Calendar No. 527

94TH CONGRESS } SENATE { REPORT
1st Session } { No. 94-548

REVENUE ADJUSTMENT ACT OF 1975

REPORT

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

TOGETHER WITH ADDITIONAL AND MINORITY VIEWS

ON

H.R. 5559

DECEMBER 12, 1975.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
57-010 O WASHINGTON : 1975

CONTENTS

	Page
I. Summary	1
II. Reasons for tax cut extension	3
III. Revenue effects	8
IV. General explanation	11
A. Individual income tax reductions	11
1. Low income allowance and standard deduction	11
2. Credit for personal exemptions	12
3. Earned income credit	12
4. Withholding provisions	13
5. Filing requirements to reflect the increase in low income allowance	14
B. Business income tax reductions	14
1. Corporate tax rates and surtax exemption	14
V. Temporary rental of railroad rolling stock by foreign corporations	17
VI. Statistical appendix	20
VII. Costs of carrying out the bill and vote of the committee in reporting the bill	22
VIII. Changes in existing law	23
IX. Additional views of Senators Dole, Packwood, Roth, and Brock	24
X. Minority views of Senator Curtis	27
XI. Additional views of Senators Fannin and Hansen	29

Calendar No. 527

94TH CONGRESS
1st Session

SENATE

REPORT
No. 94–548

REVENUE ADJUSTMENT ACT OF 1975

DECEMBER 12, 1975.—Ordered to be printed

Mr. LONG, from the Committee on Finance, submitted the following

REPORT

together with

ADDITIONAL AND MINORITY VIEWS

[To accompany H.R. 5559]

The Committee on Finance, to which was referred the bill (H.R. 5559) to amend section 883(a) of the Internal Revenue Code to provide for exclusion of income from the temporary rental of railroad rolling stock by foreign corporations, having considered same, reports favorably with amendments and recommends that the bill as amended do pass.

I. SUMMARY

Even though the economy has now ended its slide, the levels of income and employment are still unacceptably low. The Finance Committee amendment extends the tax cuts provided by the Tax Reduction Act of 1975 for the first half of 1976. This will prevent a $16 billion tax increase (at annual rates) on January 1, 1976, which the committee believes would be a severe blow to the fragile economic recovery now underway. By providing only a six-month extension, the amendment permits tax policy for fiscal year 1977 to be determined after Congress has enacted a spending ceiling for that period in the first concurrent resolution on the budget for fiscal 1977.

The specific tax cuts provided for six months are as follows:

- An increase in the minimum standard deduction (or low-income allowance) from $1,300 to $1,800 for single persons and to $2,200 for joint returns.

• An increase in the percentage standard deduction from 15 percent up to a maximum of $2,000 to 16 percent up to a maximum of $2,500 for single persons and to $2,900 for joint returns.

• A tax credit of $45 for each taxpayer and dependent.

• A refundable earned income credit equal to 10 percent of the first $4,000 of earnings, phased out as income rises from $4,000 to $8,000.

• An increase in the corporate surtax exemption from $25,000 to $50,000.

• A reduction in the corporate tax rate on the first $25,000 of income from 22 percent to 20 percent.

These tax cuts reduce tax liability at an annual rate of $16 billion. Thus, the reduction in liability for the first half of 1976 will be about $8 billion. The reduction in budget receipts for fiscal year 1976 will be $6.1 billion, which is consistent with the second concurrent resolution on the budget for fiscal year 1976.

In each case, the reduction in tax liability for the six-month period is achieved as a technical matter by enacting a reduction in liability for the entire year 1976 that is one-half as large as would otherwise be necessary and by providing that the entire reduction be reflected in lower withheld and estimated tax payments over the first six months of 1976. This will permit the Internal Revenue Service to use the 1975 withholding tables for the first half of 1976.

Temporary rental of railroad rolling stock by foreign corporations.—The bill, H.R. 5559, as passed by the House, provides for a reciprocal tax exemption of payments received by Canadian railroads for the temporary use of their railroad rolling stock. Under present law payments received by Canadian railroads for the use of their rolling stock in the United States is subject to a 15-percent withholding tax on the gross amount received. At the present time, Canada imposes a similar tax but has indicated its willingness to grant a reciprocal exemption if the United States adopts an exemption. Similar reciprocal exemptions exist for air and ship transportation and for truck transportation.

The committee's bill provides for an exemption for payments by a common carrier for the temporary use (which is not expected to exceed a total of 90 days in any taxable year) of railroad rolling stock owned by a corporation of a foreign country which grants an equivalent exemption to U.S. corporations. This provision is intended to provide for railroad transportation the same tax treatment that exists for competing forms of transportation.

The committee agreed to the House-passed bill without change. In addition, the committee added as an amendment to the bill the tax cut extension for 1976, as summarized above.

II. REASONS FOR TAX CUT EXTENSION

The level of economic activity in the United States declined steadily during the 18-month period between October 1973 and March 1975. The Tax Reduction Act of 1975 was enacted principally as a means of dealing with this recession. To a significant extent as a result of the economic stimulus provided by that Act, the economy in the last nine months of the year has recovered an important part of the ground it lost during the recession. This improvement in economic conditions, however, should not obscure the fact that the level of economic activity remains low. Over 7 million Americans are still unemployed, the level of output is more than 4 percent below its peak in late 1973, and the gap between what the economy is producing and what it is capable of producing is about $190 billion. For there to be return to prosperity, the economy must grow at a relatively rapid rate for the next several years.

To aid in providing the necessary economic growth in the period ahead, the Committee amendments in this bill extend the 1975 tax cuts. The committee, however, is aware of the keen interest on the part of the Congress and the Administration in considering appropriate limitations on both government spending in the period ahead, and the desirability of coordinating tax reductions with expenditure limitations.

Under the newly established budgetary procedures, an expenditure ceiling for the fiscal year 1977, as well as a revenue floor for that fiscal year, will be initially established by the Congress by May 15, 1976. Because of its interest in controlling government spending and coordinating the federal spending level with federal government revenues, the committee has extended the 1975 Act tax reductions only until June 30 of this year. This will enable Congress under its regularly established budgetary procedure to consider jointly the appropriate level of spending and revenues for the fiscal year 1977.

Economic situation

During the recession, real gross national product (that is, GNP adjusted for inflation) declined 7.8 percent below its peak in the last quarter of 1973. Industrial production declined by 13.5 percent. The economic growth in the second and third quarters of 1975, although encouraging, has only increased real GNP to a level that is 4.1 percent below its 1973 peak and industrial production to a level 8.6 percent below its previous peak. Since the potential output of the economy has grown in the past two years, it is clear that the economy is operating well below its potential, perhaps by as much as 11 percent, or $190 billion.

The economic impact of not extending the 1975 tax cuts can be seen in table 1, which compares forecasts of the economy by Chase Econometrics Associates, Inc., under both the assumption that the tax cuts are extended and that they are not.

TABLE 1.—ECONOMIC EFFECTS OF TAX REDUCTIONS

[Dollar amounts in billions]

	Year and quarter									
	1975		1976				1977			
	3d	4th	1st	2d	3d	4th	1st	2d	3d	4th
Gross national product:										
Tax cut	1,503.6	1,545.0	1,589.8	1,638.6	1,686.2	1,743.3	1,796.3	1,848.4	1,899.5	1,947.1
No tax cut	1,503.6	1,545.0	1,587.2	1,631.4	1,674.0	1,726.1	1,775.1	1,824.4	1,874.2	1,921.2
Difference	0	0	+2.6	+7.2	+12.2	+17.2	+21.2	+24.0	+25.3	+25.9
Gross national product (1958 prices):										
Tax cut	808.3	818.3	830.8	843.9	855.5	868.2	879.7	889.2	896.5	899.7
No tax cut	808.3	818.3	829.0	839.6	848.7	859.0	868.8	877.5	884.7	888.3
Percent difference	0	0	(+.2)	(+.5)	(+.8)	+(1.1)	(+1.3)	(+1.3)	(+1.3)	(+1.3)
Unemployment rate:										
Tax cut	8.4	8.3	8.1	7.8	7.5	7.4	7.4	7.3	7.4	7.5
No tax cut	8.4	8.3	8.1	7.8	7.7	7.7	7.8	7.8	7.9	8.1
Difference	0	0	0	0	−.2	−.3	−.4	−.5	−.5	−.5
Consumer price index:										
Tax cut	162.9	166.2	168.8	171.4	174.3	177.9	181.1	184.5	188.0	192.2
No tax cut	162.9	166.2	168.8	171.4	174.3	177.9	181.0	184.3	187.8	191.8
Percent difference	0	0	0	0	0	0	(+.1)	(+.1)	(+.1)	(+.2)
Index of industrial production:										
Tax cut	114.1	117.5	121.4	124.5	127.0	129.3	132.3	134.4	135.9	136.7
No tax cut	114.1	117.5	121.0	123.7	125.6	127.4	129.9	131.8	133.2	133.9
Percent difference	0	0	(+.3)	(+.6)	(+1.1)	(+1.5)	(+1.8)	(+2.0)	(+2.0)	(+2.1)

Note: These forecasts were prepared by Chase Econometrics Associates, Inc. Numbers for the 3d quarter of 1975 are actual figures. The "tax cut" forecast assumes extension of the 1975 withholding rates and corporate tax changes through 1977.

Without extension of the tax cut, this study forecasts continued growth in the economy through the first half of 1976, but the recovery begins to weaken in the second half of the year. Similarly it shows a decline in the unemployment rate to 7.7 percent in the second half of 1976, but after that the economy is not expected to grow quickly enough to employ new entrants to the labor force, and as a result unemployment is expected to rise slightly in this period.

With extension of the tax cuts, the study shows that the outlook is significantly better. Unemployment continues to decline through the first quarter of 1977, reaching 7.3 percent. This is 500,000 fewer unemployed workers than the forecast of the level if there were no tax cut extension. Similarly, gross national product on this basis is $25 billion higher with the tax cut by the middle of 1977 than if there were no reduction. Also, industrial production is expected to be 2.0 percent higher on this basis. On the other hand, the tax cuts can be expected to cause a slight increase in consumer prices in 1977, but none in 1976.

Congressional budget procedures

While the committee is concerned with the existing high level of government spending, it also believes that the effective way to control Federal spending is through the Congressional budget control procedure that was established at the beginning of this year. This process is an orderly way for Congress to determine the levels of revenues and expenditures and to establish priorities between different types of expenditures. So far this year, the budget control process is working well, and there is every reason to believe that it will continue to function effectively in the future. The committee believes that excessive Federal spending will best be limited by working through these established procedures. Imposing arbitrary ceilings on expenditures without study by the Congress is likely to undermine the whole effort to establish an orderly way for reviewing the budget.

The committee believes that the best budget procedure not only reviews spending totals but also considers what revenues are available and what the general composition of the expenditures is going to be. In order to make a reasonable choice between two possible levels of budget outlays the committee believes there should be at least some information available as to which expenditures are to be cut if the lower level is chosen. The committee has made no judgment as to whether the $395 billion level of spending for fiscal year 1977 that the President has proposed is the appropriate level. It believes the Congress will not know the answer to this question until it has more knowledge concerning the economy in the fiscal year 1977 and has examined the appropriate level of spending for functional categories in the budget.

Under the regular procedures, the President will submit his budget for fiscal year 1977 in January 1976. This document will be examined first by the budget committees of the House and Senate and subsequently by the entire Congress, and Congress will pass a spending ceiling for fiscal year 1977 by May 15. 1976. Congress will set this spending ceiling only after carefully weighing the competing claims of the various functions that constitute the budget. To enact a spending ceiling without giving sufficient thought as to what functions are being cut would mean the ceiling would have no credibility since it might have to be changed drastically as more information becomes available.

On December 11, 1975, the Senate passed the conference report on the second concurrent resolution on the budget for fiscal year 1976. This resolution sets a binding spending ceiling and revenue floor for fiscal year 1976. The revenue floor is consistent with the tax reductions that are provided by the committee amendment to this bill. Thus, for the rest of fiscal year 1976, the period up to June 30, 1976, the tax reductions are being determined in relation to a binding spending ceiling.

By extending the 1975 tax cuts only for the first six months of 1976, Congress can consider the question of tax reduction for the last six months of 1976—and possibly for future years—after the spending ceiling for fiscal year 1977 has been initially established. At that time, the Congress can coordinate the spending ceiling and any possible further extension of the tax cuts. By extending the tax cuts only for a six-month period, the committee has attempted to link tax cuts for the rest of fiscal year 1976 to the level of spending for fiscal year 1976 and to provide a way for tax cuts for fiscal year 1977 to be voted on after a spending ceiling for the period has been determined. In this way, the integrity of the new congressional budget process will be preserved.

Size of tax reduction

The committee amendments providing a tax cut extension for six months reduce tax liability by about $8 billion (an annual rate of $16 billion). The committee bill reflects the decision of the Congress in its budget resolution that an extension of the 1975 tax reduction for 6 months is needed at this time to maintain the economic stimulus that was provided by the 1975 tax cuts in the Tax Reduction Act of 1975.

The 1975 Tax Reduction Act provided an increase in the standard deduction and a $30 tax credit for each taxpayer and dependent. These provisions reduced tax liability for 1975 by $8.0 billion. These tax cuts were not reflected in lower withheld taxes until May 1975 since the act was not passed until the end of March. Thus, the $8 billion reduction in tax liability for the calendar year 1975 was reflected in withholding over an 8-month period, or at the rate of $1 billion per month—the equivalent of a $12 billion reduction on a full year basis. Allowing for growth in income in 1976, a 6-month extension of these withholding rates in 1976, then, requires a cut in tax liability of $6.3 billion for 1976.

The 1975 act also provided an earned income credit for the working poor and tax cuts for small business. Extending these provisions for six months involves a tax cut of an additional $1.7 billion ($0.7 billion for the earned income credit and $0.9 billion for the corporate tax cuts), making the total $8 billion.

The committee believes that these tax cuts, therefore, are large enough to maintain the economic stimulus provided by the 1975 act tax cuts. However, they provide no new stimulus to the economy. In view of the low level of economic activity and the precarious nature of the current recovery, the committee believes that this reduction is essential.

Other reasons for reductions

The committee believes that an extension of the 1975 tax cuts has several desirable side effects as well. The increased standard deduction will encourage individuals who file 10 million tax returns to take the standard deduction instead of itemizing their deductions, a major simplification of the tax system. Also, the increased standard deduction will lead to a more equitable distribution of the tax burden between those who itemize deductions and those who utilize the standard deduction. In recent years, inflation has eroded the real value of the minimum and maximum standard deductions, while the value of itemized deductions has been free to rise. The increased standard deduction in this bill will offset some of this effect.

Finally, these tax cuts achieve an important goal of tax policy—that families with incomes below government-defined poverty levels be removed from the income tax rolls. Table 2 shows the relationship between the poverty level and the tax threshold, the income level at which families begin to be subject to Federal income tax. If the 1975 tax cuts expire, the tax threshold in 1976 will be $1,550 below the poverty level for a four-person family, so that a four-person family that is officially defined as being poor could pay as much as $222 in income tax. For a six-person family, there will be a $1,970 gap between the poverty level and the tax threshold, which could lead to an income tax burden of $285. The committee believes that it would be undesirable to subject poor families to such tax burdens, particularly at a time of high food and energy prices and of low levels of income and employment. Under this bill, the tax threshold will be raised close to, or above, the poverty level.

TABLE 2.—POVERTY LEVELS AND TAX THRESHOLDS

	Poverty levels [1]		Tax thresholds	
Family size	1975	1976	If 1975 tax cuts expire [2]	With extension and expansion of 1975 tax cuts provided by the bill [3]
1	$2,790	$2,970	$2,050	$2,871
2	3,610	3,840	2,800	4,343
3	4,300	4,570	3,550	5,414
4	5,500	5,850	4,300	6,467
5	6,490	6,900	5,050	7,517
6	7,300	7,770	5,800	8,567

[1] Estimated by U.S. Department of the Treasury assuming inflation of 9.1 percent in 1975 over 1974 and 6.4 percent in 1976 over 1975.

[2] If the tax cuts expire, the minimum standard deduction will be $1,300.

[3] Full year effect of $45 credit and increase in the minimum standard deduction to $1,800 for single returns and to $2,200 for joint returns.

III. REVENUE EFFECTS

As has been indicated, the tax cuts which are provided by the bill are one-half of the amounts that would have been provided on a full-year basis for purposes of the six-months extension. Therefore the tables in this part show the revenue effect on both a full-year and on a half-year basis.

The bill is estimated to result in a reduction in liability of $16.1 billion on a full-year basis ($8 billion on a half-year basis) for calendar year 1976. Table 3A shows how the impact of this reduction is divided on the full-year basis. It shows that $4.7 billion of the reduction relates to the standard deduction provisions, $8.1 billion to the $45 tax credit per taxpayer and dependent, $1.4 billion to the earned income credit, and almost $2 billion to the change in corporate tax rates. The same table shows the effect of the bill on fiscal year receipts. Thus, receipts are estimated to decrease by $6.1 billion in fiscal year 1976, about $3.5 billion in the transition quarter (July-September 1976), and $6.5 billion in fiscal year 1977. Table 3B shows the comparable estimates on a half-year basis.

Table 4A shows, by adjusted gross income class, the decrease in individual income tax resulting from the standard deduction and tax credit provisions of the bill on a full-year basis. This table reflects the impact of these provisions on tax liability at 1975 income levels, a $13.5 billion decrease (as compared to the almost $7 billion, decrease at 1976 levels). Of the total $13.5 billion reduction, almost 44 percent goes to tax returns with less than $10,000 of adjusted gross income, 21.5 percent to returns with between $10,000 and $15,000 of adjusted gross income, and 17 percent to returns with $15,000 to $20,000 of adjusted gross income. This table also indicates that almost 72 million tax returns show a decrease in tax liability or receipt of payments; 8.2 million returns are made nontaxable. Also, as indicated in this table, 10.4 million returns are estimated to shift to the standard deduction.

Table 4B shows the comparable estimates on a half-year basis.

Table 5A in the Statistical Appendix shows for selected taxpayers, with different marital status, different numbers of exemptions, and different levels of adjusted gross income, the tax burden with and without the individual income tax reductions provided by this bill. This table is on the full-year basis. Table 5B in the Statistical Appendix provides similar data on the half-year basis.

TABLE 3A.—EXTENSION OF TAX CUTS ON FULL-YEAR BASIS

ESTIMATED EFFECT ON TAX LIABILITY AND TAX RECEIPTS

[In millions of dollars]

	Calendar year tax liability 1976	Fiscal year receipts		
		Fiscal year 1976	Transition quarter	Fiscal year 1977
Standard deduction [1]	−4,684	−2,040	−1,159	−1,459
Per capita tax credit [2]	−8,059	−3,504	−1,991	−2,554
Earned income credit [3]	−1,391			−1,391
Change in corporate tax rates [4]	−1,949	−585	−292	−1,072
Total	−16,083	−6,129	−3,442	−6,512

[1] Minimum: singles $1,800, joints $2,200; percentage: 16 percent; maximum: singles $2,500, joints $2,900.
[2] $45 per taxpayer and dependent.
[3] Refundable tax credit of 10 percent of wages and salary and self-employment income for returns with dependent children, with a maximum credit of $400 and a phaseout of the credit between $4,000 and $8,000 of adjusted gross income.
[4] 20 percent of the 1st $25,000 of income, 22 percent on the next $25,000, and 48 percent above that level.

TABLE 3B.—EXTENSION OF TAX CUTS ON HALF-YEAR BASIS

ESTIMATED EFFECT ON TAX LIABILITY AND TAX RECEIPTS

[In millions of dollars]

	Calendar year tax liability 1976	Fiscal year receipts		
		Fiscal year 1976	Transition quarter	Fiscal year 1977
Standard deduction [1]	−2,123	−1,868	−212	−43
Per capita tax credit [2]	−4,173	−3,676	−418	−79
Earned income credit [3]	−696			−696
Change in corporate tax rates [4]	−974	−585	−30	−359
Total	−7,966	−6,129	−660	−1,177

[1] Minimum: singles $1,550, joints $1,750; percentage: 15.5 percent; maximum: singles $2,250, joints $2,450.
[2] $22.50 per taxpayer and dependent.
[3] Refundable tax credit of 5 percent of wage and salary and self-employment income for returns with dependent children with a maximum credit of $200 and a phaseout of the credit between $4,000 and $8,000 of adjusted gross income.
[4] 21 percent of the 1st $25,000 of income, 35 percent of the next $25,000, and 48 percent above that level.

TABLE 4A.—EFFECT OF INDIVIDUAL INCOME TAX REDUCTIONS PROVISIONS IN THE BILL ON A FULL-YEAR BASIS

[By adjusted gross income class, 1975 income levels]

	Number of returns affected (thousands)			Decrease in tax liability	
Adjusted gross income class (thousands)	Total number with tax decrease	Number made non-taxable	Number shifting to the standard deduction	Amount (millions)	Percentage distribution (percent)
0 to $5	13,086	5,292	971	[1] $2,048	15.1
$5 to $10	20,277	2,656	3,730	3,957	29.3
$10 to $15	16,816	173	2,141	2,911	21.5
$15 to $20	10,680	37	2,150	2,343	17.3
$20 to $30	7,849	3	1,217	1,651	12.2
$30 to $50	2,424	(2)	197	467	3.5
$50 to $100	688	(2)	21	127	.9
$100 and over	147	(2)	2	24	.2
Total	71,968	8,160	10,428	13,527	100.0

[1] Includes $200,000,000 to cover the credit on wage and salary and self-employment income of earners who are nonfilters under the 1970 filing requirements.
[2] Less than 500 returns.

TABLE 4B.—EFFECT OF INDIVIDUAL INCOME TAX REDUCTIONS PROVISIONS IN THE BILL ON A HALF-YEAR BASIS

[By adjusted gross income class, 1975 income levels]

Adjusted gross income class (thousands)	Number of returns affected (thousands): Total number with tax decrease	Number made non-taxable	Number shifting to the standard deduction	Decrease in tax liability: Amount (millions)	Percentage distribution (percent)
0 to $5	13,086	3,210	651	[1] $1,119	16.7
$5 to $10	20,277	1,073	2,101	1,950	29.1
$10 to $15	16,816	80	749	1,338	20.0
$15 to $20	10,680	5	1,300	1,198	17.9
$20 to $30	7,849	(2)	536	788	11.8
$30 to $50	2,424	(2)	77	225	3.4
$50 to $100	688	(2)	10	62	.9
$100 and over	147	(2)	1	12	.2
Total	71,968	4,368	5,425	6,692	100.0

[1] Includes $100,000,000 to cover the credit on wage and salary and self-employment income of earners who are nonfilers under the 1970 filing requirements.

[2] Less than 500 returns.

IV. GENERAL EXPLANATION

A. Individual Income Tax Reductions

1. Low income allowance and standard deduction (sec. 2 of the bill and secs. 141(b) and (c) and 3402(m)(1) of the code)

The Tax Reduction Act of 1975 increased the minimum standard deduction (or low-income allowance) from $1,300 to $1,600 for single people and to $1,900 for married couples. (For married people filing separate returns the increase was from $650 to $950.) The percentage standard deduction was increased from 15 percent to 16 percent. Also, the Act increased the maximum standard deduction from $2,000 to $2,300 for single people and to $2,600 for married couples. (For married couples filing separate returns, the increase was from $1,000 to $1,300.) Each of the changes applies only to the calendar year 1975.

As indicated above in the reasons for the tax cut extension, the 1975 reductions could not simply be extended and still be consistent with a continuation of the existing withholding rates. The committee concluded that in the interest of providing a greater proportion of tax relief to lower income groups and to achieve increased simplification, a substantial increase in the standard deduction is desirable. Moreover, by this technique, the committee was able to adopt a distribution in this extension which closely approximates the distribution prevailing under the Tax Reduction Act of 1975.

As a result, the committee increased on a full-year basis the minimum standard deduction, the percentage standard deduction, and the maximum standard deduction. However, to reflect the fact that the bill, in effect, extends (and increases) the 1975 tax cuts only for six months, the levels of the standard deduction are one-half of the amounts of the increases above the 1974 levels of the standard deduction that would be appropriate for a full-year extension.

On a full year basis, the committee bill increases the minimum deduction to $1,800 for a single person and to $2,200 for a married couple filing a joint return ($1,100 for married persons filing separate returns). The percentage standard deduction is raised to 16 percent and the maximum standard deduction is raised to $2,500 for single persons and to $2,900 for married couples filing joint returns ($1,450 for married filing separate returns).

Since the effect of the bill is to increase and extend the standard deduction only for the first 6 months of 1975, the amounts indicated above are, in effect, only one-half of the amount of the increases above the 1974 levels. Thus, the minimum standard deduction is $1,750 (rather than $2,200) in the case of married couples filing a joint return.[1]

[1] This amount represents $1,300 plus one-half of the $900 difference, or $450, between the 1974 level of $1,300 and $1,800, the amount that would be provided on a full year basis for 1976.

In the case of single persons, the minimum standard deduction provided by the bill is $1,550.[2]

This one-half year basis is also reflected in the percentage standard deduction in that the rate is 15½ percent.[3] The maximum standard deduction on a one-half year basis for 1976 is $2,250 for a single person.[4] For joint returns the one-half year maximum standard deduction is $2,450.[5]

A conforming change is made to the provision (sec. 3402(m)(1)) relating to withholding allowances based on itemized deductions to reflect the higher maximum percentage standard deduction only on the full year basis provided by the bill.

These changes apply to taxable years ending after December 31, 1975, but before January 1, 1977.

The tax reduction in 1976 from the full year effect of the standard deduction changes (the low income allowance plus the percentage standard deduction) is $4.7 billion at 1976 income levels and the increase for one-half year is $2.1 billion.[6]

2. Credit for personal exemptions (sec. 2(c) of the bill and sec. 42 of the code)

The Tax Reduction Act of 1975 provided for 1975 only a tax credit of $30 for each taxpayer and for dependents for whom a taxpayer claims personal exemptions. There is no credit, however, for the additional personal exemptions available for age and blindness. This credit cannot exceed tax liability (that is, it is not refundable).

The bill increases this $30 credit to $45 on a full year basis. On the one-half year basis, as described above, the amount of the credit provided by the bill is $22.50 for 1976.

These changes apply to taxable years ending after December 31, 1975 and before January 1, 1977.

The revenue reduction from the $45 credit on a full year basis is $8.0 billion. The tax reduction from the credit on a one-half year basis is $4.17 billion.[7]

3. Earned income credit (sec. 2d) of the bill and secs. 43, 6201, and 6401 of the code)

The Tax Reduction Act of 1975 included a new refundable income tax credit, called the earned income credit, to provide relief to low-income individual wage earners (and low-income self-employed individuals) who are subject to social security taxes (or self-employment taxes) and who have been seriously hurt by high food and energy prices. The amount of the credit is 10 percent of earned income up to a maximum of $400 per taxpayer. The credit is phased out at income

---

[2] This amount represents $1,300 plus one-half of the $500 difference, or $250 between the 1974 level of $1.300 and $1,800, the amount that would have been provided on a full year basis for 1976.

[3] 15 percent plus one-half of the difference between the 1974 rate of 15 percent and the 1976 rate on a full year basis of 16 percent.

[4] The 1974 level of $2.000 plus one-half of the $500 difference, or $250, between the 1974 level of $2,000 and the $2,500 which would be provided on a full year basis.

[5] The 1975 level of $2 000 plus one-half of the $900 increase, or $450, to $2,900 which would be provided on a full year basis.

[6] The full increase in the minimum and maximum standard deductions loses more than twice as much as one-half the increase because of the concentration of returns in the income range to which the second half of the increase applies.

[7] This is greater than one-half the full year effect because the one-half year effect is computed on top of only the one-half year effect of the standard deduction increase.

levels between $4,000 and $8,000. Only individuals who maintain a household in the United States for themselves and for a dependent child are eligible for the credit. The credit applies only for 1975.

The committee believes it is appropriate to continue the earned income credit. For this reason, the committee bill extends the earned income credit for the first 6 months of 1976. The bill accomplishes this by applying the credit to income earned throughout 1976 but reducing the credit by one-half (to 5 percent of earned income). In all other respects the credit will be unchanged from the provision available for 1975.

Under the one-half year extension, if the statute remains unchanged through the end of 1976, individuals will receive a credit one-half as large as is allowed for 1975 under the Tax Reduction Act. The credit is to apply to income earned in any month during 1976 rather than only to income earned in the first 6 months of the year. But the amount of the credit is 5 percent of earned income rather than 10 percent.

Because most of the individuals eligible for the earned income credit have such limited income that they will have no income tax liability during 1976 (even without regard to the credit), the income tax withholding rates need not be modified to take account of the earned income credit as in effect for 1976. The credit generally will be received by eligible individuals in the form of a refund check payable after the end of the taxable year.

It is estimated that this provision will decrease total 1976 income tax liabilities by $700 million. Of this amount, however, $50 million will be offset by reduced AFDC (and other) payments resulting from the increase in income of those eligible for these payments who receive the credit. If extended for the entire year, the provision will decrease tax liabilities by $1.4 billion, which would be offset in part by a $100 million decrease in AFDC and other Federal payments.

4. Withholding provisions (sec. 4 of the bill and sec. 3402(a) of the code)

Under present law, the withholding rates incorporate the individual income tax changes made by the Tax Reduction Act of 1975 but reflect them on an eight-month basis rather than a 12-month basis.[8]

The bill provides that the existing withholding rates are to continue to apply to wages paid through June 30, 1976. For purposes of the first two estimated tax payments, calendar-year taxpayers are to estimate their tax as if the full year tax reductions were applicable for 1976.

A continuation of the 1975 withholding rates would reduce receipts by nearly $13 billion in 1976 on a full year basis or by $6.3 billion on a one-half year basis. For fiscal year 1976 the continuation of the existing withholding rates will reduce receipts by $5.54 billion.[9]

---

[8] The withholding rates do not reflect the earned income credit because on an eight-month basis a substantial portion of the people eligible for the earned income credit had their withholding reduced to zero.

[9] The impact for fiscal year 1976 of extending the 1975 withholding rates is not to increase the withholding rates to the early 1975 levels. If these rates were increased to the early 1975 levels, the effect on fiscal year 1976 would be less than the $6.3 billion of increased withholding that would occur under the higher rates because of the time lags between the time taxes are withheld and the time they are recorded by the Treasury as receipts. Consequently, the fiscal year 1976 receipts effect of not increasing withholding rates is estimated to be $5.54 billion.

5. Filing requirements to reflect the increase in low income allowance (sec. 2 of the bill and sec. 6012(a) of the code)

Under present law, as provided by the Tax Reduction Act of 1975, the income level below which the filing of an income tax return is not required is $2,350 in the case of a single person, $2,650 in the case of a surviving spouse, and $3,400 in the case of a joint return. (These amounts are increased by $750 for each additional personal exemption available to the taxpayer or his spouse because they are age 65 or over (as provided by sec. 151).)

To reflect the full year changes in the low income allowance, these filing levels are increased to $2,550 for a single person (the $1,800 minimum standard deduction provided by the bill on a full year basis plus the $750 personal exemption). In the case of a surviving spouse, the amount is increased to $2,950 and for married couples filing a joint return, the amount is increased to $3,700.

These changes in the filing requirements are to apply to taxable years ending after December 31, 1975, and before January 1, 1977.

B. Business Income Tax Reductions

1. Corporate Tax Rates and Surtax Exemption (sec. 3 of the bill and secs. 11(d), 12(7), 962(c), and 1561(a) of the code)

Prior to the 1975 Tax Reduction Act, corporate income was subject to a 22-percent normal tax and a 26-percent surtax (for a total tax rate of 48 percent). However, the first $25,000 of corporate income was exempt from the surtax. As a result, the first $25,000 of corporate income was taxed at a 22-percent rate and the income in excess of $25,000 was taxed at a 48-percent rate.

In the Tax Reduction Act of 1975, the surtax exemption was increased to $50,000 and the normal tax was reduced to 20 percent on the initial $25,000 of taxable income. This results in a 20-percent rate on the first $25,000 of income, a 22-percent rate on the next $25,000 of income, and a 48-percent rate on income in excess of $50,000. However, since the extension of the surtax exemption to $50,000 and the reduction of the normal tax on the initial $25,000 of taxable income to 20 percent applies only to the year 1975, the corporate tax rate is scheduled to revert to the pre-1975 levels in 1976 and later years.

The committee bill extends for the first 6 months of 1976 the increased surtax exemption to $50,000 and the reduced normal corporate tax rate of 20 percent on the first $25,000 of income. To spread the effect of this half year extension over the entire taxable year, the bill establishes for 1976 calendar year taxpayers a normal tax rate of 21 percent on the first $25,000 of corporate income (the average of 20 percent and 22 percent), a 35-percent normal tax and surtax rate on the next $25,000 of corporate income (the average of 22 percent and 48 percent), and a 48-percent tax rate on income over $50,000.

The bill requires for calendar year taxpayers that, for purposes of declarations of estimated tax, the full reduction in tax is to be taken into account in the first two declaration payments and none of the reduction to be taken into account for the last declaration payments. Thus under the bill, calendar year taxpayers are to calculate each of their first two estimated payments (i.e., those due to be paid on April 15 and June 15, 1976) as one-fourth of the annual tax liability produced by tax rates of 20 percent on the first $25,000 of income, 22 percent on the second $25,000 of income and 48 percent on additional income. If there is no change in the statute by September 1976, a calendar year taxpayer's estimated payment on September 15, 1976 (and on December 15, 1976, if no change at that time) is to be based on one-fourth of the tax produced by a 22-percent tax rate for the first $25,000 of income and the full 48-percent rate for income above $25,000. In this way a taxpayer will not have increased estimated tax payments during the first 6 months of 1976 (unless his income level has increased). However, if the statute is not changed, the two estimated payments due for the last 6 months of 1976 will reflect the higher tax rates which would be in effect for that period. The combination of the higher payments in the last 6 months and the earlier lower payments in the first 6 months will produce (if the statute is not changed) estimated tax payments for the full year sufficient to meet the tax liability which will be incurred for 1976 under the statutory tax rates of 21 percent on the first $25,000 of income, 35 percent on the next $25,000 of income and 48 percent on any additional income.

For fiscal year taxpayers, the provision extends the 1975 tax cuts through June 1976. The provision is to be treated as a tax rate change (for purposes of sec. 21) and thus is to be reflected entirely in the fiscal year (or years) which fall within the first 6 months of calendar year 1976. For example, a taxpayer with a fiscal year ending on March 31 of each year is to calculate his taxes for the tax year ending March 31, 1976, based on a tax rate of 20 percent of the first $25,000 of income, 22 percent of the next $25.000 of income and 48 percent on additional income. Since these are the same rates that apply under the Tax Reduction Act of 1975 for those months of the fiscal year falling within calendar year 1975, a fiscal year taxpayer with a fiscal year ending March 31, 1976, will be able to use the same rates for the entire taxable year (i.e., no proration is required) and any estimated tax payments to be made in 1976 with respect to that taxable year need not be increased.

For the fiscal year ending after June 30, 1976, the extension of reductions in this bill is to be taken into account in the months through June 1976. A fiscal year taxpayer is to compute his tax liability (under sec. 21) by determining the annual tax liability which would result under the reduced rates (i.e., 20 percent of the first $25,000. 22 percent of the next $25,000, and 48 percent of any additional income) and by prorating that amount over the first months of the fiscal year through June 1976. Similarly, the annual tax liability resulting from the higher rates (i.e., 22 percent of the first $25,000 and 48 percent of any additional income) is to be prorated over the remaining months of the fiscal year. The sum of the amounts prorated to all of the months of the fiscal year is to be the corporation's tax liability for that year.

The reduction in tax attributable to months through June 1976 under the above computations for fiscal year taxpayers is to be reflected in estimated tax payments for those months. For example, the first estimated payment for a fiscal year taxpayer whose year ends March 31, 1977 (which is due July 15, 1976), is to be based on one-fourth of an annual tax liability produced by tax rates of 20 percent on the first $25,000 of income, 22 percent on the second $25,000 of income and 48 percent on income above $50,000. However, if the statute is not changed, the remaining 3 estimated payments for that fiscal year will each be based on one-fourth of an annual tax liability resulting from a normal corporate rate of 22 percent of the first $25,000 and 48 percent of income above that amount.

As a result of these computations, a fiscal year taxpayer with the fiscal year ending on March 31 will receive one-half of the benefits of the tax cut extension in the fiscal year ending March 31, 1976, and the second half in the fiscal year ending March 31, 1977. Moreover, all of the tax cut extension for the fiscal year ending March 31, 1977, will be reflected in the first estimated tax payment due July 15, 1976.

The extension of the corporate surtax exemption and rate reduction is expected to result in a revenue loss of $0.95 billion for the first 6 months of 1976. If this provision were extended for the full year, the revenue loss would be $1.9 billion.

V. TEMPORARY RENTAL OF RAILROAD ROLLING STOCK BY FOREIGN CORPORATIONS

Under present law, the income of a foreign corporation which is effectively connected with the conduct of a trade or business within the United States is subject to the normal U.S. corporate income tax (sec. 882 of the code). In determining the amount of its effectively connected taxable income, a foreign corporation is allowed those deductions which are related to that income. On the other hand, there is a 30 percent tax on amounts (such as interest, dividends, rents and other fixed or determinable annual or periodical gains) from sources within the United States by a foreign corporation, if these amounts are not effectively connected with a U.S. trade or business (sec. 881).[1] The 30 percent tax is imposed on the gross amount received.

An exemption from U.S. tax is provided to a foreign corporation on earnings derived from the operation of foreign registered ships or aircraft which are documented under the laws of a foreign country which grants an equivalent exemption to citizens of the United States and to corporations organized in the United States. In addition, the United States has treaties in force with a number of countries modifying the provisions of the Internal Revenue Code. Briefly, these treaties modify what income may be subjected to the regular corporate income tax of the source country and provide for reduced rates of tax or exemption on payments which are not subject to the regular corporate income tax.

The committee's attention has been drawn to the fact that the interchange of railroad rolling stock between U.S. railroads and Canadian railroads is being hindered by the imposition of a tax on the gross amount of the per diem payments which are paid by the user of the railroad rolling stock. The interchange of railroad rolling stock takes place when the rolling stock of one railroad is transferred to a second railroad for the continued shipment of the goods. The interchange per diem is set by the Interstate Commerce Commission and is intended to compensate the owner of the rolling stock for his costs (depreciation, maintenance, etc.), and a slight return on investment. Thus, the size of the per diem varies with the cost and useful life of the rolling stock.

Under this system, when a Canadian railroad ships goods to the United States, a U.S. railroad uses the Canadian railroad's rolling stock for that part of the transportation which is in the United States and pays the Canadian railroad a daily per diem for the use of the railroad car. If the Canadian railroad is engaged in a trade or business

[1] This tax is generally collected by means of a withholding tax by the person making the payment to the foreign recipient of the income (secs. 1441 and 1442 of the code).

within the United States and the per diem payments are effectively connected with that trade or business, the Canadian railroad files a normal U.S. corporate tax return showing the income and deductions with respect to the per diem rentals along with its other effectively connected income and deductions. On the other hand, if the per diem is not effectively connected with a trade or business in the United States, the payments are subject to a 15-percent tax on the gross amount of the payments (the 15-percent rate of tax is provided for in the United States-Canadian Income Tax Convention and is a reduction from the 30-percent rate which is imposed under the Internal Revenue Code). Since the per diem system basically compensates a railroad for its cost with respect to the rolling stock, a 15-percent tax on the gross amount of the per diem quite often is a larger amount than the net income (if any) which the Canadian railroad derives from the use of the rolling stock by the U.S. railroad.

It is noted that until the end of last year the Canadian Government did not impose any tax upon the payment by a Canadian railroad to a U.S. railroad for the use of the U.S. railroad's rolling stock in Canada. While the Canadian Government has changed its law in this respect, it has indicated its willingness to grant a reciprocal exemption in this area.

The committee recognizes that it is difficult to allocate income with respect to activities or services where the activities and services are performed across the border of two countries. Further, the committee believes that it is unfair to impose a tax on the gross amount of a payment where the payee is incurring substantial costs in connection with earning of the income. These problems have been eliminated in connection with other transportation industries. For example, the Internal Revenue Code, as well as the U.S.-Canadian Tax Convention, provides for a reciprocal exemption of earnings from air and ship transportation. In addition, the U.S.-Canadian Tax Convention provides for a reciprocal exemption for truck transportation. At the time that the reciprocal exemption for truck transportation was added to the U.S.-Canadian Tax Convention no provision was made for railroad transportation since at that time there was no problem.[2]

The committee believes it is appropriate that the interchange of rolling stock take place without the imposition of tax impediments which unduly restrict the interchange. Accordingly, the committee eliminates on a reciprocal basis the gross tax on payments made for the use of railroad rolling stock.

The committee amendment incorporates the provision of the House bill which adds a reciprocal exemption (similiar to the one for ships and aircraft) for earnings derived from payments by a common carrier for the use on a temporary basis of railroad rolling stock which is owned by a corporation of a foreign country which grants an equivalent exemption to U.S. corporations. The exemption is to apply only for rentals on a temporary basis which are not expected to exceed a

[2] Hearings before the Committee on Foreign Relations, United States Senate, 85th Congress, 1st Session, on income tax convention with Canada (Ex. B., 85th Cong., 1st Session) on July 30, 1957, at page 5.

total of 90 days in any taxable year. The term "rolling stock" means locomotives, freight and passenger train cars, floating equipment, miscellaneous transportation equipment on wheels and containers which are used for shipping purposes, the exependitures for which are chargeable (or, in the case of leased property, would be chargeable) to the equipment investment account in the uniform system of accounts for railroad companies prescribed by the Interstate Commerce Commisison. In order to make this provision fully reciprocal with the provisions of Canadian law, the committee amendment is to apply to payments made after November 18, 1974.

The committee anticipates that the reciprocal exemption for railroad rolling stock will result in an annual revenue loss of less than $2.5 million.

VI. STATISTICAL APPENDIX

TABLE 5A.—INDIVIDUAL INCOME TAX BURDEN[1] IN 1976 ON A FULL-YEAR BASIS UNDER THE BILL[2] COMPARED TO 1974 LAW[3]

[Single person and married couple with no, 1, 2, and 4 dependents (assuming deductible personal expenses of 17 percent of income)]

	Tax Liability														
	Single person			Married couple with no dependents			Married couple with 1 dependent			Married couple with 2 dependents			Married couple with 4 dependents		
Adjusted gross income[4]	1974 law	H.R. 5559	Reduction	1974 law	H.R. 5559	Reduction	1974 law	H.R. 5559	Reduction	1974 law	H.R. 5559	Reduction	1974 law	H.R. 5559	Reduction
$3,000	$138	$ 18	$119	$28	0	$28	0	−$300	$300	0	−$300	$300	0	−$300	$300
$5,000	491	351	140	322	$95	227	$208	−300	508	$98	−300	398	0	−$300	300
$6,000	681	541	140	484	248	236	362	−113	475	245	−200	445	$28	−200	222
$8,000	1,087	950	137	837	587	250	694	409	286	559	238	321	312	0	315
$10,000	1,482	1,413	69	1,152	967	185	1,010	780	230	867	592	275	586	231	354
$12,500	1,996	1,951	45	1,573	1,466	106	1,408	1,256	151	1,261	1,067	194	976	692	280
$15,000	2,549	2,504	45	2,029	1,939	90	1,864	1,729	135	1,699	1,519	180	1,371	1,101	270
$17,500	3,145	3,100	45	2,516	2,426	90	2,329	2,194	135	2,156	1,976	180	1,826	1,556	270
$20,000	3,784	2,739	45	3,035	2,945	90	2,848	2,713	135	2,660	2,480	180	2,285	2,015	270
$25,000	5,230	5,185	45	4,170	4,080	90	3,960	3,825	135	3,750	3,570	180	3,330	3,060	270
$30,000	6,850	6,805	45	5,468	5,378	90	5,228	5,093	135	4,988	4,808	180	4,508	4,238	270
$35 000	8,625	8,580	45	6,938	6,848	90	6,668	6,533	135	6,398	6,218	180	5,858	5,588	270
$40,000	10,515	10,470	45	8,543	8,453	90	8,251	8,116	135	7,958	7,778	180	7,373	7,103	270

[1] Computed without reference to the tax tables.
[2] Includes the effect of the $1,800–$2,200/16 percent/$2,500–$2,900 standard deduction, the 10 percent credit on earned income phased out between $4,000 and $8,000 of adjusted gross income, and the $45 credit per taxpayer and dependent.
[3] 1974 law would apply in 1976 if the provisions of this bill are not enacted.
[4] Wage or salary and/or self-employment income.

Note: Details may not add to totals because of rounding.

TABLE 5B.—INDIVIDUAL INCOME TAX BURDEN[1] IN 1976 ON A HALF-YEAR BASIS UNDER THE BILL[2] COMPARED TO 1974 LAW[3]

[Single person and married couple with no, 1, 2, and 4 dependents (assuming deductible personal expenses of 17 percent of income)]

	Tax Liability														
	Single person			Married couple with no dependents			Married couple with 1 dependent			Married couple with 2 dependents			Married couple with 4 dependents		
Adjusted gross income[3]	1974 law	H.R. 5559	Reduction	1974 law	H.R. 5559	Reduction	1974 law	H.R. 5559	Reduction	1974 law	H.R. 5559	Reduction	1974 law	H.R. 5559	Reduction
$3,000	$138	$78	$60	$28	0	$28	0	—$300	$300	0	—$300	—$300	0	—$300	$300
$5,000	491	421	70	322	$208	115	$208	—228	435	$98	—300	398	0	—300	300
$6,000	681	611	70	484	365	119	362	23	340	245	—113	358	$28	—200	228
$8,000	1,087	1,025	62	837	718	119	694	553	142	559	403	156	312	118	195
$10,000	1,482	1,460	23	1,152	1,098	55	1,010	933	77	867	768	100	586	443	144
$12,500	1,996	1,974	23	1,573	1,528	45	1,408	1,340	68	1,261	1,171	90	976	841	135
$15,000	2,549	2,527	23	2,029	1,984	45	1,864	1,797	68	1,699	1,609	90	1,371	1,236	135
$17,500	3,145	3,122	23	2,516	2,471	45	2,329	2,261	68	2,156	2,066	90	1,826	1,691	135
$20,000	3,784	3,761	23	3,035	2,990	45	2,848	2,780	68	2,660	2,570	90	2,285	2,150	135
$25,000	5,230	5,208	23	4,170	4,125	45	3,960	3,893	68	3,750	3,660	90	3,330	3,195	135
$30,000	6,850	6,828	23	5,468	5,423	45	5,228	5,161	68	4,988	4,898	90	4,508	4,373	135
$35,000	8,625	8,603	23	6,938	6,893	45	6,668	6,601	68	6,398	6,308	90	5,858	5,723	135
$40,000	10,515	10,493	23	8,543	8,498	45	8,251	8,183	68	7,958	7,868	90	7,373	7,238	135

[1] Computed without reference to the tax tables.

[2] Includes the effect of the $1,550-$1,750/15½-percent/$2,250-$2,450 standard deduction, the 5-percent credit on earned income phased out between $4,000 and $8,000 of adjusted gross income, and the $22.50 credit for taxpayer and dependent.

[3] 1974 law would apply in 1976 if the provisions of this bill are not enacted.

[4] Wage or salary and/or self-employment income.

Note: Details may not add to totals because of rounding.

VII. COSTS OF CARRYING OUT THE BILL AND VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs incurred in carrying out this bill. The committee estimates that the bill would reduce tax liability by $8 billion in calendar year 1976. In fiscal year 1976, the bill would reduce revenues by an estimated $6.1 billion. The Treasury Department agrees with this statement. Part III of this report contains a more detailed statement of the revenue effect of the bill.

In compliance with section 133 of the Legislative Reorganization Act of 1946, the following statement is made relative to the votes by the committee of the motions on the committee amendment and to report the bill.

The committee amendment was agreed to by a record vote of 14 ayes, and 4 nays, as follows:

In favor—14 (Messrs. Long, Talmadge, Hartke, Ribicoff, Nelson, Mondale, Gravel, Bentsen, Hathaway, Haskell, Dole, Packwood, Roth and Brock).

Opposed—4 (Messrs. Byrd of Virginia, Curtis, Fannin and Hansen).

The bill was ordered reported by a voice vote.

VIII. CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

IX. ADDITIONAL VIEWS OF SENATORS DOLE, PACKWOOD, ROTH, AND BROCK

The principal purpose of this legislation is to extend until June 30, 1976, certain provisions of the Tax Reduction Act of 1975 now due to expire at the end of this calendar year. Absent congressional action on this legislation, income taxes will increase on January 1, 1976 and, given the specific nature of these expiring provisions, this increase would impact most heavily upon individuals with low incomes and upon small business. For individuals, this tax increase will amount to $13 billion on an annual basis and this increase will be immediately reflected in increased withholding. For these reasons, we favor clearing this legislation for prompt action by the Senate. We emphasize, however, that our vote in the committee to report this legislation does not in any sense represent a lessening of our commitment to fiscal responsibility at all levels of government.

According to the conventional wisdom, it is easy to reduce taxes or, as this legislation would do, to continue prior tax reductions. However true this may be, we are nevertheless concerned about this legislation because it fails to recognize the important relationship between tax revenues and the level of Federal spending. As we review the current and projected Federal budgetary deficits, we find it most disturbing that, even if the Congress enacts no new spending programs, Federal outlays for fiscal 1977 will increase by $46 billion over outlays for fiscal 1976. Among other things, our prior spending decisions have seriously limited our ability to respond to current and future national problems. Substantial and permanent reductions in Federal revenues can only serve to exacerbate this situation. For these reasons, we believe that the President's proposed tax reduction-spending ceiling program has raised a fundamental issue of public policy which deserves to be faced on its merits.

It is precisely because we believe that the issue of conditioning future tax reductions on comparable spending reductions is important that we supported efforts in the committee to report but a limited extension of the prior tax reductions as opposed to the permanent changes recently adopted by the House in H.R. 10612. Such a limited extension seems to us the only way to assure that the tax reduction-spending reduction issue will in fact be both considered and accepted or rejected on merits. The experience of our colleagues in the House clearly demonstrates to us that raising this issue at this time would serve no valid purpose since the debate would only be focused upon whether the present imposition of a spending ceiling for fiscal year 1977 would be consistent with the congressional budget process and appropriate prior to the submission of the Administration's budget. To raise this issue at a time when these ancillary contentions would surely dominate the debate and would likely prevail may not, in our view, be in the public interest. Thus, both the public interest and practical realities counsel that this critical issue be raised in 1976 at a point in time when the Congress has made its fiscal judgments in the First Concurrent Budget Resolution. If progress is made in bringing Federal outlays under control, additional tax reductions may be warranted. If, on the other hand, we follow the "business as usual" approach with respect to Federal outlays, then further tax reductions may not be warranted. In short, the issue of tax and spending reductions is simply too important for it to be avoided by references to the integrity of the congressional budget process.

With this assessment of the current situation, the choice in our view was between no extension of the prior reductions and, as the committee has decided, a limited extension of those reductions. In favor of the second approach was the view of many professional economists that a tax increase at this time (the necessary result of congressional inaction on this legislation) could impair the economic recovery underway. In this connection, we note that the economic forecasts presented to the committee indicate that failure to extend the prior tax reductions could well have an adverse affect on the continued economic recovery. Given this broad based view of the potential impact of a tax increase, we concluded that it would be inappropriate to deny to the Senate an opportunity to act.

Upon reflection, we also find a limited extension to be consistent with a basic objective of the President to avoid the enactment of tax reductions extending into fiscal 1977 until after a spending ceiling for that year has been established. We therefore supported efforts in the committee to report for Senate action a limited extension of the prior tax reductions which otherwise would expire at the end of this calendar year. In this fashion, we have balanced both the needs of the economy in the short term and the objective of not eroding revenues for fiscal year 1977 until the Congress has established, in accordance with normal procedures, an appropriate level of Federal spending for fiscal year 1977. This process will be complete by May 15, 1976, and will thus leave us sufficient time to determine whether further tax reductions can be justified.

In these views, we have made reference to the disturbing trend in Federal budgetary deficits. We must take effective action not simply to reduce the level of Federal spending but to avoid massive built-in increases in outlays from year to year. As we view it, the first step we must take is to change our way of thinking that every problem can and should be solved with a tidal wave of Federal dollars. This will require restraint, but it can be done. We expect to begin this process with reference to the myriad of spending programs within the jurisdiction of the Committee on Finance. As our colleagues are aware, the congressional budget process requires input from the Committee on Finance early next year both with respect to revenues and, with respect to programs in the committee's jurisdiction, outlays. The Committee's report is due by March 15, 1976 and, in the best spirit of the congressional budget process, we hope our colleagues on the committee will join with us in a searching examination of those programs within our jurisdiction. Similarly, we hope that each authorizing committee of Congress, through a beefed-up oversight process, will undertake a close examination of all government spending with an eye toward elimination of cost ineffective programs and changes in basic authorizing legislation where warranted.

Stated simply, we believe that the issue raised by the President is an important one which deserves to be resolved on its merits. In our view, this debate can best be held as a part of the congressional budget process. In the interim, a maintenance of the current level of taxation may be the course of action which most closely comports with the public interest.

Bob Dole.
Bob Packwood.
William V. Roth, Jr.
Bill Brock.

X. MINORITY VIEWS OF SENATOR CURTIS

I cannot, under present circumstances, support an extension of those individual and corporate income tax reductions due to expire at the end of the current calendar year.

I take this position with some reluctance because, both as a matter of principle and as a matter of simple economics, I favor substantial reductions in individual and corporate income taxes. In my view, the burden of Federal taxation is now so heavy as to pose a serious threat to the fundamental principle of free and individual economic choice upon which this Nation was founded and has prospered. Additionally, as a matter of practical economics, I believe it is self-evident that the burden of Federal taxation on the Nation's employers (both corporate and noncorporate) must be reduced substantially if our economy is to generate both the capital and employment opportunities essential to our future prosperity and security.

Notwithstanding my philosophical commitment to meaningful reductions in Federal taxes, present circumstances compel me to oppose a simple extension of those provisions of the Tax Reduction Act of 1975 which will shortly expire. Current and projected Federal budgetary deficits render a continuation of these prior income tax reductions economically unsound, unless accompanied by a comparable reduction in Federal spending. Even a cursory analysis of our current and anticipated budgetary deficits demonstrates that Federal spending is not merely excessive but that it is totally out of control. Even if there are no new spending programs, Federal spending for fiscal year 1977 will increase by 14 percent. We cannot afford to compound the problem by a further erosion of the Federal revenue base.

The President has recognized the need for tax and spending reductions and, more importantly, the interrelationship between the two. In October of this year, the President proposed a $28 billion tax reduction, coupled with a comparable reduction in the level of spending increases. Since then, many of my colleagues in the Congress have been reluctant even to debate the issue on its merits. Instead, I have heard only the bland assertion that overall spending limitations must follow rather than precede decisions on individual spending reductions. This theory of budgeting is, in my view, untenable. For our citizens, our business enterprises, our States, and our local governments, the total amount that can be spent in a given year is not merely an arithmetical summation of individual spending decisions. To the contrary, it is the first and most basic budgetary decision. That the Federal Government possesses a printing press (whose excessive use has produced much of our inflation) in no way renders our continuing disregard of this basic budgetary principle a responsible act.

I recognize that the failure to extend these tax reductions will be tantamount to increasing taxes as of January 1, 1976, and that many economists favor at least an extension of these reductions to promote continued economic recovery. Whatever view one takes of the use of fiscal stimulus as an antirecession device on a theoretical level, two points about its use by Congress in practice must be made. First, evidence that tax cuts in fact are a necessary element of economic recovery is somewhat conflicting. In 1971, Congress cut taxes to combat economic stagnation and the economy took a marked turn for the worse. In 1975, Congress again cut taxes and the economy improved. This demonstrates to me that economic theory and practical reality may in fact prove to be quite different. Second. while economic theory presumes that fiscal stimulus will be turned off as well as turned on, actual experience demonstrates that the Congress will willingly engage in the latter but not the former. Indeed, with economic recovery well underway, we now seem prepared to accept larger budget deficits and to compound them with revenue reductions.

Finally, I am constrained to point out yet again that our continuing budgetary deficits are not objectionable solely on philosophical grounds. To the contrary, they both fuel the fires of inflation (the most regressive tax of all which impacts upon the elderly, the poor, and the others of our citizens least able to afford it) and produce governmental borrowing which preempts the need of the private sector for capital. When this occurs, the funds for new employment opportunities are simply not available. When the Tax Reduction Act of 1975 was under consideration, proponents of massive tax rebates and tax reductions discounted the impact of such legislation on the budgetary deficit. Recession, not inflation, was the evil. Yet, as Treasury Secretary Simon told the Committee on Finance at the time, tax reductions should be both moderate and temporary because "it is inflation which has created our current recession." Despite our current economic upturn, we now seem prepared to continue to focus only on recession without regard to the continuing spectre of inflation. In my view, we risk wholly unacceptable levels of inflation if we do not reduce our budgetary deficits. Earlier this year, proponents of massive tax reductions discounted the impact of increased budgetary deficits on the capital markets with the argument that the economy was sufficiently "slack" that sufficient capital was available despite unprecedented levels of governmental borrowing. This argument suggests to me that, given the economic upturn now underway, we should now be decreasing governmental borrowing. Yet, in this legislation we are preparing to do just the opposite.

In short, while I favor substantial income tax reductions, I believe that tax reductions and spending reductions must be considered together. This the present legislation does not do and I therefore oppose it.

CARL T. CURTIS.

XI ADDITIONAL VIEWS OF SENATORS FANNIN AND HANSEN

Within the Committee on Finance, we opposed a simple six months extension of the prior tax reductions. We did so because, like Senator Curtis, we believe that the committee's bill fails to give the necessary recognition to the importance of considering tax reductions and spending reductions simultaneously. We are thus in agreement with the philopsophy expressed by Senator Curtis, although we recognize the obligations the Committee has with respect to the procedures established by the Congressional Budget Act. We can appreciate, therefore, that the President's proposal does raise serious questions with respect to the interaction of that proposal with the congressional budget process. Nevertheless, the issue raised by the President of conditioning tax reductions on comparable spending reductions is one of paramount importance. We are hopeful, therefore, that we will in the Senate be able to develop an approach which would both provide for a limited extension of the tax reductions, as the committee bill does, and commit the Congress to a comparable reduction in the Federal budget with respect to the next fiscal year. If we are unable to develop such an approach, then we may be again unable to support a limited and temporary extension of the prior tax reduction.

Paul Fannin,
Clifford P. Hansen.

O