

1 EXECUTIVE COMMITTEE MEETING

2 THURSDAY, JUNE 19, 1997

3 U.S. Senate,

4 Committee on Finance,

5 Washington, DC.



6 The meeting was convened, pursuant to notice, at  
7 10:25 a.m., in room SH-216, Hart Senate Office Building,  
8 Hon. William V. Roth, Jr. (Chairman of the Committee)  
9 presiding.

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10 Also present: Senators Chafee, Grassley, Hatch,  
11 D'Amato, Murkowski, Nickles, Gramm, Lott, Jeffords, Mack,  
12 Moynihan, Baucus, Rockefeller, Breaux, Conrad, Graham,  
13 Moseley-Braun, Bryan and Kerrey.

14 Also present: Lindy L. Paull, Staff Director and  
15 Chief Counsel; Mark A. Patterson, Minority Staff Director  
16 and Chief Counsel.

17 Also present: Donald Lubick, Assistant Secretary for  
18 Tax Policy, Department of Treasury; Ken Kies, Staff  
19 Director, Joint Committee on Taxation; Mark Prater, Chief  
20 Tax Counsel.

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1 OPENING STATEMENT OF THE HON. WILLIAM V. ROTH, JR., A  
2 U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON  
3 FINANCE  
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5 The Chairman. The committee will please be in  
6 order.

7 Well, today we start once more on the path of mark-  
8 up. We will follow the schedule today that we followed  
9 pretty much on the first day of spending.

10 We will start with opening statements. Each member  
11 will be permitted to speak for three minutes.

12 Afterwards, we will have a walk-through on the tax relief  
13 package. Questions will only be permitted at that time,  
14 no amendments.

15 When we finish the walk-through we will have a  
16 luncheon break, and again return at 2:15. The 2:15  
17 meeting will be for members only and it will be across  
18 the hall, as we met before.

19 I do want to announce to the committee that it is the  
20 Chairman's intent to complete the mark-up, irrespective  
21 of what time it takes tonight. So, I sincerely hope that  
22 is an incentive to keep the amendments to an irreducible  
23 minimum.

24 Yesterday's unanimous vote on the health and welfare  
25 package, I think, demonstrated the power of

1 bipartisanship. I believe that it signaled there is a  
2 new consensus emerging, a consensus that sets aside  
3 politics in a genuine effort to address pressing  
4 challenges and to create an environment of growth and  
5 opportunity for Americans.

6 Today as we turn our attention to tax relief, it is  
7 my sincere hope that this consensus becomes even more  
8 defined as Americans realize that Congress is focused on  
9 matters of utmost importance to them.

10 At issue today is the awesome tax burden Americans  
11 bear, a burden that has them paying more in taxes than  
12 they do for food, clothing and shelter combined. As this  
13 special report points out, a typical American family pays  
14 over 40 percent of income in taxes.

15 The importance of this issue is understood on both  
16 sides of the aisle, and I do appreciate the spirit of  
17 bipartisanship that has prevailed as we have crafted this  
18 tax relief package.

19 We have taken the recommendations and concerns of  
20 each member of this committee, and of our colleagues  
21 outside of the committee, and we have put together a  
22 series of revenue provisions that are workable,  
23 provisions that will go a long ways towards offering  
24 relief, especially to America's overburdened middle  
25 class.

1           As with any bipartisan effort, not everyone will be  
2 fully satisfied with this proposal. For my part, I would  
3 like to see greater tax relief. I consider this the  
4 first in a series of steps that I hope will lead to  
5 deeper tax cuts and eventual long-term reform.

6           But this bipartisan effort signals an important  
7 beginning, one which is built upon a foundation of  
8 principles we share, whether we be Republican or  
9 Democrat. Eighty-two percent of this tax relief is made  
10 up by our family tax cut and education assistance,  
11 priorities that we all share. It represents the biggest  
12 tax cut in 16 years and, as I have said, is focused on  
13 middle income families.

14           It contains important provisions for education  
15 assistance. It gives middle class families a \$500 per  
16 child tax credit. It will boost our Nation's savings  
17 rate, while helping families prepare for their futures  
18 through an expansion of Individual Retirement Accounts.

19           For the first time, homemakers will be able to save  
20 up to \$2,000 annually in an IRA, regardless of their  
21 spouse's participation in an employer pension plan.

22           This tax relief package also creates a new deductible  
23 IRA-Plus account. It lowers the capital gains tax and it  
24 provides relief from death taxes.

25           These are not only investments in our youth, in our

1 families, and in our economy, they are investments in  
2 America, investments in our future, and that is what this  
3 tax relief package is all about, the future.

4 Again, I appreciate the support I have received from  
5 all of the members of this committee. As I have said, we  
6 have combined the best ideas from both sides of the  
7 aisle, from both ends of Pennsylvania Avenue, and I look  
8 forward to the spirit of cooperation we saw yesterday as  
9 I also look forward to President Clinton's signature on  
10 this important tax relief package.

11 Senator Moynihan?

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1 OPENING STATEMENT OF THE HON. DANIEL PATRICK MOYNIHAN, A  
2 U.S. SENATOR FROM NEW YORK

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4 Senator Moynihan. Thank you, Mr. Chairman.

5 Once again, I think we ought to acknowledge the  
6 extraordinary spirit of cooperation and consensus that  
7 you brought to these proceedings that resulted in that  
8 unanimous agreement yesterday.

9 You speak, sir, of an emerging consensus. I think I  
10 could perhaps put it somewhat differently. There is an  
11 emerging consensus on our side of the aisle that you are,  
12 in fact, a Majority now. [Laughter] It has taken some  
13 time.

14 Senator Gramm. That is progress.

15 Senator Moynihan. It has taken some time and there  
16 has been a change of party. We recognize that, and that  
17 imposes certain realities that we would like to live  
18 with. But also there are principles on which we will  
19 continue to insist as far as we can, and with as little  
20 acrimony as we can.

21 You do know that there are those of us on this side,  
22 not all, who voted against the Budget Agreement, as it  
23 was called, as reached between the administration and the  
24 Republican leaders. Our feeling was that this was no  
25 time for a tax cut, that this was a time to finish the

1 work we began in 1993 to bring us to a balanced budget.

2 You point out, sir, that we have here the largest tax  
3 cut since in 16 years, and basically the only one. In  
4 1981, the national debt was just under \$1 trillion.  
5 Following that 1981 tax cut, it grew inexorably until,  
6 just yesterday, we agreed to raise the debt ceiling to  
7 just under \$5 trillion.

8 In the aftermath of the effort we made in 1993, we  
9 now have a primary surplus. Our outlays on program are  
10 fewer than our revenues, and the difference is the  
11 interest on the debt.

12 There are those of us who would have wished we could  
13 have continued to the point where we have a balanced  
14 budget. And we could have done that in a number of ways,  
15 not in the least the cost of living index changed, but we  
16 did not. So we will offer restraint in these  
17 conversations.

18 One final point which I think we can all agree on.  
19 We owe it to that future that you are concerned with, Mr.  
20 Chairman, that the out-year costs of these tax reductions  
21 do not explode. I mean, we really have to be careful and  
22 honest about that. It is so easy to take a seemingly  
23 small step, modest measure, which in 20 years' time will  
24 be eating you alive. We have been through that  
25 experience from 1981 to now; let us not repeat it today.

1           But again, sir, we begin in good spirits and with  
2 great appreciation for the manner in which you have  
3 conducted these proceedings so far.

4           The Chairman.    Thank you, Senator Moynihan.  
5           Senator Chafee?

6           Senator Chafee.    I do not have a statement, Mr.  
7 Chairman.   I have not been an enthusiastic tax-cutter.  
8 But let us see how things go along here.   I appreciate  
9 the leadership you are giving.

10          The Chairman.    Thank you.

11          Senator Baucus?

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1 OPENING STATEMENT OF THE HON. MAX BAUCUS, A U.S. SENATOR  
2 FROM MONTANA

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4 Senator Baucus. Thank you, Mr. Chairman. I would  
5 like to echo the statement of the Ranking Member,  
6 particularly with respect to your wonderful effort to be  
7 very patient and very fair with all members of this  
8 committee.

9 I just contrast it, frankly, with the comparable  
10 committee in the other body, where the Minority was not  
11 offered near the same fairness, the same cooperation, the  
12 same sense of compromise as you have given us. The  
13 contrast could not be greater or better noticed than in  
14 what you have done, and we very much appreciate your  
15 being very fair with both sides.

16 Two major points, Mr. Chairman. One, is I, too, am a  
17 bit concerned with the out-years, the second 5 years, as  
18 well as the amount of the tax cuts beyond, that is, the  
19 10 years upcoming.

20 We should not write a tax bill which looks good at  
21 first and helps us in the present, but which saddles  
22 future Congresses and future generations with such huge  
23 tax cuts that it would be very difficult for future  
24 Congresses in the next 5 years, the next 10 years, to  
25 deal with the problems that we are creating for them.

1           Second, I will also be looking at the distribution  
2 tables. And there are various stages here. Obviously  
3 there will be the Senate Finance Committee bill, then  
4 there will be the bill that passes the floor, is one that  
5 is fair to all taxpayers and all income brackets. We  
6 have an obligation to do that.

7           Third, Mr. Chairman, just very briefly, I want to  
8 thank you for some of the small business provisions that  
9 you have included in your mark. Many of us talk about  
10 small business being the backbone of America. Sometimes  
11 the most trite things are the most true. The stronger  
12 small business is in America, the stronger America will  
13 be, it is that clear.

14           At the top of my priority for small business is  
15 reduction in the Federal estate tax for family-owned  
16 businesses. You included some of those provisions in  
17 your mark, and I very much appreciate what you have done.

18           I am very pleased that we are able to include,  
19 frankly, the provisions with respect to family-owned  
20 businesses, because they are the ones that truly are the  
21 backbone of our communities.

22           Another small business provision that is important to  
23 me is the restoration of the home office deduction. As  
24 we know, it is in the House bill. The Supreme Court has  
25 limited the availability of the home office deduction,

1 and I think the Supreme Court went much too far. At the  
2 appropriate time I will offer a provision to restore the  
3 home office deduction comparable to that in the House  
4 bill.

5 Finally, I want to thank you for addressing the  
6 electronic filing of payroll taxes. Many small  
7 businesses want some delay to give them time to comply.  
8 I appreciate the provision in the bill that is included  
9 along those lines. I wish they had been a bit broader,  
10 but I understand the revenue constraints that that  
11 presents.

12 But, in the main, I just wanted to say thank you, Mr.  
13 Chairman, for all of the effort that you have undertaken,  
14 and I hope we can address the measures that I have  
15 outlined.

16 Thank you.

17 The Chairman. Thank you, Senator Baucus.

18 Senator Grassley?

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1 OPENING STATEMENT OF THE HON. CHARLES E. GRASSLEY, A U.S.  
2 SENATOR FROM IOWA

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4 Senator Grassley. Mr. Chairman, you are to be  
5 congratulated on delivering this mark. I know that the  
6 tight reconciliation instructions have made your task  
7 very daunting.

8 But if there was one thing that describes your  
9 leadership better than anything else, it would be the  
10 compliments that I heard like, is Chairman Roth not fair,  
11 and he not doing a good job of leading this committee?  
12 Those are the things that you hear outside of the formal  
13 organizations, and I think you ought to be happy and  
14 proud of the way people see your leadership.

15 I say that even though I do not agree with you all  
16 the time, and I am probably giving you as hard a time as  
17 anybody has given you. So, I appreciate that very much.

18 There are a number of provisions in this bill that I  
19 like, and I thank you for those. I suppose, if I were  
20 writing the bill, it would be different. So there are  
21 some issues that I do not embrace entirely. And, as  
22 everybody else on this committee has some amendments in  
23 mind, I do as well.

24 I am most happy, although it is probably a very  
25 obscure provision of the bill, that you included our

1 legislation to repeal the unauthorized IRS expansion of  
2 the AMT for farmers. By my count, we had 63 sponsors of  
3 this bill, including 11 on this committee. It may be the  
4 most broadly co-sponsored legislative bill in the Senate.  
5 It would have been my dream amendment to your mark, but,  
6 thanks to your including it, I do not have to do that.

7 I would also like to ask Mr. Kies why the same  
8 legislation had only negligible revenue effect in the  
9 last Congress, and presumably in this mark it is an \$800  
10 million figure. That is an 800 percent margin of error  
11 that you had from last fall. But, anyway, we will talk  
12 about that.

13 I guess in regard to that it sometimes bothers me  
14 that we have got some sort of revenue offset rule around  
15 here that some obscure district court judge in the  
16 hinterland of America can say that the IRS can interpret  
17 the Revenue Code in a way where farmers had been honestly  
18 filing their income tax for 16 years in a legal way, then  
19 all of a sudden this judge rules and a farmer has got to  
20 pay more income tax.

21 Then we tell IRS that they are crazy, and we change  
22 it, but we have got to find a revenue offset of \$800  
23 million. I mean, that is a stupid way, for some judge to  
24 put that responsibility on this Congress. I think  
25 somebody that needs to be looked at, because what was

1 done honestly and above board by every farmer in America  
2 now causes a problem, so we have to have an \$800 million  
3 offset. That is a crazy way to run tax estimation, I  
4 guess.

5 I also want to compliment the Chairman for including  
6 Senator Moseley-Braun's and my amendment that we have  
7 been working on in a couple of Congresses to re-establish  
8 the student loan deduction. I like the cuts in estate  
9 taxes and capital gains. These are very vital to small  
10 business in agricultural America. It would be better if  
11 more revenue were dedicated to both, and hopefully we can  
12 improve this.

13 I like the income tax deduction for student loans as  
14 well, and I just very definitely think you put together a  
15 pretty good bill, Mr. Chairman.

16 The Chairman. Thank you very much, Senator  
17 Grassley.

18 Senator Rockefeller?

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1 OPENING STATEMENT OF THE HON. JOHN D. ROCKEFELLER IV, A  
2 U.S. SENATOR FROM WEST VIRGINIA

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4 Senator Rockefeller. Mr. Chairman, I had not  
5 actually, per my usual custom, been planning on saying  
6 anything. But I would feel disloyal to you if I did not,  
7 because everybody is being very complimentary, and  
8 justifiably so.

9 I am grateful for a lot of things in this mark: the  
10 rural air service beginning, which I think you put in to  
11 be helpful to me, and I really appreciate that because  
12 that is a huge problem for rural States. I hope that we  
13 can do our tax breaks in a fair manner, trying to target  
14 the folks that need it most in this country. That is  
15 sort of a basic democratic principle.

16 I would like to see the Child Tax Credit and the EITC  
17 be stacked in a way in which we can get the most  
18 advantage, the EITC coming before the Child Tax Credit so  
19 we can take the most advantage for people who need it,  
20 incomes that are relatively lower, et cetera.

21 Also, I am one who does believe in the Child Tax  
22 Credit. I think it is terribly, terribly important. I  
23 would have preferred it, actually, at \$1,000, but of  
24 course we cannot afford that.

25 Also, I just might say that I still believe very much

1 in what the President is proposing in the way of  
2 educational help, and will be talking about that. But,  
3 once again, you have a demeanor and a nature which  
4 invites people to come together.

5 Our harmony is usually greatest when we cast a  
6 unanimous vote. It is not always as great in the hours  
7 and hours before that, but that is the nature of this  
8 process. I think, by nature, demeanor, and instinct,  
9 your leadership has been very helpful to this process.

10 The Chairman. Thank you, Senator Rockefeller.  
11 Orrin Hatch, please.

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1 OPENING STATEMENT OF THE HON. ORRIN G. HATCH, A U.S.  
2 SENATOR FROM UTAH

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4 Senator Hatch. Well, thank you, Mr. Chairman.

5 I want to compliment you, your staff, the people at  
6 the table here for the work that you have done on this  
7 bill--there are a lot of good things in this bill--and  
8 for really what happened yesterday.

9 I thought that was a tremendous compliment to you and  
10 to this committee that that matter was reported as  
11 overwhelmingly as it was. It shows the good way that you  
12 have been handling this committee, and I, for one, have a  
13 tremendous amount of respect for you and your staff and  
14 those who have worked to bring this about.

15 I also respect our colleagues on the other side.  
16 They have really worked hard. They have fought hard and  
17 worked hard on these matters and, I think, have helped to  
18 mold these bills in ways that are fair and very good.

19 I am particularly happy about the tax rate  
20 reductions, especially the estate tax, and above all the  
21 capital gains rate reduction. I am a little disappointed  
22 that we could not do anything because of the numbers in  
23 the Senate with regard to corporate tax capital gains  
24 rate reductions, because I think that would be of  
25 inestimable benefit to the country over the long run.

1           Anyone who thinks that capital gains tax rate  
2 reductions are going to cost us, I think just has not  
3 looked at history. So I think that this will prove to be  
4 a very worthwhile thing.

5           The estate tax reductions are very good, family tax  
6 relief is very good, and frankly most of this bill, I  
7 think you have done just a tremendous job on it in a very  
8 diverse, difficult committee.

9           I hope that you will have as much success in passing  
10 this matter through the committee as you did with the  
11 matter yesterday, and I want to compliment you again. I  
12 think you have done a great job.

13           The Chairman. Thank you very much, Senator Hatch.  
14           Senator Breaux, the worthy successor of Senator Long.

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1 OPENING STATEMENT OF THE HON. JOHN BREAU, A U.S. SENATOR  
2 FROM LOUISIANA

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4 Senator Breau. Oh, boy. I wish.

5 Well, Mr. Chairman and my colleagues, we are not  
6 there yet, but I think we are getting there, wherever  
7 there is. We are going to figure that out in the next  
8 several hours. There is still a great deal of work to  
9 do.

10 I would suggest that if everybody took the example of  
11 Senator Moynihan and myself on the offering of amendments  
12 we could finish this up in just about 5 or 10 minutes and  
13 get out of here.

14 The Chairman. May I say amen to that proposal?

15 [Laughter]

16 Senator Breau. But there is a lot of work here. I  
17 would just make one comment. I think everyone has worked  
18 very hard to get to the point where we are today. I  
19 think that that cooperation is very important because we  
20 are going to be, I think, much stronger than the other  
21 body because we are together.

22 I think that is going to carry through the  
23 conference, because there is a joint effort here where we  
24 will all be, hopefully, pulling together. There is  
25 strength in numbers, strength in diversity, and

1 bipartisanship, which I think is very important.

2 I think what we have done in your draft is very  
3 important with regard to efforts to help families and  
4 children in education. I think as a result of what is in  
5 the mark, it is better than the two pieces separately.

6 The initial proposal for the \$500 tax deduction, I  
7 think, is a better proposal today because it is tied  
8 towards educating children and families that need help.

9 The President's education proposal was \$35 billion.  
10 I think any reading of the Chairman's draft mark is that  
11 there will be more, substantially more, than \$35 billion  
12 available for families to educate their children.

13 When you look at the HOPE scholarship, which is a  
14 \$1,500 provision, very similar to the President's  
15 proposal, plus the additional deductions and incentives  
16 for education, add it to the education effects of the  
17 \$500 tax credit, we have an education package which is an  
18 improvement over what the administration offered, while  
19 at the same time maintains the goal that the President  
20 set out in the campaigns and throughout all of his talks  
21 about making this a priority.

22 We all should gather together and declare a victory  
23 on this, because I think it truly is.

24 The Chairman. Thank you very much, Senator Breaux.  
25 Senator Nickles?

1 OPENING STATEMENT OF THE HON. DON NICKLES, A U.S. SENATOR  
2 FROM OKLAHOMA

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4 Senator Nickles. Mr. Chairman, let me just join  
5 others in complimenting you and Senator Moynihan for your  
6 work together. I likewise am very pleased that yesterday  
7 we did work in a bipartisan fashion. I say yesterday,  
8 for the past couple of weeks, on the reconciliation bill.  
9 Hopefully we will be able to finish this package and have  
10 strong bipartisan support as well.

11 In looking at this package, it is a very difficult  
12 task because of the numbers involved. A gross tax cut of  
13 \$135 billion, a net of \$85 billion, that compares to the  
14 tax bill we had last Congress of a net of \$245 billion.

15 So we were able to do a lot more in the last tax  
16 bill. There are a lot of things that a lot of us would  
17 like to be able to do in this bill, and I know it will  
18 not all fit. We do not have AMT in this bill, and I  
19 think it should be.

20 I understand the Chairman's dilemma in trying to put  
21 everything in, but I will tell you, with the present tax  
22 law, AMT--there is an excellent article in the Washington  
23 Times about it today--it is unfair. It penalizes firms  
24 in many cases that are making investments that will  
25 provide jobs.

1           We ought to try to make some changes to the estate  
2 tax. We made a little change in here on estate tax and  
3 that is positive, but the estate tax rates are still far  
4 too high.

5           If you have a taxable estate of \$1 million, it is 39  
6 percent, \$3 million is 55 percent. Why should government  
7 be entitled to take half of anybody's property because  
8 they are trying to pass it on to their kids? So those  
9 rates are too high. We are not able to do everything  
10 that we would like to do in this package.

11          I will say the Chairman was very strongly supportive  
12 of children and education. If you look at that, it is  
13 the bulk of the package. I would hope that we would make  
14 the tax credit available for all kids and make an option  
15 for an IRA, and maybe we will be able to discuss that.

16          But, again, I want to compliment the Chairman. This  
17 is not an easy task. I know you have people pulling you  
18 from every angle. I would like to give everybody your  
19 home phone number tonight in case they have any other  
20 questions. But, no.

21          I think you have put together a good package, and I  
22 look forward to working this up. I do not know if the  
23 Chairman's intention is to finish tonight; I hope that we  
24 can. I know it will be a challenging day.

25          The Chairman. Thank you, Senator Nickles. Yes, we

1 will stay until we finish it. That is my intent.

2 Senator Nickles. Good.

3 The Chairman. Kent Conrad.

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1 OPENING STATEMENT OF THE HON. KENT CONRAD, A U.S. SENATOR  
2 FROM NORTH DAKOTA

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4 Senator Conrad. Thank you, Mr. Chairman.

5 I want to add my praise to the others who have  
6 spoken. As I said publicly yesterday and told you  
7 privately, I think you are a model of fairness. I could  
8 not ask for more from a Chairman in terms of treating  
9 people in an equitable manner, both in our consultations  
10 in the hearing room, as well as here.

11 Obviously there are differences of views and  
12 philosophy on this committee. I must say, as I look at  
13 this package there are things that excite me and there  
14 are things that trouble me.

15 I, first, want to thank you for dealing with a number  
16 of issues that are very important in my constituency. As  
17 you know, the IRS was putting deferred payments on  
18 livestock into the AMT calculation, giving an absolutely  
19 perverse result. This legislation fixes that.

20 We have had for many years roll-over of capital  
21 gains, where a farmer was in a drought situation and  
22 needed to replace their herd. This has been extended now  
23 to conditions of blizzards and floods. This is very  
24 important, and we thank you for it.

25 You have also corrected the anti-discrimination rules

1 that apply to State and local employees, and fixed the  
2 estate tax problem where farmers have cash rented instead  
3 of crop shared. Those are all very positive. I think  
4 there are many other elements to this package that are  
5 positive, including the promotion of education, the  
6 estate tax changes are really long overdue, and many  
7 other provisions that are important.

8 As I have said in our various sessions, it seems to  
9 me there are four tests we need to apply. One, the tax  
10 cuts should not explode in the out years and blow a hole  
11 in the deficit. I am concerned about that part of this  
12 provision, this bill, because in 2007 the cost will be  
13 about double the amount in 2002.

14 I am concerned about the distribution of the  
15 benefits. It seems to me they should be fair. I have  
16 got a chart that really rivets this point. You can see  
17 the bottom 60 percent, the lower 60 percent, get 13  
18 percent of the benefits, and the top 1 percent get 13  
19 percent of the benefits.

20 That does not strike me as equitable or a fair  
21 sharing of the benefits when the top 1 percent get the  
22 same amount of benefits as the lower 60 percent in our  
23 society. That, I find troubling, and I think needs to be  
24 substantially altered.

25 The third test should be, does it have a positive

1 economic impact, does it encourage savings and  
2 investment? There are many provisions here which do  
3 that. I think this package moves in the right direction  
4 in many of those areas.

5 Finally, does it promote education? Clearly, this,  
6 Mr. Chairman, in your mark has made a serious attempt to  
7 have a substantial package to promote education. I think  
8 we could improve it, and hopefully we will as we go  
9 through this process.

10 Thank you, Mr. Chairman.

11 The Chairman. Thank you, Senator Conrad.

12 Senator Gramm.

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1 OPENING STATEMENT OF THE HON. PHIL GRAMM, A U.S. SENATOR  
2 FROM TEXAS

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4 Senator Gramm. Mr. Chairman, let me first say that  
5 I started this mark-up process with a very high regard  
6 for you and I would have to say that it has certainly  
7 grown. I do think you have been fair to everybody. I  
8 think you have given everybody an opportunity to have  
9 their say and allow the process to work, and I think we  
10 are all grateful for that.

11 I would like to thank you for this bill. I would  
12 like to thank you for the provisions that you put in the  
13 bill.

14 I would like to say, in contrast to our dear  
15 colleague, Senator Chafee, I am an enthusiastic tax-  
16 cutter. I rejoice that, for the first time since 1981,  
17 that we are going to reduce the tax burden on the working  
18 men and women of America.

19 Now, I know we are going to have long debates about  
20 the distribution of this tax cut. Let me say to begin  
21 with, this is a tax cut for working men and women who pay  
22 taxes. If you do not pay taxes, you are not going to get  
23 anything out of this tax cut, and you should not. You  
24 are benefitting from the Federal Government in that we  
25 have numerous programs we are providing.

1           In fact, when the Clinton tax increase of 1993 went  
2 into effect, it had a huge subsidy to people who did not  
3 pay taxes. This is a tax cut for taxpayers. So what we  
4 need to do is look at the distribution of this tax cut to  
5 people who do the work, pay the taxes, and pull the  
6 wagon.

7           I think if you look at this, you are going to find  
8 that over 80 percent of this tax cut is contained in the  
9 \$500 tax credit per child or in the education benefits  
10 that we are providing. No one can complain about that  
11 distribution.

12           Let me say that, while overall I think the bill is  
13 good, I do think we have to discuss and look at the real  
14 estate section very, very closely to be sure that we are  
15 not going to affect the pattern of investment in the  
16 country.

17           I am very concerned about the airline tax portion of  
18 this bill. I am going to show some charts about American  
19 air space and I think people are going to be surprised at  
20 how high this tax is. If you look at the fact that it is  
21 collecting \$17 billion, that ought to tell you something.  
22 I think that has got to be looked at and perhaps be  
23 reworked.

24           I would like to also say that I would like to get the  
25 inheritance tax deductible up quicker. I think the fact

1 that we take so long to phase it out, we are barely  
2 staying ahead of inflation in the process, and if we can  
3 find a way to move it up quicker I think we could benefit  
4 the package.

5 But, overall, we do have the problem of trying to get  
6 250 pounds of sugar in a 100-pound bag. It is going to  
7 be very difficult, and I am glad that we are working with  
8 you, Mr. Chairman, in trying to make it happen.

9 The Chairman. Thank you, Senator Gramm.

10 Bob Graham?

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1 OPENING STATEMENT OF THE HON. BOB GRAHAM, A U.S. SENATOR  
2 FROM FLORIDA

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4 Senator Graham. Thank you, Mr. Chairman.

5 I wish to also compliment you for the way in which  
6 you have managed this difficult process and taken us to a  
7 unanimous vote yesterday, and a very solid document to  
8 begin our discussions today.

9 This document and the negotiations that lead up to it  
10 have already made some very fundamental decisions. One  
11 of those decisions is that the words that were heard most  
12 in the 1996 Presidential campaign as it relates to tax  
13 policy have been discarded: no discussion of flat tax, no  
14 discussion of tax simplification, no discussion of  
15 Senator Dole's 15 percent tax cut.

16 We have made a decision that we are going to add  
17 additional complexity to the Tax Code by targeting funds  
18 available for tax reduction in a myriad of specific ways,  
19 each of which, for their own policy reasons, will add  
20 complexity to our overall Tax Code. I think we should be  
21 aware that we have made that very fundamental decision as  
22 we start this process.

23 Second, is a message to the White House. Various of  
24 my colleagues have already mentioned what I think are the  
25 three fundamental tests that should be applied to this

1 complex set of provisions. Those are, what will be the  
2 effect on out-year revenues? Second, what will be the  
3 distributional effect? And I would like to commend on  
4 the statements just made by my Teutonic cousin relative  
5 to people who pay taxes.

6 Senator Moynihan. He is a Scot.

7 Senator Graham. What?

8 Senator Moynihan. A Scot.

9 Senator Graham. No, he is Teutonic.

10 Senator Moynihan. In manner, perhaps.

11 [Laughter]

12 Senator Graham. In heritage as well.

13 The Senator from Texas has talked about people who do  
14 not pay taxes. The fact is, as we all know, many  
15 American families pay substantially more payroll tax than  
16 they do income tax.

17 But what you take home and have available to buy the  
18 groceries with, or buy shoes for the kids, is just as  
19 much diminished by what is one of the most regressive  
20 forms of taxation that we have, the payroll tax, as it is  
21 by the income tax.

22 So to say that that group of Americans' needs should  
23 be disregarded because they pay through one source of  
24 taxation rather than another is, I think, to miss the  
25 point. We have got to try to treat fairly with all

1 Americans, however they happen to pay their taxes.

2 The third factor, is the growth effect. What effect  
3 will all of these changes, most of which are justified in  
4 their complexity and the abandonment of the goal of tax  
5 simplification because they will have a stimulative  
6 effect on the economy?

7 I think the White House owes it to this process to  
8 tell us, and they should have already, but certainly they  
9 should before we take final action on this bill, what are  
10 their standards of evaluation? Those standards should be  
11 expressed with numbers behind them. How much future year  
12 tax revenue will be acceptable? What is the minimum  
13 distributional effect that will be acceptable?

14 What is the minimum contribution to economic growth  
15 that will be acceptable, so that those of us who have the  
16 responsibility of voting today, on a series of amendments  
17 and then on final passage, will have the benefit of  
18 knowing the White House's wisdom on these matters, and  
19 what are the political perimeters within which this  
20 process is being conducted.

21 Mr. Chairman, I want to thank you for a number of the  
22 provisions that you have included, particularly the  
23 provisions that will make it easier for American  
24 homeowners to sell their homes, to prepay the tuition of  
25 their children, and to prepare for their pension

1 retirement.

2 I would hope that we would focus some additional  
3 attention on the issue of education, particularly school  
4 construction. I look forward to having an informed  
5 discussion on, what is the national role and direction in  
6 that important area of responsibility for our children.

7 Thank you.

8 The Chairman. Thank you, Senator Graham.

9 Jim Jeffords.

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1 OPENING STATEMENT OF THE HON. JAMES M. JEFFORDS, A U.S.  
2 SENATOR FROM VERMONT

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4 Senator Jeffords. Mr. Chairman, thank you very much  
5 for allowing me to participate here.

6 I am excited. As the Chairman of the Education  
7 Committee and having served on that committee for now 23  
8 years, I am excited about what we are doing this year.  
9 This is the education year.

10 I compliment the higher education and tax provisions  
11 here for helping those that just attended college, those  
12 that are hoping to go to college, and also those that are  
13 putting aside money for their children.

14 But I also want to thank you most profusely for a  
15 small, but extremely important, provision in this bill  
16 which may do more to help the education in this Nation  
17 than anything else, and that is to help us with our K-12  
18 to be about to upgrade our skills and to be able to raise  
19 those skills so that we can meet the needs of the future.  
20 That is where our biggest problem is right now. That is  
21 where business is excited about hoping we can do  
22 something in this area.

23 We have 190,000 jobs, for instance, that are going  
24 begging in this Nation right now that are \$30, \$40, \$50  
25 an hour jobs that should go to high school students, but

1 we do not have the skills to provide those jobs.

2 We must upgrade the teachers' professionalism, and  
3 your provision will help do that, working with the higher  
4 education community.

5 Let me give you an example also about how business  
6 feels about this. Inda Rivera, who travels around with  
7 IBM, gives you an example of where we are in this area.  
8 He says, "If you were to fall asleep for 20 years and  
9 walk into a modern business office, you would be in  
10 catatonic shock as to what to do. You would not know  
11 what to do.

12 If you were to walk into a classroom after being  
13 asleep for 20 years and you were a teacher, you would be  
14 right at home." That is how far behind we are.

15 So I appreciate the way we can do that is by making  
16 sure that we take advantage of the things we developed.  
17 We have developed great programs. Let me give two quick  
18 examples. We have a tech-prep program which has been in  
19 effect and 1 percent of our schools have adopted it.  
20 Malaysia came to this Nation, took a look at this year,  
21 went back, and overnight put it in all of their schools.

22 We have another example, distance learning. We are  
23 the ones that developed all this technology. I found out  
24 from the World Bank that they are now funding nationwide  
25 teacher development programs in Indonesia and in a number

1 of other countries using World Bank money to do a program  
2 that we developed but we do not use. We can do it and,  
3 with your provision, this will help us get there.

4 Thank you very much, Mr. Chairman.

5 The Chairman. Thank you, Senator Jeffords.

6 Senator Moseley-Braun, please.

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1 OPENING STATEMENT OF THE HON. CAROL MOSELEY-BRAUN, A U.S.  
2 SENATOR FROM ILLINOIS

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4 Senator Moseley-Braun. Thank you very much, Mr.  
5 Chairman.

6 Listening to the comments, I was struck by the fact--  
7 and it is a fact--that this year a baby boomer will turn  
8 50 every 7 seconds. So we are stuck with a demographic  
9 bubble that, as we address tax policy particularly, I  
10 think we have to be sensitive to.

11 Similarly, we have to be sensitive to the widening  
12 income gap in this country between the rich and poor.  
13 The middle class really is the heart and soul of the  
14 American dream, and defines it.

15 As we strengthen, preserve, and build that middle  
16 class and avoid tensions between the different groups in  
17 our country, we will strengthen our community and  
18 strengthen our social fabric.

19 I think the really good news in this tax package has  
20 been your leadership and the civility with which you have  
21 conducted the process. The bill that we have before us  
22 is less regressive than the House bill, and it is less  
23 back-loaded in terms of its costs than the House bill.

24 I know that this Chairman looked to reconcile very  
25 contrary and contrasting views in a civil way, and that

1 has been a very important thing and I think it is  
2 something that the Senate, as an institution, needs to  
3 cherish.

4 Some of us would have preferred more aggressive  
5 pursuit of balance on the budget and felt that it was not  
6 yet tax cut time, and in that regard I really want to  
7 associate myself with the Ranking Member's remarks. I  
8 think it would have been better for us to get our fiscal  
9 house in order first before we headed down this road.

10 But since the consensus clearly favors tax cuts at  
11 this time, I am happy to see in this mark more concern  
12 than there was in the House for what happens to middle  
13 and working class people in America.

14 The tax bill. There are distributive problems, I  
15 think. I have a concern, frankly, with the methodology  
16 and the way the Joint Tax Committee tracks the  
17 distributive effects.

18 Based on the analysis I have seen, the great majority  
19 of the largest tax cuts here will explode in costs at the  
20 end of the 10-year period and a net cut will cost more at  
21 the end of that period than at the beginning of it.

22 Well, the real meaning of that with baby boomers  
23 retiring at that time, it will come at probably the worst  
24 time. The backloading effect will hit just as the baby  
25 boomers are beginning to retire.

1           The middle income taxpayers' tax cuts, on the other  
2 hand, the HOPE school tax cut and the Child Tax Credit,  
3 they do not see the expansion of those tax benefits over  
4 time, those tax cuts will remain constant.

5           So I fear that we are still eluded by addressing the  
6 issues of the demographic bubble and what happens when  
7 people retire, and also the widening income gap. The  
8 divide comes, frankly, on this committee and how we will  
9 serve the interests of all Americans. Again, that is  
10 where I think your civility has made such a difference.

11           We have to be able to recognize and build community  
12 in this process, recognizing as Americans our mutual  
13 dependence on each other. We are, in the final analysis,  
14 all in this together.

15           This should not be a zero sum game pitting one group  
16 of Americans against another, because we all have a stake  
17 in job creation, growth, opportunity, and in helping  
18 people who are vulnerable and need help.

19           The pitting of people against each other, I think, is  
20 the politics of the past and I am really glad that you,  
21 Mr. Chairman, have avoided that, that you have rejected  
22 that approach. This has not been an approach that pits  
23 people against each other, but rather seeks to build  
24 community.

25           We may want to do it in different ways, we may get

1 there in different ways, but certainly the civility of  
2 your approach indicates an interest in heading in that  
3 direction.

4 Finally, and just in closing, I want to add this just  
5 as an aside. The airline industry will be paying 77  
6 percent of this tax bill over 10 years, just over \$200  
7 billion. That industry, of course, is important to my  
8 State. It is important to the country, but certainly  
9 Illinois. I hope that through the amendment process we  
10 can spread the costs of the tax bill a little more  
11 broadly than we currently have in this mark.

12 So I look very much forward to continuing to work  
13 with you, Mr. Chairman. Again, your approach to this has  
14 given us all a voice. And, while some of us sing louder  
15 than others, still at the same time it has been a very  
16 important and a wonderful exercise for me to have a  
17 chance to participate in, and I thank you.

18 The Chairman. Well, thank you for your cooperation  
19 and aid. We look forward to continuing our efforts  
20 together.

21 Senator Mack.

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1 OPENING STATEMENT OF THE HON. CONNIE MACK, A U.S. SENATOR  
2 FROM FLORIDA

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4 Senator Mack. It was not my intention to speak this  
5 morning, but, being a Senator and listening to my  
6 colleagues, I thought I might share a few points.

7 First of all, let me express my appreciation in a  
8 slightly different way. There is a radio host that says  
9 "ditto and double ditto" to both of you for the work that  
10 you did yesterday.

11 This is a small, but important, first step to provide  
12 tax relief to all income tax paying Americans. This is a  
13 tax package that will give relief to individuals all  
14 throughout life. It begins with the opportunity for moms  
15 and dads to have tax relief when a child is born.

16 I think of the discussion I had just a few weeks ago  
17 with an individual down in the Hart Building, and he was  
18 asking questions about the tax relief bill. I kind of  
19 said to him, what is your interest in it? He said, I  
20 have 5 children. And I thought, well, I can certainly  
21 understand how \$2,500 a year will affect that family. We  
22 all know today that most American families are spending  
23 more in taxes than for housing, shelter and food.

24 I think of youngsters today who are looking for jobs  
25 and I think of the reduction in the capital gains tax

1 that you are proposing. While there are many different  
2 aspects to it, I think the real strength is that this  
3 will allow capital to flow from old investments of the  
4 past that have been held in those investments because of  
5 the high tax rates that are now in place with respect to  
6 capital gains, allowing those funds to flow into the new  
7 technologies that are going to create the jobs and the  
8 opportunity in the future.

9 I think of the families that are looking forward to  
10 retirement and the expanded IRA, and the opportunity for  
11 them to be able to set aside funds so that they can do  
12 what we have been asking them to do for decades now, and  
13 that is to prepare for retirement on their own, and also  
14 think about those families and those businesses, Mr.  
15 Chairman, that will be easier for those to continue in  
16 operation to be passed on to the next generation without  
17 the high tax burden that exists today.

18 So again, I say this is a small, but I think  
19 important, first step to give tax relief to income tax  
20 paying Americans.

21 I thank you, Mr. Chairman.

22 The Chairman. Thank you, Senator Mack.

23 Senator Bryan?

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1 OPENING STATEMENT OF THE HON. ROBERT H. BRYAN, A U.S.  
2 SENATOR FROM NEVADA

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4 Senator Bryan. Mr. Chairman, thank you very much.  
5 Let me express my sentiments of my colleagues by  
6 expressing my appreciation to you for your fairness and  
7 your including those of us who are very junior members of  
8 this committee in assembling the mark, and your  
9 receptivity to some of the amendments that we have  
10 offered.

11 I much appreciate that and I think that is a  
12 characteristic of the leadership that you have exhibited  
13 as the Chairman of this committee and why you were able  
14 to skillfully bring all of us together in passing the  
15 legislation yesterday.

16 I take a little different tack than some of my  
17 colleagues with respect to this legislation. I believe  
18 the most important legacy that this Congress can leave to  
19 the American people is not just to achieve an ephemeral  
20 balanced budget in the year 2002, important as that is,  
21 but by using real numbers and honest projections to build  
22 in the kinds of structural changes that will make it  
23 possible to retain that balanced budget in the out years  
24 beyond.

25 I understand the enthusiasm for tax cuts. They have

1 an irresistible attraction, some might say even a fatal  
2 attraction to those of us who face a restive electorate.

3 I understand that in the history of recorded  
4 civilization no one who has returned to those that he or  
5 she represents has been rejected by saying, look, I have  
6 offered you a tax reduction as a consequence of my  
7 elected service.

8 I would hope, however, that we could restrain our  
9 enthusiasm so that we could, in fact, achieve this  
10 balanced budget which I think is so important, not only  
11 for us today, but in terms of the future economic growth  
12 of America.

13 I look forward to working with you and the rest of my  
14 colleagues in fashioning a piece of legislation that all  
15 of us will be able to join in at the end of the day in  
16 supporting.

17 The Chairman. Thank you, Senator Bryan.

18 Senator Murkowski?

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1 OPENING STATEMENT OF THE HON. FRANK H. MURKOWSKI, A U.S.  
2 SENATOR FROM ALASKA

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4 Senator Murkowski. I will be very brief, Mr.  
5 Chairman. It is going to be a long day. You have had  
6 accolades from all members of the committee, and you  
7 certainly deserve them, as well as the Minority Ranking  
8 Member. I think you have worked extraordinarily well  
9 together.

10 I would like to communicate basically the  
11 significance of what I think is in here, and that is 82  
12 percent of the package represents tax cuts and  
13 educational incentives for middle income Americans.

14 Now, it is going to be interesting to see how the  
15 media plays this because we have had the agenda that this  
16 favors the rich, but 82 percent represents tax cuts and  
17 educational incentives for middle income Americans. I  
18 think that that is a commendable objective from the  
19 entire committee membership.

20 And, while some will say this is not a perfect  
21 package, I think it is as close to it as certainly I have  
22 seen around here in the 17 years that I have been in this  
23 body, and we have got a little ways to go to end this  
24 process. But I think the American people, especially the  
25 hard-working American wage-earners and families with

1 children, will ultimately be able to keep more money for  
2 themselves rather than sending it to Washington.

3 So I commend you, the Ranking Member, and all members  
4 because I think this represents a basic philosophy of  
5 committee membership, and I think we are well on our way  
6 to achieve that.

7 The Chairman. Thank you very much, Frank.

8 Senator Kerrey?

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1 OPENING STATEMENT OF THE HON. J. ROBERT KERREY, A U.S.  
2 SENATOR FROM NEBRASKA  
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4 Senator Kerrey. Mr. Chairman, I too want to  
5 congratulate you and Senator Moynihan for your excellent  
6 work in producing this mark. I think it is a balanced  
7 approach. It is an improvement, in my judgment, over  
8 what the House has done and I think it moves this country  
9 towards balancing the budget in the year 2002, a crucial  
10 objective both economically, and I think politically,  
11 giving people more confidence in representative  
12 democracy.

13 I want to thank the staff of Ken Kies and the staff  
14 at Joint Tax, who have done an excellent job in keeping  
15 us all one track and of doing the right thing.

16 We are able to do this, Mr. Chairman, I believe,  
17 because the economy is growing. The first order of  
18 business must be to make sure that the economy continues  
19 to grow and that we do whatever is necessary to grow the  
20 economy.

21 I believe, indeed, that the strongest justification  
22 for a tax cut today is to return some tax money to those  
23 who have generated the growth, to those who have produced  
24 the growth in the economy. It seems to me a sensible and  
25 reasonable thing for us to do.

1           We need to measure not only the cost today, but we  
2           have got to keep in mind that there are future costs  
3           here. None of us want to take action in 1997 that will,  
4           in the out years, make the deficit larger and then have  
5           to explain why it is that we did those things.

6           I appreciate very much what the President has done to  
7           emphasize education, to make certain that education is in  
8           this package. I appreciate the accommodations you have  
9           made with those of us who are concerned not just about  
10          doing education, but to make certain that people have the  
11          equity needed to make the purchase.

12          The most alarming graph that I have seen to date is  
13          the rising amount of debt that is being accumulated for  
14          college. The amount of debt in the 1990s exceeds the  
15          amount of borrowing in the 1960s, 1970s, and 1980s  
16          combined.

17          A hard-hitting report that was issued yesterday or  
18          the day before yesterday reported yesterday on higher  
19          education indicates, yes, more money is needed, but there  
20          is significant structural changes needed in higher  
21          education to lower the cost.

22          So we have to be mindful as we try to help people go  
23          to college that we have got to keep the pressure on those  
24          institutions of higher education, that they do not just  
25          price themselves out of the market and then come and ask

1 for additional assistance that might, in fact, add to  
2 inflationary pressure.

3 I think we have got to apply a standard of fairness,  
4 not just looking at the distributional analysis, which  
5 will sometimes be both leading us as well as misleading  
6 us, but I think we have to be mindful, as Senator Mack  
7 was talking earlier about a man with 5 children and the  
8 benefits that he is going to receive as a consequence of  
9 this bill. A median family of four with \$34,000 faces  
10 \$4,300 in payroll tax and \$2,700 in income tax. We are  
11 going to be deliberating only that \$2,700 portion.

12 I intend to make the point that, though we are not  
13 addressing it now, I think it is important for us to look  
14 at that payroll tax side which inescapably causes you to  
15 look at ways to adjust those programs to give those  
16 Americans who do not have any estate ---- and the estate  
17 tax will benefit 2 percent of the population that have  
18 estates over \$600,000.

19 I am concerned about the 98 percent that do not have  
20 estates of that size. There are ways, in my judgment,  
21 for us to not only use your IRAs, but use some  
22 adjustments in the payroll tax to enable all Americans to  
23 acquire a stake in this country.

24 I congratulate you for the mark and I look forward to  
25 the debate.

1 The Chairman. Thank you very much, Bob Kerrey.

2 Well, as Pat Moynihan just pointed out, I do feel  
3 very good because of the many splendid things that were  
4 said about me, but I have to tell you that a consensus  
5 could not have been reached, we would not have had our  
6 success yesterday, if it had not been for the Ranking  
7 Member.

8 I think we are all extremely fortunate in having a  
9 man of his talents, an individual of his leadership, and  
10 particularly one of his intellect as the Ranking Member,  
11 and I want publicly to express my deep appreciation for  
12 his contribution.

13 [Applause]

14 Senator Mack. Mr. Chairman, I hope we all feel this  
15 way tomorrow.

16 [Laughter]

17 The Chairman. You are going to be tired.

18 Having said that, we will now proceed with the walk-  
19 through. You all have before you, I think, a copy of the  
20 mark-up. Ken will go through section by section.

21 I would ask that we let Ken complete a section before  
22 we ask any questions.

23 Ken?

24 Mr. Kies. Thank you, Mr. Chairman.

25 I will begin with Section I, the family tax relief

1 provisions. This section of the bill contains two  
2 provisions. The first, is a \$500 tax credit which will  
3 apply to children under age 17; beginning in the year  
4 2002, it will apply to children under age 18. The credit  
5 is effective in 1997.

6 Senator Baucus. Mr. Chairman, might I ask which  
7 document he is working from?

8 Mr. Kies. Yes, Senator. I am working from the  
9 revenue table. The upper right-hand corner says JCX-32-  
10 97.

11 Senator Baucus. Thank you.

12 Mr. Kies. The \$500 tax credit applies after the  
13 Earned Income Credit. There is a deposit requirement for  
14 children ages 13 through 16. That deposit requirement  
15 would also extend to age 17, beginning in the year 2002,  
16 when the age 17 qualifies for the credit. The deposit  
17 component of the bill costs about \$17 billion over 5  
18 years.

19 The other component of this section is the individual  
20 AMT. Under the individual AMT provision, the exclusion  
21 amount under current law is increased by \$600 for joint  
22 returns, \$450 for single for 2001 and 2002, then by \$950  
23 for joint returns after 2002, and \$700 for single  
24 returns.

25 This change would at least partially address what

1 will otherwise be a substantial growth in the number of  
2 individuals subject to the AMT which, under current law,  
3 will grow from 700,000 this year to 8.4 million in the  
4 year 2007. This change will cause the number of  
5 taxpayers that would be subject to the AMT by the year  
6 2007 to be only 3.2 million.

7 Mr. Chairman, that completes a description of Section  
8 I of the bill.

9 The Chairman. Are there any questions? Bob?

10 Senator Graham. What was the theory, looking at the  
11 Child Tax Credit, of apply the Child Tax Credit against  
12 the income tax as opposed to against either the payroll  
13 tax or some combination of income and payroll tax?

14 Mr. Kies. Well, Senator Graham, that is obviously a  
15 policy choice that was made. I believe that part of the  
16 theory is that this package is addressed at reducing  
17 income tax liability.

18 In addition, I think it partially reflects a view  
19 that the Social Security benefit is quite a progressive  
20 benefit relative to the amount of taxes paid in. Clearly  
21 that is a policy choice that the committee has before it,  
22 but I think those are at least two of the considerations  
23 that led to that decision.

24 Also, there is clearly a revenue constraint to the  
25 extent that, if the credit were applied prior to the

1 Earned Income Credit, it would cost upwards of \$20  
2 billion of additional revenue.

3 The Chairman. Please proceed.

4 Senator Rockefeller. Mr. Chairman?

5 The Chairman. Yes, Jay.

6 Senator Rockefeller. Just another question on the  
7 same line as Senator Graham's, but just a little bit  
8 different.

9 People who benefit from EITC, some people think it is  
10 welfare, but by definition they are all working and  
11 paying taxes, right? If they were not working they would  
12 not be eligible for EITC. Of course, they are close to  
13 the poverty line.

14 So if EITC folks pay taxes, then from a policy point  
15 of view it would seem to me you would be trying to help  
16 them. I mean, that is consistent on both sides of the  
17 aisle.

18 If, to help them, it takes stacking the Child Tax  
19 Credit before EITC and thus making assistance available  
20 to families with four children, for example, from \$20,000  
21 or \$17,000, but here \$20,000, up to \$24,000 and over who,  
22 under the current arrangement get no credit whatsoever as  
23 a result of the stacking procedure of the tax credit and  
24 EITC, if we stacked the tax credit before the EITC, would  
25 that not open up help for those working families?

1           Mr. Kies.    Senator Rockefeller, it would certainly  
2 provide benefits to taxpayers who were in that category  
3 who, as you correctly indicated, are working because they  
4 are only entitled to the Earned Income Credit if they  
5 have earned income.  So that is certainly correct.

6           Senator Rockefeller.  Thank you, sir.

7           Senator Gramm.  Mr. Chairman?

8           The Chairman.  Yes, Senator Gramm.

9           Senator Gramm.  Let me be sure I get this.  If you  
10 pay any taxes and your income is not too high to exclude  
11 you from the \$500 tax credit, you are going to get the  
12 tax credit.

13          Mr. Kies.  Senator Gramm, if you pay income tax.

14          Senator Gramm.  Yes.  Well, this is a rebate on  
15 income taxes, right?

16          Mr. Kies.  That is the way this is designed.  I  
17 think the point that Senator Rockefeller is making is  
18 that there are taxpayers who do pay FICA taxes, but not  
19 income taxes, who would not benefit from this because  
20 this is only applicable against income tax liability.

21          Senator Gramm.  Well, Mr. Chairman, I do not want to  
22 get into a debate about the fact that, for moderate  
23 income people who pay into Social Security, they are the  
24 people who also are the huge beneficiaries.  Higher  
25 income people paying in end up paying confiscatory taxes

1 on Social Security benefits when they retire.

2 In fact, in terms of the benefit, the benefit is very  
3 low relative to the amount put in by higher income people  
4 and very, very high by a multiple amount put in by low  
5 income people.

6 So moderate income people paying into Social Security  
7 are getting mammoth returns on their payment, but  
8 everybody who pays income taxes who is not in such a high  
9 income bracket that they will not be eligible will get  
10 this \$500 tax credit, to the extent that they pay \$500 in  
11 taxes. Is that right?

12 Mr. Kies. That is correct, Senator.

13 Senator Gramm. Thank you.

14 Senator Rockefeller. But Mr. Kies, it remains the  
15 case that if you are making \$20,000, or if you are making  
16 up to \$24,385 and you are working and paying taxes, that  
17 under the mark, and the relationship between EITC and the  
18 tax credit, you would get no tax break at all.

19 Mr. Kies. That is correct.

20 Senator Rockefeller. Yes.

21 Senator Gramm. Mr. Chairman, this is my last  
22 response on this. But you are already getting the tax  
23 break through EITC and you are not paying any income  
24 taxes, right? So you do not get the \$500 tax credit  
25 because you are not paying income taxes.

1 Mr. Kies. That is the way the proposal works. It  
2 only applies if there is an income tax.

3 Senator Gramm. All right.

4 The Chairman. I would point out, there will be  
5 opportunity to debate later, but I would like to get  
6 through the walk-through quickly. So, if you would,  
7 limit your comments to questions you want to ask Mr.  
8 Kies.

9 Senator Graham. Mr. Chairman, this is a straight  
10 statistical question.

11 We have this chart that shows income categories, less  
12 than \$10,000, \$10,000, et cetera. Could you give us the  
13 percentage of Americans in each one of these categories,  
14 or American families? I am not asking you to do it  
15 orally now, but could you give it to us?

16 Mr. Kies. I have those numbers available, Senator,  
17 and I can provide those to you.

18 Senator Graham. Thank you.

19 The Chairman. If you would now please proceed.

20 Mr. Kies. All right.

21 Section II of the bill is the education incentives.  
22 The first item is the administration's HOPE scholarship  
23 tax credit, with certain modifications. The most  
24 significant modification is that, while the credit amount  
25 is 50 percent of the first \$3,000 for a \$1,500 credit,

1 the administration provided the dollar-for-dollar credit  
2 up to \$1,500; for students attending community colleges  
3 and technical schools, the credit amount is 75 percent of  
4 the first \$2,000. The income phase-outs are \$40,000-  
5 50,000 for single, and \$80,000-100,000 for joint returns.

6 Item 2 provides student loan interest deduction,  
7 \$2,500 above the line for the first 5 years after a  
8 student graduates from college. Item 3 is a permanent  
9 extension of Section 127 Employer-Provided Educational  
10 Assistance Exclusion for graduates and under-graduates.

11 Item 4 is a provision providing for penalty-free  
12 withdrawals from IRAs for post-secondary and graduate  
13 education. Item 5 is an education----

14 Senator Nickles. Mr. Chairman, what are you working  
15 from?

16 Mr. Kies. Senator, I am working from the revenue  
17 table. In the upper right-hand corner it says JCX-32-97.

18 Senator Nickles. All right.

19 Mr. Kies. It is the revenue table of the main mark-  
20 up document.

21 Senator Nickles. I got you.

22 Mr. Kies. I am on page 2 now of that document.

23 The first item is the educational IRA provision.

24 This allows contributions on a non-deductible basis of  
25 essentially up to what amounts to \$2,500 per year, per

1 child.

2 The amounts inside these accounts grow tax-free. To  
3 the extent that they are used for tuition, room and  
4 board, and graduate education, when withdrawn, the  
5 amounts are non-taxable.

6 In addition, State-sponsored tuition plans would  
7 receive the same treatment. Under current law, amounts  
8 withdrawn from those plans are taxable when withdrawn.  
9 This would provide that those amounts are tax-free as  
10 well.

11 Item 7 would repeal the \$150 million limit on tax-  
12 exempt Section 501(c)(3) bonds for new capital  
13 expenditures.

14 Item 8 would exempt teachers' course work in  
15 education technology from the 2 percent miscellaneous  
16 itemized deduction floor for grades K-12.

17 Item 9 would raise the small issue arbitrage rebate  
18 exception for governmental bonds used to finance  
19 educational facilities from \$5 million to \$10 million.

20 Senator Moseley-Braun. Mr. Chairman? Mr. Chairman?  
21 The Chairman. Yes, Carol, please.

22 Senator Moseley-Braun. Number 9, the arbitrage  
23 rebate for educational facilities. The General  
24 Accounting Office tells us that it will take \$112 billion  
25 to bring America's schools up to just code condition,

1 that we have got \$112 billion worth of unmet need in  
2 terms of our crumbling schools and school facilities  
3 generally.

4 Your numbers here indicate that this number 9 will  
5 represent \$1 million total.

6 Mr. Kies. The revenue cost in the first year is \$1  
7 million. That grows over time. But the amount of bonds  
8 that would be issued under this provision would be  
9 substantially more than that.

10 Senator Moseley-Braun. That was my question. So do  
11 you have any numbers indicating to what extent we will  
12 get to the \$112 billion worth of basic need?

13 Mr. Kies. Senator, I can check when we take a break  
14 as to what we are assuming as to the volume of additional  
15 bonds that would be issued under this provision and we  
16 will let you know that.

17 Senator Moseley-Braun. Thank you. I appreciate it.

18 Senator Nickles. Ken? Mr. Kies.

19 The Chairman. Senator Nickles.

20 Senator Nickles. On the two major provisions  
21 dealing with education, the HOPE scholarship tax credit.  
22 If a parent had three kids and they fell within the  
23 eligible income category, then they could receive a tax  
24 credit of up to 50 percent of the \$3,000 for each child?

25 Mr. Kies. That is correct.

1 Senator Nickles. And the same thing for the IRA  
2 provision, a non-deductible IRA could be set up for each  
3 child up to \$2,000?

4 Mr. Kies. Actually up to \$2,500 if the child  
5 qualifies for the Child Tax Credit.

6 Senator Nickles. I understand. So in an IRA those  
7 are non-deductible, but you could set up a \$2,000 IRA per  
8 year, per child, from any age from zero to 18, I guess.

9 Mr. Kies. That is correct.

10 Senator Nickles. Thank you.

11 Senator Baucus. Mr. Chairman?

12 The Chairman. Senator Baucus.

13 Senator Baucus. Ken, on number 5, the education  
14 IRAs, it says it will allow contributions of \$500 from  
15 the Child Tax Credit, and so on. Is that at all  
16 restricted by the \$500 family tax credit with respect to  
17 the age of the student?

18 Mr. Kies. Yes, sir. The provision that allows the  
19 \$500 additional amount relates to that period of time  
20 from age 13 to 17. You cannot contribute the \$2,000  
21 after age 18. So you could contribute \$2,000 a year from  
22 age zero up through age 18.

23 Senator Baucus. So if a child today is over 18, he  
24 or she cannot take advantage of the education IRAs,  
25 number 5.

1 Mr. Kies. That is correct, although the way in  
2 which the package is structured that individual could  
3 take advantage of the HOPE scholarship credit. The way  
4 in which the package works, in any year you can only  
5 claim either the HOPE scholarship credit----

6 Senator Baucus. I got you.

7 Mr. Kies. [Continued]. Or withdrawal from these  
8 accounts on a tax-free basis. They would be entitled to  
9 the HOPE scholarship credit.

10 Senator Baucus. Thank you.

11 Senator Breaux. Mr. Chairman?

12 The Chairman. Yes.

13 Senator Breaux. Just a question on number 9, that  
14 Senator Moseley-Braun has been so involved in with the  
15 bonds for the schools and educational facilities. Is  
16 there an intent to include high schools as well? It is  
17 educational facilities that are qualified educational  
18 facilities, and that would include an elementary school,  
19 a high school, or a college?

20 Mr. Kies. That is correct. It would generally be  
21 K-12 because it is State and local government issues, and  
22 it would be the small issuers, so they would generally be  
23 grade schools or high schools.

24 Senator Breaux. All right. Thank you.

25 Senator Gramm. Mr. Chairman?

1 The Chairman. Yes, Senator Gramm.

2 Senator Gramm. Just one question. On these  
3 educational tax credits and these education provisions,  
4 how tight are they? For example, could a grandparent do  
5 it for a grandchild? I mean, how tight is it?

6 Mr. Kies. Senator Gramm, for any child there can  
7 only be one account established, but a grandparent could  
8 contribute into the account or the parent could  
9 contribute into the account, but it would be subject to  
10 the yearly \$2,000 limitation.

11 Senator Gramm. Or an aunt or an uncle, as long as  
12 there is only one.

13 Mr. Kies. Right. That is correct.

14 Senator Gramm. That is a good provision.

15 The Chairman. Please proceed.

16 Mr. Kies. All right. Section III of the bill  
17 contains, first, the capital gains proposal which would  
18 cut the top capital gains rate from 28 percent to 20  
19 percent; for those taxpayers in the 15 percent marginal  
20 rate bracket the rate would go to 10 percent.

21 Section 1250, depreciation recapture, would be  
22 subject to tax at 26 percent; the current law rate is 28  
23 percent. Comparable treatment would apply for AMT  
24 purposes.

25 The exclusion for gain on the sale of principal

1 residences contained in the President's proposal is  
2 included, so \$500,000 on the gain of a sale of a  
3 principal residence would be fully excludable from tax.

4 In addition, there are a number of modifications to  
5 the existing qualified small business stock rule.

6 Senator Bryan. Mr. Chairman, could I ask a question  
7 about the capital gains, sir?

8 The Chairman. Well, I would like to finish this  
9 section, then we will open it for questions.

10 Senator Bryan. I will forbear.

11 Mr. Kies. That provision essentially expands the  
12 rules that currently apply to sale of certain small  
13 business stock acquired at original issue and held for 5  
14 years.

15 Finally, this provision also includes substantial  
16 enhancements of deductible IRAs. The income limits  
17 applicable for deductible IRAs are phased up over a  
18 period of years from the current law level of \$40,000 of  
19 adjusted gross income for a joint return up to \$80,000,  
20 and for a single return from the adjusted gross income  
21 level of \$25,000 to \$40,000. The IRA Plus account, which  
22 permits non-deductible contributions into an IRA of  
23 \$2,000 per year is also included.

24 Finally, the current linking for the spousal IRA is  
25 eliminated so that individuals utilizing the spousal IRA

1 are not prevented from doing so as a consequence of the  
2 fact that their spouse is a participant in a qualified  
3 plan.

4 Senator, that completes a description of that section  
5 of the bill.

6 The Chairman. Senator Bryan?

7 Senator Bryan. Thank you very much.

8 What would the scoring be if you eliminated the  
9 recapture provisions as you have described that and treat  
10 the entire gain as capital gains at the 20 percent rate  
11 that you have established here?

12 Mr. Kies. Senator Bryan, let me just clarify that.  
13 Under current law, a portion of depreciation recapture is  
14 actually taxed at ordinary income rates, at the top  
15 ordinary income rate. The current law provides that, for  
16 non-accelerated depreciation, the current rate is 28  
17 percent, this would drop it to 26 percent.

18 If we lower the 26 percent rate that applies to non-  
19 accelerated depreciation down to 20 percent, it would  
20 cause a revenue loss against the bill of approximately, I  
21 believe, around \$7 billion. Let me just check. It is \$7  
22 billion over a 10-year period.

23 Senator Nickles. What is it over 5 years?

24 Mr. Kies. About \$3.5 billion over 5 years. It is  
25 actually fairly linear.

1           Should I proceed to Section IV?

2           The Chairman.    Yes, please.

3           Senator Chafee.    Could I ask one question?

4           The Chairman.    John.

5           Senator Chafee.    Mr. Kies, just looking at III  
6           there, the Expanded Deductible IRAs, the price difference  
7           between 10 years and 5 years is very, very substantial.  
8           Why is that?  Is that from backloading?

9           Mr. Kies.    Well, Senator Chafee, there are at least  
10          two reasons.  The first, is that the IRA Plus provision  
11          which allows contributions on a non-deductible basis to  
12          an IRA, that provision has a feature that allows  
13          taxpayers who have an existing IRA that was a deductible  
14          IRA to take the money out of that account and pay tax on  
15          the earnings that are inside the account over 4 years,  
16          and to roll it into this back-loaded IRA.  So during the  
17          early period we are actually raising some money from that  
18          feature.

19          The other aspect of this is simply that money that  
20          goes into an IRA because it is currently tax-free does  
21          have a significant growth effect over time because the  
22          contributions put in in the early years continue to earn  
23          tax-free interest income as you go into the later years.  
24          So, it is just the feature of IRAs.

25          Conversely, the inverse happens, for example, in the

1 fiscal dividend that is part of the budget calculation  
2 because it has interest savings against the deficit, and  
3 that compounds in the opposite direction over time.

4 Senator Chafee. Well, I just wanted to point out  
5 that that is a five fold increase. Well, it is more than  
6 that.

7 Senator Moynihan. Nine-fold.

8 Senator Chafee. It is a nine-fold increase. I do  
9 not know what will happen in the next 5 years. Does it  
10 even out?

11 Mr. Kies. Well, eventually we reach the point where  
12 the money starts coming out of the IRAs and at that point  
13 the earnings are taxed, so that there is a reversal  
14 effect that happens in later years from the money that  
15 was put in in the early years and grew tax-free during  
16 the period of time that it was in the account.

17 Senator Chafee. Thank you.

18 Thank you, Mr. Chairman.

19 Senator Moseley-Braun. Mr. Chairman?

20 The Chairman. Senator Moynihan.

21 Senator Moynihan. Yes, Mr. Chairman.

22 To follow on the point that Senator Chafee was  
23 making, and a number of us made earlier, the really  
24 astonishing growth, if I can suggest, is in the capital  
25 gains provision, number 1, where you have 20 times as

1 much a loss in the 10-year period as you do in the 5-year  
2 period. You go from \$978 million to \$20-plus billion. I  
3 think that is because it will be cashing in in the early  
4 phase, then the higher losses.

5 But I would just flag that. If you want an example  
6 of out-year explosion, the 10-year costs are 20 times the  
7 5-year costs, just to point that out.

8 That is right, is it not?

9 Mr. Kies. That is correct, Senator Moynihan.

10 Senator Moynihan. Thank you, sir.

11 The Chairman. Please proceed.

12 Senator Kerrey. Mr. Chairman?

13 The Chairman. Bob?

14 Again, I would ask that we limit ourselves to  
15 questions at this stage and not debate the item.

16 Bob?

17 Senator Kerrey. I appreciate that, Mr. Chairman.

18 Ken, either you or Mark, or perhaps both, have you  
19 considered any potential adverse impacts for this rate  
20 differential on capital gains at 10 percent with  
21 individuals at the 15 percent rate?

22 I understand the intent of that, but is it possible  
23 for me to basically, if I have got stock or an asset, to  
24 give it to my children who will have a lower tax rate?  
25 Is it possible for me to have an impact that is not what

1 we intend?

2 Mr. Kies. Well, Senator Kerrey, there would be  
3 limits on the extent to which you could do that because  
4 of the gift tax rules, if the amount of gift that you  
5 made exceeded \$10,000 they would be subject to a gift  
6 tax. The gift tax rates tend to be fairly steep, so the  
7 amount that I think is available is limited.

8 I think the concern was that if you did not provide a  
9 10 percent rate for those taxpayers in the 15 percent  
10 rate bracket, they would essentially not be enjoying any  
11 benefit out of the capital gains portion.

12 Senator Kerrey. I agree. I understand the intent.

13 Mr. Kies. Yes.

14 Senator Kerrey. Just as long as you and Mark have  
15 done a calculation of potential problems with this in the  
16 manner that I have just described.

17 Similarly, on the small business stock, as I  
18 understand it you are going to have an effective rate of  
19 10 percent and you are raising the asset from \$50 million  
20 to \$100 million. You are raising the limit to \$100  
21 million of assets.

22 Mr. Kies. That is correct, Senator. It would be  
23 the gross amount of assets of the entity could not be  
24 more than \$100 million in order for the investment in the  
25 entity to qualify for this preferred treatment. So the

1 value of the entity would not be \$100 million, it would  
2 be its gross assets.

3 Senator Kerrey. Right.

4 Well, I do not need it now, Mr. Chairman, but I would  
5 like as a follow-on to see the calculations that you used  
6 to estimate the cost of that.

7 As you know, we have had some conversations about  
8 making some change in the excess business holdings for  
9 foundations, and we have got some cost estimates on that  
10 as well.

11 This looks like a fairly substantial change and  
12 anything you could do afterwards to give me an estimate  
13 of how you have calculated the cost would be helpful.

14 Mr. Kies. All right. Sure, Senator Kerrey.

15 The Chairman. Senator Graham. Then I would like to  
16 continue.

17 Senator Graham. Have you calculated what the cost  
18 of eliminating the depreciation recapture on real estate  
19 would be?

20 Mr. Kies. Yes, sir. It would be about \$7 billion  
21 for the 10-year period to lower to 20 percent.

22 The Chairman. Please proceed.

23 Mr. Kies. Section IV of the bill consists of the  
24 changes in the estate and gift tax area. The unified  
25 credit is phased up to \$1 million by the year 2008. The

1 various limits under the gift tax and estate tax  
2 provisions are indexed. In addition, there is an  
3 exclusion of \$1 million of qualified family farm and  
4 business property that is in addition to the unified  
5 credit.

6 The current law provision that provides for  
7 installment payment of estate taxes for closely-held  
8 businesses under Section 6166 which permits the payments  
9 of these over 14 years would be extended by 10 years.

10 The interest charged on those utilizing the  
11 installment method, which currently is 4 percent on the  
12 first million of value of the estate, would be changed to  
13 0 percent on the first million of the taxable estate.

14 The provisions under 2032(A) dealing with special use  
15 valuation would be clarified to indicate that farm cash  
16 rentals do not cause a recapture.

17 Item 6 is a modest change in the generation-skipping  
18 transfer tax to exempt individuals with deceased parents.

19 Finally, Item 7 is an exclusion from the estate tax  
20 of up to \$1 million for the treatment of land subject to  
21 a qualified conservation easement, and in addition the  
22 rules applicable to severed mineral rights would be  
23 modified to eliminate the current law rule which makes  
24 the current exception only applicable to mineral rights  
25 severed prior to June 13, 1976.

1 That completes a description of that section of the  
2 bill.

3 The Chairman. Please proceed.

4 Mr. Kies. Section V of the bill contains the  
5 expiring provisions. The provision dealing with  
6 contributions of appreciated stock to private foundations  
7 is extended through December 31, 1999. That provision  
8 previously expired on May 31 of this year.

9 The Orphan Drug credit is made permanent. The Work  
10 Opportunity Tax Credit is extended through December 31,  
11 1999, with a modification in the eligibility rules  
12 applicable to welfare recipients.

13 Finally, the R&D credit, which expired on May 31 of  
14 this year, is extended through December 31 of 1999.

15 Senator Nickles. Ken, on number 1, that is to  
16 market value, is it not?

17 Mr. Kies. That is correct. That is the provision  
18 that allows contribution equal to fair market value for  
19 contributions of appreciated stock to private  
20 foundations.

21 The Chairman. Please proceed.

22 Mr. Kies. The next section is the District of  
23 Columbia incentives.

24 Senator Gramm. Mr. Chairman, can I ask Ken one  
25 question on the inheritance tax?

1 The Chairman. Yes, Senator Gramm.

2 Senator Gramm. Ken, if we eliminated number 2 and  
3 just took the money to raise the deductible quicker and  
4 higher on number 1, what could we get?

5 Mr. Kies. Well, it would sort of depend on which  
6 one you wanted to do more of, quicker or higher, because  
7 they are sort of directly related.

8 Senator Gramm. Well, if you did it quicker first  
9 until you got to the million, then with any money you  
10 would have over the 10 years go higher, sort of what  
11 could you, in ball park figures, do?

12 Mr. Kies. You could probably design something that  
13 would get you to \$1 million rather than, in 2008, of  
14 probably in the neighborhood of 2003 or 2004. These  
15 things you have to kind of play with, but it would  
16 probably be somewhere in that neighborhood. So you could  
17 probably get to \$1 million several years earlier than  
18 under the mark. Then in the out years you could take it  
19 up higher, if that were the decision the committee wanted  
20 to make.

21 Senator Gramm. All right.

22 Thank you, Mr. Chairman.

23 The Chairman. Please proceed. I am sorry.

24 Senator Moynihan?

25 Senator Moynihan. Just for the record, Mr. Kies,

1 how many estates are subject to the estate tax?

2 Mr. Kies. Senator Moynihan, under current law in  
3 1998 we project that, of the 2.3 million people that will  
4 die, 40,100 will have taxable estates.

5 Senator Moynihan. 40,100.

6 Senator Chafee. Give us those statistics again,  
7 please, Ken.

8 Mr. Kies. We project, of the 2.3 million people  
9 that will die in the United States in 1998, that 40,100  
10 will have taxable estates.

11 Senator Chafee. What does the estate tax bring in,  
12 total, per year?

13 Mr. Kies. This year it is expected to bring in \$17  
14 billion. We expect that to grow to \$34 billion within  
15 the next 10 years.

16 Senator Baucus. That is under current law?

17 Mr. Kies. That is correct.

18 Senator Moynihan. Yes. And a lot of people are  
19 getting richer.

20 Senator Gramm. The number of families over the next  
21 10 years that pay the tax really goes up fast.

22 Mr. Kies. We project that, by the year 2007, there  
23 will be 73,000 taxable estates, which will be up from the  
24 40,000 in 1998.

25 The Chairman. I would point out that the Budget

1 Agreement, of course, provides that there will be  
2 substantial relief in the estate tax area.

3 Senator Moynihan. And may I say to my good friend,  
4 this truly is substantial.

5 [Laughter]

6 The Chairman. Please proceed.

7 Mr. Kies. The District of Columbia incentives makes  
8 several changes. First, the existing DC Enterprise  
9 Community, plus those Census tracts with greater than 35  
10 percent of poverty would receive Empowerment Zone  
11 treatment.

12 Second, new investments in the District of Columbia  
13 in the next 5 years, if held for 5 years, would qualify  
14 for a zero capital gains rate. That provision would  
15 sunset for new investment after 2002.

16 Finally, the administration proposal providing \$75  
17 million in tax credits to taxpayers that provide equity  
18 investment and loans to DC businesses would be adopted.  
19 All of these provisions are contingent upon enactment of  
20 legislation providing what essentially is an overall DC  
21 rescue package legislation that is currently pending in  
22 the two Houses.

23 Senator Jeffords. Mr. Chairman, that last part, it  
24 is contingent upon what?

25 Mr. Kies. Well, it is contingent upon the enactment

1 of legislation that would create, I believe it is  
2 referred to as the DC development board or entity. That  
3 is part of the overall legislation that has been proposed  
4 with respect to the District of Columbia, so these tax  
5 incentives would not take effect until that entity is  
6 actually created and enacted into law by the Congress.

7 Senator Jeffords. Thank you, Mr. Chairman.

8 I just want to point out, I know that there are a  
9 number of members that are looking and kind of lusting  
10 for this money, and I would hope we at least could keep  
11 this provision within the District of Columbia boundaries  
12 or to help the District of Columbia. So I would just  
13 alert anyone that tries to steal it, I will be trying to  
14 do my best to prevent that.

15 Thank you.

16 Senator Baucus. Mr. Chairman?

17 The Chairman. Senator Baucus.

18 Senator Baucus. Mr. Chairman, might I ask a  
19 question again about the estate and gift tax, and go back  
20 to that, if possible?

21 The Chairman. Yes.

22 Senator Baucus. Thank you very much.

23 Mr. Kies, in response to an earlier question, it  
24 might have been Senator Gramm who asked it, what would  
25 the effect be of eliminating, say, number 2, that is,

1 IV(2) in order to accelerate the unified credit to a  
2 million to an earlier date. You said, basically, by  
3 eliminating 2 you could accomplish that objective, and  
4 the earlier date would be, I think you said, 2004. Is  
5 that right?

6 Mr. Kies. Senator, it was a rough projection. I  
7 would project that you could probably get to a million  
8 perhaps even maybe a little earlier, 2003, 2002, I think.

9 Senator Baucus. Well, the reason I asked the  
10 question is earlier when I submitted our amendment to  
11 you, to Joint Tax, which had both the unified credit  
12 acceleration as well as a provision with respect to  
13 qualified family farms, my understanding is your office  
14 told us that that figure of 1997 to 2002 would be \$10  
15 billion more than you have got there. That is, the loss  
16 would be \$13 billion, not \$3 billion. I am just  
17 wondering what the difference is.

18 Mr. Kies. Senator, these estimates are  
19 significantly affected by the type of phase-in that you  
20 select. So it may be that the estimate that we provided  
21 had a different phase-in pattern, but I will check during  
22 the break and find out if we just took the entire amount  
23 of money that is in the \$1 million.

24 Senator Baucus. If you could. Our bill is very  
25 similar to the one that the Majority Leader also

1 introduced on the same subject.

2 Mr. Kies. All right. We will do that.

3 Senator Baucus. Thank you.

4 Senator Nickles. Mr. Kies?

5 The Chairman. Senator Nickles.

6 Senator Nickles. Going back to the DC provisions.

7 That exemption from capital gains, is that all investment  
8 in DC?

9 Mr. Kies. It is all investment in----

10 Senator Nickles. What is qualified DC business  
11 property?

12 Mr. Kies. Essentially, it is open to retail office  
13 buildings. It is a fairly open definition in terms of  
14 what would qualify.

15 Senator Nickles. Is that real estate property  
16 complex, duplexes?

17 Mr. Kies. Yes. Yes.

18 Senator Nickles. Apartments?

19 Mr. Kies. Yes. Generally, what it would not apply  
20 to is intangible assets, but retail establishments, any  
21 commercial establishments, things of that nature would  
22 all qualify for this rate.

23 Senator Nickles. So if I wanted to put in a liquor  
24 store or something like that, that is going to qualify  
25 for zero capital gains, or rental property in DC is going

1 to be exempt from capital gains, but not in Virginia? I  
2 know Senator Jeffords may have a different opinion, but I  
3 question this.

4 Mr. Kies. Senator, there is a list of types of  
5 businesses that frequently do not qualify for any tax  
6 incentives when these kind of provisions are done. They  
7 include liquor stores, various amusement activities, and  
8 things of that nature, and none of those would qualify.

9 Senator Nickles. I started to ask you that. I did  
10 not know what amusement activities you were talking  
11 about.

12 Mr. Kies. Those would not be qualified under this.

13 Senator Nickles. Now, I was actually looking at  
14 number 2, which I was interpreting to be pretty broad,  
15 the zero capital gains. I am thinking you are talking  
16 about new investment, and almost anybody that invests in  
17 DC is going to qualify.

18 Mr. Kies. That is correct, except that you have to  
19 realize there is a requirement that it be held for 5  
20 years so that no one would be entitled to the zero  
21 capital gain rate essentially any earlier than about  
22 2002.

23 Senator Nickles. Well, let me ask you another  
24 question. In the District of Columbia you have some very  
25 affluent neighborhoods and you have some very low-income

1 neighborhoods. But this applies to anywhere in the  
2 District of Columbia?

3 Mr. Kies. It applies to anywhere in the District of  
4 Columbia, but it, of course, would not apply to  
5 residential housing, it would only apply to business  
6 investment.

7 Senator Gramm. What if you rented the residential  
8 housing?

9 Mr. Kies. Then it would be rental property.

10 Senator Gramm. But if you bought a house and rented  
11 it for 5 years it would count, would it not?

12 Mr. Kies. It does not apply to residential  
13 investment, whether it is leased or owned, so those do  
14 not qualify. It is only commercial business  
15 establishments like retail office buildings, things of  
16 that nature.

17 Senator Nickles. One additional question. The \$75  
18 million in tax credits to taxpayers that provide equity  
19 and loans to certain DC businesses. Who is going to be  
20 the wizard that gets to choose who qualifies?

21 Mr. Kies. That is the DC board that I referred to  
22 earlier. Under the legislation which the administration  
23 has proposed, this board would, subject to certain  
24 criteria that are provided in the legislation, decide who  
25 these credits could be awarded to.

1           One of the requirements is that, for any dollar of  
2 credit awarded, the recipient has to be putting \$3 of  
3 investment of their own money into the investment that  
4 occurs in the District of Columbia. But the decision  
5 about to whom these credits would be awarded would be in  
6 the hands of this board to be created by other pending  
7 legislation.

8           Senator Nickles. All right. I appreciate the  
9 answer.

10          Mr. Chairman, I have some problems with some of this  
11 section, but I appreciate the answers to the question.

12          Senator Murkowski. Mr. Chairman, I have a couple of  
13 more questions relative to this.

14          The Chairman. Frank?

15          Senator Murkowski. For clarification purposes, you  
16 said duplexes, you said apartments. I am concerned about  
17 many of the residential homes on Capitol Hill that have  
18 an apartment in them. They may have an English basement  
19 or something. I would assume that they would qualify  
20 then.

21          Mr. Kies. They would not qualify.

22          Senator Murkowski. Then what is your cut? They are  
23 depreciating those properties. They are commercial in  
24 the sense that they generate rental.

25          Mr. Kies. Senator Murkowski, no residential

1 properties would qualify for the zero capital gains rate  
2 under this legislation.

3 Senator Murkowski. Well, distinguish for me a  
4 residential property from a duplex.

5 Mr. Kies. A duplex is residential.

6 Senator Murkowski. Well, you said duplexes.

7 Mr. Kies. That was incorrect. No residential  
8 property qualifies under the zero capital gains rate,  
9 whether it is a duplex, an apartment, a house, or any  
10 other residential property.

11 Senator Nickles. What about an apartment complex?

12 Mr. Kies. No. Only commercial business property,  
13 office buildings, retail, and things of that nature would  
14 qualify.

15 Senator Murkowski. And that would mean, if I own a  
16 building and have a cleaners in it, now that building  
17 previously could have qualified as a residential because  
18 they are all over Capitol Hill. They are these  
19 brownstones, for all practical purposes. Now, does it  
20 become commercial because they have a commercial activity  
21 in it, a cleaners?

22 Mr. Kies. In the case of a property like that it  
23 would be bifurcated. The residential piece would not  
24 qualify, the portion that is retail or commercial would.

25 Senator Murkowski. What concerns me a little bit is

1     how you make this definitive break because you are going  
2     to find people that are going to be able to say, well, I  
3     have got a commercial function in what I bought for a  
4     residence and it is very attractive now because it has  
5     got zero capital gains.

6             Mr. Kies.     Although, Senator Murkowski, this is a  
7     distinction that has existed in tax law for years because  
8     we give different depreciation to residential versus  
9     commercial.     So, I mean, it is a concept that the tax law  
10    has worked with in the past.

11            The Chairman.     All right.

12            Senator Mack.     Mr. Chairman?

13            The Chairman.     Connie Mack.

14            Senator Mack.     Yes.     If I may just make a comment  
15    here.     I mean, these provisions are put in here for the  
16    purpose of trying to encourage investment into the  
17    District of Columbia.

18            As we look at what is happening to the District, the  
19    only involvement of the Congress has been, how much money  
20    are we going to appropriate to the District?     There are  
21    those of us who think that we have got to find other  
22    alternatives, that we have got to find ways to develop  
23    incentive for people to invest and to move into the  
24    District.     Businesses and families are moving out of the  
25    District.

1           As those families move out, the tax base and the  
2 revenue base for the city declines and services begin to  
3 deteriorate and continue to deteriorate. If there is not  
4 a way found to turn that around, then the Congress is  
5 going to be called on more and more often for more and  
6 more appropriated accounts, and that is why this is in  
7 there.

8           The Chairman. I do want to limit comments on the  
9 part of the members to questions.

10          Senator D'Amato has not had a chance.

11          Senator Jeffords. Mr. Chairman, I have a question.

12          Is there any requirement that the businesses are  
13 owned by residents?

14          Mr. Kies. No, Senator, there is not.

15          Senator Jeffords. Thank you.

16          The Chairman. Senator D'Amato.

17          Senator D'Amato. Mr. Chairman, I would like to  
18 touch on the area of depreciation while we are talking  
19 about it, and capital gains tax cuts. While it does not  
20 center itself about Washington, I think it is appropriate  
21 to note, and I know that some have commented, that in our  
22 attempt to raise revenue, one of the things that is very  
23 discouraging is that we are treating certain Americans in  
24 a much different way than we are treating others on the  
25 basis of their business investments. I just do not think

1 that is fair. I think that we ought to be taxing people  
2 at the same rates, and businesses, and should not be  
3 discriminating.

4 In this case, those who invest in real estate are,  
5 and will be, taxed in terms of capital gains tax cuts at  
6 a different rate. By using the recapture provisions as  
7 it relates to those properties that were depreciated, it  
8 really does violence to that principle of fairness and  
9 equity in our taxing system. What happens is, we are  
10 singling out those who invest in real estate.

11 I would like to make this additional comment. Many  
12 regions of the country were savaged as a result of the  
13 collapse of the real estate market, and I believe to some  
14 extent that was exacerbated, the situation in the 1980s,  
15 as a result of the unfair manner in which reforms were  
16 made as it related to investments made in real estate.  
17 Retroactively we penalized people who had made  
18 investments. It is one thing to say future, but that is  
19 what we did in 1986.

20 Now, here what we are saying is that if you have  
21 invested in anything other than real estate your capital  
22 gains tax rate will be 20 percent, but if you invest it  
23 in real estate your capital gains rate will not be 20  
24 percent, but that part which has figured into  
25 depreciation will be taxed at a 26 percent rate. It is

1 just not right. It is inequitable. I have several  
2 amendments pending.

3 Now, I also think we run into a situation where we  
4 should not be in the business of having to raise rates  
5 for one class to deal with equity on another. So, I am  
6 somewhat uncomfortable about that and later when we get  
7 to the actual time to offer amendments, I will speak to  
8 that issue. But I certainly would hope that this  
9 committee, hopefully on a bipartisan basis, could work  
10 together to find a way, in a collaborative effort, to  
11 deal with this inequity because it is just not fair.

12 Thank you, Mr. Chairman.

13 The Chairman. Please proceed.

14 Mr. Kies. Mr. Chairman, I am turning to the  
15 miscellaneous provisions on page 4. The first item would  
16 create an inner city passenger rail fund, which would be  
17 funded with amounts equivalent to 0.5 cent per gallon  
18 from the gasoline tax through April 16, 2001.

19 Item 2 would provide an above-the-line deduction for  
20 certain State and local official expenses that are  
21 currently subject to the 2 percent of AGO limitation for  
22 deductible business expenses.

23 Item 3 would repeal the UBIT rule on income from an S  
24 corporation to an ESOP.

25 Item 4 would clarify the tax-exempt status of certain

1 Worker's Compensation funds.

2 Item 5 would essentially codify the IRS position with  
3 respect to corporate sponsorship of charitable  
4 organization events.

5 Item 6 would raise the charitable mileage rate from  
6 12 cents per mile to 15 cents per mile and index  
7 thereafter.

8 Item 7 would allow time share associations to elect  
9 to be taxed as homeowner associations at the 32 percent  
10 rate.

11 Item 8 would modify the passive foreign investment  
12 company provisions to eliminate the overlap between  
13 Subpart F and the so-called PFIC provisions.

14 Item 9 would phase in a clarification of the foreign  
15 sales corporation benefits for computer software.

16 Senator Nickles. Mr. Kies?

17 Mr. Kies. Yes, sir.

18 Senator Nickles. On that one, what is the  
19 difference in dollars if we just did it automatically, as  
20 some people think is appropriate?

21 Mr. Kies. I believe, Senator Nickles, that the cost  
22 is a couple of hundred million dollars. I believe it is  
23 around \$200-300 million if it went in immediately rather  
24 than being phased in over the 3-year period.

25 Senator Nickles. Well, a lot of individuals think

1 that is already the case. Anyway, if you would give that  
2 figure to me that would be appreciated.

3 Mr. Kies. We certainly can.

4 Senator Nickles. Thank you.

5 Mr. Kies. The next item would exempt from U.S.  
6 property definition under Subpart F certain securities  
7 positions.

8 The next item would direct the Secretary of the  
9 Treasury to limit treaty benefits for payments to certain  
10 hybrid entities.

11 The next item would equalize the tax rates among  
12 propane, LNG and methanol.

13 The next item would repeal the excise tax on  
14 recreational motor boat diesel fuel.

15 The next item would provide expensing for  
16 brownfields, developments, and empowerment zones,  
17 enterprise communities, and certain EPA demonstration  
18 sites.

19 The next item would reduce the excise tax on draft  
20 cider from its current level to the rate which applies to  
21 small-producer beer, which is 22.6 cents per gallon.

22 The next item would clarify the capital gains from  
23 culled cows that are not included in the disqualified  
24 income for purposes of the Earned Income Credit  
25 limitations.

1           The next item would provide involuntary conversion  
2 tax treatment for livestock sold on account of certain  
3 weather-related conditions which would expand the current  
4 law rule that only applies to livestock sold on account  
5 of drought conditions.

6           The next item would reverse the IRS position on the  
7 alternative minimum tax treatment of certain installment  
8 sales by farmers.

9           The next item would require a study on simplified  
10 collection of distilled spirits taxes.

11           The next item would restore the meal deduction  
12 limitation to 80 percent for those individuals subject to  
13 the hours of work limitation under the Department of  
14 Transportation regulations, and to Alaskan seafood  
15 processors. That would be phased up in 5 percent  
16 increments every other year until it hit 80 percent.

17           Senator Nickles. What is the deduction now?

18           Mr. Kies. The current deduction is 50 percent.

19           Senator Chafee. What was it before? I think we  
20 changed this in the 1986 bill.

21           Mr. Kies. At one time it was 100 percent, then it  
22 was reduced to 80 percent. Then I believe it was the  
23 1993 act that reduced it to 50 percent. This would phase  
24 it up to 80 percent for those individuals like truckers  
25 and other people subject to the hours of work limitation,

1 plus seafood processors.

2 Senator Nickles. So we are going to change it to 5  
3 percent per year?

4 Mr. Kies. Five percent every other year, until we  
5 hit 80 percent.

6 The next item would delay the penalties for failure  
7 to make payments under the electronic funds transfer  
8 provisions until June 30, 1998. The IRS recently waived  
9 those penalties through the end of this year.

10 The next item would allow grandfathered publicly-  
11 traded partnerships to elect to remain in partnership  
12 form, provided they agree to pay a 3.5 percent tax on  
13 their gross income.

14 The next item would exempt multi-employer plans from  
15 the Section 415 percentage limitations applicable to  
16 qualified defined benefit plans.

17 The next item would clarify the partial termination  
18 rules for trans-Alaska pension trust.

19 The next item would permit Montana to do a 5-year  
20 demonstration project with simplified tax and wage  
21 reporting for employment taxes.

22 Finally, item 26 would increase the size of projects  
23 financed with small issue taxes and bonds to \$20 million;  
24 the current level of investment is \$10 million. This  
25 provision would, however, keep the bond cap at \$10

1 million for these small issue projects.

2 Mr. Chairman, that completes the description of VII.

3 The Chairman. Senator Gramm.

4 Senator Gramm. Mr. Chairman, on your number 16,  
5 this is on the capital gains change for culled cows. I  
6 assume this applies to livestock across the board, that  
7 the sheep and goat people would get the same treatment?

8 Mr. Kies. That is correct. But not poultry.

9 Senator Baucus. I might say to my good friend from  
10 Texas though, female sheep are not cows.

11 [Laughter]

12 Senator Gramm. So it includes all livestock except  
13 chickens.

14 Mr. Kies. That is correct.

15 Senator Gramm. And the logic of excluding chickens  
16 is what?

17 [Laughter]

18 Mr. Kies. They are not subject to capital gain  
19 treatment, generally.

20 Senator Hatch. What about ostriches?

21 Senator Gramm. In other words, their production  
22 schedule is so short it is not relevant.

23 Mr. Kies. Exactly.

24 Senator Gramm. My sheep and goat people are going  
25 to feel good when they hear about this.

1 [Laughter]

2 The Chairman. Are there any more questions?

3 Senator Nickles. I think the Gramm modification of  
4 this is very important. But this is just for the  
5 purposes of the Earned Income Credit?

6 Mr. Kies. That is correct. Under current law, if  
7 you have more than \$2,200 of capital gains you lose the  
8 Earned Income Credit, and this would allow you to exclude  
9 that for purposes of that disqualification rule.

10 The Chairman. Senator Graham.

11 Senator Graham. Mr. Chairman, this goes to the item  
12 on the small issuer and the capital expenditure limit  
13 being increased from \$10 million to \$20 million. In a  
14 previous item under the education component there was the  
15 question of raising the limit for arbitrage from \$5  
16 million to \$10 million, is your recommendation.

17 Could you give us a revenue estimate of what it would  
18 entail if you raised that arbitrage limit to the \$20  
19 million that you have here?

20 Mr. Kies. Senator Graham, we can certainly find  
21 that out and we will let you know after the break.

22 Section VIII of the bill is the revenue offset  
23 section. The first series of provisions deal with taxes  
24 which go into the Airport and Airway Trust Fund.

25 Item 1 would provide for an extension of the current

1 law 10 percent ticket tax through September 30, 2007.

2 Item 2 would reduce the air passenger tax rate from  
3 10 percent to 7.5 percent for the ticket price of flight  
4 segments to and from certain rural airports.

5 Item 3 would repeal the \$6 departure tax and impose  
6 the 10 percent ticket tax on the portion of the  
7 international ticket price attributable to flight through  
8 U.S.-controlled air space. It would, however, retain the  
9 present law rule for domestic flights to and from Alaska  
10 and Hawaii.

11 Item 4 would impose a 10 percent ticket tax on cash  
12 payments made to airlines for air travel under credit  
13 card and similar programs, like frequent flyer programs.

14 Senator Conrad. Mr. Chairman, might I ask a  
15 question on that? Do you want to complete the section?

16 The Chairman. Yes, please. Then we will open it  
17 up.

18 Mr. Kies. Item 5 would require recognition for  
19 certain extraordinary dividends addressing the so-called  
20 Seagram's transaction.

21 Item 6 deals with the treatment of transactions under  
22 Section 355 dealing with so-called Morris Trust  
23 transactions. This would contain a significant  
24 modification from the originally-introduced legislation  
25 to essentially exempt intra-group spins within a

1 consolidated group if they are not part of a Morris Trust  
2 transaction involving the sale of an entity to an  
3 unrelated third party.

4 Item 7 would require recognition of gain on certain  
5 appreciated positions and personal property. This  
6 addresses the so-called short-against-the-box  
7 transactions.

8 Item 8 modifies net operating loss carryback rules  
9 from the current law rules which permit 3-year carryback  
10 and 15-year carry forward to 2-year carryback and 20-year  
11 carry forward.

12 Item 9 would modify foreign tax credit carry-over  
13 rules of current law so that they would provide for a 1-  
14 year carryback and a 7-year carry forward, rather than  
15 the current law 2-year carryback and 5-year carry  
16 forward.

17 Item 10 is a Treasury proposal which would modify the  
18 holding period for dividends received deduction.

19 Item 11 is another Treasury proposal which would  
20 provide for inclusion of income for principal contracts  
21 under Subpart F.

22 Item 12 would restrict the like-kind exchange rules  
23 involving the transfers of foreign for domestic property,  
24 bringing those rules into conformance with the rules  
25 currently applicable to real property like-kind

1 exchanges.

2 Item 13 would extend the last excise tax through  
3 September 30, 2007.

4 Item 14 addresses the treatment of preferred stock as  
5 boot.

6 Item 15 extends the FUTA surtax of current law of 0.2  
7 percent through December 31, 2007.

8 Item 16 provides for an expansion of the requirement  
9 that involuntarily converted property be replaced with  
10 property acquired from an unrelated person.

11 Item 17 would require registration of confidential  
12 corporate tax shelters.

13 Item 18 would provide for information reporting on  
14 corporations receiving contract payments from Federal  
15 agencies.

16 Item 19 would extend the disclosure of tax return  
17 information for the veterans' programs.

18 Item 20 would provide for a modification of the  
19 holding period for certain foreign tax credits of 16 days  
20 for common stock and 46 days of preferred stock.

21 Item 21 would reform the tax treatment of redemptions  
22 involving related corporations under so-called Section  
23 304.

24 Item 22 would restrict the income forecast method  
25 essentially to the entertainment industry and allow 3-

1 year depreciation recovery for rent-to-own property.

2 Item 23 would deal with gain and losses of certain  
3 terminations dealing with the so-called extinguishment  
4 doctrine.

5 Item 24 would clarify the rules as relates to  
6 interest on under-payments reduced by foreign tax credit  
7 carrybacks.

8 Item 25 would modify the basis allocation rules for  
9 distributing partners.

10 Item 26 would eliminate the substantial appreciation  
11 requirement for inventory of a partnership.

12 Item 27 would extend the UBIT rules to second-tier  
13 subsidiaries of tax-exempt organizations.

14 Item 28 would provide for carryover basis on sale of  
15 property to tax-exempt related parties.

16 Item 29 would modify the provisions applicable to  
17 corporate-owned life insurance, to make those rules  
18 applicable to essentially circumstance in which the  
19 corporation had an insurable interest. Under current  
20 law, these rules only apply to insurance on officers,  
21 employees and directors.

22 These rules would clarify that premiums are not  
23 deductible and interest borrowed from life insurance  
24 policies in the case of any insurance interest follows  
25 the rules applicable to officer, employer, and director

1 insurance and would provide for a pro rata interest  
2 disallowance rule for these types of policies.

3 Item 30 would terminate the suspense accounts for  
4 family farm corporations, the so-called Big Chicken  
5 provision, which would provide for a 20-year recapture of  
6 those amounts that are currently in a deferral account.

7 Item 31 would repeal the installment sale grandfather  
8 rule which was included in the 1986 Act for what appears  
9 to be three or four corporations.

10 Item 32 would repeal an 1986 grandfather rule which  
11 exempted from the general life insurance taxation rules  
12 the pension business of Mutual of America.

13 Item 33 would apply to the 3 percent telephone excise  
14 tax to certain prepaid phone cards.

15 Item 34 would provide for a consistency requirement  
16 for returns of beneficiaries of estates and trusts.

17 Item 35 would repeal the reporting requirement  
18 applicable to real estate transactions that will qualify  
19 for the principal residence exclusion under the capital  
20 gain provisions.

21 Item 36 clarifies the period of limitation relating  
22 to foreign tax credits.

23 Item 37 provides for a uniform excise tax on vaccines  
24 and adds three new vaccines.

25 Item 38 increases the amount which currently

1 qualifies for involuntary cash-out from pension plans  
2 from \$3,500 to \$5,000.

3 Item 39 repeals the 15 percent excess distribution  
4 tax, which also applies to excess accumulations in  
5 pension plans.

6 Item 40 repeals the special rule which permits  
7 certain companies to eliminate their AMT liability, an  
8 exception from the 90 percent limit on the use of foreign  
9 tax credits of current law.

10 Item 41 would provide employers the option to offer  
11 tax-free employee parking or taxable cash compensation.

12 Finally, Item 42 would replace the truck tax  
13 deduction for tire value with a tax credit for excise  
14 taxes paid on tires.

15 Mr. Chairman, that completes a description of that  
16 section.

17 Senator Hatch. Mr. Chairman?

18 The Chairman. Yes, Senator Hatch.

19 Senator Hatch. Mr. Chairman, let me just ask Ken,  
20 the mark changes the way taxes on international flights  
21 are calculated. Now, if you can give us the average  
22 dollar amount that international travelers will pay under  
23 your formula, how is this tax going to be administered?

24 Do travel agents and other sellers of transportation  
25 currently have the information they need about percentage

1 of a total trip in U.S. air space for tens of thousands  
2 of city payors in order to do the computations to derive  
3 the tax due on each ticket? If you could give us some  
4 background on that, I would appreciate it.

5 Mr. Kies. Senator Hatch, under the proposal the  
6 portion of an international flight that occurs within the  
7 U.S. air traffic control space, the portion of the ticket  
8 that relates to that portion of the flight would be  
9 subject to the 10 percent tax.

10 So, for example, if one flew from Rome to Atlanta,  
11 air traffic control space begins in the middle of the  
12 Atlantic Ocean. So, roughly, in that example probably  
13 about half of the trip would be within U.S. air traffic  
14 control space, so one-half of the ticket price would be  
15 subject to the 10 percent tax.

16 In terms of administrability, we are advised by the  
17 FAA that the administrability of this is not a problem  
18 because our current air traffic control system identifies  
19 exactly when a plane enters air traffic control space.

20 And, like the frequent flyer mile information that is  
21 available for determining how many frequent flyer miles a  
22 traveler earns on a particular trip, this type of  
23 information is also easily available.

24 In terms of the percentage of the trip that would be  
25 subject to the tax, in the case of a New York to London

1 trip it would be 12 percent, Dulles to London, 18  
2 percent, Miami to San Paolo, 4 percent. We have the  
3 various percentages.

4 Senator Hatch. Does this not put our domestic  
5 carriers at a decided disadvantage?

6 Senator Moseley-Braun. It does.

7 Mr. Kies. These rules would be imposed on both  
8 foreign and domestic carriers alike so that they would  
9 both be subject to the same rules.

10 Under current law, planes that overfly the United  
11 States but do not land here are already subject to  
12 overflight fees, so that it is only those planes that are  
13 international that actually land in the United States  
14 that are currently exempt from tax. We are already  
15 imposing tax on planes that fly over the United States  
16 but do not land here.

17 The Chairman. Carol?

18 Senator Moseley-Braun. Thank you very much.

19 I want to follow up on Senator Hatch's comment about  
20 our domestic industry.

21 Senator Hatch. Carol, could you yield for just one  
22 second?

23 Senator Moseley-Braun. Yes.

24 Senator Hatch. I asked you about the average  
25 dollar, if we could just get that. The average dollar

1 amount that the international travelers will pay under  
2 that formula.

3 Mr. Kies. Senator, I will try and find that out.

4 Senator Hatch. Can you provide that?

5 Mr. Kies. I would just caution you that it might be  
6 somewhat misleading, only because the percentage of the  
7 ticket that is subject to this tax has a wide variation,  
8 depending on the destination or the source of the trip.

9 For example, a flight from Seattle to Tokyo, 71  
10 percent of the flight is within U.S. air space, whereas,  
11 Miami to San Paulo, only 4 percent. So an average would  
12 necessarily be a function of some fairly wide variations  
13 that exist, but we will find out what that is.

14 Senator Hatch. All right. Thank you.

15 The Chairman. Carol?

16 Senator Moseley-Braun. If I may. Thank you very  
17 much, Senator Hatch and Mr. Chairman.

18 The percentage variation, though, sets up an internal  
19 discrimination in this country based on location, so that  
20 flights originating in the midwest or in the west would  
21 pay a higher proportion of this tax by definition.

22 Mr. Kies. Senator, that is correct. Just in terms  
23 of the policy here, those flights, of course, use more  
24 air traffic control services because they are within U.S.  
25 air traffic control space longer than a flight that, say,

1 leaves from Atlanta going to Europe.

2 Senator Moseley-Braun. But that seems to me to be  
3 the flaw in that part of the proposal, in that it sets up  
4 that kind of discrimination internal to our country,  
5 penalizing the heartland, among other things. As much  
6 the point, it thereby will have a negative impact on our  
7 domestic air traffic located particularly in the  
8 heartland of our country. I mean, that is kind of the  
9 predicate of the entire formula.

10 The Chairman. Senator Moynihan?

11 Senator Moynihan. I would simply like to ask Mr.  
12 Kies if he could describe the effect that the airline tax  
13 increases would have on Puerto Rico.

14 Mr. Kies. Senator Moynihan, the rules applicable to  
15 a trip to New York to London would apply to a trip from  
16 New York to Puerto Rico, so they would be subject to the  
17 10 percent tax, essentially. I think all of the trip  
18 from New York to Puerto Rico, or from Miami to Puerto  
19 Rico, is probably within U.S. air traffic control space.

20 The Chairman. I would like to ask you a question.  
21 Is it true that right now our domestic flights are  
22 subsidizing international flights in terms of cost of  
23 using our air traffic control system?

24 Mr. Kies. Certainly, Mr. Chairman, since we collect  
25 nothing on international flights arriving in the United

1 States, and we only collect \$6 on people departing. The  
2 consequence is that domestic air travelers essentially  
3 are picking up, to the extent that the ticket tax funds  
4 the FAA, all of that cost, so international travelers are  
5 paying very little.

6 Relevant to that I think also is the fact that under  
7 the current set of ticket taxes, we are only collecting  
8 about 62 percent of what it costs to fund the FAA from  
9 air travel generally. Your proposal for the 10-year  
10 period of 1998 to 2007 would raise that to 86 percent, so  
11 there would still be 14 percent paid by the general fund  
12 by non-utilizers of the air traffic control system.

13 Senator Gramm. Mr. Chairman?

14 The Chairman. Yes, Senator Gramm.

15 Senator Gramm. Well, Mr. Chairman, first of all, I  
16 am sure people were surprised when they saw this was  
17 going to raise \$17 billion. I think when you look at  
18 these charts you are going to understand why.

19 This is a map of the Pacific. You can see San  
20 Francisco and Los Angeles there. Then you can see over  
21 here, Japan, Manila, and Australia. The area that is in  
22 pink is American air space.

23 So, for example, if you fly from San Francisco to  
24 Manila, for all practical purposes you are flying in  
25 American air space 95, 98 percent of the time. So if

1 your ticket costs \$2,500, 95 to 98 percent of that is  
2 going to be subject to a 10 percent tax.

3 Now, obviously, I want to talk about that tax and  
4 what impact it has, and ask my question. But you are  
5 going to produce an infinite amount of gaming. People  
6 are going to fly places in order to get out of the United  
7 States and then to try to fly on. Of course, we will try  
8 to close the loophole. The Canadians ought to be here  
9 outside handing out tourist literature.

10 [Laughter]

11 Senator Gramm. If you look at the Pacific, it is  
12 obvious we are the world's air power because we claim  
13 most of the world as American air space. But, basically,  
14 half of the Atlantic Ocean is American air space.  
15 Somebody in Miami or somebody who wants to fly from  
16 Europe to Miami is going to pay that 10 percent ticket  
17 tax on half of their flight.

18 Now, let me finish the information and then pose my  
19 question. Most studies that have been done about the  
20 price elasticity of international travel have concluded  
21 that this price elasticity is one which means a 1 percent  
22 increase in the price reduces the number of people who  
23 buy that ticket by one, the number of tickets sold by 1  
24 percent.

25 Now, if that number is right and that was the number

1 that we used in all of our tourist work in Texas, we are  
2 going to lose \$47 billion a year in tourist business  
3 because of this tax. \$47 billion of tourist business.  
4 Having this kind of tax on airline tickets to come to  
5 America is like putting a cover charge at a department  
6 store.

7 What it basically means is, people are not going to  
8 come to look for something to buy. We are collecting  
9 from this \$7 billion more than we have under current  
10 taxes on aviation. You know, nothing is perfect. Part  
11 of this problem is trying to get this 250 pounds of sugar  
12 into a 100-pound bag.

13 But I do not think people have thought through the  
14 implications of a 10 percent tax, where you are going to  
15 have people paying \$250, \$300, \$400 in a tax to fly into  
16 the United States, the number one tourist destination in  
17 the world.

18 So if somebody wants to go to San Antonio and they  
19 are in Japan, they are going to find that their ticket  
20 price is maybe \$250 higher to go to San Antonio than it  
21 is to go to Europe, and they are not going to come to San  
22 Antonio.

23 So all I am saying, Mr. Chairman, is we really need  
24 to go back and look at this because this is a very  
25 competitive business and I think if we are not careful we

1 are going to have something like a cover charge at  
2 Macy's. Has anybody here looked at the implication on  
3 tourism spending? We have got almost one million people  
4 in America that are employed directly in tourism. What  
5 kind of impact would it have on employment or revenues  
6 from tourism; has anybody done any kind of study on this,  
7 or looked at it?

8 The Chairman. Do you have any comment?

9 I would urge everyone now to keep their comments  
10 short and ask questions.

11 Senator Gramm. Let me get an answer to that one, if  
12 I could.

13 Mr. Kies. Senator Gramm, we have not done a study  
14 of the impact on tourism. Certainly I think it would be  
15 worth looking at what the average cost of coach air  
16 travel is for these places, because frequently that is  
17 substantially less than, say, business or first class  
18 where we would predict very little impact on travel.

19 In many of the fares to Europe, the average ticket  
20 price, even round trip, is in the \$400-500 range, so if  
21 half of that fare is subject to this it would be \$250,  
22 which would be a \$25 cost.

23 I suspect that we would find that that increase in  
24 cost is a relatively small percentage of what European  
25 travelers end up spending in the United States in total,

1 so that the impact on the volume of travel for those type  
2 of travelers I think we would probably find would be  
3 relatively small.

4 In the case of Asian travel, you are right that our  
5 responsibility for air traffic control does cover most of  
6 the Pacific, but that is part of the reason that the FAA  
7 will spend \$100 billion in the next 10 years. I mean,  
8 that is a significant component of what they do.

9 The Chairman. Is it correct that domestic air  
10 travel is paying for air control of international waters?

11 Mr. Kies. Clearly that is the case under current  
12 law, Mr. Chairman, because international travelers, other  
13 than those that fly over the United States and do not  
14 land here, essentially pay very little. The only fee  
15 that is charged is the departure tax.

16 Senator Murkowski. Mr. Chairman?

17 The Chairman. Frank.

18 Senator Murkowski. I think it is important to note  
19 when my friend from Texas put up the chart that the  
20 reason that we have such a huge piece of the Pacific  
21 under U.S. air traffic control is the reality that you  
22 have the Hawaiian Islands, you have Guam. These are  
23 possessions, or whatever, so we control those spaces out  
24 there.

25 I would encourage the professional staff to try and

1 get us a little information relative to some of the other  
2 factors that affect foreign travel. Exchange rates have  
3 a dramatic effect on location for tourism because they go  
4 where you can get the best buy with the American dollar.

5 Fuel surcharges are passed on all the time relative  
6 to the airlines. I mean, it is something that is not  
7 necessarily a controllable factor.

8 Then if you want to really get into a zoo, start  
9 playing with the fares. There are combinations where  
10 they carry cargo and passengers. I mean, there is a  
11 myriad of rates out there. You can fly certain times a  
12 year for \$200 round-trip cheaper than you can go to New  
13 York.

14 So I think as you address the impact of this 10  
15 percent or thereabouts it is not going to scare your  
16 travelers away, by any means. There are just too many  
17 factors out there that address whether somebody is going  
18 to come to the United States or not, and among those are  
19 exchange rates, fuel surcharges, and range of fares.

20 I would encourage, and my question to the staff is,  
21 provide us with some information on some of those other  
22 factors that offset the suggestion from our friend from  
23 Texas that it is going to discourage activity.

24 The Chairman. Could I ask a question, then we can  
25 go ahead and begin to recognize.

1           If I fly from LA to New York, I pay the 10 percent.  
2           But if I travel from LA to New York to Paris, do I pay  
3           the 10 percent?

4           Mr. Kies.    Mr. Chairman, under current law there is  
5           a provision which seems a little odd, but it provides  
6           that the domestic leg of international travel is not  
7           subject to any tax.

8           So, in your example, if you and I were on a plane  
9           flying from LA to New York, and you got off in New York  
10          but I went on to London, you would pay the tax but I  
11          would not.

12          This proposal would impose the 10 percent tax on the  
13          domestic leg of international travel so that people  
14          flying domestically get treated the same as those who are  
15          going on an international trip that follows the domestic  
16          leg.

17          The Chairman.    Connie?

18          Senator Mack.    Thank you, Mr. Chairman.

19          Two questions, I guess.    The first one is, did anyone  
20          do a study to determine the impact on the so-called  
21          luxury tax?   My point is, we are getting ready to impose  
22          a tax that, frankly, many of us think could have a  
23          significant impact.   That is the first question.

24          The second question is, is it not fair to say that  
25          the issue of discrimination can be worked out within the

1 present tax? I mean, if there is discrimination you can  
2 deal with that issue without raising taxes: you can  
3 adjust the present law.

4 Mr. Kies. Senator Mack, you could adjust the  
5 package so that it would produce the level of revenues  
6 that are produced under current law.

7 However, there would remain a significant potential  
8 component of discrimination, at least in some people's  
9 minds, because the current taxes combined only fund 62  
10 percent of the FAA. So the general fund, which is paid  
11 by all taxpayers including those who do not travel, is  
12 essentially picking up the balance.

13 So some would view that as a remaining element of  
14 discrimination, if you will, because taxpayers generally  
15 are essentially paying for the rest of the FAA, including  
16 a lot of people that do not use any air traffic control  
17 services whatsoever.

18 In terms of the luxury tax issue, I think it is a  
19 reference to the impact on the boating industry. I am  
20 not sure you want to debate it.

21 Senator Mack. You do not have to answer that. That  
22 was just a rhetorical question.

23 Mr. Kies. Thank you.

24 The Chairman. Senator Conrad.

25 Senator Conrad. Thank you, Mr. Chairman.

1 Two questions. One, we have got in the  
2 industrialized world the oldest fleet in our airlines of  
3 any. Second, our airline industry lost money in the  
4 1990s. Third, now we are talking about a significant  
5 increase in tax. Has anybody looked at the economic  
6 impact on the industry and how that flows through to the  
7 rest of our economy, given the fact that we have got the  
8 dominant position in the airline industry in the world?

9 Mr. Kies. Senator, this is an issue that economists  
10 debate all the time and they, not surprisingly, do not  
11 necessarily reach agreement. But many people view the  
12 excise tax on airplane tickets as a tax that is really  
13 paid by the traveler, not by the airline industry,  
14 because most economists view excise taxes as ones that  
15 pass through to the consumer.

16 I think what the industry would argue is that an  
17 increase in excise taxes will have some effect on the  
18 level of ridership and that the industry will lose that  
19 portion of the profit attributable to those riders. But  
20 in terms of who actually bears the tax itself, I think  
21 most economists would conclude that it is borne by the  
22 passenger, not by the airline itself.

23 Senator Conrad. But would that not be the case? I  
24 mean, if we tax something, clearly we are going to get  
25 less of it. If we start increasing a tax on air travel,

1 you are going to get less of it and that has an impact on  
2 an industry that, frankly, has been very hard hit. You  
3 look at other industries in the United States and you  
4 look at what this industry has gone through in the 1990s;  
5 it is not pretty.

6 I do not think you would disagree with that in terms  
7 of the loss of money in the industry in the 1990s and the  
8 effect that has had in terms of the fleet that we have  
9 out there. It just seems to me we are sort of piling on.

10 Mr. Kies. Well, the earnings numbers for the last  
11 couple of years have been fairly optimistic.

12 Senator Conrad. But even with that, I mean, if you  
13 take the cumulative effect in the 1990s, this airline  
14 industry has lost money, have they not?

15 Mr. Kies. They are a very capital-intensive  
16 industry and they have been modernizing in the last  
17 couple of years. That has resulted in a substantial  
18 depreciation deduction which has depressed their  
19 earnings. So there is no doubt but that they have gone  
20 through a cyclical period.

21 Senator Baucus. And I might add, a lot has to do  
22 with the fare wars. I mean, a lot of this is brought on  
23 by the industry itself. With deregulation and fare wars,  
24 the industry has done massive restructuring.

25 Mr. Kies. I was going to point out, Senator Baucus-

1 ---  
2 The Chairman. Could I just point out that I do want  
3 to recess for lunch, and we are coming back in at 2:15.  
4 So I would ask everybody, try to keep this to questions.

5 Senator Conrad. Could I go to the second element of  
6 this question and just ask, the justification for the tax  
7 on credit card benefits for airline travel, it just seems  
8 to me this is discriminatory.

9 We are not taxing for other benefits that are on  
10 credit cards. I mean, I get these credit card entreaties  
11 two, three times a week now, and they have got a long  
12 list of benefits. But we have singled out the airline  
13 industry benefit plans for taxation. How do we justify  
14 that?

15 Mr. Kies. Well, Senator Conrad, I think that  
16 actually the current system is what discriminates,  
17 because currently if I use my Visa card and I earn miles,  
18 Visa periodically, monthly, makes a cash payment to  
19 United, or whatever other airline that I end up flying  
20 for free on.

21 Under current practice, my use of the air traffic  
22 control system I do not pay anything for, because these  
23 payments are not subject to the ticket tax, even though  
24 they represent cash payments for air travel.

25 Essentially, what this would do is impose the same 10

1 percent tax that fare-paying passengers pay when they buy  
2 an airline ticket. On the other hand, if I use my  
3 frequent flyer miles to stay in the hotel I do not use  
4 the air traffic control system when I am staying in the  
5 hotel.

6 So I think that imposing the tax on cash payments for  
7 compensating the airlines for air travel really produces  
8 a policy result that is consistent with the overall air  
9 ticket tax that is there.

10 Senator Conrad. It just seemed that we would go  
11 back to the question, and I understand the explanation,  
12 that we are sort of hitting this industry once, twice,  
13 three times. This is an industry that strikes me as not  
14 the one that is in the strongest position to take  
15 additional hits.

16 Senator Nickles. Mr. Chairman?

17 The Chairman. I would like to recognize Don.

18 Senator Nickles. Mr. Chairman, a couple of quick  
19 questions.

20 The Chairman. Jim Jeffords is actually next on the  
21 list. Jim?

22 Senator Jeffords. I have no questions.

23 The Chairman. All right.

24 Senator Nickles. Mr. Chairman?

25 The Chairman. All right. Let me recognize Don.

1           Senator Nickles.   Mr. Kies, you mentioned that on  
2 international flights you have an LA to New York that is  
3 not taxed. Do you have any computation what it would be  
4 if we just taxed the segments and not the international  
5 on air space, or maybe come up with something on that?

6           Mr. Kies.   A rough approximation of that would be  
7 that the House bill, for example, would have at one point  
8 imposed a tax on the domestic segment. The rate schedule  
9 is a little different, at 7.5 percent with \$2 per flight  
10 segment in addition, but that provision raised roughly \$4  
11 billion in the House bill.

12           So, based upon that rough approximation, the portion  
13 that is taxing travel within the air traffic control  
14 system by both domestic and international travelers would  
15 be around in the \$13 billion range over the 10-year  
16 period, or about \$1.3 billion a year.

17           Senator Nickles.   All right. Also, on this question  
18 on frequent flyer taxation, as I understood the proposal,  
19 the tax would be basically not when the ticket was  
20 purchased or not when it was redeemed, and a whole lot of  
21 people have miles but not a lot of people are flying or  
22 using those miles, or maybe they use it for cars or  
23 hotels. Is your proposal limited just to when the ticket  
24 is purchased?

25           Mr. Kies.   Senator, it essentially is limited to

1 that because the way in which the credit card companies  
2 have worked out their contractual relationships with the  
3 airlines is they make periodic payments roughly monthly  
4 that are intended to compensate the airlines for the  
5 travel that occurs within that time period by people who  
6 are redeeming frequent flyer miles.

7 So the alternative would be to try and impose it at  
8 the point that the person actually gets on the airplane,  
9 but since there is no economic transaction that they are  
10 entering into with the airline it would be rather  
11 impractical to impose it at that point.

12 So it is imposed when the cash payment goes from the  
13 credit card company to the airline, but those cash  
14 payments are timed to essentially reimburse the airlines  
15 on a fairly contemporaneous basis with respect to the air  
16 travel the airlines are providing free to frequent flyer  
17 travelers.

18 Senator Nickles. And it would not have any costs  
19 associated with things that are non-air travel.

20 Mr. Kies. No, not at all. This does not apply to  
21 any cash payment that is other than for the compensation  
22 for air travel.

23 Senator Nickles. I am going to shock you, and you  
24 are going to love this, but I am going to change  
25 subjects.

1           Could you explain 27?

2           Mr. Kies.    Yes, sir.  Under current law, if you have  
3           a tax-exempt organization which is a 501(c)(3) that  
4           controls a taxable entity, rental payments and other  
5           types of income that would generally be not taxable to  
6           the 501(c)(3) entity, if they are received from the tax-  
7           exempt they are subject to what is referred to as  
8           unrelated business income tax.

9           However, those rules do not apply to a second tier  
10          subsidiary, so if you have a tax-exempt and immediately  
11          under it is a taxable entity and under it is another  
12          taxable entity, rental payments from the second tier up  
13          to the tax-exempt are not subject to these UBIT rules.

14          All this provision would do is essentially provide  
15          the same set of rules to a taxable entity that is in the  
16          second or third tier, so you cannot avoid the UBIT rules  
17          by simply structuring the organization with the rental  
18          payments coming from the second-tier subsidiary.

19          Senator Nickles.    Thank you.

20          The Chairman.    I would now like to recognize Carol.

21          Senator Moseley-Braun.    This issue provides, for me  
22          at least, a wonderful opportunity to come together and be  
23          in coalition with Senator Gramm on an issue, and I think  
24          this is a wonderful thing.

25          Senator Nickles.    That is dangerous.

1 [Laughter]

2 Senator Moseley-Braun. At the outset, I agree with  
3 Senator Gramm. This is really penny wise, pound foolish  
4 policy. It seems to me we are going to unduly burden our  
5 domestic industry. It will have tremendous impacts on  
6 tourism, which apparently has not even been looked at  
7 yet.

8 It will have the effect of diminishing the strength  
9 of an industry that has already had difficulty in our  
10 country and that is important, not only for us in terms  
11 of our domestic activity, but internationally as well.

12 In addition, I want to raise, and my colleagues made  
13 the point, that this is kind of piling on with regard to  
14 the airline industry. There is another issue here. The  
15 IRS has apparently decided to change its tax treatment of  
16 aviation maintenance and repairs so that the cost of FAA  
17 repair cannot be expensed. So essentially we are taxing  
18 them.

19 We are going to put another tax on the industry for  
20 doing the safety repair. I fly twice a week. I try to  
21 get home because I have got a son at home, a teenager. I  
22 try to get home as much as I can. So now the cost of  
23 keeping those planes in good flying order will have to be  
24 borne by the carrier and they will not be able to deduct  
25 those costs and they will have to be depreciated.

1           So there is a change of policy at the IRS level. And  
2 I have a letter, by the way, which I hope our colleagues  
3 will take a look at, this change of policy in terms of  
4 international flights, particularly for States like  
5 Illinois where I consider us as having three airlines  
6 hubbed out of my State, even though one of them is really  
7 Missouri.

8           The fact is, it is going to have a tremendous  
9 negative impact, not only on the carriers themselves, but  
10 on tourism and every related industry and secondary and  
11 tertiary effects that are probably well in excess of any  
12 short-term revenue gain that is in this mark. So I think  
13 it is penny wise, pound foolish.

14           Again, I look forward to working with my colleague  
15 from Texas on this issue.

16           The Chairman.   Bob Graham.

17           Senator Graham.   Mr. Chairman, I just wanted to  
18 remind everybody why we are here at this subject today.  
19 We are here because we made a foolish decision a few  
20 months ago when we extended the aviation tax not to do it  
21 on a permanent basis, but rather to have it expire on the  
22 30th of September. Some of us opposed that.

23           Why did we do that? We did it to set up this totally  
24 fictitious process which says that we are enacting a new  
25 tax. The new tax that we are enacting effective October

1 1 is the tax that we had on September 30.

2 So the only reason the airline industry is being not  
3 only asked to continue the tax after the 30th of  
4 September but to pay a substantially higher tax is  
5 because they were the one person standing in the room  
6 when people looked around the room and said, who do we  
7 tax? It was a bad decision and now we are about to  
8 magnify the consequences.

9 So the question I would like to ask, and ask for not  
10 a response immediately but as we move on throughout the  
11 day, is if the airline industry had not been the only  
12 person in the room when the decision was asked as to  
13 where to raise this amount of revenue, who else would you  
14 have asked into the room to have considered them for the  
15 additional taxes to meet the committee's responsibility?

16 I would like to know who the fourth, fifth, and sixth  
17 people that you would have invited into the room would  
18 have been so that we can analyze what the policy  
19 implications are of the alternatives to this imposition  
20 on an industry which has all of the economic  
21 characteristics that my colleagues have just described.

22 I think that, for a totally irrational set of  
23 political judgments and decisions, we are about to  
24 compound into a serious economic blow to one of the  
25 mainstays of the American economy.

1 The Chairman. Bob Kerrey.

2 Senator Kerrey. Well, Mr. Chairman, I guess what we  
3 are saying is, in the next hour and 15 minutes we have  
4 got to find \$7 billion offset. Deal? All right.

5 I just want to call colleagues' attention, as well as  
6 the public's attention, to the section that we are not  
7 going to walk through that I consider to be very  
8 important, and I think it is an important message to put  
9 out.

10 This committee is also doing a lot of work and paying  
11 a lot of attention to simplification. There is a long  
12 section on simplification, and there are also things we  
13 are doing to make it more complicated. There are some  
14 things in this code that do address the problem of  
15 simplification.

16 The Chairman. Thank you.

17 With that, we will recess until 2:15.

18 [Whereupon, at 12:55 p.m., the meeting was recessed.]

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25

ORIGINAL

EVENING SESSION

(Time: 10:00 p.m.)

1  
2  
3 The Chairman. The committee will please be in  
4 order. I am indeed pleased to announce that after long  
5 discussions and many differences, agreement has  
6 basically been reached on the tax cuts.

7 We have discussed a number of issues, reached  
8 agreement as to how to compromise or modify them, and  
9 I will modify my mark accordingly. Let me review what  
10 we have agreed upon.

11 First, we will delete the international ticket tax  
12 proposal and substitute the following: First, a  
13 10-percent on domestic segment of international  
14 flights; second, there will be a \$8.00 ticket departure  
15 and arrival tax; two, we have reached agreement to  
16 allow one half of EIC in stacking with child credit.  
17 There is no change in income limits.

18 And three, we will cut depreciation recapture to  
19 24 percent. Four, cut one year from the unified credit  
20 phase up; five, we have a \$8 billion, five year add on  
21 in child health. In other words, this is in addition  
22 to the \$16 billion already approved by the Finance  
23 Committee.

24 The offsets include Clinton's continuous levy and  
25 debt collection proposal. And B) We will increase

ARHAM  
3/19/97  
15PP

1 cigarette tax as necessary.

2 Senator Baucus. Twenty cents.

3 The Chairman. I would point out that the tobacco  
4 tax will be 20 cents.

5 So that is a summary of the modifications that we  
6 have reached agreement on with respect to the  
7 Chairman's mark. I would now ask the committee whether  
8 they have reached agreement -- the staff rather, if  
9 they have reached agreement on the amendments they were  
10 reviewing.

11 Senator Moynihan. Mr. Chairman, before you do,  
12 could I offer the appreciation of this entire committee  
13 for what you have done? It was perhaps not doable, but  
14 you have done it again.

15 You have brought us together in a mode that has  
16 not been seen in Washington for a very long while, sir.  
17 It is a tribute to your experience and to your  
18 character. I think it would only be appropriate to me  
19 to say we now have \$24 billion in child health  
20 provisions over the five years.

21 This could not have happened without Senator Orrin  
22 Hatch, and I would like, personally, to acknowledge  
23 that, and I think others would agree. The provision  
24 for stacking the child provisions, the child credit  
25 with the earned income tax credit, could not have

1 happened without Senator Rockefeller.

2 There is not a person on this body who does not  
3 add significantly to this achievement, and none more  
4 so, singularly so, than you, sir.

5 The Chairman. With the possible exception of the  
6 ranking member. Again, I have to say it could not have  
7 happened, this agreement could not have been reached,  
8 if it had not been for the leadership and the  
9 contributions made by the Senator from New York, and I  
10 greatly appreciate that.

11 We will, first of all, ask the staff to review  
12 what they have been able to do on the amendments that  
13 they have been reviewing the last several hours. After  
14 we complete that, there is a list of amendments, which  
15 will be taken up at that time.

16 It is the intent of the Chair to limit the  
17 discussion of those amendments, each one, to five  
18 minutes. Three minutes for the proponent of the  
19 amendment, and two minutes for the opposition, if any.

20 So, Mark, will you proceed?

21 Mr. Prater. Mr. Chairman, the staff have met and  
22 worked on a package of modifications to the Chairman's  
23 mark. The document is soon to be delivered, but what I  
24 might do is give a brief summary of it.

25 The first provision would expand teacher education

1 expenses that are not subject to the 2 percent limit on  
2 miscellaneous itemized deductions for education and  
3 also add a certification requirement. The second one  
4 would clarify the treatment of purchased receivables by  
5 tax exempt hospital cooperative service organizations.

6 The third item would clarify the treatment of  
7 travel expenses of certain construction workers while  
8 working away from home. The fourth item would permit  
9 IRAs to hold bullion for investment purposes. That is  
10 bullion only.

11 Number five would clarify the meals and  
12 entertainment deduction for purposes of meals provided  
13 for the convenience of the employer. Number six would  
14 clarify the treatment of security brokers for worker  
15 classification purposes.

16 Item seven would extend the win and closed loop  
17 biomass production credit for 2 years for facilities  
18 placed in service up to the year July 1st, 2001. Item  
19 number eight would suspend the property income  
20 limitation on percentage depletion for marginal oil and  
21 gas production.

22 Item nine would modify the definition of rural  
23 airports that qualify for a reduced ad valorem tax rate  
24 under the Chairman's mark. Item 10 would limit  
25 charitable remainder trust eligibility with respect to

1 certain trusts.

2 Item 11 would provide mortgage financing for  
3 residences located in Presidentially declared disaster  
4 areas. Item 12 would modify the empowerment zone and  
5 enterprise community criteria with respect to Alaska  
6 and Hawaii.

7 Item 13 would provide further clarification with  
8 respect to exclusion of ministers for non-  
9 discrimination testing. These are actually technical  
10 changes. Item 14 would deal with further technical  
11 clarifications for ministers' retirement plans.

12 Item 15 would delay, by one year, the repeal of  
13 the installment sales rule for certain manufacturers.  
14 Item 16 would modify the definition of property for  
15 purposes of time shares and per a provision in the  
16 mark.

17 Item 17 would provide transition relief for  
18 certain transactions that are covered under the holding  
19 period rules for the dividends received deduction.  
20 Item 18 would modify the treatment of net operating  
21 losses with respect to Presidentially declared disaster  
22 areas.

23 Item 19 would modify the suspense account rule  
24 with respect to large family farm corporations. Item  
25 20 would treat the service income of non-resident alien

1 individuals earned on foreign ships as foreign source  
2 income and disregard the U.S. presence of such  
3 individuals for purposes of the withholding rules.

4 Item 21 would exempt from Subpart F, for one year,  
5 certain active finance income with respect to insurance  
6 and banking operations. Item 22 would delete the phase  
7 in with respect to the Fists for Software; the  
8 qualification of software with respect to the foreign  
9 sales corporation so that the provision would become  
10 effective currently. There are a package of pension  
11 proposals that were worked out amongst the staff.

12 And Item 25 would create a charitable contribution  
13 deduction for certain expenses incurred in support of  
14 Native Alaskan subsistence whaling. Item 26 would  
15 codify the Bureau of Alcohol, Tobacco and Fire Arms  
16 regulations on labeling.

17 Item 27 would provide a study with respect to the  
18 modification of rate structure on a vaccine excise tax.  
19 And item 28 would, except from the rule denying tax  
20 exempt status, to certain Federally guaranteed bonds.

21 And finally, item 29 would tighten the treatment  
22 of income from the sale of inventory within domestic  
23 territories between two taxpayers with respect to U.S.  
24 source income.

25 The Chairman. Are there any comments on the

1 report?

2 Senator Conrad. Mr. Chairman?

3 The Chairman. Yes?

4 Senator Conrad. Might we ask just brief  
5 questions?

6 The Chairman. Yes. But I would ask that we try  
7 to keep these as brief as possible.

8 Senator Conrad. Mark, could I ask? On the  
9 airline situation, I think it was item 12, does that  
10 deal with the number of enplanements to qualify for the  
11 reduced rate?

12 Mr. Prater. You are talking about the rural  
13 definition?

14 Senator Conrad. Yes.

15 Mr. Prater. This is just with respect to  
16 essential air service. It deals with the definition of  
17 the distance between the airports to qualify for this  
18 reduced rate. It is cutting it from 75 miles, which is  
19 in the bill, to 69.

20 Senator Conrad. Was there any adjustment made  
21 for what Senator Baucus and I requested, that is the  
22 number of enplanements to qualify?

23 Mr. Prater. Not in this proposal, Senator. Not  
24 in this piece.

25 Senator Conrad. Well, then it is not in here.

1 Mr. Prater. This was just with respect to the  
2 reduced excise tax piece, with respect to the provision  
3 that is already in the bill and the criteria there.  
4 The 100,000 enplanements is still there. The 75 mile  
5 test is the only thing that has been changed, and it is  
6 now down to 69 miles.

7 Senator Conrad. That is the point. There has  
8 been no adjustment for the number of enplanements that  
9 --

10 Senator Baucus. Right. And if I might, Mr.  
11 Chairman, can I --

12 Senator Conrad. Let me just ask that that be  
13 worked in.

14 Senator Baucus. Exactly. Could I ask Mr. Kies  
15 about that.

16 Mr. Kies. That particular change would cost  
17 against the package about \$700 million for the 10 year  
18 period. I think generally the provisions that were  
19 included in this package were of a lesser cost nature.

20 Senator Baucus. And \$350 million for five years?

21 Mr. Kies. I believe it is around \$300 million  
22 for five years.

23 Senator Conrad. We will be able to keep working  
24 on that, Mr. Chairman?

25 The Chairman. You can continue to work at the

1 staff level.

2 Senator Jeffords. Mr. Chairman?

3 The Chairman. Yes?

4 Senator Jeffords. I have a question.

5 The Chairman. Senator Jeffords.

6 Senator Jeffords. With respect to the pension  
7 proposals that increases the tax on prohibited  
8 transactions, does the language amend RISA or just the  
9 Internal Revenue code?

10 Mr. Prater. Just the Internal Revenue code.

11 Senator Jeffords. Thank you. That is all.

12 The Chairman. If there is no further comment, I  
13 would ask for a vote on these amendments. Those in  
14 favor, signify by saying aye.

15 [Chorus of ayes.]

16 The Chairman. Opposed, nay.

17 [No response.]

18 The Chairman. The ayes have it. The amendments  
19 are agreed to.

20 The committee is now open to further amendment.

21 Senator Gramm?

22 Senator Gramm. Mr. Chairman, I have an amendment  
23 that would take the 4.3 cent a gallon tax on gasoline  
24 that was adopted in 1993 and deposited into general  
25 revenues and move that 4.3 cent a gallon tax on

1 gasoline into the highway trust fund.

2 It would preserve the Chairman's provision for the  
3 rail fund provision, but it would guarantee that money  
4 we collect in a gasoline tax would for transportation  
5 purposes. And the Chairman's provision would be  
6 preserved, but the remaining amount would go into the  
7 highway trust fund.

8 I think we all understand this issue, and I hope  
9 my colleagues will support this important amendment.

10 Senator Chafee. Mr. Chairman?

11 The Chairman. Senator Chafee.

12 Senator Chafee. Mr. Chairman, every one of us  
13 talks about doing something about the deficit. What  
14 this would do is take the money, 4.3 cents, less then  
15 .5 cents, which is going to Amtrak--nobody argues with  
16 that--and take it from the general fund and put it into  
17 the highway trust fund where it will clearly be spent.

18 Now, if you look at it strictly from a budgetary  
19 point of view, you can say, oh, it is just going from  
20 one trust fund, the general fund, to the highway trust  
21 fund, and so that is budgetary neutral.

22 But the fact is it is going into the highway trust  
23 fund so it will be spent and not available in the  
24 general fund to take care of the obligations of the  
25 nation as they exist.

1           So I think this goes completely contrary to all  
2 our efforts to do something about balancing the budget,  
3 and I hope it will be rejected.

4           Senator Baucus.   Mr. Chairman?

5           The Chairman.   Senator Baucus?

6           Senator Baucus.   Mr. Chairman, I support this  
7 proposal.  The fact is that our highway users are  
8 paying a gasoline tax, they expect that gasoline tax to  
9 be used for highways and, I might add, mass transit.  
10 Under Senator Gramm's proposal, I assume it will be  
11 split between the mass transit account and the highway  
12 account of the highway trust fund.

13          Senator Gramm.   It would unchanged.

14          Senator Baucus.   All that is unchanged.  So I  
15 remind my colleagues from urban areas of the increase  
16 in the mass transit account, as well as increase in the  
17 highway account, and it does not affect the budget  
18 deficit.

19          Senator D'Amato.   Mr. Chairman?

20          The Chairman.   Thirty seconds.

21          Senator D'Amato.   Mr. Chairman, as someone who  
22 has to deal, along with Senator Moynihan, on the Iced  
23 Tea Bill that we are going to be authorizing, I tell  
24 you we need these dollars desperately.

25          The requests that have piled in are enormous, and

1 I want to commend the Senator, and I want to be  
2 supporting this. They have done it the right way.

3 Senator Conrad. Mr. Chairman?

4 The Chairman. Time is up. Those in favor of the  
5 amendment, signify by saying aye.

6 [Chorus of ayes.]

7 The Chairman. Opposed, nay.

8 [Chorus of nays.]

9 The Chairman. The ayes appear to have it. The  
10 ayes have it. The amendment is agreed to.

11 Senator Chafee. I would like a roll call vote,  
12 if I might, on that, Mr. Chairman.

13 The Chairman. A roll call vote has been  
14 requested. The Clerk will call the roll.

15 The Clerk. Mr. Chafee?

16 Senator Chafee. No.

17 The Clerk. Mr. Grassley?

18 Senator Grassley. No.

19 The Clerk. Mr. Hatch?

20 Mr. Hatch. Aye.

21 The Clerk. Mr. D'Amato?

22 Senator D'Amato. Aye.

23 The Clerk. Mr. Murkowski?

24 Senator Murkowski. Aye.

25 The Clerk. Mr. Nickles?

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

1 The Clerk. Mr. Kerrey?

2 Senator Kerrey. Aye.

3 The Clerk. Mr. Chairman?

4 The Chairman. Aye.

5 The Clerk. The votes are 15 yeas, 5 nays.

6 The Chairman. The amendment is carried.

7 Senator Mack. Mr. Chairman?

8 The Chairman. Senator Mack?

9 Senator Mack. Thank you, Mr. Chairman.

10 I have an amendment that would modify the District  
11 of Columbia tax incentives. I am proposing to change  
12 one element of it, the one that is designated as an  
13 enterprise zone.

14 It is so narrowly written that, frankly, it would  
15 not be a great deal of help. So I am proposing that  
16 for the same amount of money we provide a tax credit  
17 for a first time home buyer. Again, the purpose here  
18 is to stop the flight of residents and attract new  
19 residents, help keep the middle class in D.C., promote  
20 home ownership, which, in turn, produces people who  
21 will care about the neighborhoods and schools.

22 This is, again, an incentive to try to build up  
23 the tax base in the District of Columbia, and the cost  
24 of this is revenue neutral with respect to the  
25 Chairman's mark. And I would ask my colleagues to

1 support this amendment.

2 The Chairman. Any further comment?

3 Senator Jeffords. What is the amount of money  
4 involved with this?

5 Senator Mack. It is \$101 million for five years  
6 and \$124 million for 10 years. And again, that fits  
7 within the mark.

8 The Chairman. All time having bene used up,  
9 those in favor, signify by saying aye.

10 [Chorus of ayes.]

11 The Chairman. Opposed, nay.

12 [Chorus of nays.]

13 The Chairman. The ayes appear to have it. The  
14 ayes have it. The amendment is agreed to.

15 Open to further amendment.

16 Senator Grassley. Mr. Chairman?

17 Senator Conrad. Mr. Chairman?

18 The Chairman. Senator Conrad?

19 Senator Conrad. Mr. Chairman, I have an  
20 amendment that creates a narrow exception for first  
21 time home buyers to the provision in the Chairman's  
22 mark regarding the treatment of company owned life  
23 insurance.

24 The purpose of this amendment is to preserve  
25 the ability to insure low and moderate income first

1 time home buyers so they can make their mortgage  
2 payments, if unemployed or disabled, or pay off the  
3 mortgage if the borrower dies.

4 I understand that there are sums on the joint  
5 committee staff that propose language in the mark  
6 because of concern about the broad use of company owned  
7 life insurance by consumer credits. Let me just say,  
8 Mr. Chairman, that I have attempted to address that by  
9 limiting any tax payer's purchase of such insurance to  
10 one percent of total mortgage assets.

11 Nevertheless, my amendment leaves the protections  
12 proposed by the staff in the mark. It shuts the door  
13 that they believe is open, but it does not do so at the  
14 expense of insurance for low and moderate income first  
15 time home buyers. These are people we should be  
16 helping.

17 There is also some concern that borrowed funds  
18 would be used to pay for this insurance. Since 1942,  
19 the tax code has prohibited borrowing to purchase this  
20 type of insurance, and Fannie Mae, like many other  
21 corporate purchasers of insurance, has complied with  
22 that restriction in developing this mortgage protection  
23 plan.

24 If I could just say to my colleagues this is a  
25 simple concept of the company buying insurance for

1 those who buy homes to reduce the risk so they can  
2 expand home ownership in this country, and what they  
3 would do is have insurance to cover the risk of the  
4 death of the purchaser, the disability of the purchaser  
5 or the loss of employment of the purchaser.

6 I am proud to have Senator D'Amato's co-  
7 sponsorship.

8 The Chairman. I am going to ask Ken Kies to  
9 comment on the proposal.

10 Mr. Kies. Senator Conrad, this particular  
11 proposal, as we understand it, would essentially permit  
12 Fannie Mae to go forward with the program that they had  
13 proposed. Under current law, they would be permitted  
14 to deduct these premiums for business purposes, which  
15 other corporations may not deduct premiums on insurance  
16 purchased with respect to employees, officers or  
17 directors. That rule would not apply to Fannie Mae.

18 In addition, under current law, they are  
19 prohibited officers, employees or directors insurance  
20 held by a corporation. You cannot borrow out of the  
21 cash value and deduct the interest, as result of  
22 legislation enacted last year.

23 This legislation, while it might prohibit direct  
24 borrowing from the insurance, would nevertheless permit  
25 Fannie Mae to borrow other money because they would be

1       deploying their capital into these life insurance  
2       products, and the other borrowing that would occur  
3       would give rise to taxable interest deductions.

4               So essentially, while they would not be borrowing  
5       out of the policy, they would be borrowing elsewhere,  
6       which would product interest deductions that would  
7       offset their income. The concern I think --

8               Senator Conrad. Could I just interrupt on that  
9       point and indicate that Fannie Mae has assured me they  
10      will not be borrowing to buy first time home buyer  
11      insurance; that they will be paid only out of retained  
12      earnings. There would be no borrowing. There would be  
13      no borrowing against the policy, and there would be no  
14      borrowing to fund this program.

15              Mr. Kies. Senator Conrad, what they would be  
16      borrowing is money that they would not otherwise have  
17      to borrow if they used the retained earnings for the  
18      business that they are generally in, which is  
19      purchasing home mortgages, and their borrowing rate is  
20      preferred because they are quasi-Federal governmental  
21      agencies.

22              So, while they would not be borrowing out of the  
23      life insurance policy, because they are using their  
24      retained earnings and putting it into a life insurance  
25      product, rather than using it in their mortgage

1 business, their borrowing needs would be larger than  
2 what otherwise would be the case.

3 Their projected earnings from this particular  
4 activity within 10 years would be over \$1 billion.

5 The Chairman. All time has been used up.

6 Senator Conrad. Mr. Chairman, can I just respond  
7 to that point?

8 The Chairman. Thirty seconds.

9 Senator Conrad. The CBO reports the credited  
10 rate of return inside a universal life policy is 6.35  
11 percent. Obviously they would have administrative and  
12 mortality costs out of that, which would reduce, to  
13 their estimate, is 5 percent.

14 The home buyer, not Fannie Mae, will get the  
15 benefit of pay outs under these policies, even beyond  
16 the 30 life of the mortgage. So I think these  
17 objections that have been raised do not relate to what  
18 I have offered here tonight.

19 Senator Chafee. Mr. Chairman?

20 The Chairman. Yes?

21 Senator Chafee. It seems like a good thing for  
22 the homeowner to me.

23 Senator D'Amato. It certainly is. Mr. Chairman,  
24 let me ask a question.

25 If we do not accept this amendment, does not the

1 cost of Fannie Mae unto the homeowners then increase as  
2 a result of where we find ourselves?

3 Mr. Kies. Senator D'Amato, this will have no  
4 impact whatsoever on homeowners because the decision to  
5 either accept or reject the offer of home insurance can  
6 only be made after the mortgage is in place, under the  
7 terms that Fannie Mae has proposed. So it will not  
8 affect the homeowners.

9 Senator D'Amato. Fannie Mae has projected  
10 actually reducing the cost of homeowners by utilization  
11 of this plan and, as estimated, that you will put  
12 30,000 plus people annually in homes that would not  
13 have an opportunity, and that is a very modest thing.

14 We are not talking about increasing corporate  
15 profits here. We are talking about decreasing the cost  
16 to first time home buyers.

17 The Chairman. All time is used. Those in favor  
18 of the amendment, signify by saying aye.

19 [Chorus of ayes.]

20 The Chairman. Opposed, nay.

21 [Chorus of nays.]

22 The Chairman. The ayes appear to have it. The  
23 amendment is agreed to.

24 Senator Grassley. Mr. Chairman?

25 The Chairman. Yes, Senator Grassley?

1           Senator Grassley. I am offering an amendment  
2 that will extend the ethanol tax credit. Besides  
3 extending the ethanol tax credit, it would gradually,  
4 over the next few years, decrease the incentive from  
5 5.3 cents in the year 2001, 5.2 in the year 2003 and  
6 2004, and 5.1 beyond that, through the year 2007.

7           The reason for being able to reduce it, at the  
8 same time we are extending it, is because we have an  
9 opportunity then, as the infant industry becomes  
10 stronger, that they will be more efficient.

11           What I want to say to my colleagues is this is my  
12 amendment and Senator Moseley-Braun's amendment. We  
13 share the sponsorship of this.

14           We are at a stage where we are having declining  
15 production of energy in the United States, importing  
16 more energy.

17           We want to emphasize renewable fuels, we want  
18 to emphasize environmentally good fuels, we want to  
19 reduce our balance of trade deficit, and 70 percent of  
20 the competition of ethanol, which is methanol, is  
21 imported, so it adds to our balance of trade.

22           In fact, half of our balance of trade comes from  
23 importation of oil. You will have a letter passed out  
24 to you now that Generals and national security advisors  
25 of Presidents in the past have signed a letter on the

1 need of more energy independence for national security  
2 reasons.

3 You will also have a chart that shows that when  
4 the exemption runs out, the credit runs out, the harm  
5 that it does to each of your States, to the economy of  
6 each of your States.

7 So we have a proposal here that is good for  
8 agriculture, good for national security, good for  
9 energy independence, good for the environment. It is  
10 just plain good, good, good. There is nobody that  
11 loses with this tax incentive.

12 And I can tell by the laugh in the audience that  
13 we have got a lot of people out there that think food  
14 grows in supermarkets and not on farms.

15 Senator Moseley-Braun. Mr. Chairman?

16 Senator Rockefeller. Mr. Chairman?

17 The Chairman. Senator Rockefeller?

18 Senator Rockefeller. Mr. Chairman, I strongly  
19 oppose this. Number one, this is not exactly an infant  
20 industry we are talking about. They have 54 cent tax  
21 advantage credit over other fuels, like natural gas,  
22 coal, etcetera, all of which can be used, and the magic  
23 is in the word renewable.

24 People hear the word renewable, and they pass  
25 right over it. Obviously corn is renewable. Coal and

1 natural gas takes a couple of million years and is not  
2 so renewable.

3 So ethanol has a huge tax advantage over the rest  
4 of them, and I am all for alternative fuels--a  
5 long-time crusader for it--however, it has to be done  
6 equitably. Ethanol is being handled more than  
7 equitably already.

8 Senator Moseley-Braun. Mr. Chairman?

9 The Chairman. Carol?

10 Senator Moseley-Braun. Thank you. Mr. Chairman,  
11 without this amendment, we will see a \$9 billion  
12 increase in the costs associated with foreign oil  
13 imports that will have to be brought to this country, we  
14 will see 14,000 direct job losses, based on analysis by  
15 the Department of Agriculture, and we will see a \$10  
16 million reduction in net farm income.

17 And I believe Senator Grassley is exactly right.  
18 This amendment is good, good, good, and I hope as many  
19 votes as required to pass it.

20 Senator Nickles. Mr. Chairman?

21 The Chairman. Senator Nickles?

22 Senator Nickles. Mr. Chairman, some people have  
23 talked about the need to repeal this. I say we should  
24 not extend it. As I understand this amendment, this  
25 would extend the credit.

1 Senator Grassley. And reduce it.

2 Senator Nickles. Right now it is 54 cents a  
3 gallon, and I believe it is reduced to 51 cents a  
4 gallon. That is a major, major tax subsidy for a fuel  
5 to compete against other fuels. I do not think it  
6 makes economic sense. I also do not think it makes  
7 environmental sense. I would hope that we would object  
8 the amendment.

9 Senator Grassley. Can we have a roll call vote?

10 The Chairman. Yes. The time on the matter has  
11 expired. The Clerk will call the roll.

12 The Clerk. Mr. Chafee?

13 Senator Chafee. Aye.

14 The Clerk. Mr. Grassley?

15 Senator Grassley. Aye.

16 The Clerk. Mr. Hatch?

17 Mr. Hatch. Aye.

18 The Clerk. Mr. D'Amato?

19 Senator D'Amato. Aye.

20 The Clerk. Mr. Murkowski?

21 Senator Murkowski. Aye.

22 The Clerk. Mr. Nickles?

23 Senator Nickles. No.

24 The Chairman. Mr. Gramm, of Texas?

25 Senator Gramm. Aye.

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

1 The Chairman. No.

2 Senator Grassley. The votes are 16 yeas, 4 nays.

3 The Chairman. The amendment is agreed to.

4 If I could have your attention. If I could have  
5 your attention. The chair is going to make a motion to  
6 reconsider the vote on the first time low or moderate  
7 income home buyer exception with de minimis limitation.

8 I do not think the full impact of this amendment  
9 was appreciated. I would point out that it would lose  
10 over \$1 billion--or \$2 billion--over 10 years so that  
11 our legislation would not be conforming to the budget  
12 agreement.

13 So I would ask that we reconsider it. Before we  
14 have a vote, I would like to ask the administration for  
15 its comments.

16 Mr. Lubick. Mr. Chairman, we think that Mr. Kies  
17 has correctly stated the impact. This is essentially  
18 an arbitrage situation whereby Fannie Mae is able to  
19 use its capital, which is largely borrowed funds, in  
20 order to produce some very significant profits for  
21 itself on its portion of the policies, which it retains  
22 even after the mortgage has been disposed of.

23 So we think it is certainly an unnecessary  
24 financing. As a matter of fact, I think they can  
25 actually do this type of promotion of insurance in a

1 profitable way, even without the arbitrage. It is not  
2 necessary for them to have that deduction. We have  
3 been talking with them on that.

4 The Chairman. Is it fair to say that is a  
5 corporate tax shelter?

6 Mr. Lubick. It is a corporate tax shelter of the  
7 type that you closed last year.

8 The Chairman. So we would be creating a loophole  
9 to our actions of the last year?

10 Mr. Lubick. I think at that time you did not  
11 realize it was possible to do this beyond the  
12 employer/employee type situation.

13 Senator Chafee. Mr. Chairman?

14 The Chairman. Yes?

15 Senator Chafee. Would this score? Are you say  
16 this scores minus \$10 billion?

17 Mr. Kies. Our best estimate is minus \$2 billion  
18 because it would essentially wipe out the revenue  
19 raised by the provision that is in the bill.

20 Senator Chafee. That is in the five years?

21 Mr. Kies. That is a 10 year number.

22 Senator Conrad. Mr. Chairman? Mr. Chairman, how  
23 can the score not change when we have changed the  
24 amendment to restrict it to low and moderate income  
25 mortgages? How can the score be exactly the same when

1 the amendment has changed?

2 Mr. Kies. Because those were the people they  
3 were planning to insure under their original program,  
4 Mr. Conrad.

5 Senator Conrad. Look, I submitted one amendment,  
6 and I was given a score of \$2 billion. We changed the  
7 amendment to restrict it, and now we get the same  
8 score.

9 Mr. Kies. The original amendment you submitted  
10 we gave you a score of \$2.2 billion. The amendment you  
11 have now submitted is at \$1.9. So it has gone down by  
12 \$300 million.

13 The Chairman. I will ask for a roll call vote.  
14 I urge my colleagues to vote aye on the motion to  
15 reconsider.

16 The Clerk will call the roll.

17 The Clerk. Mr. Chafee?

18 Senator Chafee. Aye.

19 The Clerk. Mr. Grassley?

20 Senator Grassley. Aye.

21 The Clerk. Mr. Hatch?

22 Mr. Hatch. Aye.

23 The Clerk. Mr. D'Amato?

24 Senator D'Amato. No.

25 The Clerk. Mr. Murkowski?

1 Senator Murkowski. Aye.  
2 The Clerk. Mr. Nickles?  
3 Senator Nickles. Aye.  
4 The Chairman. Mr. Gramm, of Texas?  
5 Senator Gramm. Aye.  
6 The Clerk. Mr. Lott?  
7 Mr. Lott. Aye.  
8 The Clerk. Mr. Jeffords?  
9 Senator Jeffords. Aye.  
10 The Clerk. Mr. Mack?  
11 Senator Mack. No.  
12 The Clerk. Mr. Moynihan?  
13 Senator Moynihan. Aye.  
14 The Clerk. Mr. Baucus?  
15 Senator Baucus. Aye.  
16 The Clerk. Mr. Rockefeller?  
17 Senator Rockefeller. No.  
18 The Clerk. Mr. Breaux?  
19 Senator Breaux. Aye.  
20 The Clerk. Mr. Conrad?  
21 Senator Conrad. No.  
22 The Clerk. Mr. Graham, of Florida?  
23 Senator Graham. No.  
24 The Clerk. Ms. Moseley-Braun?  
25 Senator Moseley-Braun. No.

1 The Clerk. Mr. Bryan?

2 Senator Bryan. No.

3 The Clerk. Mr. Kerrey?

4 Senator Kerrey. Aye.

5 The Clerk. Mr. Chairman?

6 The Chairman. Aye.

7 The Clerk. The votes are 15 yeas, 5 nays.

8 The Chairman. The motion to reconsider is  
9 carried.

10 Senator Conrad. Mr. Chairman, could we have a  
11 limitation on moves to reconsider amendments that I  
12 pass?

13 [Laughter]

14 The Chairman. Do you want a roll call vote on  
15 that?

16 [Laughter]

17 The Chairman. We will now voice vote the  
18 amendment. Those in favor of the Conrad amendment,  
19 signify by saying aye.

20 [Chorus of ayes.]

21 The Chairman. Those opposed, nay.

22 [Chorus of nays.]

23 The Chairman. The nays have it. The amendment  
24 is not agreed to.

25 We are open to further amendment.

1 Senator Jeffords. Mr. Chairman?

2 The Chairman. Senator Jeffords?

3 Senator Jeffords. Mr. Chairman, first of all, I  
4 modified my amendment to exclude the MAC money that was  
5 previously approved.

6 This amendment would attempt to try and bring the  
7 D.C. School system's buildings up to something that can  
8 be acceptable. I served for two years as the Chairman  
9 of the Subcommittee for D.C. I know this school  
10 system, I know the mess it is in, I know the problems  
11 it has, and I am pledged to try to do all I can to take  
12 care of it. I may be a little bit emotionally involved  
13 in this one.

14 Now, people say, well, you know, it is Mayor  
15 Marion Barry and all that. We are in control. We took  
16 back the D.C. School systems. We are not in control.  
17 We have a control board, we have a school board of  
18 trustees, we have appointed the Superintendent; we have  
19 done all of that. We have a responsibility.

20 This system is in terrible shape. It has the  
21 worst educational records of any city in this country,  
22 it has about the worst infrastructure of any city in  
23 this country, and you have charts that show both of  
24 those.

25 What we need to do is to do what we did last year.

1 We said we are going to create all of these educational  
2 helps to them, as far as wordings in the languages.  
3 The present cost of trying to do this is about \$2  
4 billion. Fifty thousand people left in the 1990s and  
5 200,000 before that.

6 Now, those people that left, take \$19.8 billion  
7 out of the city. Commuters coming in bring \$200  
8 million, and we do not allow them to tax it. No other  
9 city has a restriction that you cannot tax your  
10 commuters. So we cannot do anything about that.

11 This city's educational system is a sick,  
12 handicapped orphan living in a dump, and we have the  
13 responsibility to take care of it.

14 The proposals that are in here will do nothing.  
15 Nobody is going to move in kids when it costs them  
16 \$10,000 a kid to send them to a private school.  
17 Nothing in here is going to help take care of this  
18 school system.

19 I hope you would support this amendment and help  
20 us get out of a very embarrassing situation because  
21 none of the proposals in here will do anything to  
22 improve the city in a way that it can improve its  
23 school systems.

24 The Chairman. Senator Mack?

25 Senator Mack. Thank you, Mr. Chairman. And

1 again, I would ask my colleagues to vote against this  
2 amendment. We have a very small amount of money in  
3 this bill to create an incentive for economic activity  
4 in this district.

5 We have a choice. We can continue to go along the  
6 way that we have been doing for years, and that is  
7 through the appropriations process; continue to try to  
8 solve the problems in Washington, D.C.

9 I think by offering a \$900 million package of  
10 incentives can change what happens in D.C., create  
11 jobs, entice investment and turn this city around. Two  
12 hundred and fifty thousand residents have left since  
13 1950. In the first half of this decade we have lost, I  
14 think, something like 50,000 more.

15 We need to do something different from what we  
16 have been doing in the past, and I think that, again,  
17 we defeat the Jeffords Amendment and keep the package  
18 as it is.

19 The Chairman. Ken, can you tell us where we are  
20 on the score keeping?

21 Mr. Kies. Yes, Senator Roth. I just want to  
22 clarify where we are in D.C., because I believe Senator  
23 Mack's amendment deleted the portion of the package  
24 which created an empowerment zone or an enterprise  
25 zone.

1           The amendment that Senator Mack offered lost \$115  
2 million over five years and \$247 over 10. The  
3 provision that he deleted only spent \$101 over five and  
4 \$124 over 10. So, Senator Mack's amendment puts you  
5 against the package, at about a negative \$130 million.

6           Senator Jeffords, as I understand it, you are  
7 deleting what is left of D.C.?

8           Senator Jeffords. Well, it is my understanding  
9 that the Mack Amendment --

10          [Laughter]

11          The Chairman. Do you want to rephrase that?

12          Mr. Kies. What is left of the incentives in the  
13 package for the District of Columbia.

14          Senator Mack. That is right.

15          Senator Moseley-Braun. Mr. Chairman?

16          Mr. Kies. But the clarification that I think is  
17 necessary at this point is Senator Mack's Amendment was  
18 not revenue neutral with respect to what he struck out  
19 of the D.C. package, and so I think the committee needs  
20 to decide whether that was what they wanted to do.

21                 Or did they want to strike out of the D.C. package  
22 what was necessary to pay for Senator Mack's Amendment,  
23 which would only then leave what is left for Senator  
24 Jeffords' Amendment.

25                 There was a total of \$989 million that was going

1 to be spent on the District. Senator Mack's Amendment,  
2 if it was meant to be revenue neutral, would have spent  
3 \$247 over 10. So the remaining amount would be  
4 approximately \$740 million.

5 Senator Mack. That is right. Ken, I think there  
6 is a clarification here. In our discussions there was  
7 to be a five year limit there on the first time home  
8 buyer tax credit. Isn't that right?

9 Mr. Kies. Just one second.

10 [Pause]

11 Mr. Kies. Senator Mack, apparently the amendment  
12 we had earlier did not have a sunset provision in it.  
13 So, with your sunset, it would mean that the cost was  
14 not the \$247 million I referred to.

15 Senator Roth, what I would understand to be the  
16 current state of play is that Senator Mack's Amendment  
17 is intended to use whatever is necessary to make it  
18 revenue neutral from the component that is the  
19 enterprise community, and then Senator Jeffords'  
20 Amendment would intend to use the remaining money, if  
21 it passes, for the proposal that he has before the  
22 committee.

23 Senator Jeffords. That is correct.

24 The Chairman. Senator Jeffords, do you so modify  
25 your amendment?

1 Senator Jeffords. Yes. I so modify my amendment  
2 so that MAC provisions stay in.

3 The Chairman. The time has expired. Those in  
4 favor of the amendment, signify by saying aye.

5 [Chorus of ayes.]

6 The Chairman. Those opposed, nay.

7 [Chorus of nays.]

8 The Chairman. The chair is in doubt. The Clerk  
9 will call the roll.

10 The Clerk. Mr. Chafee?

11 Senator Chafee. Aye.

12 The Clerk. Mr. Grassley?

13 Senator Grassley. No.

14 The Clerk. Mr. Hatch?

15 Mr. Hatch. No.

16 The Clerk. Mr. D'Amato?

17 Senator D'Amato. Aye.

18 The Clerk. Mr. Murkowski?

19 Senator Murkowski. No.

20 The Clerk. Mr. Nickles?

21 Senator Nickles. No.

22 The Chairman. Mr. Gramm, of Texas?

23 Senator Gramm. No.

24 The Clerk. Mr. Lott?

25 Mr. Lott. No.

1 The Clerk. Mr. Jeffords?  
2 Senator Jeffords. Aye.  
3 The Clerk. Mr. Mack?  
4 Senator Mack. No.  
5 The Clerk. Mr. Moynihan?  
6 Senator Moynihan. Aye.  
7 The Clerk. Mr. Baucus?  
8 Senator Baucus. Aye.  
9 The Clerk. Mr. Rockefeller?  
10 Senator Rockefeller. Aye.  
11 The Clerk. Mr. Breaux?  
12 Senator Breaux. No.  
13 The Clerk. Mr. Conrad?  
14 Senator Conrad. Aye.  
15 The Clerk. Mr. Graham, of Florida?  
16 Senator Graham. No.  
17 The Clerk. Ms. Moseley-Braun?  
18 Senator Moseley-Braun. Aye.  
19 The Clerk. Mr. Bryan?  
20 Senator Bryan. Aye.  
21 The Clerk. Mr. Kerrey?  
22 Senator Kerrey. Aye.  
23 The Clerk. Mr. Chairman?  
24 The Chairman. No.  
25 Senator Moseley-Braun. Mr. Chairman, I may have

1 to change my vote. It was my understanding that we  
2 were doing the combination of the Mack and Jeffords  
3 proposals. That is not correct.

4 Senator Chafee. We adopted the Mack.

5 Senator Moseley-Braun. This is Jeffords' taking  
6 from the economic development package for D.C. for  
7 school construction.

8 Senator Jeffords. Except for the Mack Amendment.  
9 It goes to school construction.

10 Senator Moseley-Braun. Well, I am afraid no one  
11 cares more about school construction on this committee  
12 than I. But, at the same time, my own view is I will  
13 have to change my vote no because this really decimates  
14 our ability to give the District of Columbia the  
15 ability to come to its feet and fix its economy. So I  
16 vote no.

17 The Chairman. The Clerk will, please, announce  
18 the vote.

19 The Clerk. The votes are 9 yeas, 11 nays.

20 The Chairman. The amendment is not agreed to.

21 Senator Graham. Mr. Chairman?

22 Senator Graham. Bob Graham?

23 Senator Graham. Mr. Chairman, I am going to  
24 offer in a package my amendments 1, 2, 3 and 4, all of  
25 which have to do with school construction. Let me make

1 three points.

2 First, the first three of these amendments  
3 primarily go to small districts by providing them some  
4 greater flexibility in dealing with issues, such as  
5 arbitrage. That is where they borrow at a tax free  
6 rate and then they spend out for school construction  
7 and what they do with the money during the period that  
8 they are holding.

9 The fourth amendment goes to the issue of  
10 encouraging more private involvement in the financing  
11 of school districts in the same way that we have  
12 encouraged private involvement in areas of  
13 transportation and other forms of infrastructure by  
14 creating a category, which will be called qualified  
15 education facilities and allowing it to have a volume  
16 cap, which would be equal to \$10.00 per capita in each  
17 state.

18 It would be the volume cap to be issued for  
19 privately constructed school facilities.

20 These facilities would be for public schools,  
21 elementary, secondary, vocational or community college.  
22 It would not include college or university facilities.

23 How would we pay for this plan? We would pay for  
24 this plan by deferring, by six months, the commencement  
25 date of the Hope Scholarship Program. Currently Hope

1 is scheduled to commence on January 1st of 1998. This  
2 would move it to July 1st, 1998.

3 I think there is a very strong educational  
4 rationale for doing that, in order to give the  
5 institutions that are going to be asked to accept what  
6 could be substantial numbers of additional students the  
7 chance to get prepared; to hire faculty; assure that  
8 they have proper classrooms, laboratories, the other  
9 facilities.

10 It also, by delaying that six months, generates  
11 approximately \$2 billion in savings, which would be  
12 applied to these four education school construction  
13 proposals.

14 Mr. Chairman, I might say this proposal has the  
15 support of the Government Finance Officers Association,  
16 representing 13,500 State and local finance offices.

17 Senator Moynihan. Senator Graham, this is an  
18 amendment proposed by you and Senator Moseley-Braun?

19 Senator Graham. And Senator Carol Moseley-Braun,  
20 and I would like to defer the balance of my time to  
21 Senator Moseley-Braun.

22 The Chairman. Your time has expired, but --

23 [Laughter]

24 Senator Rockefeller. How does the administration  
25 feel about this?

1           The Chairman.    I am going to ask the  
2           administration.

3           Mr. Lubick.    Senator Rockefeller, we oppose  
4           strongly any money being taken out of the Hope credit,  
5           which is already a frail reed at this time. A number  
6           of the things that Senator Graham has included, of  
7           course, have merit, but we feel that the Hope Credit  
8           has already been somewhat eviscerated.

9           The Chairman.    Senator Graham and Senator  
10          Moseley-Braun?

11          Mr. Kies.    Senator Roth, can I just clarify,  
12          because I think in order for Senator Graham's  
13          Amendment, the Hope College limitation to raise money,  
14          it would probably be necessary to provide that  
15          taxpayers would only be entitled to one half of the  
16          otherwise allowable credit for 1998 because if you  
17          simply delay the effective date to July 1, but make it  
18          applicable to all expenses incurred, then many  
19          taxpayers would get the full \$1,500 credit.

20          So I assume you are clarifying that essentially --  
21          Senator Graham.    This would only be applicable  
22          for expenditures after July 1, 1998, as opposed to the  
23          current standard, which is applicable for expenses  
24          after January 1, 1998.

25          Mr. Kies.    I understand that, Senator. The point

1 I was trying to make was if that is your amendment,  
2 then I do not think it raises much money to pay for  
3 your revenue losing amendments because any taxpayer  
4 that would incur expenses within the second six months  
5 of 1998, of at least \$3,000, would qualify for the full  
6 \$1,500 credit.

7 And so I think, in order for it to raise the  
8 desired amount of revenue, you would essentially have  
9 to provide that the taxpayers would only be entitled to  
10 one half of the credit amount for the year 1998 because  
11 many taxpayers would incur enough expenses after July 1  
12 to qualify for the full \$1,500 credit.

13 Mr. Lott. What is the estimated cost?

14 Mr. Kies. There is a little bit of confusion,  
15 but I believe it is in the neighborhood of \$2 billion  
16 or slightly more than \$2 billion.

17 Senator Graham. No. The estimated cost for  
18 these four items, for the first five years, is \$486  
19 million.

20 Senator Conrad. Mr. Chairman?

21 The Chairman. What does this do to our number in  
22 2002? Ken, what does this do?

23 Mr. Kies. Senator, I believe it is going to  
24 cause you -- not a problem. It is going to cause you a  
25 problem for the period 1998 through 2002 because I

1 believe the way that Senator Graham has structured his  
2 amendment it is not going to save much money from the  
3 Hope Credit because all expenses after July 1 would  
4 qualify for the credit.

5 The Chairman. All time has expired.

6 Senator Moseley-Braun. Mr. Chairman?

7 The Chairman. Carol. Yes. Let me give you a  
8 minute.

9 Senator Moseley-Braun. Thank you very much, Mr.  
10 Chairman.

11 The General Accounting Office tells us that our  
12 schools are falling down all over this country in every  
13 kind of community, \$112 billion worth of unmet need.  
14 Now, the problem that we face is that the budget  
15 agreement did not include any money to deal with the  
16 crumbling schools. That is our essential problem.

17 Now, Senator Graham has tried one approach in  
18 terms of financing it, which is essentially we are  
19 taking money out of one education pot to try to begin  
20 to even go down this road and to touch this need. The  
21 fact is we need to do a lot more.

22 I strongly support this effort. We are going to  
23 try some other efforts to try to find financing. But I  
24 would hope that before this Congress adjourns that we  
25 find some way to address the needs of 14 million

1 children who every day in this country goes to schools  
2 that are literally falling down around them.

3 And if we cannot find it in this pot of money, we  
4 need to find it somewhere. It should have been in the  
5 budget agreement. It was not, but I think we have an  
6 opportunity yet still to fix that.

7 The Chairman. Well, the chair would have to  
8 point out that this proposal does create problems with  
9 our meeting the goals of the budget agreement, so we  
10 would urge that the vote be negative.

11 Senator Graham. Mr. Chairman?

12 The Chairman. All time has expired.

13 Senator Graham. Mr. Chairman, I would like to  
14 ask for a deferral because it was my understanding that  
15 we had reached an agreement as to what the value of  
16 deferring the Hope Scholarship will be. That is not  
17 obviously the case.

18 I would like to defer and give us an opportunity  
19 to discuss this further with staff, the implications of  
20 the proposal that have been suggested.

21 The Chairman. Does the Senator withdraw his  
22 amendment?

23 Senator Graham. No. I would like to defer the  
24 amendment.

25 The Chairman. Defer.

1 Senator Baucus. Mr. Chairman, maybe the staff is  
2 ready now.

3 Mr. Kies. We are not. But, if you could give us  
4 a couple of minutes, we will try to be.

5 The Chairman. All right. Thank you.

6 The Chairman. We will proceed then, in the  
7 meantime, with another amendment.

8 Senator Gramm. Mr. Chairman?

9 The Chairman. Phil?

10 Senator Gramm. Mr. Chairman, from the very  
11 beginning of the mark up there has been deep concern  
12 among people who are for the \$500 tax credit; that  
13 families needed it. And one of the beauties of it, one  
14 of the reasons we have strongly supported it is we let  
15 them decide how to spend it.

16 The Chairman's mark requires that for kids 13 and  
17 over, that they get it only if they put it into an IRA.  
18 We believe these families ought to have a right to use  
19 the monies as they would choose. We would eliminate  
20 this earmark of their funding.

21 We would pay for it by reducing the first year  
22 credit from \$250 to \$180, and from that point, people  
23 would have the right to choose.

24 And let me yield the rest of my time to Senator  
25 Nickles, whose amendment it originally was.

1 Senator Nickles. Mr. Chairman?

2 The Chairman. Senator Nickles.

3 Senator Nickles. Mr. Chairman, Senator Graham  
4 and I had this amendment. During the campaigns, people  
5 campaigned for the \$500 tax credit per child. They did  
6 not say we are going to mandate, if the child was  
7 between the age of 13 and 16, that you would have to  
8 put it in an IRA.

9 I thin that is an attractive option, but it should  
10 be an option. It should not be a mandate. And so the  
11 essence of this amendment is to allow families to make  
12 that choice, if they want to take the family tax credit  
13 and spend it on whatever they need. Maybe it is  
14 clothing; maybe it is shelter; maybe it is education.

15 They could spend it, or they could put it into an  
16 IRA. They would have both of those options. I think  
17 we should give it to them.

18 Senator Breaux. Mr. Chairman?

19 The Chairman. Senator Breaux?

20 Senator Breaux. Mr. Chairman, I think the  
21 amendment should be rejected. I think it is clear that  
22 the Chairman's mark is already a major, major  
23 compromise.

24 As an example, for the first 13 years of a child's  
25 life, they will get the credit without any

1 restrictions. They can use it to educate their  
2 children, or they can use it for anything else they  
3 want. They can use it to take a vacation if they want  
4 to.

5 But, for the next four to five years, between the  
6 ages of 13 to 17, then later up to 18, for those four  
7 to five years, that money should be used to educate  
8 their children at a time when education expenses are  
9 higher, and at a time when education for the children  
10 and staying in school is more critical than ever  
11 before.

12 I think the Chairman's mark is already a good  
13 compromise and should be maintained.

14 Senator Kerrey. Mr. Chairman?

15 The Chairman. Senator Kerrey?

16 Senator Kerrey. Mr. Chairman, I just hope  
17 members will give this thing a chance. As Senator  
18 Breaux has said, the preference for me would have been  
19 if this thing had been mandatory from birth. Mandatory  
20 from birth, at \$500 a year over 18 years, it generates  
21 a tremendous amount of wealth. That is the purpose of  
22 this thing, is a wealth generator.

23 And I point out to colleagues who have an  
24 objection to specifying how this is to be used, almost  
25 every provision of the tax code does that. We specify

1 what people have to do with mortgage deduction, we  
2 specify what has to be done with capital gains. This  
3 is not a precedent that we have a specification as to  
4 how it is supposed to be used.

5 Senator Murkowski. Mr. Chairman?

6 The Chairman. Frank?

7 Senator Murkowski. It seems to me, when you take  
8 the deduction, you are asking people to dig in their  
9 pocket and write a check for \$500 to put into a  
10 government mandated educational account. They are not  
11 going to feel very happy about that. They are going to  
12 have to write a check.

13 Senator D'Amato. Mr. Chairman, along the lines  
14 of Senator Murkowski, suppose they want to spend it to  
15 sending a kid to school, a private school?

16 Senator Murkowski. Their teeth.

17 Senator D'Amato. Yes. But they have got a kid  
18 and they are paying tuition. I have got a bunch of  
19 Murphy grand babies, and they send them to this school,  
20 and it costs them a lot of money. Now, they want to be  
21 spending that \$500 to help pay for the tuition that  
22 these kids get charged.

23 Now, they should have the right to do that, and it  
24 should not be mandated that they have to save it. They  
25 need it to send those kids to school.

1           The Chairman.   Ken, would you comment on the  
2           offset?

3           Mr. Kies.       Senator Roth, the offset by Senator  
4           Gramm would not essentially make this revenue neutral.  
5           it would reduce the credits payable in 1997 by  
6           approximately \$2 billion, and that is approximately the  
7           cost of eliminating the mandatory deposit requirement.

8           Senator Gramm.   But it saves money only because  
9           we believe people will not do it and they will not get  
10          the tax credit.   They have a right to choose.

11          What we loved about this, why it was our policy,  
12          is it let families decide instead of Uncle Sam  
13          deciding.

14          The Chairman.   Time is up.   Those in favor of the  
15          amendment, say aye.

16          [Chorus of ayes.]

17          The Chairman.   Opposed, nay.

18          [Chorus of nays.]

19          The Chairman.   The nays have it.

20          Senator Gramm.   We would like a roll call.

21          The Chairman.   The Clerk will call the roll.

22          The Clerk.       Mr. Chafee?

23          Senator Chafee.   No.

24          The Clerk.       Mr. Grassley?

25          Senator Grassley.   No.

1           The Clerk.    Mr. Hatch?  
2           Mr. Hatch.    Aye.  
3           The Clerk.    Mr. D'Amato?  
4           Senator D'Amato.   Aye.  
5           The Clerk.    Mr. Murkowski?  
6           Senator Murkowski.   Aye.  
7           The Clerk.    Mr. Nickles?  
8           Senator Nickles.   Aye.  
9           The Chairman.   Mr. Gramm, of Texas?  
10          Senator Gramm.    Aye.  
11          The Clerk.    Mr. Lott?  
12          Mr. Lott.    Pass.  
13          The Clerk.    Mr. Jeffords?  
14          Senator Jeffords.   No.  
15          The Clerk.    Mr. Mack?  
16          Senator Mack.    Aye.  
17          The Clerk.    Mr. Moynihan?  
18          Senator Moynihan.   No.  
19          The Clerk.    Mr. Baucus?  
20          Senator Baucus.   No.  
21          The Clerk.    Mr. Rockefeller?  
22          Senator Rockefeller.   No.  
23          The Clerk.    Mr. Breaux?  
24          Senator Breaux.   No.  
25          The Clerk.    Mr. Conrad?

1 Senator Conrad. Pass.

2 The Clerk. Mr. Graham, of Florida?

3 Senator Graham. No.

4 The Clerk. Ms. Moseley-Braun?

5 Senator Moseley-Braun. No.

6 The Clerk. Mr. Bryan?

7 Senator Bryan. No.

8 The Clerk. Mr. Kerrey?

9 Senator Kerrey. No.

10 The Clerk. Mr. Chairman?

11 The Chairman. No.

12 The Clerk. Mr. Conrad?

13 The Chairman. Mr. Conrad, do you care to vote?

14 The Clerk. Seven, 12 right now.

15 Senator Conrad. Aye.

16 The Clerk. It is 8, 12.

17 The Chairman. It is 8, 12. The amendment is not

18 agreed to.

19 Senator Kerrey. Mr. Chairman?

20 The Chairman. Senator Kerrey will be next.

21 Senator Kerrey. Mr. Chairman, I have an

22 amendment on excess business holdings that I have

23 discussed with you on many occasions, and with Senator

24 Moynihan and with joint tax staff.

25 I do not intend to offer the amendment, but I

1 would like to discuss it very briefly.

2 Since 1969, when the law was changed, an  
3 individual who owns publicly traded stock could not  
4 contribute more than 20 percent of that stock to a  
5 charitable foundation.

6 Senator Rockefeller. Mr. Chairman, could we have  
7 order so the Senator can be heard?

8 Senator Kerrey. I believe that circumstances  
9 have changed enormously since 1969 and tried to draft  
10 the amendment so it narrowly allowed individuals who  
11 wanted to make a contribution beyond that to do so and  
12 prevent the self-dealing that produced the 1969  
13 legislation to begin with.

14 I appreciate, not only joint tax's concern, but  
15 also Treasury's concerns and other concerns. I do not  
16 want to open up a big loophole here, but I do think  
17 that if we want to try to encourage the development of  
18 civil society and the development of non-profit  
19 foundations that are going to be making charitable  
20 contributions, that this is a good vehicle for us to  
21 consider.

22 And I am hopeful that some time this year that  
23 this committee can hold hearings, thorough hearings on  
24 this issue, and we can hear both the pros and the cons  
25 and get some accurate estimates of what this might

1 cost. My own view of it is it is unlikely it will cost  
2 us a great deal, if we can narrowly draw this thing,  
3 and I think the potential benefits to society are quite  
4 large.

5 So I am hopeful that perhaps later in the year the  
6 Chairman and ranking member would hold some hearings.

7 The Chairman. The chair is happy to assure the  
8 Senator that there will be hearings on this matter.

9 Senator Moynihan. And I would like very much to  
10 endorse what Senator Kerrey has said.

11 The Chairman. Senator Chafee?

12 Senator Chafee. Mr. Chairman, last year we  
13 passed a welfare reform bill, which I voted for  
14 enthusiastically and thought it was a good bill. The  
15 stress on that bill was that those on welfare should  
16 seek out and take jobs.

17 It tied in with a program that we have, which is  
18 called the Work Opportunity Tax Credit. The way that  
19 works is that a 40 percent credit is given the employer  
20 after the employee--and the employee must be receiving  
21 public assistance or must be on SSI--works 400 hours.  
22 Then the employer can reach back and take that credit  
23 and take it for the future for a certain limited time.

24 The trouble is that these times are usually 15 to  
25 20 weeks, as many of these starting jobs are part-time

1 jobs.

2 What my amendment would do is to make it possible  
3 to have a smaller credit--25 percent--after an  
4 individual has worked 120 hours. The purpose of this  
5 is to encourage employers to hire these individuals, as  
6 I say, that have been on either SSI or welfare, and the  
7 real difficulties come where the energy and effort must  
8 be spent with these employees during the first several  
9 weeks.

10 And then, they get this training, know how to  
11 report to work on time and dress right, and then  
12 frequently they move on to other jobs so the employer  
13 can never avail himself of the credit, and thus, there  
14 is diminished incentive to even get involved.

15 So my amendment would say that a 25 percent credit  
16 would be eligible after the employee had worked 120  
17 hours. It is a bill that is co-sponsored by Senator  
18 Baucus, Hatch and Moseley-Braun.

19 Senator Baucus. Mr. Chairman?

20 The Chairman. Thirty seconds.

21 Senator Baucus. Thank you, Mr. Chairman.

22 Mr. Chairman, Senator Chafee has touched on a  
23 point which is going to make this work. Right now,  
24 with the 400 hour limitation across the board, the work  
25 opportunity credit is not available. But the second

1 tier, the lower tier, the 120 hours, I think will help  
2 make this credit worthwhile, and I support it.

3 Senator Chafee. How does the administration  
4 feel?

5 Mr. Lubick. Senator Chafee, our concern is that  
6 we do want to avoid the possibility of churning. If  
7 you have a relatively short period of hours that is  
8 required, we do want to avoid employers churning  
9 employees to get multiple credits. I understand what  
10 you are suggesting, and it something you have to  
11 evaluate, whether that churning possibility outweighs  
12 the better incentive of hiring people.

13 There are administrative difficulties also with a  
14 dual credit.

15 Senator Chafee. Well, Mr. Chairman, I would say  
16 the 25 percent credit -- and there is a lot of anguish  
17 that goes into hiring this type of employee who has had  
18 no work experience in many instances.

19 The Chairman. I would just like to point out  
20 that we completely revamped this credit last year in  
21 response to concerns raised by the Department of Labor,  
22 and I do not think we have had adequate time to assess  
23 what these changes have accomplished.

24 But I would also like to point out that the  
25 Department of Labor found substantial amounts of abuse

1 when the minimum work requirement was only 120 hours.  
2 So I would urge my colleagues to join me in opposing  
3 this proposal.

4 Those in favor of the amendment, signify by saying  
5 aye.

6 [Chorus of ayes.]

7 The Chairman. Opposed, nay.

8 [Chorus of nays.]

9 Senator Chafee. Roll call vote, please.

10 The Chairman. The chair is in doubt. The Clerk  
11 will call the roll.

12 The Clerk. Mr. Chafee?

13 Senator Chafee. Aye.

14 The Clerk. Mr. Grassley?

15 Senator Grassley. Aye.

16 The Clerk. Mr. Hatch?

17 Mr. Hatch. Aye.

18 The Clerk. Mr. D'Amato?

19 Senator D'Amato. No.

20 The Clerk. Mr. Murkowski?

21 Senator Murkowski. No.

22 The Clerk. Mr. Nickles?

23 Senator Nickles. No.

24 The Chairman. Mr. Gramm, of Texas?

25 Senator Gramm. No.

1 The Clerk. Mr. Lott?  
2 Mr. Lott. No.  
3 The Clerk. Mr. Jeffords?  
4 Senator Jeffords. Aye.  
5 The Clerk. Mr. Mack?  
6 Senator Mack. No.  
7 The Clerk. Mr. Moynihan?  
8 Senator Moynihan. Aye.  
9 The Clerk. Mr. Baucus?  
10 Senator Baucus. Aye.  
11 The Clerk. Mr. Rockefeller?  
12 Senator Rockefeller. No.  
13 The Clerk. Mr. Breaux?  
14 [No response.]  
15 The Clerk. Mr. Conrad?  
16 Senator Conrad. Aye.  
17 The Clerk. Mr. Graham, of Florida?  
18 Senator Graham. Aye.  
19 The Clerk. Ms. Moseley-Braun?  
20 Senator Moseley-Braun. Aye.  
21 The Clerk. Mr. Bryan?  
22 Senator Bryan. No.  
23 The Clerk. Mr. Kerrey?  
24 Senator Kerrey. Aye.  
25 Senator Moynihan. Mr. Chairman, Senator Breaux

1 votes aye by proxy.

2 The Clerk. Mr. Chairman?

3 The Chairman. No.

4 The Clerk. The votes are 11 yeas, 9 nays.

5 The Chairman. The amendment is agreed to.

6 We are open to further amendment.

7 Senator Baucus. Mr. Chairman?

8 The Chairman. Yes, Senator Baucus?

9 Senator Baucus. Mr. Chairman, I am going to  
10 offer my Endangered Species Act amendment. I guess it  
11 is number four on my list, but I am not going to press  
12 it for a vote.

13 I am raising the subject because I want to inform  
14 my colleagues here that the major issue we are dealing  
15 with in the Congress--hopefully this year--is re-  
16 authorization of the Endangered Species Act. We all  
17 know that there are lots of sticks in that legislation.

18 Working with Senator Chafee, Senator Kemthorn,  
19 Senator Reid and others, and Senator Kerrey, we are  
20 getting much closer to an agreement. We, however,  
21 would like to have some incentives.

22 So the amendment that I am proposing--but I am not  
23 going to push for a vote because it is a little  
24 premature at this point--would be a deduction to land  
25 owners who have placed on their land a conservation

1 easement, which protects the habitat for endangered  
2 species.

3 We need some incentives for land owners, on their  
4 own, to protect habitat for endangered species, in  
5 addition to all the other provisions that are in the  
6 Endangered Species Act with the law, and when we do  
7 bring up the bill, before the committee, the floor,  
8 because we do not have jurisdiction to offer tax  
9 legislation. Of course, it will not be there.

10 But some time in the future, the not too distant  
11 future, we will effect an amendment, Mr. Chairman,  
12 which I think the Congress will find it very attractive  
13 because it will be an incentive for land owners to  
14 protect a habit for endangered species, in addition to  
15 all the other provisions that we now have in the law.

16 But I bring this to the attention of the  
17 committee.

18 Senator Chafee. Mr. Chairman?

19 The Chairman. Senator Chafee.

20 Senator Chafee. Let me just briefly say that  
21 what we are trying to, in re-authorizing the Endangered  
22 Species Act, is to put more incentives in there instead  
23 of the prohibitions that currently exist, and this  
24 represents an effort in that direction, which we will  
25 try to do when we go through this arduous re-

1 authorization process. Thank you.

2 The Chairman. Senator Jeffords is next on the  
3 list.

4 Senator Jeffords. Yes. I am going to offer and  
5 amendment, but then withdraw it.

6 I know we are all familiar with the reports that  
7 have come out recently on the incredible importance of  
8 what goes on in a child's early life, from 0 to 3 and 3  
9 to 5. We have a problem in this country in the sense  
10 that most of our child care is not by accredited or has  
11 the ability perhaps to provide the necessary care for  
12 our children.

13 What I would be doing is trying to use the  
14 existing child care credit by gradually requiring that  
15 those that get the credit will have an acceptable level  
16 of developmental and educational help.

17 Right now, 15 percent of the center based care for  
18 preschoolers are harmful, and 30 percent to infants are  
19 harmful. And 70 percent is rated as mediocre and only  
20 15 percent are rated good or excellent in quality. We  
21 have to do something about that.

22 So I will try to have an amendment which will  
23 gradually focus our good child care money on good child  
24 care centers. I withdraw the amendment.

25 The Chairman. Bob?

1 Senator Graham. Mr. Kies, are we ready to go?

2 Mr. Kies. Not quite, Senator Graham, but we  
3 should have it shortly.

4 The Chairman. Max?

5 Senator Baucus. Mr. Chairman, I do not have an  
6 amendment, but I would just like to say that, working  
7 with Senator Conrad on the airline ticket tax  
8 provision, we would like to work with you, Mr.  
9 Chairman, either on the floor or through conference, on  
10 a provision that would give a lower ticket tax to rural  
11 areas.

12 And I might say that rural America has very, very  
13 disproportionately airline fares because the airlines  
14 take whatever they can out of rural America because  
15 there is no competition.

16 At this point, I would like to say that at some  
17 point, either the floor or in conference, to find some  
18 modification to the ticket tax to deal with that  
19 situation.

20 The Chairman. I would say to the distinguished  
21 Senator that, of course, we did include provisions to  
22 help rural airports. I understand the seriousness of  
23 the problem, and we hope that these will help address  
24 it. But we will be willing to continue to review this  
25 matter and see what future steps can be taken.

1 Senator Chafee. Mr. Chairman?

2 Senator Baucus. Mr. Chairman?

3 The Chairman. Senator Chafee.

4 Senator Chafee. Mr. Chairman, yesterday we  
5 passed the Part B deductible, and when we started out,  
6 I thought it was going to be the premium, but  
7 subsequently that was shifted to the deductible amount.  
8 Let me start again.

9 We were dealing with the Part B premium, means  
10 testing it, and it started that we were doing it on the  
11 premium, and then it was changed to the deductibility  
12 portion of it. That appears to have caused some  
13 confusion.

14 And I would hope, Mr. Chairman, those of us who  
15 have been deeply involved with it, would have a chance  
16 to review this and make sure that whatever we have come  
17 forward with is workable. And, if it is not workable,  
18 fix it up to achieve the goal that all of us have;  
19 that, one, force those who are wealthier to pay a  
20 greater portion of the Part B, either expenses or  
21 premium.

22 Involved in that, obviously, would be Senator  
23 Kerrey, Senator Graham, myself and any other who were  
24 deeply involved and care to.

25 Senator Kerrey. Mr. Chairman?

1           The Chairman.    Senator Kerrey.

2           Senator Kerrey.    Mr. Chairman, I am perfectly  
3 willing to listen to concerns about the complexity of  
4 this provision, and if it rises to the level of  
5 persuasiveness, I am persuaded to go back to premiums.

6           But I really think that Senator Graham has made a  
7 very good point. I mean, the premium will stay the  
8 same for all beneficiaries, at all income groups. They  
9 will pay the same premium. That is an advantage in  
10 many ways.

11           And what we are saying here is that by modifying  
12 and phasing in the end of a subsidy for the deductible,  
13 we will have an impact on people's behavior and  
14 utilization, and I think it is a very important thing  
15 to try to do.

16           There has been criticism of this from the  
17 standpoint of being too complex, but Medicare is hardly  
18 a simply program to understand to begin with. So we  
19 are not talking about something that is easy to  
20 understand. And many of the people who have criticized  
21 this proposal are opposed to any kind of income  
22 relating test.

23           So it is very important to make certain that those  
24 of us who want an income relating test, we believe that  
25 it is reasonable and fair to say that this program

1           ought to be progressive. I mean, that is all we are  
2           doing, is making the program more progressive than it  
3           currently is and saying that it does not make any sense  
4           for us to require low income people to subsidize high  
5           income people.

6                     This is a very modest step, and I know Senator  
7           Chafee supports this and he has been a leader in this.  
8           As I said, if it rises to the level of persuasiveness,  
9           particularly if it is coming from somebody who supports  
10          means testing. But if it is coming from somebody who  
11          is just simply setting up a strawman, that once we  
12          knock it down they will have some other objection to  
13          it, I do not think we ought to try to compromise it.

14                    Senator Chafee. Well, you do not have to worry  
15          about my supporting the concept. As you pointed out, I  
16          have been involved with this for several years now, and  
17          I want to see it effective. And it may well be this  
18          deductible approach is the right one. I am not  
19          criticizing. I am just saying it behooves us to have a  
20          chance to look at it.

21                    Senator Kerrey. I appreciate it.

22                    Senator Graham. Mr. Chairman?

23                    The Chairman. Senator Graham.

24                    Senator Graham. I believe we are ready to go  
25          now.

1           Senator Braun, did you have anything further to  
2 say on the amendment?

3           Senator Moseley-Braun.   Just that I hope that we  
4 have got clear in terms of what the scoring is and what  
5 the funding is.

6           Mr. Kies.   Senator Moseley-Braun and Senator  
7 Graham, we have worked out the scoring, the cut back in  
8 the Hope College Credit would raise \$2.1 billion in the  
9 first five years.  And the amendments that you have  
10 proposed would lose \$382 million over five years and  
11 \$1.75 billion over 10, so that it would be revenue  
12 neutral or actually better than revenue neutral against  
13 the package.

14           Senator Graham.   Mr. Chairman, I move the  
15 amendment.

16           Senator Gramm.   Mr. Chairman, could I just say  
17 one thing about it?

18           The Chairman.   Yes, Senator Gramm.

19           Senator Nickles.   My first inclination toward  
20 this amendment was positive.  But now that I have had a  
21 chance to think about it, we are going to be denying  
22 half the tax credit to kids in the first year basically  
23 to invest in bricks and mortar.

24           And if you are 19 years old and you are looking at  
25 going to work or attending junior college, it is not as

1 if you are going to get to do this three or four years  
2 later. You are in a life cycle.

3 And I think, basically, we are down here to a  
4 choice between kids and bricks. And nice buildings are  
5 awfully nice, but I think more kids getting a chance to  
6 attend junior college is more import, and so I am  
7 opposed to the amendment.

8 Senator Graham. If I could just comment on that?  
9 The concept here is to have the Hope Scholarship  
10 Program with the 1998/99 academic year. This will give  
11 those colleges an opportunity to get ready for the  
12 additional students, which the administration has  
13 estimated could be as many 1.4 million, or as few as  
14 120,000.

15 I think having a year to get prepared for this is  
16 an academically and educationally sound policy, while  
17 it allows us to begin to attack the problem of the  
18 quality of students who are going to be coming out of  
19 our public schools to be ready to go to community  
20 college.

21 The Chairman. Senator Rockefeller?

22 Senator Rockefeller. Mr. Chairman, I think that  
23 Senators Graham and Moseley-Braun have a very, very  
24 good idea here.

25 However, in the process of working up the

1 agreement that we came into this room with, some of us  
2 gave up amendments that we wanted very much to do, one  
3 of which, in my case, was to make the Hope Scholarship  
4 Fund refundable. I think that was essential.

5 I was not able to do that because of the  
6 agreement, and I think that changes the nature of  
7 things, and therefore, I cannot support this.

8 The Chairman. All time has expired. Do you want  
9 a roll call vote?

10 Senator Graham. No.

11 The Chairman. Those in favor, signify by saying  
12 aye.

13 [Chorus of ayes.]

14 The Chairman. Opposed, nay.

15 [Chorus of nays.]

16 The Chairman. The chair is in doubt. The Clerk  
17 will call the roll.

18 The Clerk. Mr. Chafee?

19 Senator Chafee. Aye.

20 The Clerk. Mr. Grassley?

21 Senator Grassley. Aye.

22 The Clerk. Mr. Hatch?

23 Mr. Hatch. No.

24 The Clerk. Mr. D'Amato?

25 Senator D'Amato. Aye.

1 The Clerk. Mr. Murkowski?  
2 Senator Murkowski. No.  
3 The Clerk. Mr. Nickles?  
4 Senator Nickles. No.  
5 The Chairman. Mr. Gramm, of Texas?  
6 Senator Gramm. No.  
7 The Clerk. Mr. Lott?  
8 Mr. Lott. No.  
9 The Clerk. Mr. Jeffords?  
10 Senator Jeffords. No.  
11 The Clerk. Mr. Mack?  
12 Senator Mack. Aye.  
13 The Clerk. Mr. Moynihan?  
14 Senator Moynihan. Aye.  
15 The Clerk. Mr. Baucus?  
16 Senator Baucus. No.  
17 The Clerk. Mr. Rockefeller?  
18 Senator Rockefeller. No.  
19 The Clerk. Mr. Breaux?  
20 Senator Breaux. No.  
21 The Clerk. Mr. Conrad?  
22 Senator Conrad. Aye.  
23 The Clerk. Mr. Graham, of Florida?  
24 Senator Graham. Aye.  
25 The Clerk. Ms. Moseley-Braun?

1 Senator Moseley-Braun. Aye.  
2 The Clerk. Mr. Bryan?  
3 Senator Bryan. Aye.  
4 The Clerk. Mr. Kerrey?  
5 Senator Kerrey. Aye.  
6 The Clerk. Mr. Chairman?  
7 The Chairman. No.  
8 The Clerk. The votes are 10 yeas, 10 nays.  
9 The Chairman. The amendment is not agreed to.  
10 Senator Moseley-Braun. Mr. Chairman?  
11 The Chairman. Senator Chafee and then --  
12 Senator Chafee. Mr. Chairman, I and Senator  
13 Graham had a proposal dealing with an income tax credit  
14 for the rehabilitation of certain inner city properties  
15 that fell within historic zones, the whole idea being  
16 to encourage individuals to move back into these  
17 elderly cities; restore the houses and be there.  
18 This was a 20 percent income tax credit for  
19 qualified rehabilitation expenditures. We had a score  
20 on this last year from the joint committee, and it was  
21 relatively modest, but suddenly it leapt this year.  
22 Mr. Chairman, what I would like to do is to work  
23 with the joint committee and see if we cannot figure  
24 out what went wrong with the score and what was changed  
25 to cause it to increase so dramatically and, if we can

1 bring it down to a reasonable amount, try to proceed  
2 with this amendment subsequently because I have seen  
3 the effects of these efforts where it has not been the  
4 owner that has done it--there has been a low income tax  
5 credit or whatever it might be--they have really been  
6 dramatic.

7 The Chairman. Senator Moseley-Braun?

8 Senator Moseley-Braun. Thank you, Mr. Chairman.  
9 If I may, I want to thank the chair for what has gone  
10 into the mark with regard to the student loan interest  
11 deduction. I think that is really important, and I  
12 hope, on the floor, to be able to raise expanding that,  
13 so that young people who go to college and graduate  
14 school can take full advantage of the interest  
15 deduction, which I think was wrongly repealed in the  
16 first place.

17 I would like to see us go further with that, but I  
18 will raise that on the floor.

19 I would like to raise crumbling schools again, and  
20 I think to make the point in ways that even my friend  
21 across there, the Senator from Texas, will understand  
22 and hopefully will not have the same objection to.

23 Again, Senator Graham and I are working in tandem  
24 on this. But this is more straightforward. It does  
25 not take it from the Hope Scholarship at all.

1           It is a direct offset from the cigarette tax that  
2 we have agreed on tonight; that it will go up to 20  
3 cents. I think we have got a little flexibility in  
4 that in terms of offset. We will not be using all of  
5 those dollars.

6           But this is a direct tax credit for the cost of  
7 school repair, renovation, modernization and  
8 construction projects. The money goes to the States  
9 under formulas that are already in place, and the  
10 States will make the decisions. It does not interfere  
11 with local control in any way.

12           Again, to make the point, we know. Everybody in  
13 this room knows it is a huge problem. I would  
14 appreciate your vote.

15           The Chairman. I would have to point out to my  
16 distinguished colleague and friend that to try to use  
17 the tobacco tax was not in keeping with the agreement  
18 that we need before we came out, and, for that reason,  
19 I would have to urge not to support and would ask that  
20 you withdraw it.

21           Senator Moseley-Braun. In that case, sir, I will  
22 withdraw the amendment.

23           The Chairman. Thank you. I appreciate it.

24           So we are now ready for final passage. I think  
25 that was the last amendment. I move that the committee

1 report, as a separate committee amendment, that portion  
2 of the Chairman's mark, as modified, which pertains to  
3 provisions relating to children's health care  
4 expenditures.

5 Those in favor, signify by saying aye.

6 [Chorus of ayes.]

7 The Chairman. Opposed, nay.

8 [Chorus of nays.]

9 The Chairman. The ayes have it. The committee  
10 amendment is agreed to.

11 Now I am happy to say I move that we report the  
12 revenue reconciliation bill, as amended, to the Senate.

13 The Clerk will call the roll.

14 The Clerk. Mr. Chafee?

15 Senator Chafee. Aye.

16 The Clerk. Mr. Grassley?

17 Senator Grassley. Aye.

18 The Clerk. Mr. Hatch?

19 Mr. Hatch. Aye.

20 The Clerk. Mr. D'Amato?

21 Senator D'Amato. Aye.

22 The Clerk. Mr. Murkowski?

23 Senator Murkowski. Aye.

24 The Clerk. Mr. Nickles?

25 Senator Nickles. No.

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

1 Senator Kerrey. Aye.

2 The Clerk. Mr. Chairman?

3 The Chairman. Aye.

4 The Clerk. The votes are 18 yeas, 2 nays.

5 Senator Moynihan. Could we have a hand for the  
6 Chairman?

7 [Applause]

8 The Chairman. Thank you. Thank you. I want to  
9 thank you very much for that ringing vote.

10 I also want to express my appreciation to the  
11 staff for the outstanding job that they have done  
12 throughout this entire process.

13 [Applause]

14 The Chairman. We will, of course, give the staff  
15 the usual authority to make such technical changes as  
16 is necessary.

17 Senator Graham. Mr. Chairman, I would like to  
18 thank Doug Fisher, who has been extremely helpful in  
19 developing some of the pension retirement provisions.

20 The Chairman. Did you have a colloquy?

21 Senator Breaux. Mr. Chairman, I had a colloquy  
22 with Ken Kies on two points that we have already  
23 discussed and needs to be on the record.

24 I would like to ask Mr. Kies, on the Workman's  
25 Compensation Fund, am I correct that this proposal

1 would codify the tax exempt status of organizations  
2 which are currently already operating as tax exempt  
3 entities?

4 Mr. Kies. That is correct, Senator Breaux.

5 Senator Breaux. The second and final question.  
6 It is my understanding that the committee report  
7 language would indicate that there is no inference, is  
8 intended to say that these entities were not tax exempt  
9 under prior law?

10 Mr. Kies. That is correct.

11 Senator Breaux. I thank Mr. Kies. Thank you,  
12 Mr. Chairman.

13 The Chairman. Thank you and congratulations.

14 The committee is in recess.

15 [Whereupon, at 11:26 a.m., the meeting was  
16 concluded.]

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