. These projected increases result from the financing of budget deficits for each of these years. The staff estimate of $36.7 billion assumes a somewhat higher deficit in fiscal year 1976 than is assumed in the President's budget.

Chart 13

Revenues: Present Law
(dollars in billions)

	Pres. Budget		1976 staff range	
	1975	1976	Low	High
Individual income tax	$124.2	$139.1	$131.4	$145.0
Corporation income tax	41.3	40.3	34.8	45.2
Social insurance taxes	86.2	91.5	87.5	93.5
Excise taxes	16.9	16.9	17.0	17.3
Estate and gift taxes	4.8	4.6	4.6	4.6
Customs duties	3.9	4.3	4.2	4.5
Other revenues	6.3	6.9	6.9	6.9
TOTAL	283.7	303.6	286.4	317.0

Chart 13

Revenues: Present Law

Federal revenues are in large part composed of receipts from income and payroll taxes. The President's budget estimates that in fiscal years 1975 and 1976, these revenues are projected to yield a total of $283.7 billion and $303.6 billion under present law.

Income taxes paid by individuals are estimated to amount to $124.2 billion and $139.1 billion, respectively. Revenues from this source, which account for the largest single source of Federal revenues, will amount to 43.8 percent and 45.8 percent of total Federal revenues, respectively.

Income taxes paid by corporations are estimated at $41.3 billion and $40.3 billion, respectively.

Social insurance taxes and contributions, composed of Social Security and other payroll taxes, unemployment insurance taxes and deposits, Federal employee retirement contributions, and premium payments for supplementary medical insurance are expected to total $86.2 billion and $91.5 billion respectively. Receipts from these sources will account for approximately 30.4 percent and 30.1 percent of total Federal revenues, respectively.

Excise taxes imposed on selected commodities, services, and activities are expected to provide $16.9 billion during each of these fiscal years.

Estate and gift taxes imposed on the value of property held at death and inter vivos transfers of property are projected to produce $4.8 billion and $4.6 billion respectively.

Customs duties, levied on imports are anticipated to raise $3.9 billion and $4.3 billion respectively.

Other taxes and miscellaneous receipts are expected to total $6.3 billion and $6.9 billion respectively.

These projected Federal revenues do not include any anticipated receipts from the President's proposed excise tax and import fee on oil and excise tax on natural gas.

The column showing revenues under the staff high-low range corresponds to the range of economic assumption shown in Chart 2.

Chart 14

Revenue Estimates: Proposed Changes

- Individuals' tax reductions
- Business tax reductions
- Energy tax proposals
- Other tax proposals

Chart 14

Revenue Estimates: Proposed Changes

The charts which follow group the various tax proposals under four headings: tax reductions for individuals (chart 15), business tax reductions (chart 16), energy tax proposals (charts 17 and 18), and other tax proposals (chart 19).

Chart 15

Individual Income Tax: Proposed Reductions
(dollars in billions)

	FY 1975	FY 1976	July to Sept. 1976
Rebate of a portion of 1974 taxes:			
Administration	-$4.9	-$7.3	---
Ways and Means	-8.1	---	---
Standard deduction increase:			
Administration	-0.6	-8.1	-2.0
Ways and Means	-1.2	-4.7	-2.0
Earned income credit:			
Ways and Means	-0.3	-2.1	-0.4
Tax rate changes:			
Administration	-0.8	-16.3	-4.1
1 percentage point reduction in all rates	---	-5.5	-1.4
Other proposals:			
Optional tax credit: $180	---	-3.4	-0.8
$250	---	-12.5	-3.1
Increase personal exemption to: $800	---	-1.9	-0.5
$900	---	-5.7	-1.4

Chart 15

Individual Income Tax: Proposed Reductions

The Administration included two sets of tax reductions in the President's budget: an anti-recession reduction through a tax rebate to stimulate the economy and other reductions for a partial offset to the increased revenues under the energy proposals.

The anti-recession reduction will reduce revenues by a total of $12.1 billion in fiscal years 1975 and 1976. It is a rebate of 12 percent of 1974 individual income tax liability, with a maximum rebate of $1,000. This rebate will be a temporary reduction for 1975 only.

Reductions proposed to offset the energy tax include increasing the minimum standard deduction to $2,000 for individuals and $2,600 for families. The change would reduce revenues by $8.7 billion, $8.1 billion in fiscal year 1976. The tax rate structure would be reduced chiefly for lower taxable income groups which would reduce revenues by $17.1 billion, $16.3 billion in fiscal year 1976. A third change would provide a 15-percent tax credit to individuals for energy-saving home improvement expenditures up to $1,000 over a three-year period. Revenues would be reduced by $500 million in fiscal year 1976 under this provision. These three proposals would reduce 1976 receipts by $24.9 billion.

An alternative anti-recession tax reduction bill has been reported by the Ways and Means Committee. That bill will reduce receipts from individuals by $9.6 billion in fiscal year 1975 and $6.8 billion in fiscal year 1976. The reductions are concentrated among lower and middle income taxpayers. It includes a tax rebate on 1974 income tax liability of 10 percent with a maximum rebate of $200 per taxpayer and a minimum of $100 for those with tax liability above $1,000. If the tax liability is below $100, the total tax liability will be rebated. The minimum standard deduction will be increased to $1,900 for individuals and $2,500 for joint returns. In addition, the percentage standard reduction will be increased from 15 percent to 16 percent, and the maximum will be raised from $2,000 to $2,500 for individuals and $3,000 for joint returns. A refundable earned income credit of 5 percent also will be made available on earned income up to $4,000, a maximum of $200 per tax return, and the credit will phase out at a 10 percent rate above $4,000 so that it will have phased out above $6,000 of earned income.

The rebate will reduce 1975 receipts by $8.1 billion. Increases in the standard deductions will cut 1975 revenues by $1.2 billion and 1976 revenues by $1.7 billion. The earned income credit will reduce receipts by $.3 billion and $2.1 billion in the two fiscal years.

Among other reductions that have been mentioned for consideration are an optional tax credit, an increase in the personal exemption, a combination of the two and a reduction in the tax rate structure.

Estimates of the optional tax credit and personal exemption are based on the assumption that they would be added to the individual income tax changes already made a part of the Ways and Means bill.

Optional tax credits alone of $180 or $250 would reduce revenues by $3.4 or $0.8 billion. Increasing the personal exemption to $800 or $900 would reduce revenues by $1.9 or $0.5 billion.

It should be noted that the bulk of tax benefits from an optional tax credit in place of the personal exemption accrue to taxpayers with adjusted gross income below $20,000. An increase in the personal exemption would benefit taxpayers in all adjusted gross income classes. The amount of tax reduction would depend upon the taxpayer's taxable income bracket.

There are many combinations of tax rate reductions that can be considered. By way of illustration, it is noted that a reduction of one percentage point in all rates would reduce tax liabilities in one year by $5.5 billion.

Chart 16

Business Tax: Proposed Changes

(dollars in billions)

	FY 1975	FY 1976	July to Sept. 1976
Increase investment tax credit:			
• to 10% (Ways & Means)	-$0.6	-$2.1	($0.6)
• to 12% (Administration)	- 1.2	- 2.9	-0.2
Reduce corporate tax rate from 48% to 42% (Admin.)	- 1.8	-6.6	-1.2
Increase corporate surtax exemption from $25,000 to $50,000 (Ways & Means)	-0.4	-0.8	-0.2
Other proposals:			
Net operating loss carryback	---	-0.1 to -1.0	-0.1
Dividend reinvestment for utilities	---	-0.5	-0.1
Deduction for preferred stock dividends (Admin.)	---	-0.1	*

* Less than $50 million

Chart 16

Business Tax: Proposed Changes

INCREASE IN INVESTMENT CREDIT

The Ways and Means Committee bill contains an increase in the investment credit to 10 percent for all eligible equipment, including public utilities, for investment placed in service in 1975 and also for investment placed in service in 1976 but ordered in 1975. Certain investments which require more than two years for completion before being placed in service will be eligible for the investment credit on expenditures made for progress payments in 1975. The investment credit is limited to $100 million on the amount of credit attributable to the increase from present law to 10 percent for any one public utility or controlled group. In addition, for certain public utility property, the limitation on the amount of credit that may be taken in one year will increase from 50 to 100 percent of tax liability for 1975 and 1976 and decrease by 10 percentage points a year for five years until it reverts to 50 percent. The used property limitation would be increased from $50,000 to $75,000. The revenue loss from this provision is $2.7 billion, of which $2.1 billion will occur in fiscal year 1976. Though the Ways and Means bill increases the credit only in 1975, a revenue loss of $0.6 billion is shown in parentheses in July to September 1976 as the cost if the credit were to be increased in 1976 as well.

The Administration has proposed an increase in the investment tax credit to 12 percent for all taxpayers. Under the Administration proposal utilities would receive the 12 percent credit for a total of three years for qualified investment in electric power generating plants which are other than oil- or gas-fired facilities. Under the Administration proposal, as under the Ways and Means Committee bill, investment tax credit provisions would apply only to equipment placed in service in 1975 or ordered in 1975 and placed in service in 1976. The Administration proposal would reduce Federal revenues by about $1.2 billion for fiscal year 1975 and $2.9 billion for fiscal year 1976. The Administration has not proposed that the increase in the credit be extended beyond 1975. (Estimated reductions in Federal revenues include both reductions for corporations and individuals.)

REDUCTION OF CORPORATE SURTAX RATE

The Administration proposes to offset its energy tax increase partially with a 6 percentage point reduction in the corporate income tax rate that would reduce revenues by $1.8 billion in 1975, by $6.6 billion in fiscal year 1976, and by $1.2 billion in the 1976 quarter year.

INCREASE IN CORPORATE SURTAX EXEMPTION

The corporate surtax exemption will increase from $25,000 to $50,000 under the Ways and Means Committee bill. As a result, the first $50,000 of a corporation's taxable income will be taxed at 22 percent and taxable income above $50,000 will be taxed at 48 percent. This represents a tax savings of $6,500 on this income as opposed to a savings of $1,500 on such income which would result by reducing the maximum corporate tax rate to 42 percent. The revenue loss is estimated at $400 million in fiscal year 1975 and $800 million in fiscal year 1976.

NET OPERATING LOSS CARRYBACKS AND CARRYOVERS

Generally, taxpayers may carry a net operating loss back as a deduction against income for the three years preceding the year in which the loss occurred and may carry any remaining unused losses over to the five years following the loss year. This permits taxpayers to offset income and losses over a nine-year period. A number of special exceptions also exist with respect to such carrybacks and carryovers. To unify the net operating loss carryback and carryover provisions and to respond to the current economic situation, it has been proposed that taxpayers be permitted to elect a ten-year carryback for losses incurred. It has also been suggested that such a provision might apply to losses incurred after December 31, 1969. It is estimated that such a proposal could result in refunds of Federal income tax of approximately $1 billion or more. If 1974 is the first year from which losses may receive this proposed treatment, it is estimated that the Treasury Department would issue refunds of approximately $500 million or more. Other variations in this proposal would require refunds of $100 million in 1976.

DIVIDEND REINVESTMENT PLANS FOR PUBLIC UTILITIES

A dividend reinvestment plan has been proposed for public utilities that would cost $500 million in revenues. Under this proposal, taxpayers who choose to reinvest dividends instead of receiving cash payments would not be taxed on such dividends currently. The dividend, however, would be taxed as ordinary income when the stock issued pursuant to a qualified reinvestment plan was disposed of in the future. Any proceeds from the disposition of such stock in excess of the amount of reinvested dividends would be treated as capital gains.

DEDUCTION FOR DIVIDENDS PAID ON NEWLY-ISSUED PREFERRED STOCK

The Administration has proposed that a deduction be allowed for the payment of dividends on qualified preferred stock to encourage expansion of corporate equity capital. The deduction would be available only for cash dividends paid on preferred stock issued after December 31, 1974. The intercorporate dividend deduction no longer could be taken under this provision by corporations receiving dividends on preferred stock that qualifies. Qualified preferred stock would have to be non-voting, limited and preferred as to dividends and entitled to a liquidating preference. The Treasury Department has estimated that this proposal would reduce Federal revenues for fiscal year 1976 by $100 million.

Chart 17

Energy Tax Proposals
(dollars in billions)

I. REVENUE RAISING MEASURES	FY 1976	July to Sept. 1976
Fuel taxes:		
Excise tax on domestic petroleum	+$6.8	+$1.7
Excise tax on natural gas	+ 8.4	+2.1
Import fee on oil and petroleum products	+3.8	+1.0
Excise tax on gasoline: 1¢ per gal.	+ 1.0	+0.3
10¢ per gal.	+9.8	+2.4
Percentage depletion on oil and gas:		
Repeal	+2.5	+0.6
Repeal for production exceeding average of 3,000 barrels/day	+1.7	+0.4
Windfall profits tax on oil:		
No plowback	+13.6	+2.5
Modified plowback	+1.0	+0.2
Full plowback	---	---

Chart 17

Energy Tax Proposals

I. REVENUE RAISING MEASURES

The estimates for excise taxes on oil and gas and for the petroleum import tariff are derived from the Administration's energy proposal. The excise tax on domestic petroleum would be $2.00 per barrel and would raise $6.8 billion; the excise tax on natural gas would be $.37 per thousand cubic feet and would raise $3.8 billion. The excise tax on gasoline is part of the proposed Democratic alternative. The revenue estimate assumes that for every 10 percent increase in the price of gasoline there would be a 1 percent decrease in consumption; it would yield $1 billion for a $.01 tax per gallon and $9.8 billion for a $.10 tax per gallon.

The complete repeal of the percentage depletion allowance would amount to a revenue gain of $2.5 billion. Repeal of the percentage depletion allowance for production exceeding an average of 3,000 barrels per day is a proposal based on a phased reduction for small producers in a bill tentatively approved by the Ways and Means Committee during the last Session of Congress and would amount to $1.7 billion.

The windfall profits tax on oil is based on the Administration's energy proposal, which makes no provision for a plowback; it would raise $13.6 billion. The proposal for a modified plowback is derived from a plowback provision in a bill tentatively approved by the Ways and Means Committee and allows a plowback equal to the tax attributable to production up to 3,000 barrels per day and 50 percent of the remaining tax. This type of modified plowback would yield revenues of $1 billion. If a plowback were allowed for all domestic exploration and development expenses, refinery construction, pipeline construction, and other qualified investment, there would be no substantial additional Federal revenues associated with the windfall profits tax.

Chart 18

Energy Tax Proposals
(dollars in billions)

II. CONSERVATION MEASURES	FY 1976	July to Sept. 1976
Encourage automobile efficiency:		
Tax cars below m.p.g. standard	**	**
Tax credit for cars above m.p.g. standard	-0.4 to -0.5	-0.1
Tax incentives for coal conversion	-0.4	-0.1
Tax credit for residential energy conservation	-0.5	-0.1
Tax credit for oil storage facilities	-0.1	*

* Less than $50 million
** No revenue effect during this period

Chart 18

Energy Tax Proposals

II. CONSERVATION MEASURES

The revenue estimates assume that a tax on automobiles which get below a 20 mile-per-gallon standard would not take effect until the 1977 model year and, therefore, no revenue effects are shown for fiscal year 1976. A tax credit for cars which get above 20 miles per gallon is assumed to be $200 per car. The range shown reflects sales of six million cars and from 30 to 40 percent of those cars getting above the 20 mpg standard.

The tax incentive for coal conversion reflects a proposal to allow a five-year depreciation on coal-burning equipment rather than the approximately 20-year depreciation currently taken. The estimate takes into account a projected seventeen million kilowatts of new coal-burning capacity installed in fiscal year 1976 and an effective utility tax rate of 40 percent. This rapid write-off would cost approximately $350 million in revenues if it became effective July 1, 1975.

The tax credit for residential energy conservation is based on the Administration proposal which would permit a 15 percent tax credit for home insulation expenditures. The credit could be applied against up to $1,000 in expenditures over a three-year period. The revenue loss is estimated at $500 million annually.

The tax credit for oil storage facilities would provide an additional 10 percent investment tax credit for companies who install new oil storage capacity. Assuming 100 million barrels of new storage capacity at an average cost of $5 per barrel is added in fiscal year 1976, the revenue loss would be approximately $50 million.

Chart 19

Other Tax Proposals
(dollars in billions)

	FY1976	July to Sept. 1976
Retirement income credit	-$0.3	-$0.1
Tax credit for higher education	-3.2	-0.8
Additional personal exemption for disabled	-0.3	-0.1
Expanded child care deduction	-0.3	-0.1
Revise taxation of single and married persons	-6.0	-1.5
Sick pay and disability pensions	+0.2	*
Tax simplification (Ways & Means)	-0.6	-0.2
Minimum tax: revisions	+0.8	+0.2
Raise limit on industrial revenue bonds	-0.2	*
Repeal some DISC provisions	+0.1	*
Revise foreign tax credit	+0.3	+0.1

Chart 19

Other Tax Proposals

Some of the many proposals for tax changes are presented in this chart. Some have been approved before by the Finance Committee and/or the Senate. Others have been acted upon favorably by the Ways and Means Committee. Some of these proposals also have been recommended to Congress by the Treasury Department. None, however, have yet been enacted into public law.

RETIREMENT INCOME CREDIT

In the past the Committee and the Senate have approved revisions of the retirement income credit which is basically designed to result in similar tax treatment for persons who receive retirement-type income which is taxable and those who receive social security benefits which are nontaxable. Such measures have been approved by the Committee as amendments to H.R. 1, considered during the 92nd Congress, and H.R. 8217, considered during the 93rd Congress. During the last Congress, this type of provision was added by voice vote to H.R. 8214. The Ways and Means Committee in its tentative decisions on a tax reform bill in 1974 approved a similar provision. Each of these measures would increase the maximum amount on which the credit may be computed to $2,500 for single persons and $3,750 for married couples where both are age 65 or over and file a joint return. (Present law provides that the maximum amount on which the credit is computed is $1,524 for a single person, $2,286 for a married couple where one spouse has income which qualifies for the credit and $3,048 where both spouses receive income qualifying for the maximum credit.) The Ways and Means Committee revision converts the retirement income credit to a tax credit for the elderly, available for all taxpayers age 65 or over whether they receive retirement income or have earned income. It is estimated that adoption of this proposed change would reduce Federal revenues by $320 million.

TAX CREDIT FOR HIGHER EDUCATION

The Senate has approved, as part of the Revenue Act of 1971, a provision to allow a tax credit for expenses of higher education (including business, technical or vocational education). Numerous bills and amendments have been introduced since that time to provide similar tax relief. It is estimated that providing a tax credit along these lines would reduce Federal revenues by approximately $3.2 billion.

ADDITIONAL PERSONAL EXEMPTION DEDUCTION FOR DISABLED PERSONS

The Senate approved, as part of the Revenue Act of 1971, a provision to allow an additional personal exemption for disabled persons. This provision was approved by voice vote. A number of bills have subsequently been introduced to provide similar tax relief. Adoption of this provision would reduce Federal revenues by approximately $300 million.

REVISION OF THE DEDUCTION FOR CHILD CARE EXPENSES

The Senate approved, as part of the Revenue Act of 1971, a provision which would make the deduction of child care expenses an item to be deducted in arriving at adjusted gross income. The House Ways and Means Committee approved as one of its tentative decisions on tax reform in 1974 the extension of the deduction for child care expenses to married couples where the husband and wife both work part-time (present law now requires both to work full-time). In addition, the deduction would be made available to married couples where one is a full-time student and the other spouse is gainfully employed. The income level at which the deduction begins to be phased out would be raised from $18,000 to $30,000. In addition, a number of provisions to simplify the computation of this deduction were approved. It is estimated that adoption of these various changes involving the child care deduction would reduce Federal revenues by about $300 million.

REVISION OF INDIVIDUAL INCOME TAX RATES FOR SINGLE PERSONS AND MARRIED COUPLES WHERE BOTH SPOUSES ARE EMPLOYED

The Senate approved, as an amendment to H.R. 16810, on October 13, 1972, a provision permitting all individuals other than married persons who file separate returns to utilize the income tax rates for joint returns. This provision was approved by a voice vote. A number of bills have been introduced subsequently that would provide similar tax relief. In addition, recently introduced legislation would extend the benefits of this amendment to married couples where both spouses are gainfully employed. Federal revenues would be reduced by approximately $6 billion if this provision were approved and made applicable on the broadest basis proposed.

SICK PAY AND DISABILITY PENSIONS

Since enactment into law the provisions for exclusion of some sick pay benefits from income and the tax treatment of disability pensions have been subject to confusion. Last year in its tentative decisions on tax reform, the Ways and Means Committee amended these provisions in order to dispell some of the confusion. Fundamentally, the clarification limited the sick pay exclusion to individuals who are currently employed but because of illness continue to receive some income payments from their employers. The tax provisions relating to disability provisions were amended to clarify the ineligibility of persons on disability pensions to use the sick pay exclusion. Furthermore, it limited the application of the use of the disability provision to pensions received by certain retired military personnel from the Defense Department.

TAX SIMPLIFICATION

Two years ago the Treasury Department presented before the Ways and Means Committee a plan that would simplify the individual income tax return. Under this proposal, individuals would not deduct some of the items they do presently, for example, State and local government gasoline taxes, and they would deduct only those portions of other expenditures that exceed a statutory minimum, for example, medical and dental expenses that exceed 5 percent of adjusted gross income. In exchange for no longer taking these various deductions, the taxpayer would have been given a lump sum deduction, and the tax rates that apply to the taxable income brackets affected by these changes also would be reduced.

MINIMUM TAX REVISION

The Ways and Means Committee last year also tentatively approved certain changes in the minimum tax on various sources of income which under present law either escape taxation or are subject to deferral of income tax. The increased taxation of these provisions would increase revenues by $800 million in fiscal year 1976.

RAISE LIMIT ON INDUSTRIAL REVENUE BONDS

In present law, an exemption from the ban on the issue of tax exempt industrial revenue bonds has been provided for small business. The present limits are $1 million in a single year and $5 million by the same firm for the same facility in a period of 6 successive years. The Ways and Means Committee tentatively approved a revision that on the one hand recognizes the high inflation rates in the past several years and also acted to simplify the present provision. Its tentative decision increased the limit to $10 million on outstanding industrial revenue bonds issued by a single taxpayer. The amount outstanding initially would be required to construct a self-contained, fully-operational facility. Subsequent additions could be made for expansion of the facility, but only to the extent that some of the initial $10 million limit had not been used or some of the original issue had been redeemed. It was estimated that this provision would reduce revenues by $200 million in fiscal year 1976.

REPEAL SOME DISC PROVISIONS

Exports in recent years of grain produced in the United States have expanded considerably because of the devaluation of the dollar, crop failures in other parts of the world, and somewhat similar harvests in the United States. As a result the prices of grains have risen substantially at home and abroad. In these circumstances, the tax incentive for the export of grains may no longer be necessary at present and in the foreseeable future. DISC provisions also apply to the export of petroleum and natural gas. It appears to be inconsistent with the present outlook for the domestic supply of oil and natural gas and the objective of this country to achieve independence in energy supplies to continue to provide a tax incentive for the export of oil and natural gas. Repeal of these provisions would increase revenues in fiscal year 1976 by about $100 million.

REVISIONS IN FOREIGN TAX CREDIT

When considering energy taxation and tax reform last year, the Ways and Means Committee tentatively approved several changes in the foreign tax credit. The major change would require all taxpayers to use the overall method for all of their foreign operations to determine how much of a foreign tax credit could be applied against Federal income tax liability. This decision would repeal the per country limitation. Other changes were made in the foreign tax credit that are consistent with this approach. These changes would increase tax revenues by $300 million in fiscal year 1976 and close to $100 million in the transitional quarter.

Chart 20

Tax Expenditures: Present Law
(dollars in billions)

	FY1975	FY1976	July to Sept. 1976
Personal investment	$17.9	$21.0	$5.3
Business investment	8.7	9.4	2.4
Income security	16.1	19.0	4.7
Revenue sharing and general purpose fiscal assistance	13.5	15.1	3.8
Health	5.7	6.4	1.6
Commerce and transportation	5.6	5.5	1.4
Natural resources, environment and energy	3.9	4.7	1.2
Other tax expenditures	14.2	15.7	3.9

Chart 20

Tax Expenditures

The concept of tax expenditures was developed in order to compare the Federal Government's total contribution to various activities, through direct expenditures and indirectly through deductions, deferrals, and credits in the tax structure. With this information, consideration of the budget will ultimately involve examination of both direct and tax expenditures as alternate means of providing incentives.

The chart presents a summary of tax expenditures by budget functional category and estimates of their revenue effects in fiscal years 1975 and 1976 and in the transitional quarter. The table containing the estimates presented by the Administration as a special analysis in the 1976 budget is reproduced in Appendix B.

The Administration's analysis omits four provisions which the staff believes should be included. These four items, and their revenue estimates are:

[Dollars in millions]

	Fiscal year 1975	*Fiscal year 1976*	*Transition quarter*
Asset depreciation range	$1,410	$1,500	$400
Income deferral of foreign corporations	620	620	155
Maximum tax on earned income	850	385	105
Taxation of capital gains at death	2,210	2,280	600

Accrued capital gains in an estate escape taxation under present law, and the heirs take as their basis the value of the asset at the time of death. Taxation of capital gains at death was estimated with the assumption that the accrued gains would be taxed according to the tax rates applicable under present law. Alternative suggestions have been made about how to tax such gains, and they produce different effects upon revenues. If only capital gains that accrued after the date of enactment (assumed as December 31, 1975) would be taxed at capital gains rates, the revenue effect would be $25 million in fiscal year 1976 and $5 to $10 million in the transitional quarter. Alternatively, these gains could be made taxable simply by requiring that the heirs retain the original basis. The revenue effect of this provision would be $640 million in fiscal year 1976 and about $160 million in the transitional quarter.

The definition of a tax expenditure is imprecise. The objective generally, however, is to include as tax expenditures those tax provisions that are not ordinary deductions taken for the purpose of determining net income of a business, whether incorporated or not. Deductions for individuals that are not business-related then clearly should be treated as tax expenditures. The imprecision that exists with respect to dovetailing concept and practice has generated substantial controversy. Because of the difficulty of achieving precision, the staff approach is to be as comprehensive as is reasonable when deciding what is to be included. The staff also believes that the term tax expenditure and a listing of a provision carry no implication of approval or disapproval, or judgment about the effectiveness of any one provision. A listing simply reflects present law and, therefore, present public policy.

If the various tax expenditure figures in the three columns were added, they would total $86 billion in FY 1975, $97 billion in FY 1976, and $24 billion in the July-September 1976 quarter. However, the separate items, even in functional categories, should not be added in strict logic because the revenue estimates are made with the assumption that no other changes would be made by the taxpayer if the one item would be repealed. Many taxpayers have the choice of using other tax expenditures, if they are interested in tax shelters. For some, repeal of a provision could foreclose that source of economic income, and they might permanently suffer a significantly reduced income. For all taxpayers loss of opportunity to use a tax expenditure will affect their tax liabilities through forcing changes to different tax brackets in a progressive scale or shifts to the standard deduction.

Chart 21

Debt Limit
(dollars in billions)

	Pres. Budget	Staff Estimate
Debt subject to limit June 30, 1975	$531	$531
Plus:		
Federal funds deficit for F.Y. 1976: under existing law / under proposed legislation	55	66
Off-budget agency spending financed by Treasury	10	10
Equals debt subject to limit June 30, 1976	596	607
Adjustment for Mid-June peak	(604)	(615)
Plus:		
Federal funds deficit for July to Sept. 1976: under existing law / under proposed legislation	10	12
Off-budget agency spending financed by Treasury	3	3
Equals debt subject to limit Sept. 30, 1976	609	622

Chart 21

Debt Limit

The Congress has approved at debt limit of $531 billion through the end of fiscal year 1975. During fiscal year 1976, the President's budget assumes a Federal fund deficit of $55 billion under both existing and proposed legislation. An additional $10 billion of debt will be incurred by financing various Federal agency credit activities through the Federal Financing Bank of the Treasury Department. These two figures ($55 billion for the Federal fund deficit and $10 billion for off-budget agency spending financed by the Treasury), when added to the $531 billion ceiling, produce a $596 billion debt ceiling for June 30, 1976. However, an additional $8 billion is allowed to account for the peak debt that occurs in mid-June.

The staff estimate differs from the President's budget in assuming a fiscal year 1976 Federal fund deficit of $66 billion rather than $55 billion.

For the July to September 1976 quarter, the President's budget projects a $10 billion Federal fund deficit and an additional $3 billion in off-budget agency spending financed by the Treasury. The staff estimate instead projects a $12 billion Federal fund deficit during this period. The debt subject to the limit on September 30, 1976 would be $609 billion according to the President's budget and $622 billion under the staff estimate.

APPENDIX A

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

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TITLE III—CONGRESSIONAL BUDGET PROCESS

Timetable

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
November 10	President submits current services budget.
15th day after Congress meets.	President submits his budget.
March 15	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 15	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15	Congress completes action on second required concurrent resolution on the budget.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

Adoption of First Concurrent Resolution

SEC. 301. (a) ACTION TO BE COMPLETED BY MAY 15.—On or before May 15 of each year, the Congress shall complete action on the first concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth—

(1) the appropriate level of total budget outlays and of total new budget authority;

(2) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intragovernmental transactions, based on allocations of the appropriate level of total budget outlays and of total new budget authority;

(3) the amount, if any, of the surplus or the deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;

(4) the recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(5) the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased by bills and resolutions to be reported by the appropriate committees; and

(6) such other matters relating to the budget as may be appropriate to carry out the purposes of this Act.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The first concurrent resolution on the budget may also require—

(1) a procedure under which all or certain bills and resolutions providing new budget authority or providing new spending authority described in section 401(c)(2)(C) for such fiscal year shall not be enrolled until the concurrent resolution required to be reported under section 310(a) has been agreed to, and, if a reconciliation bill or reconciliation resolution, or both, are required to be reported under section 310(c), until Congress has completed action on that bill or resolution, or both; and

(2) any other procedure which is considered appropriate to carry out the purposes of this Act.

Not later than the close of the Ninety-fifth Congress, the Committee on the Budget of each House shall report to its House on the implementation of procedures described in this subsection.

(c) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before March 15 of each year, each standing committee of the House of Representatives shall submit to the Committee on the Budget of the House, each standing committee of the Senate shall submit to the Committee on the Budget of the Senate, and the Joint Economic Committee and Joint Committee on Internal Revenue Taxation shall submit to the Committees on the Budget of both Houses—

(1) its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within the respective jurisdiction or functions of such committee or joint committee; and

(2) except in the case of such joint committees, the estimate of the total amounts of new budget authority, and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within the jurisdiction of such committee which such committee intends to be effective during the fiscal year beginning on October 1 of such year.

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APPENDIX B

Tax Expenditures by Function

(Excerpt From the Special Analyses of the Budget of the United States, pages 108 and 109)

Table F-1. TAX EXPENDITURE ESTIMATES, BY FUNCTION*
(in millions of dollars)

Description	Corporations 1974	Corporations 1975	Corporations 1976	Individuals 1974	Individuals 1975	Individuals 1976
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel	.....	.....	.....	650	650	650
Exclusion of military disability pensions	.....	.....	.....	65	75	85
International affairs:						
Exclusion of gross-up on dividends of LDC corporations	55	55	55	.....	.....	.....
Exclusion of certain income earned abroad by U.S. citizens	.....	.....	.....	90	95	100
Deferral of income of domestic international sales corporations (DISC)	870	1,070	1,320	.....	.....	.....
Special rate for Western Hemisphere trade corporations	50	50	50	.....	.....	.....
Agriculture:						
Expensing of certain capital outlays	170	145	155	580	480	495
Capital gain treatment of certain income	30	20	25	520	260	340
Natural resources, environment and energy:						
Expensing of exploration and development costs	750	950	1,235	80	100	130
Excess of percentage over cost depletion	1,815	2,200	2,610	305	370	445
Capital gain treatment of royalties on coal and iron ore	5	5	5	.....	.....	.....
Timber: capital gain treatment of certain income	130	145	155	55	60	60
Pollution control: 5-year amortization	35	30	20	.....	.....	.....
Commerce and transportation:						
$25,000 corporate surtax exemption	3,270	3,590	3,570	.....	.....	.....
Deferral of tax on shipping companies	35	35	40	.....	.....	.....
Railroad rolling stock: 5-year amortization	70	60	55	.....	.....	.....
Bad debt reserve of financial institutions in excess of actual	1,000	1,030	980	.....	.....	.....
Deductibility of nonbusiness State gasoline taxes	.....	.....	.....	865	850	850
Community and regional development: Housing rehabilitation: 5-year amortization	35	45	35	50	70	60
Education, manpower and social services:						
Child care facilities: 5-year amortization	5	5	5	.....	.....	.....
Exclusion of scholarships and fellowships	.....	.....	.....	195	210	190
Parental personal exemptions for student age 19 and over	.....	.....	.....	655	670	690
Deductibility of contributions to educational institutions	155	160	155	355	405	435
Deductibility of child and dependent care expenses	.....	.....	.....	230	240	250
Credit for employing public assistance recipients under work incentive program	5	5	5	.....	.....	.....
Health:						
Exclusion of employer contributions to medical insurance premiums and medical care	.....	.....	.....	2,940	3,340	3,745
Deductibility of medical expenses	.....	.....	.....	2,125	2,375	2,630
Income security:						
Exclusion of social security benefits:						
Disability insurance benefits	.....	.....	.....	235	260	280
OASI benefits for aged	.....	.....	.....	2,530	2,655	2,940
Benefits for dependents and survivors	.....	.....	.....	410	435	480
Exclusion of railroad retirement system benefits	.....	.....	.....	160	170	180
Exclusion of sick pay	.....	.....	.....	255	275	295
Exclusion of unemployment insurance benefits	.....	.....	.....	1,050	2,370	3,830
Exclusion of workmen's compensation benefits	.....	.....	.....	520	570	620
Exclusion of public assistance benefits	.....	.....	.....	75	85	90

See footnote at end of table.

Table F—1. TAX EXPENDITURE ESTIMATES, BY FUNCTION*—Continued
(in millions of dollars)

Description	Corporations			Individuals		
	1974	1975	1976	1974	1975	1976
Net exclusion of pension contributions and earnings:						
Employer plans	.....	.....	.....	4,790	5,200	5,740
Plans for self-employed and others	.....	.....	.....	230	410	710
Exclusion of other employee benefits:						
Premiums on group term life insurance	.....	.....	.....	630	740	805
Premiums on accident and accidental death insurance	.....	.....	.....	40	45	50
Privately financed supplementary unemployment benefits	.....	.....	.....	5	5	5
Meals and lodging	.....	.....	.....	175	180	190
Exclusion on capital gain on house sales if over 65	.....	.....	.....	10	10	10
Excess of percentage standard deduction over minimum standard deduction	.....	.....	.....	1,260	1,370	1,420
Additional exemption for the blind	.....	.....	.....	15	15	15
Additional exemption for over 65	.....	.....	.....	1,150	1,200	1,250
Retirement income credit	.....	.....	.....	100	75	70
Veterans benefits and services:						
Exclusion of veterans disability compensation	.....	.....	.....	485	525	550
Exclusion of veterans pensions	.....	.....	.....	25	30	35
Exclusion of GI Bill benefits	.....	.....	.....	290	255	250
General government: Credits and deductions for political contributions	.....	.....	.....	10	25	50
Revenue sharing and general purpose fiscal assistance:						
Exclusion of interest on State and local debt	2,805	3,155	3,505	1,060	1,160	1,260
Exclusion of income earned in U.S. possessions	350	350	350	5	5	5
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)	.....	.....	.....	6,955	8,820	9,950
Business investment:						
Depreciation on rental housing in excess of straight line	105	115	120	375	405	420
Depreciation on buildings (other than rental housing) in excess of straight line	285	280	275	220	220	215
Expensing of research and development expenditures	605	630	660	.....	.....	.....
Capital gain: corporate (other than farming and timber)	745	595	755	.....	.....	.....
Investment credit	3,690	4,160	4,420	880	905	950
Personal investment:						
Dividend exclusion	.....	.....	.....	320	340	360
Capital gain: individual (other than farming and timber)	.....	.....	.....	6,150	3,280	4,165
Exclusion of interest on life insurance savings	.....	.....	.....	1,420	1,620	1,820
Deferral of capital gain on home sales	.....	.....	.....	255	285	315
Deductibility of mortgage interest on owner-occupied homes	.....	.....	.....	4,870	5,590	6,500
Deductibility of property taxes on owner-occupied homes	.....	.....	.....	4,060	4,660	5,270
Deductibility of casualty losses	.....	.....	.....	255	275	300
Other tax expenditures:						
Exemption of credit unions	105	115	125	.....	.....	.....
Deductibility of charitable contributions (other than education)	290	295	285	3,820	4,485	4,840
Deductibility of interest on consumer credit	.....	.....	.....	2,435	2,885	3,460

*All estimates are based on the tax code as of January 1, 1975.

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