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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 act have a number of effects on the consideration of legislation handled by the Committee on Finance.

The major provisions affecting the Finance Committee are the following:

1. By March 15 of each year, the Finance Committee must submit a report to the 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. (Last year's report appears in appendix A of this pamphlet.)

2. Certain kinds of legislation 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.

3. 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.

4. By May 15, Congress completes action on a first concurrent budget resolution for the coming fiscal year setting appropriate revenue, spending, and deficit levels. While the amounts shown in this first resolution are not binding in the sense that they can subject a bill to point of order, they are intended to serve as overall guidelines in the consideration of revenue and spending legislation.

5. In September of each year, the Congress debates and adopts 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. The overall spending and revenue totals in the second resolution are binding.

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

After the May 15 adoption of the concurrent resolution, action on spending and revenue bills proceeds through early September. In the first half of September, a second concurrent resolution on the budget is considered by the Congress, which revises or reaffirms the earlier resolution and which can 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 are to report the legislation called for by the resolution, and this legislation is then 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.

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 is 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 is due no later than March 15.

Report after adoption of concurrent budget resolution.—The conference report on each budget resolution allocates the outlay and budget authority totals among the various committees. Each committee is then required, after consultation with the appropriate counterpart committee in the House of Representatives, to subdivide its allocation of new budget authority and outlays among the programs under its jurisdiction (or among its subcommittees). These allocations subsequently serve as the basis for scorekeeping reports and for judging whether particular legislative proposals are consistent with the budget resolution.

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. In addition, entitlement legislation (other than trust fund legislation) reported after January 1 of any year may not have an effective date prior to October 1 of that year.

Deadline for reporting authorizing legislation.—Legislation which authorizes appropriations (but does not necessarily require them) has to be reported by May 15 preceding the fiscal year for which the appropriations are authorized. (The act includes a procedure under which this deadline may be waived by Senate resolution; the rule may 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 does not apply.

Impact of concurrent budget resolutions on legislation.—The first concurrent resolution, which is to be passed about May 15, sets targets for spending in various areas.

While the budget totals included in the first resolution are in the nature of targets and are not strictly mandatory, they tend to establish fairly firmly the guidelines within which the Congress considers legislation affecting revenues and spending. Thus, if unrealistic objectives are used in setting first resolution totals, committees may subsequently find their ability to act on desired legislation impaired.

At the beginning of calendar year 1977, for example, the President proposed certain cutbacks in the income security and health functions which the Finance Committee considered overly optimistic. Nevertheless, the committee included these savings in its report to the Budget Committee, adding the following caution:

"As with the health function, the committee notes that the President's budget assumes substantial cost reductions in the social security programs. While the committee believes that those budget assumptions may present an optimistic estimate of the savings that can be achieved, it recommends acceptance of those estimates as a goal at this time."

Despite the cautionary note, the Budget Committee incorporated these proposed savings in the first resolution. At a later date (July 21, 1977), the chairman of the Budget Committee indicated that the Budget Committee would attempt to enforce these savings despite the Finance Committee's earlier indication that it considered them overoptimistic.

A second concurrent resolution is to be passed in mid-September, and this resolution not only sets appropriate spending levels but may direct the committees having jurisdiction over spending legislation to

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report measures to 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 may include a requirement that the committee report legislation to defer or reduce be .fits 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 Congressional Budget Act 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.

Report on spending legislation.—The Congressional Budget Act requires 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 is 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 also must, in the case of the Finance Committee, present views and estimates of the committee with regard to revenues and the debt limit.

No revenue legislation prior to May 15.—Under the Budget Act, debt limit or revenue legislation for the upcoming fiscal year is not 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 sets targets with respect to revenue and debt limit legislation, and the second concurrent resolution in September may direct the Committee on Finance to report legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determines 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. Once a second resolution on the budget is adopted by the Congress, any legislation which would cause the total revenues to be reduced below the level specified in the budget resolution would be subject to a point of order. If the second budget resolution sets a revenue target which exactly matches the projected revenues under existing law (or any expected modifications to existing law), even minor bills having nearly negligible revenue impacts can be rejected on a point of order. As indicated above in describing the impact of the resolution on spending legislation, even the "nonmandatory" first resolution tends to be given great weight in the actual consideration of legislation. Thus, if the first resolution includes unrealistic revenue goals, the committee may face difficulties in the consideration of any revenue legislation.

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 both to existing law and proposals to change existing law

Chart 1

March 15 Report to Budget Committee

Under the Congressional Budget Act of 1974, the Committee on the Budget is required by April 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 judgments 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.

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 fiscal year 1979 (October 1978 to September 1979).

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 B.

Chart 2

Economic Assumptions
(dollars in billions)

	1977	1978	1979
Gross national product:			
Current dollars	$1,890	$2,099	$2,335
Constant dollars (1972 dollars)	1,337	1,400	1,467
Percent change in constant dollars	4.9%	4.7%	4.8%
Personal income	$1,536	$1,704	$1,892
Wages and salaries	989	1,099	1,219
Corporate profits	172	192	217
Consumer price index: increase over prior year	6.5%	5.9%	6.1%
Unemployment rate	7.0%	6.3%	5.9%

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 as estimated in the budget submitted in January by the President.

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Chart 3

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 Benefit Trust Funds
(dollars in billions)
Present Law

	FY1978	FY1979	FY1980	FY1981	FY1982	FY1983
Income	$89.7	$101.5	$117.1	$137.0	$155.7	$171.4
(Prior law)	(88.4)	(97.2)	(107.7)	(119.2)	(129.9)	(141.1)
(1977 Amendments)	(+1.3)	(+4.3)	(+9.4)	(+17.8)	(+25.8)	(+30.3)
Outgo	94.8	105.2	116.2	127.7	139.7	151.7
Increase or decrease	-5.0	-3.7	+0.9	+9.3	+16.0	+19.7
Start-of-year assets as a percent of outgo	42%	33%	27%	25%	29%	38%

Chart 4

Social Security Cash Benefit Trust Funds—Fiscal Years 1978–83

The social security trust fund programs of old-age, survivors, and disability insurance are projected over the next 5 fiscal years to regain a positive status in which the programs will show an annual surplus sufficient to improve the fund reserves when measured as a percent of 1-year's outgo. The funds will continue to show a deficit for fiscal years 1978 and 1979, and the reserve percentage will decline until the start of fiscal 1981. After that, however, the situation will improve each year throughout the remainder of this period. The improvement of the fund results from the enactment last year of the Social Security Amendments of 1977 which significantly increased the financing to the program and, to a lesser extent in the short run, reduced outgo. Prior to the enactment of these amendments, the combined OASI and DI funds had been projected to become exhausted before the end of fiscal year 1982. The following tables are based on the economic assumptions underlying the President's budget, but do not reflect the impact of his legislative proposals. They do, however, include the impact of a proposed administrative change to speed up collection of State and local social security contributions. This change would increase income by $1 billion in fiscal 1980, by $1.3 billion in fiscal 1981, and by $0.4 billion in each of the fiscal years 1982 and 1983. The following tables show the status of the combined funds before and after enactment of Public Law 95–216.

ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS COMBINED, UNDER THE PROGRAM AS MODIFIED BY PUBLIC LAW 95-216, FISCAL YEARS 1978-83

[Dollar amounts in billions]

Calendar year	Income	Outgo	Net change in funds
1978	$89.7	$94.8	−$5.0
1979	101.5	105.2	−3.7
1980	117.1	116.2	+.9
1981	137.0	127.7	+9.3
1982	155.7	139.7	+16.0
1983	171.4	151.7	+19.7

	Funds at end of year	Funds at beginning of year as a percentage of outgo during year
1978	$34.6	42
1979	30.9	33
1980	31.8	27
1981	41.1	25
1982	57.1	29
1983	76.8	38

ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS COMBINED, UNDER THE PROGRAM UNDER PRIOR LAW (BEFORE ENACTMENT OF PUBLIC LAW 95-216), FISCAL YEARS 1978-83

[Dollar amounts in billions]

Calendar year	Income	Outgo	Net change in funds
1978	$88.4	$95.1	−$6.6
1979	97.2	105.7	−8.5
1980	107.7	117.1	−9.4
1981	119.2	129.5	−10.3
1982	129.9	142.3	−12.4
1983	141.1	155.1	−14.4

	Funds at end of year	Funds at beginning of year as a percentage of outgo during year
1978	$33.0	42
1979	24.5	31
1980	15.1	21
1981	4.8	12
1982	−7.6	3
1983	−22.0	([1])

[1] Fund exhausted by end of fiscal year 1982.

Chart 5

Social Security Administration Federal Fund Programs*
(dollars in billions)

	FY1978	FY1979
Present law:		
Federal fund payment to trust funds	$0.7	$0.8
Supplemental Security Income (SSI)	6.0	5.6
Proposed legislation:		
SSI changes in H.R. 7200	**	**

* Welfare programs for families shown on chart 7

** Less than $0.05 billion.

Chart 5

Social Security Administration Cash Benefit Programs—Federal Funds

Present law.—The social security programs of old-age, survivors, and disability insurance are supported almost entirely by payroll deductions applicable to employers, employees, and self-employed persons. Certain transitional provisions enacted in 1966, however, provide relatively small benefits to persons over age 72 who did not have the opportunity to become insured for regular benefits. The cost of these benefits is reimbursed to the trust fund from general revenues. Similarly, a general fund payment is made into the trust funds to cover the cost of certain additional credits granted to military personnel. The Social Security Administration also carries out certain functions under the Employee Retirement Income Security Act of 1974 (ERISA) and receives reimbursement from the general fund for the costs involved.

Since January 1974, the Social Security Administration has been responsible for administering a basic income support program for needy aged, blind, and disabled persons called Supplemental Security Income (SSI). This program is funded entirely from general funds. The law establishing the SSI program permits the temporary use of trust funds to meet the administrative costs of the program but provides specific safeguards to assure that those costs are promptly reimbursed to the trust funds by an appropriation from general revenues.

The amount of general revenue funds administered by the Social Security Administration in connection with the old-age, survivors and disability insurance (OASDI), ERISA, and supplemental security income (SSI) programs are shown in more detail below:

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[In millions]

	Fiscal 1978	Fiscal 1979
OASDI:		
Military wage credits	$513	$526
Benefits for uninsured aged	228	230
ERISA		4
SSI:		
Total [1]	5,974	5,555
Benefits	5,278	4,874
Services	65	76
Administration [2]	631	605

[1] The decline in SSI costs is the result of an accounting quirk. Public Law 95-216, authorizes the early payment of benefits when the normal delivery date (the 1st of the month) falls on a weekend or holiday. Because Oct. 1, 1978 falls on a Sunday, the October checks are paid this year in September resulting in a 13-month benefit liability for fiscal year 1978 and an 11-month benefit liability for fiscal 1979. On a 12-month basis, total SSI outlays would be: $5.549 million in fiscal year 1978 and $5.980 million in fiscal year 1979.

[2] Includes $92 million in fiscal 1978 and $36 million in fiscal 1979 for Federal payments to States because of Federal errors in administering State supplementary programs.

Under a 1977 departmental reorganization, the Social Security Administration assumed responsibility for the Federal-level administration of the aid to families with dependent children and related programs (other than the work incentive program). These programs are described separately on chart 7: Welfare Programs for Families. Since the change was made by administrative action, no legislative authorization exists for the payment of Federal AFDC administrative costs from the social security trust funds; however, trust funds are currently being used to meet the Federal administrative costs of the program. (The trust funds are reimbursed on an ongoing basis.) The fiscal 1979 appropriation act language proposed by the Administration provides for the reimbursement of those costs to the trust funds and also contains a legislative authorization for the continuing use of trust fund moneys for this purpose but without specific safeguards similar to those which apply to the SSI program to assure repayment.

Proposed legislation.—The bill H.R. 7200, reported by the committee in November, contains several amendments to the SSI program. Altogether, the available estimates of the budgetary impact of these changes in fiscal year 1979 is less than $0.05 billion. The provisions having a fiscal 1979 budgetary impact are:

[In millions]

Provision:	Cost (+) or savings (−)
Modification in treatment of parents' income	−$2
Treatment of in-kind income	+16
Treatment of certain retroactive title II benefits	−18
$5 monthly increase in benefits to institutionalized persons	+13
Use of recipients for information and referral	+3
Emergency needs program	+10
Treatment of sheltered workshop income	+2
Change in treatment of aliens	−17
Total	+7

Chart 6

Social Security Cash Benefit Programs: Proposed Legislation
(dollars in billions)

	FY 1979	FY 1983
President's budget:		
Reduce student benefits	-$0.1	-$0.5
Eliminate cost-of-living increases for persons receiving minimum benefits	-0.2	-0.4
Eliminate minimum for future beneficiaries	-0.1	-0.4
3-month retroactivity limit	-0.1	-0.2
One month increase in age of eligibility	-0.1	-0.2

Chart 6

Sccial Security Cash Benefit Programs: Proposed Legislation

In the fiscal year 1978 budget, the President proposed a number of changes in the social security cash benefits programs designed to eliminate or reduce certain low-priority benefits. Most of these proposals in last year's budget were, in fact, enacted by the Congress as a part of Public Law 95-216, the Social Security Amendments of 1977. The major exception was a proposal to reduce the benefit level of certain benefits for the children of deceased, disabled, or retired workers during the period when the children are between ages 18 and 22 and in school. In the fiscal 1979 budget, the President has again recommended the reduction in benefits for those children and has added a number of other recommended reductions in benefits.

Reduction in benefits for children aged 18-22.—Subject to certain family maximums, the benefits payable to a surviving child of a deceased individual is equal to 75 percent of the full retirement benefit which that individual would have been eligible for. Dependent children of disabled and retired workers get benefits equal to 50 percent of the worker's own full benefit. Eligibility for benefits as a child end at age 18 unless the child remains in school in which case they continue to age 22. Under the budget proposal, after the child reaches age 18 his benefit would be reduced so that it would be no more than the maximum amount payable under the Federal program which provides educational grants to low-income students. That maximum is now $1,600 per year. The proposal assumes a July 1, 1978 effective date and would result in savings of $117 million in fiscal year 1979 (partially offset by $11 million in increased costs under the educational aid program). By fiscal 1983, the proposal would have annual savings of $507 million (less offsetting increases of $50 million in the aid program).

Eliminate cost-of-living increases for persons with minimum benefits.—In the 1977 Social Security Amendments Congress froze the minimum benefit for new beneficiaries at its 1978 level, approximately $121. For persons already getting the minimum benefit, however, cost-of-living increases would continue to apply so that their present benefits would be kept up to date with inflation in the same manner as is done for all other beneficiaries. New beneficiaries coming on the rolls in the future would start off with a $121 monthly benefit (unless the regular benefit formula resulted in a higher amount). Thereafter, their benefits would be increased to keep pace with inflation. Under the President's proposal these cost-of-living increases for persons getting the minimum benefit would be eliminated. In other words, an individual getting $121 per month in December 1978 under the minimum benefit provisions would continue in future years to receive the same $121 per month. The proposal would reduce payments under the social security program by $179 million in fiscal 1979, rising to a savings of $412 million in fiscal 1983.

Limit minimum for future beneficiaries.—In addition to proposing that those now on the rolls with a minimum benefit not receive cost-of-living increases, the President's budget also proposes that no minimum be applied in determining the benefits payable to persons coming on the rolls in the future. In other words, all new beneficiaries would have their benefit determined only under the regular benefit formula. This proposal would reduce benefit costs by $75 million in fiscal 1978 with the savings reaching $432 million by fiscal 1983.

Both of the above provisions relating to the minimum benefit would have some offsetting results in the supplemental security income program. It is estimated that if these two proposals were adopted, SSI costs would increase by $38 million in fiscal 1978 and would increase by an annual amount of $83 million in fiscal 1983.

Three-month limit on retroactivity.—Social security benefits are now available for up to 12 months prior to the month in which an individual files a claim for benefits if he was actually eligible for unreduced benefits in all of those prior months. The budget proposal would reduce this period of retroactivity to 3 months with a resultant savings of $121 million in fiscal 1979, rising to $240 million by fiscal 1983.

One-month increase in age of eligibility.—Under the social security program, benefits are paid at the beginning of a month on the basis of entitlement during the prior month. Benefits are not prorated but paid on a whole month basis. For the month in which an individual first becomes eligible for benefits, a full month's benefit is payable at the beginning of the next month, even if he reached the age of eligibility on the last day of the month. (Conversely, no benefit is payable for the month in which eligibility ends so that if an individual dies near the end of the month, no benefit is payable for him at the beginning of the next month.) The Administration's proposal would modify this rule insofar as it applies to the first month of eligibility for a retired worker or his dependents. Under the proposal, eligibility would begin with the first month during which the individual met all eligibility requirements throughout the entire month.

In effect, this amounts to increasing by 1 month the age of eligibility for social security retirement benefits. The proposal would result in a savings of $138 million in fiscal year 1979, increasing to $244 million by fiscal year 1983.

Reimbursement of certain pension costs.—Largely as a result of the Employee Retirement Income Security Act of 1974 the Social Security Administration has been experiencing a substantial increase in the number of requests for wage information from employers. The limitations in the Privacy Act and the Freedom of Information Act on charging the public for providing information in Government files do not permit the Social Security Administration to recoup the full cost of providing this assistance. The budget proposes an amendment which would permit fees to be charged which would meet the cost of this activity. This would result in a Federal budgetary savings amounting to $14 million per year starting in fiscal 1979.

Chart 7

Welfare Programs for Families
(dollars in billions)

	FY 1978	FY 1979
Present law:		
Aid to families with dependent children: welfare payments	$6.0	$6.1
administration	0.6	0.7
Child support:		
Total collections	-0.5	-0.6
Federal share of collections	-0.2	-0.2
Federal share of administrative costs	0.2	0.2
Work Incentive Program:		
President's budget	0.4	0.4
For Committee consideration	---	+0.4
Proposed legislation:		
President's budget:		
Revise emergency assistance		+0.1
Limit work expense deduction		-0.1
Other proposals		*
H.R. 7200:		
Limit work expense deduction	-0.1	-0.2
State, local fiscal relief	+0.2	+0.4
Other AFDC changes	-0.1	-0.2

Chart 7

Welfare Programs for Families

AFDC.—The budget submitted by the President in January estimates that the costs of benefits and administration under the aid to families with dependent children (AFDC) and certain other related programs will be $6.7 billion in fiscal 1978 and $6.8 billion in fiscal 1979. Included in the total shown for AFDC are expenditures for adult assistance in Guam, Puerto Rico, and the Virgin Islands, emergency assistance for families, and aid for certain repatriated American nationals. Also included is the $187 million in fiscal relief for State and local welfare costs enacted in Public Law 95-216.

[In millions of dollars]

	Fiscal year 1978	Fiscal year 1979
Federal costs:		
AFDC payments:		
Regular matching	5,798	6,064
Fiscal relief	187	....
Adult assistance in U.S. territories	4	4
Emergency assistance	33	34
Aid to repatriated nationals	1	1
Total benefits	6,023	6,103
State and local administration	638	670

Child support.—Closely related to the AFDC program is the child support enforcement program (title IV-D of the Social Security Act) which is aimed at helping children in securing their rights to obtain support from their parents and to have their paternity ascertained in a fair and efficient manner. Collections under this program are as follows:

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CHILD SUPPORT ENFORCEMENT COLLECTIONS AND COSTS

[In millions of dollars]

	Fiscal year	
	1978	1979
Child support collections:		
Total collections	525	600
Federal share	210	237
State and local administration:		
Total costs	307	333
Federal share	230	250

These figures do not show the savings which results from families having been completely removed from dependency on AFDC as a result of the child support program. In fiscal 1979, the program will serve some 760,000 AFDC families and 500,000 non-AFDC families.

WIN.—Also 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 budget submitted in January recommends funding for this program at a level of $365 million in both fiscal 1978 and fiscal 1979. This is the same level of funding that has been provided for this program for the past several years. In 1977, the committee recommended, and Congress enacted, a specific authorization for an additional $435 million in fiscal 1978 and fiscal 1979 for the WIN program. (There would be no non-Federal matching required for this additional fundding.) No funding was provided for this authorization for fiscal 1978, and the President has not requested any funding for it in his 1979 budget. The committee may wish to recommend that the Budget Committee allow for this additional funding in fiscal 1979.

PROPOSED LEGISLATION

Emergency assistance.—The AFDC law contains a special provision allowing States to provide on a limited basis for emergency needs of families with children including families who would not ordinarily qualify for AFDC. The President's budget proposes legislation to modify this emergency assistance program. Under the proposal, in Presidentially declared emergencies, the program could be used to provide assistance even to households without children. In addition, the proposed legislation increases State flexibility under the program with a view to encouraging more States to utilize it. The Administration estimates that the cost of these changes will be $125 million in fiscal year 1979.

Work expense deduction.—The President's budget includes a proposal which would revise the rules for the disregard of itemized work expenses in the determination of AFDC eligibility and computation of benefits. Under present law, AFDC families are allowed to deduct from the income which would otherwise reduce their AFDC eligibility all reasonable work expenses. Under the President's proposal, the work expenses deduction would be limited in the case of non-child-care costs to a percentage ranging from 15 to 25 percent of earnings. Limitations would also be placed on the amount deductible for child care. Both child care and other work expenses would be deducted before applying the "30 and ⅓" earnings disregard.

The committee has approved an alternative modification in the work expense provision as a part of the bill H.R. 7200. This alternative has been passed by the Senate on several occasions in the past, most recently as a part of last year's social security bill. The committee bill requires States to disregard the first $60 earned monthly by an individual working full time—$30 in the case of an individual working part time—plus one-third of the next $300 earned plus one-fifth of amounts earned above this. Child care expenses, subject to limitations prescribed by the Secretary, would be deducted before computing an individual's earned income. Other work expenses could not be deducted.

The Administration's proposal would result in a fiscal 1979 savings of $119 million compared with a $230 million saving under the H.R. 7200 provision.

Child support proposal.—Under present law, incentive payments are provided to State and local governments cooperating in the interstate enforcement of child support for AFDC families. The President's budget proposes to eliminate this incentive payment which will reduce Federal costs of implementing the child support program by an estimated $21 million in fiscal 1979.

The President's budget also proposes to continue the Federal matching of State costs in operating the child support program on behalf of non-AFDC families. This matching is also continued (and made permanent) under the provisions of H.R. 7200. The fiscal 1979 cost of these matching payments is estimated at $12 million.

Matching for territorial assistance programs.—The Administration's budget proposes to increase the matching rate and reimbursement ceiling for the AFDC program in Guam, Puerto Rico, and the Virgin Islands. The fiscal 1979 cost of these changes would be $26 million. H.R. 7200 proposes a larger increase in these ceilings with an estimated fiscal 1979 cost of $52 million.

State and local fiscal relief.—H.R. 7200 as reported by the committee provided for a fiscal 1978 payment of fiscal relief for State and local welfare costs of $500 million. An additional $500 million was to be available under the bill for fiscal 1979 but subject to State progress in reducing welfare error rates. This was expected to reduce the net payment to $400 million. The fiscal 1978 amount was subsequently reduced to $374 million in the social security bill as passed by the Senate. Half of this amount ($187 million) was agreed to by House conferees and enacted into law with the understanding that the remaining $187 million would be considered in the context of the conference on H.R. 7200.

Other AFDC changes.—H.R. 7200 as reported by the Finance Committee included numerous other changes in the AFDC program designed to improve its operation. The provisions not described above for which cost estimates are available are the following.

[In millions of dollars]

Provision:	*Cost (+) or savings (−) in fiscal 1979*
Quality control and other incentives	−40
Identification cards	−9
Prorating benefits in certain cases	−109
Management information system	+7
Distribution of certain child support collections	−5
WIN modifications	−55
Treatment of unreported earnings	−24
Community work and training	−15
Treatment of aliens	−29

In addition, the bill as reported includes other provisions designed to reduce the cost of the program but for which no specific cost estimates have been developed.

Chart 8

Social Services

(dollars in billions)

	FY1978	FY1979
Present law:		
Basic grant program (title XX)	$2.4	$2.5
Additional child care funds	0.2	...
Child welfare services	0.1	0.1
Training	0.1	0.1
Proposed legislation:		
H.R. 7200 and President's budget:		
Increase in child welfare services		+0.1
Child care funding		+0.2

Chart 8

Social Services

In addition to cash benefit programs and medical assistance, the Social Security Act includes several provisions which make Federal funding available for social services programs. The largest such program is the title XX social services programs, but funding is also provided under a separate child welfare services program, and rehabilitative services for disabled SSI recipients (both children and adults) are funded through that program. Also closely related to the social services programs is funding authority for the training of social workers and other State and local welfare personnel and for certain research programs.

Under title XX of the Social Security Act, States providing social services such as child care, family planning, and homemaker services to welfare recipients and other low-income persons are entitled to claim Federal matching grants for such expenditures. For most services $3 in Federal funding under this program is available to match each $1 of non-Federal funding; however, Federal funding is subject to an overall annual limit of $2.5 billion allocated on a population basis. (An additional $200 million in Federal funding, without a matching requirement, is available for child care costs in fiscal 1977 and in fiscal 1978.) Under present law, States are expected to use $2.6 billion of this funding in fiscal year 1978. The budget estimates that $2.45 billion out of the permanent $2.5 billion ceiling will be used in fiscal 1979.

Under title IV–B of the Social Security Act, grants to the States are authorized for the purposes of providing child welfare services. Again, a wide variety of services come under this general heading but a major activity involves services related to adoption and foster care. The child welfare services authorization is $266 million but the appropriation has always been well below that level.

Proposed legislative changes.—The additional $200 million made available to the States for child care programs in fiscal 1977 and 1978 was enacted on a temporary basis. The budget submitted by the President proposes a further 1-year extension of this $200 million increment. H.R. 7200, as reported by the committee, would make the additional $200 million a permanent part of the overall limitation.

The President's budget also recommends an increase in the appropriation for child welfare services of $84.75 million in fiscal year 1979. This is within the existing authorization for the program but assumes the enactment of legislation which will substantially modify its operations. The committee, in H.R. 7200, recommended significant changes in the program and assumed that, with these changes, the Administration would seek increased funding, gradually attaining the full authorization level.

Chart 9

Unemployment Compensation

(dollars in billions)

	FY 1978	FY 1979
PRESENT LAW		
Unemployment trust fund:		
Income	$15.2	$17.2
Outgo	11.6	11.8
Net change	+3.6	+5.4
End-of-year assets	10.1	15.4
Federal funds:		
Advances to trust funds	0.6	-0.4
Trade adjustment assistance	0.2	0.2
Federal employee benefits	0.7	0.7
Transitional payments to States for newly covered workers	0.2	0.1
PROPOSED LEGISLATION		
President's budget:		
Reduce unemployment tax 0.2%		-0.6
Defer repayment to general fund		+0.4
Other proposals:		
Increase trade adjustment assistance		+0.1

Chart 9

Unemployment Compensation

The unemployment insurance trust fund covers regular State unemployment insurance benefits (paid for through taxes collected by States but deposited into the Federal trust fund) and the extended benefits program, which in times of high unemployment, provides an additional 13 weeks of benefits which are 50 percent federally funded. (The emergency unemployment compensation program, which provided benefits beyond the 39th week has now expired.) 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.

When Federal and State tax collections are insufficient to meet benefit costs in the short run, the Federal unemployment trust fund is authorized to borrow from the general fund of the Treasury with the advances being subject to later repayment. Because of heavy levels of unemployment recently, substantial advances to the trust fund from the general revenues have been required. However, with economic improvement and certain unemployment tax increases enacted in 1976, the trust fund will be able, under present law, to begin repayments.

There are also certain unemployment programs funded from general revenues outside the trust fund. One such program provides special additional assistance to workers who become unemployed because their employers' businesses decline in the face of increased imports. (A related Trade Act provision authorizes adjustment assistance for firms and communities. The President's budget recommends funding for these programs at a fiscal 1979 outlay level of $45 million.) Unemployment benefits are also provided at Federal general revenue expense for former Federal employees and ex-servicemen.

The Unemployment Compensation Amendments of 1976 extended coverage under the unemployment program to certain previously excluded types of employment (certain farm and domestic employment and States and local government employment). This coverage became effective as of January 1978, but benefits would ordinarily not be payable until some time later. If States elect to make benefits payable starting at the beginning of 1978, the 1976 amendments provide for Federal funding of those new benefits for a transition period (generally 1978).

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Proposed legislation.—The 1976 Unemployment Amendments provided an increase in the net Federal unemployment tax rate from 0.5 percent to 0.7 percent on a temporary basis to permit the Federal accounts in the trust fund to accumulate sufficient amounts to repay their borrowings from the general fund. The President's budget proposes to reduce the tax rate back to 0.5 percent (a maximum reduction of $12 per year per employee). This will reduce fund income by $0.6 billion and make it necessary to eliminate the $0.4 billion repayment to the general fund which would take place under present law.

Legislation presently pending before the House Ways and Means Committee would modify the trade adjustment assistance provisions applicable to workers in a manner which would increase the fiscal year 1979 costs of that program by $95 million.

Chart 10

Health Programs: Existing Law

(dollars in billions)

	FY 1978	FY 1979
Medicare trust funds:		
Hospital insurance:		
Income	$18.5	$22.0
Outgo	17.9	21.0
Net increase	+0.6	+1.0
Supplementary medical insurance:		
Income	9.0	9.7
Outgo	7.7	9.1
Net increase	+1.3	+0.7
Federal fund payment to Medicare trust funds	7.2	7.8
Medicaid	10.8	12.0
Maternal and child health	0.4	0.4

Chart 10

Health Programs: Existing Law

MEDICARE

Benefit and administrative outlays under medicare are estimated for fiscal year 1979 at $30 billion. Of this amount, benefit payments account for $28.9 billion. This represents an increase of more than 18 percent over the fiscal year 1978 benefit payments. The primary factor accounting for the increase is inflation in medical care costs.

Hospital insurance expenditures generally account for about 70 percent of the medicare benefit payments. In fiscal year 1979, $22 billion in outlays (including $20.5 billion in benefit outlays) are estimated under part A (hospital insurance). Part B, the supplemental medical insurance program, will account for $9.1 billion (of which $8.4 billion is benefit payments).

Income to the trust funds in fiscal year 1979 is estimated at $31.7 billion, an excess over outlays of $1.7 billion. Federal fund payments to the trust funds for fiscal year 1979 are $7.8 billion.

MEDICAID

Total Federal-State medicaid costs for fiscal year 1979 are projected under present law to be $21.2 billion, of which the Federal share is $12.0 billion. Of the Federal amount, $11.4 billion represents payments for benefits, with the remaining $0.7 billion going for administrative costs. This represents a total increase over the current fiscal year 1978 Federal cost estimate of 12 percent.

States match Federal expenditures under the medicaid program, with total State expenditures accounting for approximately 45 percent of total program costs. In fiscal year 1979 State medicaid costs are estimated to be $9.2 billion, up from $8.3 billion in fiscal year 1978.

MATERNAL AND CHILD HEALTH

The budget includes $377.6 million for the maternal and child health program for fiscal year 1979. Of this amount, $348 million is for formula grants to the States, with the remainder supporting sudden infant death programs and research and training related to maternal and child health. This formula grant request represents an increase of $13 million over the fiscal year 1979 appropriated amount of $335 million.

Chart 11

Medicare Trust Funds Under Present Law

(dollars in billions)

	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Hospital Insurance:					
Income	$22.0	$25.5	$33.2	$38.9	$42.7
Outgo	21.0	24.4	28.3	32.5	37.0
Net increase	+1.0	+1.1	+4.9	+6.4	+5.7
End-of-year assets	12.7	13.7	18.6	25.0	30.7
Supplementary Medical Insurance					
Income	9.7	11.0	12.7	14.6	16.6
Outgo	9.1	10.6	12.2	14.1	16.1
Net increase	+0.7	+0.4	+0.5	+0.5	+0.5
End-of-year assets	4.3	4.7	5.2	5.8	6.3

Chart 11

Medicare Trust Funds—Under Present Law

This chart shows the status of the two medicare trust funds in each of the next 5 fiscal years. The data in this chart are based on current law.

Chart 12

Health Programs: Proposed Changes
(dollars in billions)

	FY1978	FY1978
President's budget:		
MEDICARE:		
Hospital cost containment	*	-$0.6
Other changes	---	*
MEDICAID:		
Child health assessment program	---	+0.3
Coverage of low-income pregnant woman	---	+0.1
Hospital cost containment	*	-0.1
Quality control	---	-0.4
Other changes	---	*

*Less than $0.05 billion

Chart 12

Health Programs: Proposed Changes

Medicare.—The administration proposes, as it did last year, legislation that would limit both the patient-care revenues (from all classes of payors) and capital expenditures of non-Federal, acute-care hospitals. The growth in revenues, including allowed adjustments, wage passthroughs and exceptions, would be limited to 12.1 percent in 1979 and 9.2 percent by 1981. Medicare's expenditures would be reduced by an estimated $0.6 billion in 1979 if the proposal were to be effective for the entire fiscal year.

The staff does not believe that it is realistic to accept 1979 cost containment savings of the magnitude estimated by the administration. In order to achieve substantial revenue reductions in the near futu.e, the proposal would apply the same revenue cap to each hospital, regardless of its individual circumstances and needs.

While expenditure constraints applicable to all hospital care may be adopted by the Congress, it is difficult to anticipate their form, scope, and timing. Any estimate of significant savings in fiscal year 1979 would be unrealistic.

Medicaid.—The administration proposes legislation, which the House Committee on Interstate and Foreign Commerce is now considering, that would expand and improve the early and periodic screening, diagnosis and treatment (EPSDT) program. The proposal would: increase by an estimated 1.7 million the number of eligible children; provide increased matching for health assessments and followup treatment; and emphasize the provision of primary health care through comprehensive health care providers. Outlays under the proposal are estimated to be $0.3 billion above expenditures authorized under present law, in fiscal year 1979.

The budget provides $0.1 billion to extend medicaid eligibility to an estimated 100,000 to 125,000 low-income pregnant women.

The budget contains a reduction of $0.1 billion in fiscal year 1979 as a result of the proposed hospital cost control program, which has been discussed above in the context of medicare. For the reasons presented in that discussion, the staff does not believe that savings of the magnitude proposed in the budget are realistic.

The administration also proposes a new medicaid quality control program which it estimates will reduce costs by $0.4 billion in fiscal year 1979. While most of the new program can be carried out under present law, new legislative authority is sought to establish a firm basis for the program's performance-based incentive payments and penalties.

Chart 13

(dollars in billions)

	FY 1978	FY 1979
Revenue sharing		
General revenue sharing	$6.9	$6.9
Countercyclical revenue sharing:		
Present law	1.5	---
Administration proposed extension	---	1.0
Sugar Act		
Present law	---	---
Changes for Committee consideration:		
Payments	---	+0.3
Revenues	---	(+0.3)
Interest (Committee decisions on deficit and debt limit determine estimate)	48.6	55.4

Chart 13

Revenue Sharing; Sugar Act; Interest on the Public Debt

GENERAL AND COUNTERCYCLICAL REVENUE SHARING

General revenue sharing has become a central feature of the Federal Government's efforts to assist State and local governments. In 1976, the Congress approved legislation to extend this program through September 30, 1980. Under this program, provision has been made for outlays in each of the fiscal years 1978 and 1979 of $6.9 billion. One-third of these amounts is distributed to State governments and two-thirds to local governments. Since the inception of this program total payments of $36.9 billion have been made to these governments, covering calendar years 1972 through 1977.

Countercyclical revenue sharing, approved in July 1976 and extended through September 30, 1978 by the Intergovernmental Anti-Recession Assistance Act, provides for outlays in fiscal year 1978 of $1.5 billion. Under this program funds are distributed to State and local governments with high unemployment (exceeding 4.5 percent) when the national unemployment rate for the two preceding quarters exceeds 6 percent. As in the general revenue sharing program, one-third of such amounts is paid to State governments and the remainder is distributed to local units of general government. The four American territories of Puerto Rico, the American Virgin Islands, Guam, and American Samoa are also entitled to funds under this program. The administration has proposed that this program be extended through fiscal year 1979. This would require outlays of an additional $1.0 billion for fiscal year 1979.

SUGAR ACT

The Sugar Act expired on December 31, 1974. In fiscal year 1975, the last fiscal year the program was in effect, $86 million was appropriated to cover Sugar Act program payments for the 1974 crop year. For the fiscal year ending June 30, 1975, at which time the excise tax on sugar was terminated, $103.8 million in sugar excise taxes were collected.

Legislation now in effect provides for a domestic price support program for sugar through December 31, 1978. A tariff and supplemental fee, imposed under Presidential proclamation, supplement the price support program. The International Sugar Agreement, which is now before the Senate for its advice and consent, would require implementing legislation within the jurisdiction of the committee. If a sugar program were to be reinstated after 1978, an excise tax or tariff on sugar would yield sufficient revenues to offset any program payments. If the committee expects to act on the sugar program this year, an estimate of the necessary appropriation should be included in the committee's budget recommendation.

INTEREST ON THE PUBLIC DEBT

Budget outlays for interest on public debt are estimated in the President's budget to rise from $48.6 billion in fiscal year 1978 to a level of $55.4 billion in fiscal year 1979. These projected increases result from the financing of budget deficits for each of these years and from Federal borrowing to finance off-budget Federal entities. When the committee has completed its decisions on revenues, expenditures, and the budget deficit, the appropriate interest figures can be calculated.

Chart 14

Revenues: Present Law
(dollars in billions)

	FY 1978	FY 1979
Individual income tax	$180.5	$221.2
Corporation income tax	59.5	70.0
Social insurance taxes	124.1	142.5
Excise taxes	18.3	18.7
Estate and gift taxes	5.6	6.1
Customs duties	5.8	6.4
Other revenues	6.9	7.4
TOTAL	400.7	472.2

Chart 14

Revenues: Present Law

Federal revenues are in large part composed of receipts from income and payroll taxes. The administration budget estimates that in fiscal year 1978, these revenues will yield a total of $400.7 billion under present law. For fiscal year 1979, the administration budget projects a revenue yield of $472.2 billion under present law.

Income taxes paid by individuals are estimated to amount to $221.2 billion for fiscal year 1979. Revenues from this source, which account for the largest single source of Federal revenues, will amount to 46.8 percent of total Federal revenues.

Income taxes paid by corporations are estimated at $70.0 billion for fiscal year 1979.

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 $142.5 billion. Receipts from these sources will account for approximately 30.2 percent of total Federal revenues.

Excise taxes imposed on selected commodities, services, and activities are expected to provide $18.7 billion during fiscal year 1979.

Estate and gift taxes imposed on the value of property held at death and inter vivos transfers of property are projected to produce $6.1 billion.

Customs duties, levied on imports are anticipated to raise $6.4 billion.

Other taxes and miscellaneous receipts are expected to total $7.4 billion.

Tax Reduction Proposals
(dollars in billions)

	FY 1979	FY 1983
President's budget:		
Individual income tax	-$22.5	-$38.5
Corporate income tax rates	-4.0	-10.3
Investment tax credit	-2.4	-2.5
Excise and unemployment taxes	-1.6	-1.1
Subtotal	-30.5	-52.4
Reductions approved by the Committee or the Senate:		
Higher education tax credit	-1.2	-1.3
Tax Treatment Extension Act (H.R. 9251) including change in taxation of income earned abroad	-0.3	-0.2
Technical Corrections Act (H.R. 6715) and minor revenue bills–including deferral of carry-over basis for estate tax purposes	-0.1	-0.1
Allowance for future action on minor revenue bills	-0.1	

Chart 15

Tax Reduction Proposals

The administration has proposed a number of tax reductions, generally to be effective October 1, 1978. These proposals are intended to provide additional economic stimulus to spur economic recovery.

Individual income taxes, under the administration's proposals, would be cut by reducing tax rates from the current range of 14 percent to 70 percent to 12 percent to 68 percent. Also, the substitution of a $240 per person tax credit in lieu of the current general tax credit and personal exemption deduction of $750 would provide an additional tax reduction for most taxpayers. The break-even income level for a family of four would be $20,200—i.e. those families of four with income levels above that amount will be subject to a tax increase under the proposed change. The earned income credit would be extended in its current form through calendar year 1981, at which time the administration proposes that the credit be expanded as part of its welfare reform proposal. For fiscal year 1979, these changes together will reduce revenues by $22.5 billion.

A stimulus for business taxpayers has been proposed by the administration in the form of tax rate reductions and liberalization of the investment tax credit. The corporation income tax rate would be reduced effective October 1, 1978, from 20 percent to 18 percent on the first $25,000 of corporate income, from 22 percent to 20 percent on the second $25,000, and from 48 percent to 45 percent on income above $50,000. Effective January 1, 1980, the maximum corporate rate would be reduced to 44 percent. Revenues would be reduced by $4.0 billion under these proposed changes.

The investment tax credit, which currently applies only to equipment, would be extended to utility and industrial structures and certain pollution abatement facilities (retroactively to January 1, 1978) and made permanent at the current 10 percent rate. The credit would be allowed to offset up to 90 percent of the tax liability otherwise owed. Currently, the limit is 100 percent of the first $25,000 of tax liability and 50 percent of liabiilty above $25,000. The investment tax credit liberalization would also affect individual income taxes on business income. This proposal would reduce fiscal year 1979 revenues by $2.4 billion.

The administration has also proposed repeal of the excise tax on telephone services and a reduction in Federal unemployment insurance tax rates. Repeal of the excise tax on telephone services would be effective October 1, 1978. Under current law, this tax is scheduled to decline from 4 percent to 3 percent on January 1, 1979, and is phased out at the rate of one percentage point per year. This proposal would reduce receipts by $1.0 billion in both fiscal years 1979 and 1980.

The Federal unemployment insurance tax rate would be cut from 0.7 percent to 0.5 percent as of January 1, 1979, under an administration proposal. This tax finances the administrative expenses of the Unemployment Insurance Service and the Federal State Employment Service as well as the Federal share of extended unemployment benefits paid when unemployment reaches high levels. This proposal to reduce employer payroll costs would cut receipts by $0.6 billion in 1979 and $0.9 billion in 1980.

A number of tax changes have been approved by the Finance Committee or the Senate. A $250 refundable tax credit for tuition paid for post-secondary education was approved as a Senate amendment to H.R. 9346, the Social Security Financing Amendments of 1977. This provision would result in a revenue loss of $1.2 billion for fiscal year 1979 and $1.3 billion for fiscal year 1983.

The committee has ordered favorably reported H.R. 9251, the tax treatment extensions bill of 1977, which includes a change in the taxation of income earned abroad. This measure calls for a reduction in receipts of $0.3 billion for fiscal year 1979 and $0.2 billion for fiscal year 1983. In addition, the committee has also approved H.R. 6715, the Technical Corrections Act of 1977, which includes a 3-year deferral of carryover basis for estate tax purposes. This bill will result in a revenue loss of $0.1 billion for fiscal years 1979 and 1983.

A number of additional tax proposals have been introduced by various members of the committee. These measures range from alternative tax reduction measures which could reduce receipts by up to $35 billion to a host of minor tax changes which would cut revenues by less than $10 million. Included in this group of proposed tax changes are such items as deductions for limited individual retirement accounts, a reduction in the private foundation excise tax, cost-of-living adjustments for individual and corporate tax rates and IRA contributions, exclusion of interest income on certain education bonds, a tax credit for certain social security payments, revision of the tax rates for heads of household, a tax credit for political contributions, a deduction for employee education programs, a revision of the tax treatment of tip income, a tax checkoff for contributions to support U.S. Olympic teams, a revision in the tax treatment of connection fees paid to electric and gas utilities, a proposal to increase the personal exemption to $1,000 proposals to reduce social security taxes, an exemption for certain agricultural aircraft from the aircraft use tax and gasoline tax, and various measures to delay or repeal various Revenue Rulings and IRS regulations.

Chart 16

Tax Increase Proposals
(dollars in billions)

	FY 1979	FY 1983
President's budget:		
Individual taxes:		
Itemized deductions	$4.1	$9.2
Business-related deductions	*	1.0
Entertainment and travel	0.7	2.0
Employee benefits	0.2	0.3
Corporate deductions	0.5	3.3
Taxable bond option and industrial development bonds	*	1.7
Total	5.5	17.5

*Less than $0.05 billion.

Chart 16

Tax Increase Proposals

The administration has proposed a number of tax changes that will increase receipts for fiscal year 1979 and subsequent years. In the case of individuals, the itemized deductions currently allowed for State and local sales, gasoline, personal property and miscellaneous taxes would be eliminated. This would increase revenues by $2.7 billion for fiscal year 1979 and $4.3 billion for fiscal year 1980. The separate deductions for medical expenses and uninsured casualty losses would be combined and converted into a new "extraordinary expense" deduction available only to the extent that these items together exceed 10 percent of adjusted gross income. This provision would increase fiscal year 1979 revenues by $1.3 billion. In addition, the administration has proposed that the alternative tax of 25 percent on up to $50,000 of capital gains be eliminated.

In the case of individuals, the deductions for half of regular taxes paid would be eliminated in computing liability for minimum tax. Currently, individuals may deduct the greater of $10,000 or half of regular taxes paid. Also a further restriction on tax shelter investments has been proposed. Accelerated depreciation on investments for real estate would be eliminated or limited. Certain limited partnerships would be taxed as corporations. Interest currently being accrued on large annuity contracts would be taxed. The deductibility of losses associated with certain investments would be restricted to amounts that taxpayers have invested or which they have at risk.

Under the administration's proposed tax changes individuals will no longer be able to deduct the cost of tickets for theater and sporting events as business expenses. No deduction would be allowed for the costs of maintaining yachts, hunting lodges or swimming pools and fees paid to social, athletic or sporting clubs would not be deductible as business expenses. In addition, the expenses of attending a foreign convention would be deductible only where the purpose and membership of the sponsor make it reasonable to hold the convention outside the United States.

The administration has also proposed a revision in the manner in which private pension plans are integrated with social security, repealing the $5,000 exclusion for death benefits paid by an employer, imposing additional rules on group-term life insurance and health and disability plans to restrict more favorable coverage for officers, shareholders or highly paid employees than rank and file employees, and including unemployment compensation benefits in the adjusted gross income of single taxpayers with incomes above $20,000 and married couples filing joint returns with incomes above $25,000. These provisions would increase revenues for fiscal year 1979 by $0.2 billion.

In the case of businesses, the administration has proposed phasing out the tax benefits for Domestic International Sales Corporations (DISC), by one third in calendar year 1979, two-thirds in 1980 and 100 percent thereafter. This proposal would increase revenues for fiscal year 1979 by $200 million. Tax deferral for the income of foreign subsidiaries of U.S. corporations controlled by U.S. taxpayers would also be phased out over 3 years.

A number of business related deductions for Corporations will also be eliminated or reduced under the administration's proposal. The deductions for business meals would be reduced by 50 percent. Business deductions for tickets to entertainment events, membership dues in clubs, and the excess of first class air tickets over the cost of coach or second class tickets would be disallowed. For businesses and individuals, these changes would increase revenues by $0.7 billion for fiscal year 1979.

Another administration proposal involves phasing in taxation of credit unions on a basis comparable to savings and loan institutions and mutual savings banks, repealing the special bad debt allowance for commercial banks, and reducing that allowance for thrift institutions.

The administration has proposed that State and local governments be granted the option of issuing taxable bonds with a Federal interest subsidy to be paid in place of the benefit of using the conventional tax exemption for reducing interest costs. The subsidy, which would be an outlay, would be 35 percent in 1979 and 1980 and 40 percent thereafter. In addition, the tax exemption would be removed for interest on pollution control bonds, bonds for the development of industrial parks, and private hospital bonds. The existing small issue exemption would be retained only for economically distressed areas and would be increased from $5 million to $10 million.

Chart 17

Energy Tax Legislation
(dollars in billions)

	FISCAL YEAR 1979	
	House bill	Senate bill
Crude oil tax	$5.2	---
Tax refunds and rebates	-1.4	-$2.9
Oil and gas user tax	*	---
Transportation provisions	0.9	*
Conservation, conversion, and production tax credits	-0.8	-2.2
Total	3.9	-5.1

*Less than $0.05 billion.

Chart 17

Energy Tax Legislation

In April of 1977, the President proposed an energy program which included tax provisions with major revenue effects. The tax aspects of the program were passed by the Senate after the Finance Committee's consideration. The energy tax bill is now in conference; its major provisions are summarized below.

Crude oil equalization tax.—The House bill would impose a tax on the first buyer of crude oil. The tax would be phased in over three years to bring the price of crude oil to the current world market price.

The Senate bill contains no similar provision.

Tax refunds and rebates.—The House bill would provide special payments and a per taxpayer rebate of some of the crude oil equalization tax. In addition, the House bill would refund to homeowners, schools, hospitals, and churches the crude oil equalization tax on heating oil they use.

The Senate bill would provide an increased energy cost credit for the elderly, a credit for increased residential energy costs attributable to imported oil, a credit for home heating oil costs, and a credit for home propane costs.

Oil and gas user tax.—Both energy tax bills in conference would tax the business use of oil and gas above a certain minimum use. Both bills would provide a rebate for qualified investments in energy conversion on conservation equipment. The House bill would have broader application and would be phased in more quickly than the Senate version.

Transportation provisions.—The House bill would apply a tax on the purchase of fuel-inefficient automobiles. It would also repeal the income tax deductions for State and local tax paid on gasoline. The House bill also contains minor changes in excise taxes on motorboat fuel and buses.

In its transportation provisions, the Senate bill contains minor changes in excise taxes on motorboat fuel and buses.

Conservation, conversion, and production tax credits.—Both House and Senate bills contain credits for residential expenditures on energy-saving materials and renewable energy equipment (solar and wind equipment, for example). The bills would change the treatment of intangible drilling costs for purposes of the minimum tax. Both bills also contain increased business investment tax credits for energy-conserving equipment.

The Senate bill's investment tax credit increases are broader and at a higher rate than the House bill's. The Senate bill would also provide production credits for shale oil, tar sands, and geopressurized methane gas.

Chart 18

Tax Expenditures: Present Law
(dollars in billions)

	FY 1978	FY 1979
Commerce and housing credit	$51.2	$56.2
Income security	26.2	28.8
General purpose fiscal assistance	14.4	16.0
Education, training, employment, and social services	10.8	11.2
Health	9.8	11.0
Energy	2.7	2.9
International affairs	2.1	2.4
Other tax expenditures	7.1	7.7

Chart 18

Tax Expenditures: Present Law

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. The table containing the estimates presented by the administration as a special analysis in the 1979 budget is reproduced in appendix C.

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 two columns were added, they would total $124.4 billion in fiscal year 1978 and $136.2 billion in fiscal year 1979. However, the separate items, even in functional categories, should not be simply added because the revenue estimates are made with the assumption that no other changes would be made by the taxpayer if the one item were to 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, repeal of a tax expenditure provision could affect their tax liabilities through movement into higher tax brackets or shifts to the standard deduction.

Chart 19

Debt Limit
(dollars in billions)

Temporary debt limit through March 31, 1978	$752.0
Administration estimate of debt subject to limit Sept. 30, 1978	777.9
Plus:	
Federal funds deficit for F.Y 1979	74.5
Off-budget agency spending financed by Treasury and other financing	15.1
Equals:	
Debt subject to limit Sept. 30, 1979	867.5

Chart 19

Debt Limit

Under existing law the debt limit is $752 billion until March 31, 1978. The temporary debt limit expires March 31, 1978. In the absence of further legislation, the debt ceiling would decline on that date to its permanent level of $400 billion.

For fiscal year 1979 the administration assumes that the debt subject to limit would reach $867.5 billion on September 30, 1979. Underlying these estimates are the legislative proposals which the President submitted to Congress, or indicated he will submit, in the budget for fiscal year 1979. In addition, the fiscal year 1979 needs include issue of debt by the Federal Financing Bank under the debt limit on behalf of various agency programs and several agencies whose activities are not included within budget totals.

APPENDIX A

Committee on Finance 1977 Report to the Budget Committee With Respect to Fiscal Year 1978

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., March 4, 1977.

HON. EDMUND S. MUSKIE,
Chairman, Budget Committee, U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: The Committee on Finance met in executive session during the week of February 28th to give thorough consideration to those aspects of the Federal budget for fiscal year 1978 which fall within the committee's jurisdiction. This letter transmits the views and estimates of the Committee on Finance as is required by section 301(c) of the Congressional Budget Act of 1974.

Economic assumptions.—Many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on page 10 of the February 22, 1978 budget revisions document (the Carter budget). For purposes of the first concurrent resolution on the budget, the Finance Committee has accepted these assumptions.

While the President's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are other alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in some of the revenue and outlay estimates under present law.

Expenditure programs.—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures approaching one-half of the entire Federal budget. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include medicare, medicaid, and maternal and child health, as well as national health insurance proposals. Other programs within the committee's jurisdiction which involve expenditure of Federal funds include social services, revenue sharing, and payments under the Sugar Act. Interest on the public debt, which on a gross basis will account for some $47 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in table 1 should be allowed in the concurrent budget resolution for these programs. The Finance Committee estimates involve outlays for fiscal year 1978 which are $1.4 billion higher than the outlays estimated in the Carter budget as printed.

TABLE 1.—FISCAL YEAR 1978 BUDGET AUTHORITY AND OUTLAYS UNDER FINANCE COMMITTEE JURISDICTION

[In billions of dollars]

Functional category	Budget authority	Outlays
350 Agriculture	0	0
New legislation	(+.1)	(+.1)
500 Education, manpower, and social services	3.5	3.5
New legislation	(+1.0)	(+1.0)
550 Health	40.8	38.2
New legislation [1]	([2])	(−.6)
600 Income security	117.0	119.0
New legislation [1]	(−.1)	(−.5)
850 Revenue sharing	7.0	7.0
New legislation	(+1.6)	(+1.6)
900 Interest [3]	47.1	47.1
New legislation	(+.1)	(+.1)

[1] Includes the allowances for savings proposed in the Carter budget related to (1) reduction of low-priority social security cash benefit payments, and (2) hospital reimbursement cost controls. Though it may be optimistic to assume achievement of these savings, the committee recommends acceptance of the Carter estimates as a goal at this time.

[2] Less than $50,000,000.

[3] After deducting offsets, net interest is $41,900,000,000.

Agriculture.—The only program within the Finance Committee's jurisdiction in this functional category is the Sugar Act. That act expired at the end of December 1974 and no payments to sugar growers were made for crop years after 1974. The amount shown for new legislation will permit renewal of the Sugar Act if such action becomes necessary. In the past, the excise tax on sugar (which has also expired) has produced revenues which exceed the cost of the payments to sugar growers. The Finance Committee revenue estimates also allow for renewal of the sugar excise taxes, so that taken together, renewal of the payments and the excise tax would reduce the budget deficit slightly.

Education, Manpower, and Social Services.—A variety of Finance Committee programs fall within the social services budget function. In fiscal year 1977 an additional $0.2 billion was provided for child care under the social services program; President Carter has recommended an extension of this additional child care funding. The committee believes that, in considering legislation dealing with the title XX program and other services programs, the Congress may decide to provide somewhat higher levels of additional funding. In addition, the committee may wish to propose changes in and increased appropriations for the work incentive (WIN) program. The committee notes that increased funding for the WIN program has a potential for reducing overall Federal spending by allowing welfare recipients to attain self-sufficiency. Overall, the committee recommends that the congressional budget resolution for fiscal 1978 allow for $1.0 billion of new legislation in the area of social service programs within its jurisdiction.

Health.—The Committee on Finance has jurisdiction over the medicare, medicaid, and maternal and child health programs. The budget revisions submitted by President Carter assume that substantial cost savings in these programs can be achieved through new legislative changes which have not yet been proposed in any detail. While the Committee on Finance cannot realistically evaluate the savings to be achieved until it has had an opportunity to examine those proposals in detail, it recommends for budget purposes that the President's commitment in this area be accepted. Moreover, the committee believes that, whether or not such new legislation can be developed, there may be substantial possibilities for cost reductions through vigorous administration of existing statutes. The President's budget also recommends certain changes in health programs which would result in increased costs. While the committee reserves judgement on the merits of the particular proposals, it does believe that Congress may wish to make some improvements in these programs which will offset some of the savings achieved through cost controls. Accordingly the committee recommends that the budget resolution assume legislative changes involving a net reduction in health function spending of $0.6 billion.

Income security.—The committee estimate for new legislation under the income security category represents a net figure of both savings and additional benefits in the various cash benefit programs under the jurisdiction of the Committee on Finance. (These programs are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation.) As with the health function, the committee notes that the President's budget assumes substantial cost reductions in the social security programs. While the committee believes that those budget assumptions may present an optimistic estimate of the savings that can be achieved, it recommends acceptance of those estimates as a goal at this time. The committee will closely consider the President's recommendations, as well as alternative means of reducing costs. The committee may also wish to recommend some benefit improvements, and the estimate for this function incorporates an allowance for that purpose. The committee estimates also reflect an expectation that ways can be found to reduce the cost of any legislation extending the emergency unemployment compensation program below the levels proposed in the President's budget. In summary, the committee recommendations in the income security area under proposed legislation represent a net reduction of $0.1 billion below the Carter budget.

In this function, the estimates of the committee also include an assumption that the present law costs of the social security cash benefits programs will be higher than those shown in the President's budget. The President's budget assumed a 4.9 percent increase in social security benefits in June under the automatic cost-of-living provisions. It now appears certain that the increase will be higher than that percentage; the $0.5 billion increase recommended by the committee above the Carter budget reflects a more realistic estimate of benefit costs under existing law.

Revenue sharing and general purpose fiscal assistance.—This function of the budget includes general revenue sharing, countercyclical revenue sharing, and certain other items such as payments to Puerto Rico of amounts equal to certain tax collections. The committee recommends that the budget resolution allow for increases in this category in fiscal year 1978 of $1.6 billion.

Interest.—The interest function in the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The committee estimates that present law, as modified by legislative proposals of President Carter not within this committee's jurisdiction, will involve gross interest on the public debt of $46.8 billion. The committee also estimates that the increased deficit resulting from the revenue and outlay recommendations in this letter would increase that interest by a further $0.1 billion.

TABLE 2.—FISCAL YEAR 1978 FINANCE COMMITTEE REVENUE ESTIMATES

(In billions of dollars)

Present law	416.2
Allowance for legislation (net)	−17.7
Present law and legislation	398.5

Revenues.—Virtually all revenues of the Federal Government fall within the jurisdiction of the Committee on Finance. The different types of revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

President Carter's budget for fiscal 1978 proposes revenue reductions of $15.8 billion. Legislation reported by the House Committee on Ways and Means would increase this proposal to $16.9 billion. The Committee on Finance believes that the Senate may wish to provide somewhat larger overall tax reductions. The committee recommends that the budget resolution allow for a net reduction in revenues in fiscal year 1978 of $17.7 billion. The Finance Committee may wish to propose legislation providing reductions in excess of this amount, but, if it does so, it will undertake to propose at the same time other offsetting changes.

The revenue estimate of the Finance Committee includes an assumption that, if it becomes necessary to reenact the Sugar Act, the committee will propose a renewal of the sugar excise tax which would offset any payments under the act to growers. The estimate also includes an allowance of $0.1 billion to cover minor tax and tariff legislation. The committee notes that the practice of setting a budget resolution revenue total at exactly the level of expected revenues results in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essentially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

The Committee on Finance urges that the existing practice under the Congressional Budget Act of treating refundable tax credits as revenue reductions be continued. The Congress has repeatedly dealt with such credits as an integral part of tax provisions. Treating them as outlays in the budget resolution would be inconsistent with the manner in which Congress actually deals with them. It would not in any way change their budgetary impact or make that impact more understandable. And such a change would unnecessarily create procedural barriers to the consideration of revenue measures, including some revenues measures not directly affecting refundable credit provisions.

In recommending specific amounts for revenue reductions and outlays, the committee recognizes that the Senate will be considering alternative proposals to stimulate the economy—and that these proposals, while keeping within the same overall budgetary impact, may well involve larger net revenue reductions and smaller outlays than have been included within the various budgetary categories. Similarly, alternative proposals may involve the same budgetary impact in the 2-year period 1977–78, but reduce the impact in 1977 while increasing it in 1978.

Budget deficit.—Table 3 shows the overall budgetary impact of the recommendations of the Committee on Finance concerning the fiscal year 1978 congressional budget resolution.

TABLE 3.—BUDGETARY IMPACT OF FINANCE COMMITTEE RECOMMENDATIONS

[In billions of dollars]

	Revenues	Outlays	Deficit
Present law [1]	416.2	458.3	−42.0
Carter budget [2]	400.4	458.5	−58.1
Finance Committee recommendation	398.5	459.8	−61.3

[1] Present law outlays as shown in this table include the impact of legislative proposals in the Carter budget which are not within the jurisdiction of the Finance Committee.

[2] Carter budget totals are shown after adjustment to show the refundable portion of the earned income credit as a revenue reduction rather than as an outlay. Also, the present law amount of that item has been adjusted to reflect a revised estimate.

Public Debt Limit.—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $682 billion. This limit will increase to $700 billion after March 31. It is expected that a further increase will be necessary prior to the end of fiscal year 1977. As of September 30, 1977, the debt subject to limit is estimated under the Carter budget to reach $718 billion. The projected deficit for fiscal 1978 would further increase the debt subject to limit to a level of $798 billion under the recommendations of the Committee on Finance contained in this letter. Except for those recommendations, this estimate is computed on the basis of the Carter budget. The Budget Committee may, therefore, find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the Carter budget for programs not within the jurisdiction of the Committee on Finance.

TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES

(In billions of dollars)

Debt subject to limit as of September 30, 1977	718
Plus:	
Federal funds deficit for fiscal year 1978	71
Off-budget agency spending financed by Treasury and other financing	9
Equals: Debt subject to limit as of September 30, 1978	798

Tax expenditures.—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the committee feels that the only way in which it can comply with the Budget Acts requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated. In doing so, however, the committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee accepts at face value the tax expenditure listing included in Special Analysis F of the President's budget. However, the committee notes that certain additional items are considered by some persons to be tax expenditures and should therefore be added to the list shown in the President's budget. These additional items are shown in table 5 below:

TABLE 5.—ADDITIONAL TAX EXPENDITURE ITEMS

[In millions of dollars]

	Fiscal year 1977	Fiscal year 1978
Earned income credit[1]	1,145	1,141
Deferred income of controlled foreign corporations	410	410
Taxation of capital gains at death	7,280	8,120
Asset depreciation range	1,805	2,020

[1] The amounts shown here represent the refundable portion of the earned income credit. The nonrefundable portion is included in the administration's analysis.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

RUSSELL B. LONG,
Chairman.

APPENDIX B

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.

* * * * * * *

APPENDIX C

Tax Expenditures by Function
(Excerpt From the Special Analyses of the Budget of the United States, pages 158–160)

Table G-1. TAX EXPENDITURE ESTIMATES BY FUNCTION [1]

(In millions of dollars)

Description	Corporations 1977	Corporations 1978	Corporations 1979	Individuals 1977	Individuals 1978	Individuals 1979
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel	......	......	......	1,095	1,260	1,370
Exclusion of military disability pensions	......	......	......	105	115	120
International affairs:						
Exclusion of income earned abroad by U.S. citizens	......	......	......	545	360	385
Deferral of income of domestic international sales corporations (DISC)	945	1,135	1,335	......	......	......
Deferral of income of controlled foreign corporations	570	615	665	......	......	......
Special rate for Western Hemisphere trade corporations	35	25	15	......	......	......
General science, space, and technology:						
Expensing of research and development expenditures	1,395	1,450	1,520	30	30	30
Energy:						
Expensing of exploration and development costs	820	885	965	210	300	300
Excess of percentage over cost depletion	1,090	1,120	1,210	305	340	370
Capital gains treatment of royalties on coal	10	15	15	45	50	60
Natural resources and environment:						
Exclusion of interest on State and local government pollution control bonds	170	220	265	85	110	130
Exclusion of payments in aid of construction of water and sewage utilities	15	10	10	......	......	......
5-yr amortization on pollution control facilities	−80	−130	−45	......	......	......
Tax incentives for preservation of historic structures	......	......	5	......	......	5
Capital gains treatment of certain timber income	185	205	230	55	60	65
Capital gains treatment of iron ore	5	5	10	5	5	10
Agriculture:						
Expensing of certain capital outlays	80	70	75	375	445	460
Capital gains treatment of certain ordinary income	10	10	10	330	350	365
Deductibility of noncash patronage dividends and certain other items of cooperatives	455	490	525	−165	−175	−185
Commerce and housing credit:						
Dividend exclusion	......	......	......	450	475	505
Exclusion of interest on State and local industrial development bonds	195	235	270	95	115	135
Exemption of credit union income	70	80	90	......	......	......
Excess bad debt reserves of financial institutions	535	705	790	......	......	......
Deductibility of mortgage interest on owner-occupied homes	......	......	......	4,490	4,985	5,530
Deductibility of property tax on owner-occupied homes	......	......	......	4,205	4,665	5,180
Deductibility of interest on consumer credit	......	......	......	1,785	2,120	2,350
Expensing of construction period interest and taxes	475	500	525	150	140	90
Excess first-year depreciation	45	45	50	140	145	155
Depreciation on rental housing in excess of straightline	80	70	70	320	300	290

See footnote at end of table.

Table G-1. TAX EXPENDITURE ESTIMATES BY FUNCTION[1]—Continued

(In millions of dollars)

Description	Corporations			Individuals		
	1977	1978	1979	1977	1978	1979
Commerce and housing credit—Continued						
Depreciation on buildings (other than rental housing) in excess of straight line	160	140	130	140	125	115
Asset depreciation range	1,955	2,245	2,640	100	115	135
Capital gains (other than farming, timber, iron ore, and coal)	520	540	575	6,910	7,430	7,990
Deferral of capital gains on home sales	------	------	------	890	935	980
Capital gains at death	------	------	------	7,280	8,120	8,975
Corporate surtax exemption	3,875	3,885	3,540	------	------	------
Investment credit	8,880	10,735	12,320	2,075	2,390	2,725
Credit for purchase of new homes	------	------	------	100	------	------
Transportation:						
Deductibility of nonbusiness State gasoline taxes	------	------	------	685	760	840
5-yr amortization on railroad rolling stock	−35	−40	−40	------	------	------
Deferral of tax on shipping companies	130	105	85	------	------	------
Community and regional development: 5-yr amortization for housing rehabilitation	10	5	5	15	10	5
Education, training, employment, and social services:						
Exclusion of scholarship and fellowship income	------	------	------	245	295	330
Parental personal exemption for students age 19 or over	------	------	------	750	770	790
Exclusion of employee meals and lodging (other than military)	------	------	------	280	300	325
Exclusion of contributions to prepaid legal services plans	------	------	------	5	10	15
Investment credit for employee stock ownership plans (ESOPs)	245	255	305	------	------	------
Deductibility of charitable contributions (education)	235	255	285	525	585	645
Deductibility of charitable contributions to other than education and health	290	315	350	3,935	4,370	4,855
Maximum tax on personal service income	------	------	------	555	665	800
Credit for child and dependent care expenses	------	------	------	475	525	575
Credit for employment of AFDC recipients and public assistance recipients under work-incentive programs	15	15	20	------	------	------
Jobs credit	565	1,475	1,035	125	985	860
Health:						
Exclusion of employer contributions for medical insurance premiums and medical care	------	------	------	5,560	6,340	7,225
Deductibility of medical expenses	------	------	------	2,230	2,435	2,655
Expensing of removal of architectural and transportation barriers to the handicapped	5	10	10	------	------	------
Deductibility of charitable contributions (health)	145	160	175	790	875	970
Income security:						
Exclusion of social security benefits:						
Disability insurance benefits	------	------	------	470	550	605
OASI benefits for retired workers	------	------	------	3,790	4,210	4,700
Benefits for dependents and survivors	------	------	------	860	950	1,040
Exclusion of railroad retirement system benefits	------	------	------	250	265	280

See footnote at end of table.

Table G-1. TAX EXPENDITURE ESTIMATES BY FUNCTION[1]—Continued

(In millions of dollars)

Description	Corporations			Individuals		
	1977	1978	1979	1977	1978	1979
Income security—Continued						
Exclusion of workmen's compensation benefits	------	------	------	720	835	970
Exclusion of special benefits for disabled coal miners	------	------	------	50	50	50
Exclusion of unemployment insurance benefits	------	------	------	1,500	1,200	1,135
Exclusion of public assistance benefits	------	------	------	330	345	360
Exclusion of sick pay	------	------	------	110	75	60
Net exclusion of pension contributions and earnings:						
Employer plans	------	------	------	8,715	9,940	11,335
Plans for self-employed and others	------	------	------	1,390	1,650	1,920
Exclusion of other employee benefits:						
Premiums on group term life insurance	------	------	------	860	905	955
Premiums on accident and disability insurance	------	------	------	70	75	80
Income of trusts to finance supplementary unemployment benefits	------	------	------	10	10	10
Exclusion of interest on life insurance savings	------	------	------	1,850	2,025	2,225
Exclusion of capital gains on home sales for persons age 65 and over	------	------	------	40	70	70
Additional exemption for elderly	------	------	------	1,140	1,155	1,215
Additional exemption for the blind	------	------	------	20	20	20
Excess of percentage standard deduction over minimum standard deduction	------	------	------	530	------	------
Deductibility of casualty losses	------	------	------	320	360	395
Tax credit for the elderly	------	------	------	230	250	255
Earned income credit:						
Nonrefundable portion	------	------	------	365	285	265
Refundable portion	------	------	------	900	945	900
Veterans benefits and services:						
Exclusion of veterans disability compensation	------	------	------	745	840	830
Exclusion of veterans pensions	------	------	------	35	40	40
Exclusion of GI bill benefits	------	------	------	260	200	170
General government: Credits and deductions for political contributions	------	------	------	85	60	75
General purpose fiscal assistance:						
Exclusion of interest on general purpose State and local debt	3,105	3,470	3,865	1,725	1,925	2,150
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)	------	------	------	7,660	8,505	9,440
Tax credit for corporations doing business in U.S. possessions	450	485	520	------	------	------
Interest: Deferral of interest on savings bonds	------	------	------	585	625	670
MEMORANDUM						
Combined effect of provisions disaggregated above:						
Capital gains	730	775	840	15,555	17,020	18,515
Exclusion of interest on State and local debt	3,470	3,925	4,400	1,905	2,150	2,415
Deductibility of State and local nonbusiness taxes	------	------	------	11,105	12,325	13,680
Deductibility of charitable contributions	670	730	810	5,250	5,830	6,470

[1] All estimates are based on the tax code as of Dec. 31, 1977.

APPENDIX D

Revenue Impact of Prior Tax Reform Bills

Revenue Impact of Prior Tax Reform Bills

Historically, when the Senate passes a revenue bill it loses more revenue than the House bill. Usually the Senate cuts down on the tax increase provisions in House bills while adding to the tax reduction provisions, as shown below.

[In billions of dollars]

	House	Senate	Difference
1964 Revenue Act (calendar year 1965 liabilities):			
Revenue raising provisions	1.1	0.7	−0.4
Revenue reducing provisions (other than across-the-board rate reductions)	−.5	−.8	−.3
1969 Tax Reform Act (calendar year 1970 liability):			
Revenue raising provisions (other than across-the-board surtax extension)	4.2	2.6	−1.6
Revenue reducing provisions	−1.9	−4.0	−2.1
1971 Revenue Act (calendar year 1972 liability): Revenue reducing provisions	−7.8	−13.4	−5.6
1975 Tax Reduction Act (calendar year 1975 liability):			
Revenue reducing provisions	−19.8	−34.3	−14.5
Revenue raising provisions	2.2	3.7	+1.5
Net effect, 1975 act	−17.6	−30.6	−13.0
1976 Tax Reform Act (fiscal year 1977 revenues):[1]			
Revenue raising provisions	2.7	2.5	−.2
Revenue reducing provisions	−2.0	−1.6	−.4
1977 Tax Reduction and Simplification Act:			
Revenue reducing provisions:			
Fiscal year 1977	−12.6	−3.2	+9.4
Fiscal year 1978	−17.4	−20.1	−2.7

[1] Tax reform provisions only.

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