

EXECUTIVE SESSION

TUESDAY, MARCH 15, 1977

United States Senate,
Committee on Finance,
Washington, D.C.

The Committee met, pursuant to notice, at 10:10 a.m.
in room 2221, Dirksen Senate Office Building, Hon. Russell
T. Long, (Chairman of the Committee) presiding.

Present: Senators Long, Byrd, Ribicoff, Nelson,
Bentsen, Hathaway, Haskell, Matsunaga, Moynihan, Curtis,
Hansen, Dole, Packwood, Laxalt, and Danforth.

The Chairman. The Committee will come to order.

I would think that the first order of business should
be to vote on these nominations that are pending before the
Committee. I announced that we would vote on them today.

I know of no question about Mr. Morris, Mr. Thomas D.
Morris and Ms. Arabella Martinez. Senator Talmadge sent me
an enclosure -- I have not had a chance to study it and give
it the attention that it deserves. He does have some question
with regard to the Champion nomination.

So I would suggest, if there is no objection, that the
Committee should vote to confirm the nominations of Mr.
Thomas D. Morris and Ms. Arabella Martinez for their positions

1 in the Department of Health, Education and Welfare and
2 that we wait on the Champion nomination until Senator Talmadge
3 is present to discuss it with us. If there is no objection,
4 then that will be agreed to.

5 Mr. Stern?

6 Mr. Stern. I wanted to mention this item listed as
7 number four on the Committee Agenda. It is pretty much pro
8 forma, but something that is required by the budget process
9 in order for the Senate to be able to act on the tax cut
10 bill.

11 What I am referring to is, after a budget resolution
12 passes the Congress, the amounts in the budget resolution are
13 allocated to each Committee. Then the Committee has to file
14 a report of how they are going to use them, program by
15 program.

16 You have before you a sheet that is headed Allocation
17 for Amounts Allowed in the Third Budget Resolution for
18 Finance Committee programs dated March 15th. It is in the
19 material in front of you.

20 On the back of that sheet, it shows what amounts the
21 Budget Committee assumed for budget authority and outlays
22 for the programs under the jurisdiction of the Finance
23 Committee.

24 Senator Nelson. Mr. Chairman?

25 The Chairman. Senator Nelson?

1 Senator Nelson. If I may interrupt momentarily, I will
2 not be able to be here this morning, nor tomorrow, because
3 I am working with staff on the formal analysis of the Ethics
4 Committee Report which we are taking up on Thursday, so I
5 will leave my proxy on certain issues with Senator Haskell.
6 My query is on those issues on which I have not left a
7 proxy, if they come up, will the Committee be polled on roll
8 call votes on any other issues?

9 The Chairman. I would like to, Senator if you would
10 leave us just the telephone number of extension number of
11 where you are, we will try to contact you and announce your
12 position immediately as we can. Is that all right?

13 Senator Nelson. On those on which I have given a proxy
14 to Senator Haskell, that would be easy enough, but if it were
15 an issue that was raised that I have not thought about, I
16 would like an hour or so at the end of the date to cast a
17 vote, if I may.

18 The Chairman. All right.

19 Senator Byrd. Mr. Chairman?

20 The Chairman. Senator Byrd?

21 Senator Byrd. In that same connection, I assume the
22 Committee will not be marking up the tax bill this afternoon
23 because there is legislation in the Senate today that some
24 of us would have to be there for.

25 The Chairman. I believe that several Senators have

1 problems, including the fact that the Senate is meeting,
2 so I am not going to try to hold us to an afternoon meeting.
3 I do think we should try to do what we can this morning.

4 Mr. Stern?

5 Mr. Stern. The amounts shown on the table as being the
6 Budget Committee assumptions in fact accomodate what the
7 Finance Committee recommended to the Budget Committee late
8 in January. What we are recommending to the Committee is that
9 the allocation report the Finance Committee files simply
10 use the Budget Committee assumptions based on what the
11 Finance Committee recommended in the first place.

12 Basically, it is something that you have to do procedur-
13 ally under the Budget Act in order to take up the tax cut
14 bill when you want to on the Floor.

15 The Chairman. Not knowing any better how we would do it
16 than that, I would think we might just as well go ahead and
17 recommend it this way. If someone wants to make some sugges-
18 tion, we would be happy to entertain it.

19 Senator Danforth. Mr. Chairman, if I may inquire, under
20 the stimulus proposals, special payments and refundable
21 rebates, how locked in are we to those specific items?

22 Mr. Stern. We can certainly be more specific about
23 what is called for. If you like, we can simply delay filing
24 this report until the Committee has completed its action on
25 the tax cut bill.

1 The only importance of this report is that parliamen-
2 tarily this report must be filed in order to take up the
3 tax cut bill.

4 If you want to, we can simply wait and we can file it
5 at the time you complete your actions, so we will know exactly
6 what the label is.

7 Senator Danforth. Or simply aggregate those two sub-
8 figures, or delete the breakdown?

9 Mr. Stern. We can do it in a way that will not present
10 any problem.

11 The Chairman. Can we just hold this matter up until we
12 file the tax cut bill?

13 Mr. Stern. You can. Actually, Mr. Humphreys points
14 out if you simply add those two numbers together, then there
15 will not be any question. We spell it out here to show you
16 what the Budget Committee's assumptions are. You do not have
17 to use the same breakdown.

18 Senator Hansen. Which two numbers?

19 Mr. Stern. In the middle of the page there is an
20 item, "Stimulus Proposals, Special Payments, Refundable
21 Rebates."

22 The Chairman. We would be better off to accumulate
23 those figures. Without objection, we will agree with Mr.
24 Danforth's suggestion and add those figures together.

25 You can put an asterisk and explain what that means.

1 Mr. Stern. We can say something in the narrative. With
2 that change, I cannot see any reason not to file.

3 The Chairman. Without objection, we will file it.

4 Do you know of any other matters we should bring up?

5 Mr. Stern. The next item is the tax cut bill.

6 The Chairman. All right.

7 Mr. Shapiro, I think you would probably know best about
8 presenting this to the Committee, since you have been through
9 the same exercise on the House side.

10 I would suggest that you go about explaining this to the
11 Committee and help move us to the point of making some
12 decisions in the way that most appeals to you, reserving the
13 right of every Senator to make suggestions and amendments
14 as we go along.

15 Mr. Shapiro. It may be helpful if I begin with an over-
16 all summary of the program, that is the Administration's
17 proposal and what the House did to it in a brief summary
18 fashion, and then going into the budgetary effect from the
19 standpoint of the current resolution, then we will go through
20 the pamphlets.

21 What you have before you is a series of pamphlets that
22 the staff has prepared. The first one that I am referring
23 to is the one that says, summary of H.R. 3477 as a heading,
24 the numbered pamphlets go through the economic situation,
25 pamphlet number one. Pamphlet number two is the individual

1 tax reductions part of the bill. Pamphlet number three
2 deals with the business tax reductions. Pamphlet number four
3 is a summary of the testimony of all the witnesses that
4 appeared before the Committee as well as all of those who
5 had written statements but who did not testify.

6 We have summarized all of those in an outline. If you
7 look at the Table of Contents, it is outlined to the various
8 aspects of the bill. If you take the first pamphlet summary
9 of H.R. 3477 and turn to page 11, that may be helpful to
10 start as an outline of what the Administration has suggested
11 and what are the Ways and Means Committee changes.

12 Let me just say on page 10 that Table 1 is the House
13 bill -- I thought it would be better to start off with the
14 Administration proposal and showing you what the House did.

15 One point under the Administration proposal is the
16 refund. The Administration proposed a \$50 refund for every
17 taxpayer. It is a refund of taxes of \$8.3 billion, so all
18 those who paid taxes would get a refund of \$50.

19 The next line, there is a refund in excess of tax
20 liability. Some people who did not pay ALL their taxes who
21 would get a refund in excess of that amount. For example,
22 a family of four would have \$50 times four members, would
23 be \$200. If their tax liability, they only paid \$125 in
24 taxes, nevertheless, they would now get \$200, \$75 in excess
25 of the taxes they actually paid. That is treated as a refund

1 in excess of tax liability. That is the \$1.3 billion in that
2 table.

3 There are two criteria that determine those who can
4 get refunds in excess of tax liability. The first category
5 are those who are eligible for the earned income credit.

6 As you may recall, the earned income credit was enacted in
7 1975 which gave a 10 percent credit for the first \$4,000 of
8 earned income. That was phased out for taxpayers between
9 \$4,000 and \$8,000, so taxpayers who made over \$8,000 would
10 not get any credit.

11 Once again, they would get an amount in excess of the
12 tax liability. The Administration allowed a refundable
13 rebate for those who are eligible for the earned income
14 credit.

15 In order not to have a notch -- this is the second
16 category I am dealing with now -- for those taxpayers who
17 may have \$8,001 to get no refundable credit, the Administra-
18 tion proposed allowing a refundable credit for all of those
19 who are eligible for earned income credit, except for the
20 fact that they may have income above \$8,000.

21 Therefore, as long as a family maintained a household
22 with dependent children and had earned income, they could
23 get a refundable cash rebate even though they had more
24 than \$8,000.

25 This means that those families who would not be eligible

1 for refundable credit, would essentially be those who did
2 not have children. A husband and wife, for example. They
3 are not eligible for earned income credit. That is a big
4 category of those who could not get a refundable credit.

5 The Chairman. Let me see if I understand it.

6 You are talking about a husband and wife who are not
7 eligible for the earned income credit because they have no
8 children. Are you saying that they would get the \$50 tax
9 credit even though they paid no tax?

10 Mr. Shapiro. They would get the \$50 only to the extent
11 they paid taxes. They could not get an amount in excess of
12 the tax liability.

13 The Chairman. Assuming they paid \$35 in taxes, that is
14 all they can get?

15 Mr. Shapiro. That is correct.

16 The next category are payments to Social Security,
17 SSI and Railroad Retirement beneficiaries. This is essentially
18 the same provision as the 1975 Tax Reduction Act. It would
19 give a \$50 payment to every beneficiary and Social Security
20 SSI and Railroad Retirement.

21 This is the Administration proposal. It is a one time,
22 1977, fiscal year '77, reduction of \$11.4 billion.

23 Let me go piece by piece, and I will show you what the
24 Ways and Means Committee did to the refund portion of the
25 Administration proposal. If you look down at the bottom of

1 the page at the Ways and Means Committee changes, the reason it
2 is the Ways and Means Committee, not the House, because the
3 House did not pass the bill until after you held hearings.
4 We published this pamphlet in time for your hearing, so we
5 did not know what the House would do on the Floor. Essen-
6 tially, this is the House bill.

7 The first thing the House did was to provide a phase-out.
8 They said that the refund would not be available for those
9 who made above \$25,000, a phase-out between \$25,000 and
10 \$30,000.

11 All of those taxpayers who had income of above \$30,000
12 could receive no \$50 refund. Those who received between
13 \$25,000 and \$30,000, their refund would be phased down.

14 For example, if a family had \$27,500 of income they
15 would get one half of the refund. They would get \$25 rather
16 than \$50.

17 The second item was elimination of double payments.
18 The tax was very much concerned that many people would
19 get both a tax refund, a \$50 refund tax liability, and were
20 also on the Social Security rolls. They would get a
21 \$50 Social Security payment and a \$50 tax refund and get a
22 double payment. There are a great many double payments and
23 a great deal of concern in the Ways and Means Committee
24 about this aspect.

25 The Ways and Means Committee provided a provision to

1 eliminate double payments. This would match the Social
2 Security tapes against the tax refund tapes to eliminate
3 all those who get a Social Security refund so they would
4 not get a tax refund also. That would be a saving of \$900
5 million.

6 When we talk about proposals before the Finance
7 Committee, I would like to point out that we found out,
8 subsequent to the House action, that some of the provisions
9 to eliminate the double payments do not do all that they
10 expected. We do not pick up all of this revenue.

11 If the Finance Committee wants to eliminate double
12 payments to the extent that the House thought they had done,
13 a few more changes would be necessary in order to accomplish
14 that. When we get into the changes, we will bring those to
15 your attention.

16 Those are the two revenue pick-ups in the refund provis-
17 ion that the Administration proposed.

18 Next, the House made some changes where they expanded
19 the coverage, making more people available for the \$50 refund.
20 There are some people who do not pay taxes, and of course,
21 are not on Social Security. The big category are those who
22 are welfare recipients, those who receive AFDC payments.

23 The Ways and Means Committee and the House expanded this
24 \$50 rebate to cover all those individuals. That cost \$600
25 million.

1 The next category under there are payments to other
2 program beneficiaries, a small item of \$100 million. If
3 you look under footnote 4 on page 10, you will see that these
4 are specified. They include recipients of black lung
5 benefits, state supplemented SSI benefits, and veterans
6 compensation and pension benefits.

7 Those categories that were added to the \$50 payment
8 amounts to \$100 million.

9 Those are the changes that the House made on the
10 Administration's refund.

11 Next, going to the top of the page under item number
12 2 under the Administration proposal is the increase in the
13 standard deduction. Under present law --

14 The Chairman. What page are you on?

15 Mr. Shapiro. Page 11 under the Administration proposal,
16 talking about the increase in the standard deduction.

17 This is a permanent tax reduction of the Administration's
18 proposal. The rebate, of course, is a one-time rebate on
19 1976 tax liabilities. The increase in the standard deduction
20 is the permanent feature of the program.

21 Under present law, you have a percentage standard
22 deduction of 16 percent, but there is a minimum standard
23 deduction and a maximum standard deduction.

24 On single returns, the minimum standard deduction is
25 \$1700; on joint returns, the minimum standard deduction is

1 \$2100. There is a maximum standard deduction for Single
2 returns of \$2400. For joint returns, the maximum standard
3 deduction is \$2800.

4 As a part of the simplification program, with respect to
5 the permanent tax reductions, the Administration proposed a
6 flat standard deduction. There original proposal was to go
7 to the maximum levels that presently exist, that is \$2400
8 for single returns and \$2800 for joint returns.

9 When the Administration testified in the House in the
10 Ways and Means Committee hearings there was some criticism of
11 the fact that there was a marriage penalty to this one aspect.
12 The marriage penalty is much broader in respect to the tax
13 laws. In the case of the standard deduction, there is a
14 marriage penalty. Let me show you how this works.

15 If you have two single people at the maximum --

16 The Chairman. I really think that marriage penalty
17 problem is going to require an effort of this Committee.
18 You might just as well put it up on the board.

19 Mike, why do you not go to the blackboard?

20 Mr. Shapiro. Let us start out with the present ceiling
21 on joint returns of \$2800. Single returns, it is \$2400. We
22 will have another one at the bottom that says marriage
23 penalty. In present law, it is between \$1300 and \$2000.

24 The next column would be the Administration proposal.
25 For joint returns, it is \$3000. For single returns, it is.

1 \$2200. The marriage penalty is \$1400.

2 The next column would be the House bill. The House
3 bill has \$3000 for joint returns, \$2400 for single returns.
4 The marriage penalty is \$1800.

5 The Chairman. Let us understand what that is and how
6 it gets to be that way. It might be good for Mr. Woodworth
7 to help you to explain it. He knows something about this
8 problem.

9 This is something we are really going to have to ponder
10 over. It is a touchy problem. It really is one that
11 challenges the statesmanship of a Senator to see what we
12 should do about it.

13 Mr. Woodworth. Senator Long, the point is that under
14 present law it is just not a single figure. To really see
15 the picture, you have to have two figures under present
16 law, and each one of those, the minimum as well as the
17 maximum.

18 The Chairman. Give us your help.

19 Mr. Shapiro. Joint returns would be \$2100 to \$2800.
20 Single returns is \$1700 to \$2400. The marriage penalty would
21 be \$1300 to \$2000.

22 The Chairman. I want the Committee to understand this.
23 I do not want to make this decision myself. There is no
24 way you can solve this thing and make everybody happy.

25 This is one of them. No matter which way you go, somebody

1 is going to be sore at you. You might as well just make
2 up your mind on this. There is no political answer; you
3 get hurt no matter what you do.

4 We ought to try to do what we think is right.

5 Go ahead and explain it.

6 Mr. Shapiro. The reason you have a range under present
7 law is that you have a percentage, 16 percent of adjusted
8 gross income. What you had in the past was the so-called
9 low income allowance, the minimum standard deduction, so all
10 taxpayers would get a minimum. That is \$2100 on joint
11 returns, \$1700 on single returns.

12 Even if 16 percent of adjusted gross income is less than
13 those amounts, that would be the minimum.

14 The maximum is a ceiling. You have a cut-off from the
15 revenue standpoint; even if 16 percent of the adjusted gross
16 income is in excess of \$2800 for joint returns and \$2400
17 for single returns, a taxpayer could not take more than that.

18 If the itemized deductions were in excess of \$2800 or
19 \$2400, they would itemize their deductions. The effect of this
20 is that a taxpayer has an election to itemize his reductions
21 to take the greater, the itemized deduction or standard
22 deduction.

23 The minimum standard deduction in the past has been used
24 with the personal exemptions in order to keep parity with the
25 poverty level. It keeps those below the poverty level off the

1 tax rolls and the maximum standard deduction has been increased
2 from time to time by Congress in order to encourage more
3 people to take the standard deduction and not itemize
4 their deductions.

5 However, as a result of having a percentage minimum
6 standard deduction, and the maximum standard deduction, there
7 has been a great deal of confusion on the tax returns and
8 taxpayers have some problems in filling out their tax
9 returns.

10 As far as the Administration's permanent tax reduction
11 program and simplification program, they have proposed an
12 increase in the amounts to the maximum level and making it
13 permanent.

14 The original proposal before the Ways and Means Committee
15 were the maximum levels in present law, the \$2800 and \$2400.
16 In the hearing there was a great deal of concern about the
17 marriage penalty.

18 When the Administration came before the Ways and Means
19 Committee in the mark-up session, they revised their
20 original proposal and went to the proposal that you see in
21 the middle column: \$3000 on joint returns, so they went up
22 \$200 on joint returns. They went down \$200 in single
23 returns, therefore they reduced the marriage penalty to
24 \$1400, very close to the minimum under present law, a
25 \$1300 marriage penalty at the lowest end under present law.

1 Theirs is \$1400.

2 In the Ways and Means Committee, the Committee did not
3 believe they could raise taxes on those people who are at the
4 maximum who filed single returns. If you reduce the \$2400
5 ceiling to \$2200, in effect you have tax increases on
6 approximately 2 million people on an average of \$50 per
7 return.

8 Therefore, the Ways and Means Committee agreed with the
9 Administration in going up to \$3000 but at the same time
10 retained the present maximum of \$2400, therefore the marriage
11 penalty under the House bill is \$1800.

12 Senator Curtis. May I ask a question right there? I
13 want to make sure I understand what the marriage penalty
14 is.

15 If Mr. Jones lives in Detroit and files as a single
16 person and Mr. Smith lives in Chicago and files as a single
17 person, are they penalized? Do they get any benefit, if they
18 are, in truth and in fact single people, maintaining
19 separate households?

20 Mr. Shapiro. The way the marriage penalty is referred
21 to in this context, let us assume that two people are at
22 the maximum, like in the House bill, \$2400. If they are
23 single and file two returns, each of them get \$2400.
24 Together, they would be getting \$4800. If they marry and
25 file a joint return, they would be limited to \$3000.

1 Senator Curtis. Are you talking about two people,
2 totally unrelated, living miles apart?

3 Mr. Shapiro. A man and woman who are getting married.

4 Senator Curtis. I am talking about the two single
5 returns that are supposed to have the advantage. Are you
6 referring to two people living together at the same address,
7 or are you referring to two people totally unrelated, living
8 miles apart?

9 Mr. Shapiro. The marriage penalty is a penalty if they
10 do get married; what would they be losing from a tax stand-
11 point. For two people who could be living together, if they
12 got married, the penalty would be from the standard
13 deduction point of view.

14 Senator Curtis. What prevents us from providing that
15 two people living together at the same address would be
16 presumed to be married, and therefore could not file separate
17 returns, as far as the standard deduction? That they can
18 pro rate it, but they would have to do it that way.

19 What would be wrong with that?

20 Senator Packwood. Are you talking about rates in this
21 case, as well as standard deductions?

22 Mr. Shapiro. You would have a number of administrative
23 problems in the Internal Revenue Service.

24 Senator Packwood. You would presume that anybody who
25 lives at the same address, you would presume that they were

1 married for the purposes of filing a return?

2 Senator Curtis. Yes.

3 Senator Packwood. Two men included?

4 Senator Curtis. No.

5 Mr. Woodworth. Senator Curtis, I do not think that would
6 solve the problem. In any event, the problem is what happens
7 when you have two single people, a man and a woman who are
8 living apart and then decide to marry? Let us suppose that
9 they are both taxpayers at the present time.

10 The problem which comes up is that they do not appreciate
11 seeing their tax go up when they get married.

12 Senator Curtis. They have a different set of values.
13 I was never penalized by being married; I have been blessed.

14 Mr. Woodworth. It all depends on how the marriage
15 goes.

16 Senator Moynihan. You referred to the marriage penalty.
17 That refers, in fact, to the actual cost to the married
18 couple. That is a percentage, the percentage of tax they
19 pay?

20 Mr. Shapiro. Exactly.

21 Senator Moynihan. The way that you are suggesting it --
22 not that you have the intention of suggesting it -- it is
23 a greater sum under the present law. It would be \$400?

24 Mr. Stern. Mike will reflect your point, which is a
25 good point, is to assume a 25 percent tax rate. Then we will

1 know what the actual tax penalty will be.

2 The Chairman. If those people are paying an average of
3 30 percent when the two people marry, if you take the
4 extreme case of \$2000, when those two people marry, they
5 incur an annual tax liability of \$600 a year, compared to
6 simply retaining their status as two single people living
7 together. When they formalize that relationship with a
8 marriage contract, they assume a tax liability of \$600 a
9 year, and that is not exactly an incentive for people to
10 formalize their relationship and do all the kinds of things
11 that we think of as being a part of the American ideal, and
12 it sort of sets the stage when we saw the show on "Sixty
13 Minutes" awhile back when the people went down to the
14 Dominican Republic, got a quicky divorce and enjoyed Christmas
15 and New Year's week-end and then married after the first of
16 the year, and the tax savings paid for their vacation.

17 Of course, the Internal Revenue Service is getting after
18 that. It does raise the question of the equity involved.
19 It is not fair that two people pay \$600 more in taxes by
20 virtue of being married than they do if they were single.

21 It is a tough, troublesome problem.

22 As I understand it, Mr. Woodworth, does the Administra-
23 tion propose to move this over in a single column, or would
24 you still have two single columns in the Administration
25 proposal and the House bill?

1 Mr. Woodworth. The Administration proposal would set
2 the figure at \$2200 for a single person and \$3000 for a
3 married couple. That is the middle column in the chart.

4 The Chairman. Would that vary, as that first column
5 does?

6 Mr. Woodworth. No, it does not. It is just one column.

7 Senator Bentsen. They removed the percentage.

8 Mr. Woodworth. They remove the percentage and go to a
9 single figure. That is important from the standpoint of
10 simplifying the tax return as well as from the standpoint
11 of dealing with the marriage penalty.

12 On the returns that are being filed this year, the
13 computation of the standard deduction is the second largest
14 cause of error, and that is one of the reasons that we would
15 like to go to a single figure which can be tucked right into
16 both the tax table and the rate structure.

17 Senator Haskell. Larry, how does this work again, sin
18 before marriage?

19 Mr. Woodworth. The concern that has been expressed is
20 that when you have two single people ---let us take the
21 House bill. Under the House bill, each of them would get
22 \$2400 apiece, a standard deduction of \$2400. In other
23 words, the two of them together are getting \$4800.

24 If they live together and do not have the marriage
25 ceremony performed, they will continue to get that. If they

1 have the marriage ceremony performed, they get \$3000
2 instead of \$4800 as the standard deduction.

3 Senator Haskell. This only affects folks who get the
4 standard deduction.

5 Mr. Woodworth. That is correct, but that happens to
6 be up to 75 percent of the taxpayers.

7 Senator Hathaway. That does not include the number of
8 wives who do not work after they get married. It can be a
9 benefit.

10 Mr. Woodworth. This is not necessarily a penalty. If
11 both people are not working, if only one of them is working
12 and if the income of one of them is higher relative to the
13 income of the other.

14 Senator Hathaway. What is the statistic of married
15 women working?

16 Mr. Woodworth. Women working generally, as I under-
17 stand it now, it is about 40 percent, 47 percent, I am
18 told.

19 Senator Hathaway. Married women?

20 Mr. Woodworth. Married and single.

21 Senator Hathaway. You do not know the percentage of
22 each?

23 Mr. Woodworth. I am told that 47 percent is just
24 wives.

25 The Chairman. Senator Packwood?

1 Senator Packwood. Mr. Chairman, you are right about
2 the political trap that this presents and I think the singles
3 are badly discriminated against. I do not think we should
4 widen this gap between single and married.

5 Prior to 1975, everybody had the standard deduction. I
6 am not going to argue that today. The group that is most
7 discriminated against is the head of household that is given
8 a standard deduction based on the singles rate, but they
9 are usually widows or divorcees with children. Normally
10 only one wage-earner in the family, and dependents on
11 occasion, elderly dependents if not children, and they get
12 the lowest standard deduction and probably they are in the
13 worst situation.

14 At an appropriate time, I am going to move to change
15 that. I am not going to fight the battle about singles.
16 At least to heads of households, this is not increasing
17 the marriage penalty in any way.

18 We should recognize the problem. I will move it at the
19 appropriate time.

20 Senator Haskell. Could we ask Secretary Woodworth to
21 comment on Senator Packwood's proposal? I would like to get
22 Larry's input.

23 Mr. Woodworth. It does create a problem. I know this
24 is not the intent of your proposal, but it does have the
25 effect of giving those who are divorced an advantage over

1 those who remain married.

2 Suppose the two, you have a couple with two children that
3 are divorced, each of them claiming head of household status
4 for each child. They would each get the \$3,000 in this
5 case instead of the two of them together getting \$3,000, so
6 their tax would be very substantially decreased if they were
7 to obtain a divorce.

8 Senator Packwood. Is it not true that at least your
9 figures show, or at least the evidence I have, in most
10 divorce cases it is one parent claiming the deductions for
11 all of the children? If the person were not a head of
12 household, they could not claim the higher standard deduc-
13 tion.

14 Mr. Woodworth. That may be the way it is now. If it
15 gets to be a substantial tax difference, I am sure that at
16 least some of them will rearrange that -- pardon me.

17 Even if you do not -- suppose somebody, one of them
18 gets head of household status. Still, one of them would
19 get \$3,000 and the other would get \$2400 under the House
20 bill. Even that is substantially better than they would
21 get if they were married.

22 Senator Packwood. You are saying that there is a divorce
23 bonus that is substantially better, if they both take the
24 Lower deduction?

25 Mr. Woodworth. Yes, but not that much better.

1 Senator Packwood. A difference of \$600 in the Adminis-
2 tration bill. You are taking the very group -- they are
3 usually women and usually with minor children or a dependent,
4 and giving them the lowest standard deduction when they have
5 on the average, in terms of their wages, a lower wage scale
6 and higher obligations, and we give them the lowest possible
7 standard deduction.

8 Senator Curtis. What is wrong with having the joint
9 return exactly twice, the single, as far as the standard
10 deductions?

11 Mr. Shapiro. It is a big revenue cost. It depends which
12 way you want to go. If you want to move the joint return
13 up, it is a tremendous revenue cost. If you move the singles
14 down, you are going to have a lot of concern among single
15 people who have tax reductions.

16 Mr. Woodworth. The Administration proposal goes in the
17 direction you are just saying. It does not go all the way
18 there, because there are substantial revenue costs involved,
19 but it does have the effect of coming closer to the result
20 that you just recommended than any of the other alternatives
21 you have before you.

22 Senator Curtis. What is wrong, as a possible solution,
23 to permit married people to file on the basis of separate
24 returns as far as the standard deduction is concerned, and
25 nothing else?

1 Mr. Shapiro. That would be a very large revenue loss,
2 to do that. If you are saying instead of the \$3000, every
3 married return had \$4800 under the House bill or the Adminis-
4 tration bill, \$4400.

5 Senator Curtis. It seems to me if you have an inequity,
6 you either have to raise one group to the other or lower
7 one to the other. There is no other way.

8 Mr. Shapiro. What the Administration is doing is
9 moving in that direction. If you wanted to, you could move
10 closer.

11 For example, the Administration has \$2200 and \$3000,
12 joint returns. The Committee could go to \$3200 and \$2200,
13 the Committee could go to \$3100, \$2300. You could widen that
14 gap.

15 The gap is narrower than in the present law. The maxi-
16 mums are \$2800 and \$2400. If you look at the House
17 proposal, it is \$3000 and \$2200. You are trying to make the
18 gap so it is not so wide, so that married people have some-
19 what similar treatment than single returns, but to go all
20 the way would be a large revenue loss in this bill, unless
21 you took it all from the single returns.

22 Senator Curtis. Was not this problem accentuated when
23 we injected into the tax system the maximum standard
24 deduction?

25 Mr. Woodworth. It has been a problem ever since you had

1 income splitting and had the standard deduction which dates
2 back to 1948? That is when the problem began, and you have
3 had some conflict in this area all of that period of time.

4 The point of view of the Administration in this respect
5 is, we know we are dealing with a difficult problem. We do
6 not pretend that there can be a complete solution to the
7 marriage penalty problem in this bill, but we do suggest that
8 it would be desirable not to make the penalty worse than it
9 is under present law.

10 Senator Curtis. One more question.

11 It is entirely possible that two people in the same
12 household file single returns and avail themselves of a
13 \$4800 total standard deduction and make no contribution to
14 any charitable or religious or educational cause whatsoever.

15 Mr. Woodworth. That can not be true if they are
16 married. You understand that?

17 Senator Curtis. Yes. If another couple, similarly
18 situated, gives hundreds of dollars to good causes, they
19 likewise are penalized because the standard deduction is in
20 lieu of other deductions, and if they have no other deductions,
21 they have no gain.

22 Mr. Shapiro. The point that you are making is those
23 who take the standard deduction do not benefit from the
24 charitable contribution, because they only get a deduction
25 for their charitable contribution when they itemize their

1 deductions? That is true. But I would think that would
2 be a separate issue from the marriage penalty.

3 If you are looking at the standard deduction as to its
4 effect on charitable giving and itemized deductions in
5 general, that is a point that can be considered by the
6 Committee as to whether or not you are going to raise it,
7 because when you raise it, you encourage more people to take
8 the standard deduction rather than itemize their deductions.

9 That is probably a separate issue to be considered, as
10 opposed to the marriage penalty, which is looking at the
11 difference between the amount for single and joint returns.

12 Senator Curtis. It is true it is separate, but it goes
13 to the whole point of discrimination between taxpayers.
14 The people of low and modest income have had removed any
15 tax incentive that they have had to contribute to a chari-
16 table cause.

17 The Chairman. Senator Packwood?

18 Senator Packwood. Larry, you indicated that the Adminis-
19 tration has tried to lessen the marriage penalty?

20 Mr. Woodworth. At least not increase it. It depends
21 on whether you are looking at the minimum or maximum.

22 Senator Packwood. Every time I see the gap widen, I
23 tend to count it as a penalty on singles. Be that as it
24 may, will it be the Administration's position when the tax
25 reform recommendations come down to reverse the trend and try

1 to go in the opposite direction so we will again penalize
2 singles to a greater degree.

3 Mr. Woodworth. I do not think the Administration has
4 made up its mind on that issue, as far as the tax reform.
5 Basically we are trying to hold the present situation, as
6 nearly as we can to what we think it is now to give us the
7 maximum opportunity to deal with it, come tax reform.

8 If you change it appreciably now, then it becomes more
9 difficult to deal with the problem later on, because there
10 would be additional revenue involved in making the adjust-
11 ment. The problem that we have, Senator Packwood, it depends
12 on which group of people we are looking at, as to which
13 group thinks that a discrimination exists.

14 This is a problem insofar as two singles getting married
15 are concerned. The theory, of course, originally was that
16 the standard deduction had to be larger, somewhat larger for
17 a married couple than for single people because their living
18 expenses tend to be so much greater, but usually not twice
19 as great as that of a single person.

20 That is the theory of the present standard deduction, as
21 I understand it.

22 Senator Packwood. The present difference in the
23 standard deduction?

24 Mr. Woodworth. That is correct.

25 Senator Packwood. Would not that same theory normally

1 apply to heads of households? Their expenses are usually
2 higher than a single person's?

3 Mr. Woodworth. Yes, but probably less than that of a
4 married couple. You are forced into a quandry on that.

5 Senator Packwood. I am curious. Looking at the
6 statistics that I assume you will still be responsible for,
7 because it was prepared last year by the Joint Committee,
8 in 1975, the average adjusted gross income for heads of
9 household was \$8,295, and for married couples filing
10 jointly, \$16,775.

11 So married couples have incomes almost twice as big,
12 and yet heads of households have expenses almost as much.
13 You only have one wage earner in a head of household,
14 usually, and dependents.

15 The evidence here is a substantially lower wage.

16 Mr. Woodworth. I do not think that there is any doubt
17 that the wage tends to be lower. The tax also tends to be
18 lower; they are then in a lower tax bracket.

19 I understand your concern with the standard deduction
20 for head of household. Any time you turn in this area, you
21 meet another problem. The problem that you meet, the way
22 you said, there is an additional benefit in a divorce
23 situation. I am not saying there is not something in what
24 you say also on the grounds that heads of households undoub-
25 tedly have more expenses than that of a single person,

1 generally.

2 Senator Packwood. What it always boils down to is the
3 problem we had in the tax reform bill last year, the simpli-
4 fication will give everybody \$2400 standard deduction,
5 period. That is simple.

6 Then you get to the problem of equity.

7 Mr. Woodworth. Here, you actually have conflicting --
8 what makes it even more difficult, you have conflicting
9 standards for determining what is equity.

10 Senator Packwood. I agree.

11 The Chairman. We are going to be confronted with the
12 same problem from a different point of view when we look at
13 the welfare bill. Here is a man who is keeping company with
14 some lady and if they have children, even if they are not
15 married, and somebody says, why do you not marry and do it
16 the way that other people do it.

17 The fellow says, hell, I cannot afford to marry. In the
18 first place, you are going to lose all that welfare money.
19 Second place, I am going to have a big tax increase. By the
20 time I get through with all of that, I cannot afford it.
21 The government is going to take what they are giving us and
22 putting a big tax on us.

23 But actually this society is pretty much built on the
24 concept that it is desirable for people to assume the burden
25 of having a family, if they are going to carry on a family

1 relationship and have children. The heck of it is, when
2 you put a big marriage penalty on them for doing it, \$450
3 tax a year, it seems not only unfair, but also taxing people
4 for doing just what society should want them to do.

5 Senator Packwood. Mr. Chairman, I am not going to
6 quarrel with this philosophy, and that may have been the
7 philosophy in the mid-30's when the unemployed were adult
8 male heads of households.
9 The Chairman. Marriage has not gone out of style, even
10 now.

11 Senator Packwood It has not gone out of style, but
12 we have come to a realization that there are a lot of women
13 in the work force, a lot of them make it a career. They
14 do not necessarily have children.

15 To say the ethic of this country is to get married and
16 for women to quit working and have children, it is not the
17 ethic anymore.

18 The Chairman. I am not saying that it is. I am saying
19 that it is tough enough to get somebody to assume the burden
20 the way it is now without adding a big tax penalty on top
21 of it, and I really think everybody would do well to study
22 this from just that point of view.

23 How big of a burden do you want to place on that
24 relationship? If you do not want people to get married,
25 it is easy enough to adopt policies to bring that about. If

1 you do think that it is a result that we would like to
2 encourage in that set of circumstances, which saves us a
3 fortune further down the road with regard to low income famil-
4 ies when they start having their children, I find myself
5 thinking that it is desirable not to have this marriage
6 penalty greater than you have to.

7 As I understand it, is this not a case of looking at it
8 from the point of view of tax reform, the Administration is
9 looking at a marriage penalty going from \$1300 to \$2000 and
10 you are going for one figure, and your idea was to go
11 toward the low end of it.

12 You would recommend you would come up with a marriage
13 penalty of \$1400?

14 Mr. Woodworth. That is correct, exactly.

15 The Chairman. That was the Administration's judgment.
16 The House then looked at that situation and the House said,
17 they do not want to vote to raise anybody's taxes. If they
18 do what you are suggesting, that would mean that you would
19 have to raise the tax on single people, so rather than do that
20 they said, let us find an answer that does not raise anybody's
21 taxes.

22 To do that, they took the \$2400, which is the high
23 figure for the single return, and they take the high figure
24 and do not raise anybody's taxes. For the single return, it
25 varies from the \$1700 to \$2400. All right, if you are not

1 going to raise anybody's taxes, you then go for the high
2 figure, the \$2400. Then, instead of the marriage return
3 varying from \$1300 to \$2000, it then moves towards the higher
4 figure, \$1800.

5 Your thought is that it should move towards the lower
6 end of the scale, the \$1400 figure?

7 Mr. Woodworth. That is correct.

8 The Chairman. If you want to solve the political
9 aspect of it by trying to do more for the joint return, the
10 cost becomes pretty much prohibitive, does it not, if you
11 want to wipe it out, reduce the marriage penalty by raising
12 the \$3000 to \$3400.

13 What does that do to you? What would the cost of that
14 be in terms of revenue?

15 That is another way of trying to meet the same problem.

16 Mr. Woodworth. I am told \$2 billion.

17 The Chairman, \$2 billion?

18 Mr. Woodworth. Yes.

19 The Chairman. What would it cost to do it the way you
20 are talking about doing it, the way the Administration
21 proposes?

22 Mr. Woodworth. The way the Administration proposes it
23 would cost about \$800 million less than what the House
24 proposed.

25 The Chairman. To do it the other way would cost about

1 \$2.5 billion more?

2 Mr. Woodworth. That is correct.

3 Senator Moynihan. Mr. Chairman?

4 The Chairman. Senator Moynihan.

5 Senator Moynihan. On the marriage penalty, there is
6 a sense, is there not, that in a sense the joint return is
7 a marriage bonus? Who are we talking about?

8 Is it not the case where you have a married couple with
9 only one person working that the tax system provides an
10 incentive where you have two persons working, it is a
11 disincentive?

12 Mr. Woodworth. That is right.

13 Senator Moynihan. That is half of the families in one
14 group and half in the other.

15 Mr. Woodworth. Since about 47 percent of married women
16 are working, I would think that is approximately correct.

17 Senator Moynihan. That is a problem worthy of your
18 talents, Mr. Chairman.

19 Mr. Shapiro. This whole marriage penalty is broader
20 than this one aspect. You are getting into the aspect of
21 rates, different rates on single returns, joint returns and
22 head of households. When we have joint returns, it depends
23 whether one or both spouses work in the income distribution.
24 It is a much broader problem.

25 Senator Moynihan. There are rates that reward a married

1 couple with only one working.

2 Mr. Shapiro. That is correct.

3 Senator Packwood. Most rates.

4 Mr. Shapiro. When you have a split between 80 percent
5 of the income owned by the one spouse, joint return rates
6 are more beneficial. If you go below the 80-20 split, one
7 wage earner gets less than 80 percent, the separate would
8 tend to be better.

9 This is a broad area and probably should be addressed in
10 the broader tax reform consideration.

11 The Chairman. Senator Hansen?

12 Senator Hansen. What is your off-the-cuff understanding
13 of what the facts are in filing a joint return? Do some
14 80 percent of those situations reflect income from only one
15 spouse?

16 Mr. Shapiro. Let's see if we can get that information.
17 We will get that information.

18 The Chairman. Would you put another set of figures on
19 there, just to try to see how it works. See what this would
20 cost.

21 Suppose you make that \$3000 figure \$3100, and then for
22 the single return, instead of making \$2400 as the House had
23 it, you make it \$2300. How does it work out then?

24 Mr. Shapiro. The revenue effect over the House bill
25 would be a \$100 million increase over the House bill.

1 As you can see, the marriage penalty is \$1500, getting
2 closer to the minimum under present law. The tax increase
3 is \$375, getting closer to the Administration's figure at
4 the low end as well.

5 Senator Hathaway. How many singles are being affected?

6 Mr. Shapiro. Approximately 1.8 million single people
7 would be affected. The average tax increase would be
8 approximately \$25.

9 The Chairman. How many people would that be?

10 Mr. Shapiro. 1.8 million.

11 Senator Hathaway. What percentage of the total is that,
12 of the total singles?

13 Mr. Shapiro. We are checking to make sure; we think
14 the estimate is a little less than 10 percent of the taxable
15 single returns, taxable single returns. A little less than
16 10 percent would be affected.

17 Their average tax increase is \$25.

18 The Chairman. I do not want to vote now, but that is
19 what appeals to me. Between the taxpayers involved, I think
20 those on the joint returns are those that are getting the
21 worst of it with that marriage penalty. That reduces the
22 marriage penalty. It benefits those on joint returns.

23 How many would you benefit by doing it that way?

24 Mr. Shapiro. You would be benefitting approximately
25 49 million, a little less. The reason for that is that you

1 have the \$3000 level. All of the levels would go up
2 \$100.

3 The Chairman. Presumably, you would benefit the children
4 too. Many of those family units have children.

5 By contrast, if you did it that way, by making that
6 shift, you would have 49 million taxpayers who would be
7 better off and 1.8 million taxpayers who, by my theory of
8 tax equity, are getting an advantage over the others that
9 only pay an average of \$25 apiece, and applied to an average
10 state like mine, that is 36,000 people one way compared
11 to twenty times that many the other way who would benefit
12 from it, and it just moves in the direction of tax equity
13 and justice, it seems to me.

14 Senator Hathaway. Since we are going to go to conference
15 on it, we should make it \$3200 and \$2200 and then we would
16 wind up with \$3100 and \$2300.

17 The Chairman. If we can get the Senate to go along with
18 that, the House would be delighted to compromise on that
19 figure. To me, it makes much better sense than what the
20 House has in their bill. I think it is a better way to go.

21 I am not upset about your suggestion, Senator Packwood,
22 about the heads of households.

23 Mr. Woodworth. I think that we can say that the
24 Administration would much prefer the option that you just
25 said over the House bill.

1 The Chairman. It seems to me that that would be
2 probably a better way of doing it. In other words, you have
3 1.8 million taxpayers on the one hand who pay an average
4 of \$25 or more. You have 49 million others who would
5 benefit on the other end of it.

6 If it moves towards justice, 49 million compared to
7 1.8.

8 Mr. Shapiro. Under the House bill, the \$2400 ceiling
9 would affect approximately 25 million returns. That is over
10 the House bill. Only 1.8 million would have an increase
11 in taxes over the present law. So they would only have an
12 increase in the present law.

13 It would not be an increase over the present law, except
14 for 1.8 million of that 20,000.

15 Senator Curtis. How many people would it take off the
16 tax rolls above the number of people that would be taken
17 off by the Administration proposal?

18 Mr. Shapiro. This would probably put a few more on the
19 tax rolls, because when you go from \$2400 down to \$2300 --

20 (Pause)

21 The net effect would be to put 200,000 on the tax rolls
22 compared to the House bill. Primarily that is being done
23 because you are going from the \$2400 down to \$2300.

24 The threshold is going down \$100.

25 The Chairman. With regard to the number of people who use

1 the simplified form, would this give you more or less using
2 the simplified form, if you did this, for the standard
3 deduction?

4 Mr. Shapiro. This would give you more than the House
5 bill.

6 The Chairman. About how many? Can you give me a
7 guess?

8 Mr. Shapiro. Probably 600,000.

9 The Chairman. You see, the only advantage of doing it
10 the way the House did it compared to what you would do if
11 you made this change, you would benefit ten times as many
12 people as would have a right to complain on the other end.

13 The only reason that ~~would~~ suggest the House approach
14 rather than this, it seems to me, would be that we did not
15 want to vote for a tax increase under any circumstances.
16 It seems to me that when you get on this Committee, the time
17 comes when the government is as deep in debt as it is,
18 there comes a time when you have to vote for a tax increase.

19 That seems to me like the most logical answer to it.

20 I would just as soon not vote on this today. Let
21 everybody think about it. I wish you would get up some
22 charts and explain it so everybody could see this. Overnight
23 somebody might have a better suggestion. Offhand, it seems
24 to me this would be about as favorable an answer as we
25 can find to a very difficult problem.

1 There is no perfect answer to this one. It wouldbbe
2 a better answer. It moves towards tax justice and more tax
3 equity than what the House had.

4 I do not know of any perfect answer. If anybody thinks
5 of one, I would like to know about it.

6 Mr. Shapiro. Would you like me to move on?

7 Going to table 2 on page 11, the item 3 in that category
8 is a small change that is being made as far as the Adminis-
9 tration's simplification program. The idea in this simpli-
10 fication program is to have more taxpayers using tax tables
11 and not have to use computations -- for example, subtracting
12 the personal exemption and standard deductions that
13 approximately 95 to 96 percent of the taxpayers under the
14 simplification program can go directly to tax tables.

15 In order to do that, in order to put into the tax
16 tables a general tax credit, it is the proposal
17 to have a \$35 credit to go to the aged and the blind
18 additional personal exemptions to make the computation
19 later.

20 This is \$100 million, and part of the simplification
21 program.

22 The next item is item number 4.

23 Senator Curtis. They will get two credits?

24 Mr. Shapiro. They get two personal exemptions today in
25 the general tax code. The temporary tax reductions that were

1 extended gave a tax credit of \$35 to each dependent. It did
2 not go to the double exemptions that are available for the
3 aged and blind.

4 Senator Curtis. If the dependents are aged and blind?

5 Mr. Shapiro. Yes.

6 Senator Curtis. If the taxpayer was aged and blind, he
7 got two?

8 Mr. Woodworth. Two exemptions, but not two credits.

9 Mr. Shapiro. This would give him two credits. He would
10 get the same number of credits as he would exemptions.

11 The Chairman. Did the House agree to it?

12 Mr. Shapiro. The House agreed to do it.

13 The Chairman. Why do we not agree? It is a part of
14 the simplification?

15 Mr. Woodworth. Yes.

16 The Chairman. Those in favor, say aye.

17 (A chorus of ayes)

18 The Chairman. Opposed, no?

19 (No response)

20 The Chairman. The ayes have it.

21 Mr. Shapiro. The next part of the bill are the business
22 tax credits.

23 The Administration proposed an alternative election.
24 Under present law there is a 12 percent tax credit that all
25 businesses get. The Administration proposed having a 2 percent

1 increase, so for four years, to 1980, all businesses could
2 elect a 2 percentage point increase so that they could get
3 a 12 percent investment tax credit.

4 As an alternative to that election, the Administration
5 proposed giving employers a 4 percent rebate of their share
6 of the Social Security taxes. These are the FICA Social
7 Security taxes that are paid by employers. That would be
8 refundable. You could get that in excess of tax liability.

9 It is a four year program so the employers from the
10 business standpoint of this package the Administration
11 proposes could elect a 2 percentage point increase in the
12 investment tax credit or a 4 percent refund of their employer's
13 share of the Social Security taxes.

14 Once you have made your election, it would be for the
15 four years.

16 When this came before the House Committee, the Ways and
17 Means Committee was very much concerned that one of the major
18 problems in our economic situation was unemployment and
19 believed it would be appropriate to try to deal directly
20 with unemployment, to provide a stimulus to encourage the
21 hiring of new employees.

22 Therefore, the House went to the New Jobs Tax Credit.
23 The concern the House Ways and Means Committee had with the
24 Administration proposal is that they believed that presently
25 there is a 10 percentage point investment tax credit. The

1 additional two percentage points was so marginal it probably
2 would not make businesses do much more for 12 percent than
3 they already would do with the present 10 percent.

4 With respect to the 4 percent employers' refund in
5 Social Security tax, the Ways and Means Committee believed
6 that was too small to have any major effect on unemployment.
7 In effect, it was just a refund. Therefore, it tried to
8 provide a stimulus in the business sector to provide new
9 jobs, therefore they provide the New Jobs Tax Credit.

10 The credit is a 40 percent credit on the incremental
11 increase of employees above the base year, which is 1976.
12 It is based on the FUTA system: Federal Unemployment Taxes.

13 The Chairman. I think you have got to the point now
14 where we had better turn that board over and use the other
15 side. I do not see much point in explaining what this
16 business tax credit against tax liability is. I do not
17 know anybody who is pushing for it.

18 If somebody wants to come in here and make a big fight
19 for it, we will go into greater detail on it. I do not know
20 of anybody who is fighting for that right now, but I do
21 now that the House gave a big endorsement to what you are
22 talking about right now. That is the big contribution of
23 the House Ways and Means Committee. They must be pretty
24 proud of it, because they fought for it and they got a
25 big vote in the House for it.

1 What was the vote?

2 Mr. Shapiro. 370 to 7. That is roughly it, but it
3 was a very large vote on that. The choice in the House was
4 between the New Jobs Tax Credit or the Administration's
5 proposal.

6 If they voted against the New Jobs Tax Credit, the
7 provision that would have been enacted was the Administra-
8 tion's investment tax credit or the 4 percent payroll
9 reduction.

10 The vote in the House was 341 for and 70 against, I am
11 told.

12 Senator Curtis. Let me ask you something about your
13 figures here. What about the plus and minus?

14 Take, for instance, item number 4. The Administration
15 proposal has a minus .9. Item number 4 here has a plus .1.

16 Mr. Shapiro. That means that the change in the Ways
17 and Means bill picked up \$100 million over the Administra-
18 tion's.

19 Senator Curtis. It would not increase present revenues?

20 Mr. Shapiro. No.

21 Senator Curtis. You mean so you could change the
22 .9 to .8?

23 Mr. Shapiro. That is correct. It is a rounding of
24 numbers.

25 Also, Senator, if you look at the lefthand side of the

1 page, table 1 in the House Ways and Means bill, you will
2 see .7. The rounding is why it is not .8.

3 This table shows the changes in the revenue from what
4 the House did over the Administration.

5 Senator Packwood. Refresh my memory. On the House
6 proposal, the basis was 1976, but you only get the credit
7 when you are above 103 percent of the base?

8 Mr. Shapiro. That is correct. Perhaps it would be
9 helpful to go to some examples.

10 The Chairman. Why do you not give an example.

11 Mr. Shapiro. Let me give you some of the background
12 first, so you can understand what the Committee did.

13 The base they used in their system is the FUTA tax
14 returns, the Federal Unemployment Tax Act, and it is an
15 existing form, a return done by all employers, so it is a
16 lot simpler; not a new system that has to be done. You do
17 not need new forms. The structure is there.

18 You just take that one column, already on the FUTA
19 return that every employer has to file. In addition, the
20 level is \$4200. That is a low level. Therefore, it does
21 not reflect a number of salary increases that would be
22 taken into account if you had Social Security to \$16,500, if
23 you had an employee at \$10,000, you would go to \$12,000
24 and it would be a credit which is a salary increase.

25 Generally speaking, you are talking about a \$4200 level

1 where salary increases would not be reflected.

2 They use 1976 as the base year. It is a closed year;
3 all the figures are already there, because each employer has
4 to file their FUTA return.

5 In addition, the House recognized two factors with
6 respect to this 103 percent, this 3 percent adjustment that
7 Senator Packwood referred to.

8 First, there is generally a normal growth in employment.
9 In addition, you had certain revenue restraints in order to
10 deal with the normal growth pattern and trying to keep the
11 employment tax credit somewhat similar to the revenue balance
12 of the Administration figures.

13 The 3 percent adjustment figure was used in order to
14 say that you had to have an increase above your 1976 FUTA
15 wage base, plus 3 percent.

16 Let me use an example which may help you. If we assume
17 that you had 1976 wages of \$100,000 and 1977 wages of
18 \$128,000 -- Mike, would it be helpful? Maybe we could put
19 these on the Board. Let us see.

20 1976 wages of \$100,000; 1977 wages of \$128,000. Maybe
21 we should put the 3 percent adjustment, 1976 wages as
22 adjusted would be \$103,000.

23 If you subtract that, you have a \$25,000 increment.
24 That, presumably, represents new employees. The credit
25 under that House bill is 40 percent, a credit of 40 percent of

1 that increment, so you apply 40 percent to the \$25,000
2 figure and you would have a \$10,000 credit, so the employer
3 in this particular case could reduce his taxes, a credit
4 against taxes, of \$10,000.

5 The House has a ceiling --

6 Senator Curtis. Why would it not be just by increasing
7 wages?

8 Mr. Shapiro. The wages are \$4200. You could increase
9 wages if you had employees below \$4200, you could have part-
10 time employees, CETA employees, Most of your full-time
11 employees would not be below \$4200. That is the reason the
12 House went to the FUTA base, because it had that low level
13 of \$4200.

14 There could be some factors taken into account. If you
15 had more part-time employees, seasonal employees, that could
16 have adjustments that would affect that \$4200.

17 Mr. Woodworth. I would be glad to point out later how
18 the problem that you indicate does exist in the proposal.

19 Mr. Shapiro. The House also has a ceiling so no
20 employer could get more than \$40,000.- He would be limited
21 to \$40,000 for each employer year. This was a compromise
22 that was worked out in the Ways and Means Committee.

23 Let me give you some background on it. The original
24 proposal before the Ways and Means Committee was a credit of
25 25 percent with no ceiling. An employer could take 25 percent

1 on all their incremental wages without any ceiling. An
2 a amendment was proposed in the Ways and Means Committee to
3 try to provide more of a benefit to small businesses, there-
4 fore to increase that 25 percent to the higher level.

5 Having considered various alternatives to have the
6 exact revenue, they did not want to go above the same revenue
7 figures that the Administration proposed and they had a
8 ceiling of \$40,000.

9 Therefore, with that ceiling, they could raise the
10 25 percent credit up to 40 percent. That was a quid pro
11 quo: 40 percent increase, increasing from 25 percent to
12 40 percent, with a ceiling of \$40,000. Thereby, this would
13 effect, in generally, approximately twenty-four new employees.

14 As you can see, the House tailored its provisions to
15 small businesses because most larger businesses would have
16 much more than the \$40,000 limit.

17 All business could get it, but \$40,000 would be the
18 maximum amount that all businesses could get.

19 Senator Hansen. What was your estimate of the number
20 of new jobs that the \$40,000 tax credit would provide?

21 Mr. Shapiro. It would be twenty-four people for one
22 employer, The maximum with that \$40,000 cap, it would
23 cover approximately twenty-four new employees for each
24 employer.

25 Senator Moynihan. Senator Hansen said provide, if I

1 understand the House acted to reward new hiring. This is
2 after the fact, not designed -- well, it is a reward if you
3 can anticipate this benefit.

4 Mr. Shapiro. For 1977, it would reward new employees
5 in 1977.

6 Senator Moynihan. Not so much provide, but reward.

7 Senator Hansen. Would it not be fair to assume that
8 most businesses, if they are going to be encouraged by this
9 sort of provision are going to be perfectly well aware of
10 what the limits are? I stated it incorrectly.

11 Senator Moynihan. To reward new hirings by small firms.

12 Mr. Shapiro. That was the House approach, yes.

13 The Chairman. Let me ask you one thing about this. As
14 I understand it, that is geared to a person's earnings -- it
15 only applies to the first \$4200 of an individual's pay?

16 Mr. Shapiro. Yes.

17 The Chairman. If a person is more complicated than
18 that, and the person has to apply it to the individual he
19 hired?

20 Mr. Shapiro. No. Under the Federal Unemployment Tax
21 Form, that is an annual form reported, that figure is on the
22 form. This proposal does not take into account where you
23 have to trace each new employee, no tracing. You do not have
24 to keep a record of hours.

25 The Ways and Means Committee explored alternative

1 proposals to trace new employees, to look at each additional
2 hour. They were concerned about the complexity of trying
3 to do that.

4 The FUTA return has this total. It has on the return,
5 on a certain line, it says total taxable wages. All the
6 employer has to do is take that one figure off of this return
7 and he has got it, without any other figuring.

8 The Chairman. Suppose that a person is in the 48 percent
9 tax bracket, which is a corporation return. He hires one
10 employee at \$20,000. He is going to save 48 percent of that
11 in taxes, and you get a 48 percent tax credit in addition
12 to that?

13 Mr. Shapiro. A 48 percent credit on the first \$4200;
14 \$1680 would be his tax credit, in addition to his regular
15 deduction for wages that exists under present law.

16 The Chairman. 88 percent of hiring that \$25,000 employee
17 is to be covered, if he is paying the 48 percent tax, by the
18 deduction plus the tax credit?

19 Mr. Shapiro. 88 percent of the \$4200, 48 percent of
20 his salary above \$4200.

21 Senator Packwood. Why is this not an inducement to
22 hire a lot of part-time, \$5,000 employees?

23 Mr. Shapiro. When that was raised with the House, the
24 feeling was that they were trying to get those unemployed
25 work. Generally speaking, the unemployed people would be

1 hired at the lower level.

2 Senator Packwood. You are better off to hire two
3 \$5,000 employees than one \$10,000?

4 Mr. Shapiro. Clearly, that is the case. There is
5 incentive to hire part-time and seasonal employees. There is
6 a disincentive that has been provided in the House bill to
7 hire one \$10,000 employee and hire two \$5,000 employees.

8 The way that works, you have to increase your total
9 wages from 1977 over 1976. You cannot just hire one \$10,000
10 or hire two \$5,000 and therefore get an additional \$4200.

11 Senator Packwood. You have two factors, the wage factor
12 and the number of employees factor. I am going to presume
13 that most payrolls, given static employment, are going to be
14 more than 3 percent above 1977 over 1976. That is a guess;
15 I am just assuming.

16 Mr. Shapiro. Not above the \$4200 level. That is the
17 difference in this case.

18 Senator Packwood. I understand the \$4200 level. You are
19 talking about two factors: one is your total payroll and
20 the other is your \$4200 base?

21 Mr. Shapiro. And your 3 percent adjustment.

22 Senator Packwood. I understand the 3 percent adjustment.
23 You could probably fire a \$10,000 worker and hire two
24 \$5,000 workers and still be substantially above the 3
25 percent because of the natural increase of your wage base

1 anyway, based upon cost of living escalators.

2 Mr. Shapiro. That is correct. That is a fact. If you
3 have salary increases generally, then you could fire and
4 hire. That could happen.

5 Senator Packwood. What is your estimate, an off-the-
6 top-of-the head guess? A 5 percent increase in the average
7 of wages this year?

8 Mr. Shapiro. The wages would go up in the neighborhood
9 of the 6 percent to 7 percent range. Let me make an
10 observation on the House bill that will deal with that.

11 There is a penalty, a disincentive, to fire someone;
12 to the extent that it can be proven that an employee has been
13 fired in order for the employer to get the benefit of
14 hiring two, they would lose twice the amount of benefit
15 that he would otherwise get. Clearly there are administra-
16 tive problems with that; it was put in there as a disincen-
17 tive.

18 Senator Packwood. Do you have to go to Federal Court
19 to prove that?

20 Mr. Shapiro. The IRS would determine that.

21 Senator Haskell. Mr. Chairman, what I would like to
22 do, I have a variation here -- maybe Senator Bentsen has
23 one -- but I would like my variation put on the board side
24 by side.

25 Senator Bentsen, do you have a question? Go ahead.

1 Senator Bentsen. I would like to make a comment, if
2 I may, and then I will show a second variation to what is
3 being proposed.

4 What we are trying to achieve here is that we are trying
5 to find a way, obviously, to encourage employment. We know
6 the investment tax credit. Some of us feel that that is
7 important to try and help modernize manufacturing capacity
8 in this country.

9 The problem we run into is the vast majority of the
10 investment tax credit is used by the large corporations and
11 you find it in small business where you have a concentration
12 of manpower or an intensity of investment in people.

13 Some people have said this is something for Big Mac;
14 not really, because it applies on the House side only if they
15 are franchised individual ownerships.

16 The big problem we have in this country is trying to get
17 the unskilled hired, trying to get the low income people
18 hired.

19 You can go down and you can look at the classified
20 section with all kinds of requests for people to fill jobs,
21 but they are skilled jobs. So that the big problem is
22 trying to get these folks off the welfare rolls that do not
23 have the skills and the training, and in small business, you
24 find many of those jobs offered.

25 This is not a perfect solution, any more than the investment

1 tax credit is, but most of it will be utilized by small
2 business which is up against the wall today, trying to
3 compete against big business. You have to keep the incentive
4 large enough so that they will hire these people. You have
5 a cap put on this by the House and by the Administration
6 of about \$2.4 billion.

7 I have a proposal, and Senator Haskell does. Mine will
8 stay within the \$2.4 billion and will call for an option to
9 be chosen by that individual or that corporation to use the
10 investment tax credit or the employment tax credit. Frankly,
11 the one that is being proposed by the House -- and I am
12 trying to modify it -- is not the one that I would have
13 liked to have seen, but mine will cost substantially more.
14 I have tried to take care of that.

15 The Secretary of the Treasury has made a point that
16 you can have a double dip in the situation, that you could
17 have somebody who is an entrepreneur in the 70 percent tax
18 credit and actually would have a net profit if that person
19 stayed home. I frankly think that that is a straw man and
20 that it is easy to take care of.

21 The way you take care of that is to the extent that
22 they get that credit, they do not get a deduction as an
23 expense for that employee's salary.

24 Again, you ought to let them have the option of choosing
25 between that investment tax credit and this employment tax

1 credit.

2 Frankly, I would take the cap off. It does not make
3 that much difference. That way I would answer the other
4 objection of the Secretary. I would take the cap off of
5 the \$40,000, because what we are trying to do is to get
6 people hired and put them back to work and I would be
7 delighted to see Senator Haskell's option and propose my
8 option to it.

9 Senator Haskell. Mr. Chairman, if I could ask Mike to
10 put up just along the same column, and Bob Shapiro, you can
11 tell him how to do it, but my amendment would increase the
12 credit from a 40 percent to a 50 percent factor, so Bob, would
13 you tell him?

14 Mr. Shapiro. Are you keeping the 103 percent?

15 Senator Haskell. I am coming to that in a minute.
16 I am putting the 103 down to 102.

17 Mr. Shapiro. You would have everything except the
18 third column there, which would be \$102,000. He would have
19 a 50 percent credit, so it would be \$13,000 and you would
20 have --

21 Senator Haskell. Then there would be a total credit
22 ceiling of \$50,000 instead of \$40,000.

23 Mr. Shapiro. The House bill has a \$40,000 ceiling.
24 Senator Haskell would have a \$50,000 ceiling.

25 Senator Haskell. I would address what Senator Packwood

1 is saying, which is a very realistic comment. I would raise
2 the total wage cap, so-called, from \$103 percent to 109,
3 and Bob, would you explain to us what that does?

4 Mr. Shapiro. The concern that the House had was directed
5 to the point that Senator Packwood mentioned earlier that
6 you want to make sure that you actually had additional employ-
7 ees and did not just have adjustments, firing one \$10,000
8 and replacing him with two \$5,000.

9 It did not give the credit except to the extent that
10 your total wages for 1977 was above the total wages plus
11 103 percent for 1976. You really had an incremental increase
12 in total wages, not just the wages subject to the FUTA
13 returns of \$4200.

14 Senator Haskell is saying that that 103 percent may be
15 too small, that 3 percent adjustment, because of some of the
16 concerns that Senator Packwood indicated earlier where they
17 could manipulate it. Therefore, Senator Haskell is proposing
18 to increase the 3 percent adjustment only for wages, not
19 for the amount of credit, but for the total wages to prohibit
20 manipulation by firing one and hiring two smaller ones, so
21 you would have that limit at a 5 percent adjustment, so that
22 the total wages for 1977 would have to be in excess of 1976
23 wages, plus 105 percent in order to get any of the incremental
24 credit.

25 Senator Haskell. Senator Bentsen referred to the

1 so-called double dip and Secretary Woodworth testified to
2 that and I went along with Senator Bentsen, where you get
3 a credit you cannot get a deduction.

4 The purpose of this obviously, I think the problem in the
5 nation is not so much economic stimulus as jobs. As I read
6 it, as I look at The Wall Street Journal, the major corpora-
7 tions are doing very well. They are doing much better than
8 they have before, and their earnings are good.

9 The problem is, for two years running, we have had
10 in excess of 7.3 percent unemployment, and the idea is to
11 get people back to work.

12 This is designed as a complement to the bill that we
13 passed last Thursday, I believe it was, the Public Service
14 Jobs. This is to induce the private sector to put people
15 to work. This is using a rifle as opposed to a shotgun.

16 I would submit, Mr. Chairman, that it is the small
17 business sector in our nation that needs some help. That is
18 the reason for the \$40,000 cap on the House bill, the
19 \$50,000 cap in my bill.

20 Small business employers, more than 50 percent of the
21 work force, by and large they have gotten, in my opinion, the
22 short end of things since the investment tax credit, I
23 believe is taken -- the investment tax credit goes to about,
24 a tremendous portion of it, to about .2 percent of the
25 corporations of this nation.

1 I have it in a letter here, if I can find it. I
2 think that the investment tax credit is the wrong way to
3 go and I think, because large business takes advantage of
4 that, and this is designed to help small business, and that
5 is the whole purpose of this particular proposal.

6 Mr. Shapiro. Let me make one observation that Senator
7 Haskell has in the proposal that Mike is putting up now.
8 One of the reason why he can make these adjustments go to
9 50 percent and also not go above the House bill is that
10 in the House bill it deals with the problem that Senator
11 Bentsen mentioned.

12 There are some people in the 70 percent bracket that
13 could make money by hiring people and telling them not to
14 come in and they would be better off. In order to deal
15 with that problem, the adjustment that was made -- you see
16 where it says the \$13,000 under the Haskell proposal? The
17 \$13,000 credit, 15 percent increment. The \$13,000 allowed
18 as a credit would be disallowed as a deduction for wages.

19 For example, where you see the 1977 wages of \$128,000,
20 if that were only the wages, the FUTA wages, the \$128,000
21 would be reduced by \$13,000 so the employer can only deduct
22 \$115,000 as a deduction for the wages. He would still get
23 his full \$13,000 credit.

24 What this does is prevent someone from having a double
25 dip by getting excess of 100 percent, and the way you

1 compensate for that is by increasing the credit from 40
2 percent to 50 percent. That is what Senator Haskell has
3 done. He has prevented the double dipping that he and
4 Senator Bentsen also referred to by disallowing the \$13,000
5 as a deduction on the wages.

6 The Chairman. It seems to me that there are two things
7 that both the Senators agree on one principle, and I think
8 that we might be well-advised to get that part of it agreed
9 to tentatively; we could change it back if we do not agree
10 that it is right.

11 It seems to me, as though it makes so much sense to say
12 you are not going to have the kind of potential of getting the
13 kind of fiasco where somebody pays somebody to make a profit
14 by putting somebody on because they get 110 percent tax
15 advantage for the worker staying home.

16 It seems to me, for starters, we ought to definitely
17 buy the principle that both of these two amendments have,
18 and that is to say that where you take the credit you cannot
19 deduct for the credit you have already taken for this jobs
20 credit. If you do that, I think that it makes a better
21 proposal.

22 I would suggest that we decide that much this morning.

23 Mr. Woodworth. The Treasury would also support an
24 amendment of that type.

25 Senator Curtis. May I ask, Senator Dole is at the

1 Agriculture Committee. He has a proposal for a subsidy
2 at a dollar of the minimum wage for hiring the hardcore
3 unemployed. Is there any reason why that should not be
4 considered at this time? Are they related?

5 Mr. Shapiro. It would probably be considered in
6 substitute for this, because the revenue restraints of having
7 both -- this is not targeted to the unemployed. The House
8 discussed this; let me give you the House views on this.
9 It is up to this Committee to decide how you want to
10 substitute this or how you want to tailor this.

11 You can tailor this to dealing with hard-core unemploy-
12 ment. You can do it with a number of proposals. There are
13 practical administrative problems.

14 One is that it is very difficult to do it under the
15 Senator Dole proposal because you have to keep track of
16 hours, or number of employees. The record-keeping is much
17 more difficult than here.

18 From the standpoint of targeting it to the unemployed,
19 you have potential problems of having two people going for
20 a job, one unemployed for twenty-six weeks, one unemployed
21 for twenty weeks and the discrimination is the one who is
22 unemployed for the twenty-six weeks where the credit would
23 be available would get the job just because he has been
24 unemployed the longer.

25 These are the types of problems that convinced the Ways

1 and Means Committee not to target in this proposal. They
2 were very much concerned about the hard-core unemployed, but
3 believed this concept was not the best way to deal with it.

4 Senator Curtis. My concern is merely to protect the
5 rights of Senator Dole.

6 The Chairman. I would suggest that, by all means, we
7 protect the Senator's rights. This does not prejudice his
8 rights at all.

9 Senator Curtis. Are you a co-sponsor with Senator
10 Dole?

11 Senator Bentsen. No.

12 Mr. Shapiro. I do not think this would affect Senator
13 Dole's amendment. It would be a substitute and not affect
14 it.

15 The Chairman. Under the procedural rules which we
16 work by, nobody is ever locked in. He can offer it however
17 he wants to. It seems to me that since the two Senators have
18 both had this -- and I think it is a shortcoming of
19 the Administration proposal -- we should start off by agree-
20 ing to that part of it, that both Senators suggest that
21 we knock out the double dip aspect of it.

22 You cannot take the deduction on the part that you
23 have already claimed the credit for.

24 All in favor of that, say aye?

25 Senator Curtis. Let me ask a question. This is the

1 House proposal as modified?

2 The Chairman. Proposing to modify the House proposal
3 to this extent.

4 Senator Curtis. Is the Administration supporting the
5 House proposal?

6 The Chairman. No, but Larry, your position is if the
7 House proposal stayed in here, you would favor this?

8 Mr. Woodworth. That is correct.

9 Senator Curtis. It is not a vote to accept the House
10 proposal?

11 The Chairman. No, it is not a vote to modify it.

12 Senator Curtis. All right.

13 The Chairman. All in favor, say aye?

14 (A chorus of ayes)

15 The Chairman. Opposed, no?

16 (No response)

17 The Chairman. The ayes have it.

18 Senator Bentsen?

19 Senator Bensen. Let me explain the option that I would
20 be proposing as an option to Senator Haskell's amendment.

21 What we have here is an amount of \$2.4 billion that we are
22 trying to stay with it. I believe that you need the option
23 of the additional tax credit made available.

24 In this country today, we are utilizing 78 to 80
25 percent of our manufacturing capacity. That does not tell the

1 whole story. That 20 percent of the capacity that is not
2 being utilized is generally made up of the old plants, of
3 that which is the least efficient, that makes us the least
4 competitive in the world market, and in trying to hold down
5 inflation, putting out a product at a reasonable cost to
6 consumers in this country.

7 When it comes to an investment in manufacturing capacity
8 in this country as compared to national output, real national
9 output, the United States rates at 17.5 percent, that is
10 the lowest of any of these nations: Japan, West Germany,
11 France, Canada, Italy, United Kingdom and a whole list of
12 others.

13 So we are becoming less competitive all the time.

14 We have seen what has happened in England where their
15 manufacturing is out of date and no longer competitive.
16 We are putting an even smaller percentage of our real
17 national output back into manufacturing capacity.

18 I strongly support the Administration on that position
19 of having the additional investment tax credit, but I
20 disagree with them on the employment tax credit.

21 We can put an employment tax credit option in here for
22 what, in effect, is generally small business, which is
23 labor intensive companies if we will do it in this manner.
24 I am proposing that the cap be taken off to answer one
25 of the Secretary's arguments, it still means that it is going

1 to be mostly small business that utilizes this, and it still
2 means that it is going to be the lower income people who
3 are generally going to be hired.

4 I also heard the Secretary say that that was one of
5 the problems with it, that it was low-income people being
6 favored in this sort of situation, but in that same sense,
7 testimony was talking about the tax cut which was favoring
8 low income people.

9 I think that we ought to be consistent with that. This
10 is a carrot, this is an incentive, for the private enter-
11 prise people.

12 We are talking about public service jobs. The cost is
13 \$8,000 to \$10,000 there. We are talking about public works
14 jobs that are costing us \$30,000 a year. I voted for those,
15 but I wanted to see people put back to work. I sure would
16 rather pay them for working than not working. I would like
17 to have the carrot and incentive to really try to get them
18 into the private enterprise system where they have found
19 long-term jobs, productive jobs.

20 One of the real problems in trying to take care of
21 inflation and unemployment at the same time is most of
22 the things we utilize are counter-productive. When we try
23 to take care of unemployment, we push inflation up. When
24 we try to take care of inflation, we push inflation up.

25 Here is a chance of having something that will help, that

1 will help put people back to work but will also lower the
2 unit costs of production because your wages are less.

3 In a competitive society, that gets passed on to the
4 consumer, so you are fighting inflation and recession at the
5 same time.

6 There is not total equity in this employment tax credit.
7 I had another proposal that I thought would be much more
8 effective, but it cost a lot more money and I recognize at
9 the present time, with these budget limitations, we cannot
10 do that, but I would like to see this as an option.

11 Then I would like to use the 103 percent, as used by the
12 House, but say that they get 22 percent credit --

13 Senator Haskell. Could we have this put on the Board,
14 Senator?

15 Senator Bentsen. Yes.

16 -- a 22 percent credit, and that works out to almost
17 \$1,000 per new worker, and that means no cap. It means that
18 as many of these folks that can be hired, they will have
19 that incentive to do it and the estimates that we have say
20 that that will say within using the investment tax credit
21 as an option to it or this employment tax credit will stay
22 within the \$2.4 billion.

23 Each of them adds up to about \$1.2 billion.

24 Mr. Shapiro. I think we have revised estimates. I
25 think you can go from 22 to 25 percent.

1 Senator Bentsen. I just revised it to 25 percent.

2 Senator Byrd (presiding). That 25 percent takes the
3 place of 40 percent?

4 Senator Bentsen. Yes, sir. It is an option to the
5 investment tax credit, as the Administration proposed.
6 Those that are capital-intensive will have that option
7 available and small business, which is labor intensive,
8 will have this option available.

9 Senator Byrd. Does the Committee wish to vote on either
10 of these?

11 Senator Haskell. I think it might be better, Mr.
12 Chairman, if we could hear them all and maybe even think
13 of them.

14 Senator Moynihan. Could I ask Secretary Woodworth and
15 Mr. Shapiro, what are we to understand in terms of the change
16 from the Administration proposal to the House proposal?
17 I very much share Senator Bentsen's concern about investment.
18 There really is not any single more conspicuous fact in the
19 American economy in thirty years than the low rate of
20 investment in terms of expenditures for plant and equipment
21 as a proportion of GNP.

22 We are at about 27 percent of the German and a third
23 of the Japanese. We are very low. The Germans, I believe,
24 have been maintaining an average of 24.3 percent of GNP;
25 we have been at 7.8 percent.

1 Now we are at the levels of investment that we
2 associate with pre-industrial societies. The Administration
3 calls for an investment tax incentive; the House has shifted
4 to something else.

5 Is that something that the Administration wants? No,
6 says Dr. Woodworth.

7 Secondly, sir, if you do not want it, why do you not
8 want it? And, if I may ask -- I do not want to be obsessed
9 with this, but it is something that has to be obsessive if
10 you come from my part of the world. -- what will be the
11 regional impact? This is a measure, the House has decided
12 to reward new hires. Certainly there is no way to suggest
13 a uniform rate of new hiring around this country. It is
14 much higher in some regions, much lower in others.

15 The rates, I think you would note, the most recent
16 figure for September in new hirings in manufacturing is
17 3.2 per 100 employees, while in the state of Pennsylvania,
18 it is 1.7 per 100 employees: one-half.

19 I have spent a lot of time lately trying to bring
20 enlightenment to the state of Pennsylvania in these matters.
21 There will be a real differential, and we will be increasing
22 employment in places where unemployment is doing the least
23 than in places where unemployment is higher.

24 Dr. Woodworth, I would like to hear your views. Mr.
25 Chairman, I hope you do not mind. There are several

1 implications, and I am prepared to hear about that.

2 Mr. Woodworth. Yes. We are glad to comment on that.

3 First, on the investment implications, I think that the
4 Administration feels that it is very important that there
5 be an investment incentive in this bill. We think that
6 the idea is initially to get a market for products and
7 do that by providing funds for individuals to spend. How-
8 ever, once that is begun, we think that it is important that
9 investment, capital investment, pick up.

10 We also recognize that there is a need for capital
11 formation in the longrun and we tend to make proposals in
12 that regard while dealing with that, but we think that it is
13 particularly important that business understand that there
14 is an investment incentive in this package and that they are
15 not being overlooked in this regard.

16 Senator Moynihan. There is, or was?

17 Mr. Woodworth. We think there needs to be, and there
18 was in the Administration proposal, and we think that there
19 is not in the House bill.

20 Senator Moynihan. Does the President ask us to vote
21 against the House bill?

22 Mr. Woodworth. The President asks you to vote against
23 this feature of the House bill?

24 Senator Moynihan. He does?

25 Mr. Woodworth. Yes.

1 Senator Moynihan. He does? That is the first time
2 that we have heard that.

3 Senator Hathaway. If consumer demand picks up, why do
4 we need the extra incentive for business to invest? They are
5 naturally going to invest to keep up with the increase in
6 consumer demand.

7 It seems to me the stimulus we ought to be providing
8 at this time is just consumer-oriented stimulus and not the
9 investment stimulus.

10 Mr. Woodworth. The great bulk of this bill is towards
11 consumer stimulus, no doubt about that, the great bulk of
12 it.

13 Senator Hathaway. Why not all of it?

14 Mr. Woodworth. About \$2.5 billion out of close to \$15
15 billion overall, so that it is small, but the Administra-
16 tion believes, and the President feels, that it is important
17 that there be some, even though minor, investment stimulus
18 in this bill and that further stimulus undoubtedly will be
19 proposed in subsequent legislation.

20 But certainly it is true that capital spending is very
21 low now. One of the reasons for capital spending being
22 low is because demand is up, but once demand gets up, the
23 cost of that capital spending is also important and the
24 investment credit is a determinant in lessening that cost,
25 very appreciably.

1 So it is very important, We think also there is an
2 important psychological impact insofar as capital spending is
3 concerned to have some investment stimulus in this package.
4 We are not suggesting that it be a major item now, but we
5 do suggest that it be included and included at least on a
6 minimal basis.

7 Senator Hathaway. Mr. Chairman, I wonder if I could
8 ask Secretary Woodworth --

9 Senator Byrd. Go ahead, Senator Hathaway.

10 Senator Hathaway. It seems to me that it is more
11 psychological than real.

12 Mr. Woodworth. It is both. We think that it is
13 psychological, and that is important. In addition to the
14 psychological factor, a 2 percent increase in the investment
15 credit is two-thirds of the investment stimulus that Congress
16 saw fit to provide last time around, so that it is a
17 significant factor.

18 Senator Hathaway. How do you argue against hiring?

19 Mr. Woodworth. First of all, we have not been shown that
20 there is any real, positive hiring incentive, or not very
21 much positive hiring incentive. We question that. We think
22 that, first of all, that by the use of a marginal type
23 credit, which is what this is, that all employers who are
24 not in the position to hire because their markets do not
25 justify an increase in their labor force, naturally will not,

1 and we do think that there is some area of discrimination
2 as far as the country is concerned.

3 Senator Moynihan. Would you speak to that?

4 Mr. Woodworth. Yes.

5 We think, as you indicated, that it does tend to
6 discriminate against New England and the Midwest relative
7 to the South and the Far West.

8 Senator Haskell. May I ask a question here?

9 If people in New England and the Midwest are not
10 hiring and people in the West and the Southwest are not
11 hiring, are you saying that people in New England and the
12 Midwest are investing, but that the people in the West and
13 the Southwest are not?

14 In other words, is there any more discrimination, assuming
15 more depressed economies in your section of the country, is
16 there any more discrimination involved in a job incentive
17 than there is in an additional investment credit?

18 Mr. Woodworth. We think there is substantially more.
19 The reason is that the job incentive that you have here is
20 a marginal one. It is only over and above existing employ-
21 ment.

22 The investment credit is not a marginal one. It goes
23 to the replacement of the existing, worn-out assets as
24 well as additions. In other words, the investment credit is
25 not an incremental proposal; under existing law, it is not.

1 Therefore, it does not have the type of impact of
2 helping only those who are necessarily expanding above the
3 level that they were at before.

4 The investment credit helps those who are purchasing
5 new equipment whether that brings them up above the level
6 of their prior level of capital spending or not. There is
7 a significant and important difference in the sense that it
8 is not incremental.

9 Senator Haskell. I do not want to interrupt the Senator
10 from New York, but I do have one question I would like to
11 ask the Secretary, if I may.

12 In view of the fact that we already have a 10 percent
13 investment credit, and now the Administration is proposing
14 an additional 2 percent, what new investment -- not an
15 investment that would be made anyway -- what new investment,
16 in your opinion, will be induced by this additional 2
17 percent?

18 Mr. Woodworth. I cannot give you a measure of it, at
19 least not now. I will try to get such, if we have one.
20 We think that a 12 percent investment credit will provide
21 more of a stimulus than a 10 percent investment credit,
22 just as the Congress thought that a 10 percent one would
23 provide more of a stimulus than a 7 percent one, which was
24 the last level of the credit.

25 Senator Haskell. I might say, Mr. Secretary, what we

1 are looking for is stimulus of investment. I think we ought
2 to zero in on what investment will be made at 12 percent
3 that will not be made at 10 percent. I would hardly think
4 it would be that much, but that happens to be a personal
5 opinion.

6 I think that the way to stimulate investment is to say
7 that you have one year to take advantage of the investment
8 credit, then no more investment credit. Then you would
9 see people rushing to invest. I know I could not get that
10 passed.

11 Mr. Woodworth. An investment credit has the effect of
12 reducing the net cost of capital goods, insofar as the
13 employer is concerned.

14 Senator Ribicoff (presiding). I wonder if the Senator
15 would yield?

16 If this question has been answered, go ahead --

17 Senator Moynihan. Would the Chairman mind if I recapitu-
18 lated what I understand to be Dr. Woodworth's answer?

19 He said the Administration, the President would prefer
20 us not to accept the House substitute, but rather to adopt
21 the Administration proposal which concentrates on investment.

22 Secondly, he said that the House substitute would have
23 a definite bias in the stimulus and it evolved away from
24 the Midwest and Northeastern states toward the Southern and
25 Southwestern states. Is that right, Mr. Secretary?

1 Mr. Woodworth. That is correct.

2 Senator Moynihan. Thank you.

3 Senator Ribicoff. Having just gone through a fight on
4 the Floor on the employment bill -- so I am not going to talk
5 about any particular state. What I am interested in is
6 what would create more jobs, what is the potential of the
7 employment pool in America to create twenty-four jobs as
8 against the potential of Senator Bentsen, which is unlimited?

9 Basically, are not most of the jobs in America in large
10 sized employers instead of with the small employers?

11 Mr. Woodworth. I do not know. I can say that most of
12 them are, but certainly a large proportion of them are.
13 We figure, in the House bill, that the floor or threshold --
14 in other words, the fact that you have to have a level of
15 employment of 103 percent or more last year before you get
16 any credit -- would probably cut out about 30 percent of the
17 job opportunities.

18 We think, and our analysis would suggest, that the
19 \$40,000 cap would cut out about 36 percent of the job
20 opportunities. Between the two, we believe that 66 percent
21 are cut out of the proposal.

22 Senator Byrd. Is this not a very unrealistic proposal,
23 to cut off a pool that represents 66 percent of job
24 potential? If we are passing this program -- and there is
25 a lot about it that I do not like at all -- but supposedly to

1 have more job opportunity, to create more jobs, why should
2 we be passing a program, or advocating a program, that
3 deprives us of a 66 percent pool for creation of jobs?

4 Mr. Woodworth. We think it would be better for you to
5 modify it and not have that result. In that respect, I
6 have to say that Senator Bentsen's proposal -- while we still
7 do not like the fact that it is what I would call an
8 incremental credit, we would view it more favorably than
9 either the House bill or the proposed bill of Senator
10 Haskell.

11 Senator Packwood. In your Administration bill, you
12 rectify the problem that Senator Moynihan is talking about.
13 You have a 4 percent unemployment credit and you do not have
14 any base, as I recall it.

15 Mr. Woodworth. That is correct.

16 Senator Packwood. Even if your industry is depressed,
17 you are going to get a 4 percent credit, if you choose to
18 go to that credit, for hiring.

19 Mr. Woodworth. We do think that that is more desirable
20 by far because it does give it to that 30 percent that are
21 referred to. If you take the ceiling off, you would get
22 relief on the 36 percent but you would still not have an
23 opportunity to provide any relief for the 30 percent that
24 are below the threshold.

25 Senator Packwood. It also, to the extent that you are

1 worried about the Northeast corridor, it also applies the
2 2 percent, as I recall it, on the Railroad Retirement payments,
3 does it not? My hunch would be on hiring, I would be surprised
4 if any of the eastern railroads would be coming up to the
5 103 percent standard.

6 Mr. Woodworth. The ones that have discussed it with
7 me, I think that it was clear that they will not benefit
8 from the House credit.

9 Senator Ribicoff. What combination would the same amount
10 of money, would produce the most jobs for the country as a
11 whole?

12 Mr. Shapiro. Senator Ribicoff, if we are talking about
13 jobs, we have to put into perspective a number of things.
14 You have labor-intensive versus capital-intensive. The
15 capital-intensive industries prefer the investment tax
16 credit; the labor-intensive industries prefer the jobs
17 tax credit.

18 You have certain thresholds you have to meet in certain
19 caps that take many of the people of the work force out
20 of being able to get benefits out of the 103 percent cut-off,
21 which cuts off approximately 30 percent. The \$40,000 cuts
22 off another portion, somewhere in the neighborhood of 35 to
23 36 percent.

24 Senator Bentsen, in recognition of that concern, has
25 an alternative that goes to both aspects. He has the investment

1 tax credit, as proposed by the Administration to deal with
2 the capital-intensive industries as the Administration
3 proposed it; to deal with the labor-intensive industries
4 you have the jobs credit without any ceiling, that those
5 would would not benefit, who would be below the 103
6 percent.

7 Senator Ribicoff. I do not want to get into a situation
8 where we are going to play labor-intensive against capital-
9 intensive. I think the objective is to get jobs.

10 If the Bentsen proposal would get the most jobs for
11 the country as a whole, is that not our objective, instead of
12 playing one section of the country against another section
13 of the country? What program will help the entire United
14 States?

15 Mr. Shapiro. I think it might be a fair statement to
16 say that Senator Bentsen's proposal would get more jobs
17 overall than the Administration's proposal. There is a
18 question about Senator Haskell's proposal.

19 In all candor, the jobs tax credit is a new proposal.
20 There is no experience as to how it would be taken, as to
21 how many employers would really use it, With the \$40,000
22 ceiling in the House bill, there is a question of the
23 real impact.

24 Senator Curtis. Are we not confusing the matter of
25 equity between taxpayers, rather than focusing on the total

1 jobs, even if an industry is low labor-intensive. If they
2 buy a new machine, it takes jobs to produce that machine,
3 does it not?

4 Mr. Woodworth. We certainly agree. To look at the
5 secondary market effect that you are referring to --

6 Senator Curtis. I always thought that the purpose of
7 the investment credit is that if it induces a farmer to buy
8 a tractor that otherwise he would not buy, someone has to
9 produce the raw materials. Somebody has to design, somebody
10 has to manufacturer, somebody has to transport, somebody has
11 to wholesale and retail, insure and finance.

12 I don't think that you have made any case here that the
13 investment credit does not create as many jobs as the one
14 that carries the title of jobs credit.

15 I realize that the difference between taxpayers might --
16 the taxpayer who could not buy a new machine, the taxpayer
17 who cannot, in any way, take on new employees, is discrimi-
18 nated against. The only measuring stick you have is the
19 total jobs in the economy.

20 Mr. Shapiro. It is very difficult to measure how
21 many jobs each of these proposals when you have alternatives.
22 Let me make a few general observations that the Committee
23 has to consider.

24 One of the points that the House considered in their
25 decision is the point Senator Haskell made. They did not

1 believe that a 2 percentage point increase would make that
2 Business do that much more for 12 percent that they did not
3 do already for 10 percent. Many of the jobs would be created
4 with the existing 10 percent credit and would continue to
5 be created.

6 Therefore, they put all the business sector in the
7 New Jobs Tax Credit, thinking that it would create more
8 jobs because you already have the 10 percent investment credit
9 for the large business. That is the House approach.

10 Now there is a concern that larger businesses are
11 concerned. Not only do they not get the 2 percentage point
12 in the investment tax credit, but there is a ceiling in the
13 House bill of \$40,000.

14 Another factor before the Committee is that you have
15 some businesses that will not get anything out of the
16 proposal, the Senator Bentsen proposal, the House bill or
17 the Senator Haskell proposal in the sense that they do not
18 pay taxes. They need a refund in excess of taxes. That is
19 where there is some interest in the Administration's 4
20 percent rebate of Social Security taxes that is a refundable
21 credit.

22 I think there is a question as to how many new jobs
23 would be created by their proposal; clearly some. We have
24 heard from the railroads. They would use this -- for
25 example, ConRail would use this to hire more people. I do

1 not know to what extent those businesses who would get
2 the refundable credit would use it to hire new people.
3 Senator Bentsen's proposal sort of meshes these various
4 aspects by giving the investment tax credit as proposed by
5 the Administration and the jobs tax credit without the
6 ceiling.

7 The disadvantage he has that the House had, when you
8 reduce the benefit to smaller businesses by going from the
9 40 percent credit to the 25 percent credit, there is less
10 incentive; again by taking off the ceiling there is more of
11 an incentive to the larger businesses.

12 I guess there are a series of compromises that have to
13 be considered as to what direction, and the Committee has to
14 decide.

15 Senator Bentsen. What we are trying to do is what you
16 stated, trying to get people back to work and trying to find
17 a less expensive way to do it. There is no one at this
18 table who can tell us to what degree an employment tax credit
19 is going to work. It is something that has been tried in
20 Germany. They think it is becoming effective. We are
21 holding a carrot out here for this employer.

22 Under my provisions, it would be \$1030; under Senator
23 Haskell's, I think it would be \$2060, about double, as I
24 understand it.

25 What we are talking about is the substitution for the

1 40 percent of the Social Security tax that gets up to a
2 maximum of \$38, as I recall, per employee. I do not think
3 that is much of an incentive to hire an employee, \$38.

4 I think the \$1,030 that I proposed in my amendment is
5 a reasonable incentive to get these people hired and it
6 will in particular -- I think the Secretary made the point
7 that is going to be encouraging the low income people and
8 the lower salaried people to be hired. I think that is
9 true, but those are the toughest ones to get hired. Those
10 are the ones that generally we had to take care of in the
11 welfare system.

12 I think one of the most denigrating things that can
13 happen to an individual is to tell them that they have
14 no productive role to fulfill in society, that you are going
15 to put them aside; you are going to take these one people
16 where you see 25 and 30 percent unemployment rates, particu-
17 larly among the blacks and say, ~~the society~~ has no role for
18 ~~him~~ to fill. You are going to put them on the shelf.

19 I think it has a longterm social and economic impact
20 on this country. I think we really should zero in on these
21 people. Here is a chance, the best thing we have seen so
22 far to try to encourage the hiring of these kinds of these
23 kinds of things.

24 What I have tried to do is offer an alternative to what
25 the House did, and what the Administration did to try to see

1 that where we have the problems of modernizing plants, as
2 the Senator from New York has so eloquently stated, that
3 they have a chance to use that investment tax credit to make
4 them more competitive, in turn, to help small business to
5 compete by taking the cap off to get to more workers and get
6 more people hired.

7 We have stayed within the \$2.4 billion; a lot of thought
8 and a lot of time and a lot of study has gone into this
9 proposal. It is a series of compromises.

10 Senator Curtis. Annual costs?

11 Senator Bentsen. Yes, sir.

12 ~~Senator Haskell:~~ I would like to say, if we are going to go the
13 job credit route, I would hope that we would make it sub-
14 stantial. I understand the Senator from Texas' proposal.
15 His is a \$1,000 job as opposed to a \$2,100 on the one that
16 I have proposed, and when a cap is targeted at small
17 businesses -- and my understanding that 53 percent of the
18 private employees in the nation are within the SBA's small
19 business definition.

20 I personally feel that to add 2 percent to the invest-
21 ment tax credit is unwise. I do have the figures now.

22 In 1972, for example, .2 percent of the corporations
23 in this nation received the benefits, over 70 percent of
24 the benefits, of the investment credit. I would hope
25 that we would experiment now with a proposal that targets

1 in on jobs and targets in on small business. That is why,
2 obviously, I propose my proposal over Senator Bentsen's,
3 or the one by the Administration.

4 Senator Laxalt. Mr. Chairman, I would like to be
5 protected on the record procedurally to cover another
6 deficiency in addition to those being pointed out. Every-
7 thing we discuss here presupposes a health business. We
8 talk about incremental hiring, investment tax credits and
9 so on.

10 Senator Moynihan has indicated that he has some businesses
11 in his area that are not all that healthy. I think as a
12 result of the drought we are experiencing in the West we
13 are going to come out with some businesses that are not
14 going to be all that healthy, so I would like to leave here,
15 for the protection of the record, to be able to flesh out
16 some program, whether it is on the basis of a refundable
17 credit that has been suggested by Senator Kennedy or
18 something else; but we would like leave to protect ourselves
19 in the record to flesh something out to take care of this
20 apparent deficiency, Mr. Chairman.

21 Senator Ribicoff. If I may ask, as to the suggestion of
22 Senator Laxalt, what would be the actual cost for a refundable
23 tax credit along the lines suggested by Senator Laxalt?

24 Mr. Shapiro. \$900 million in fiscal '77; \$3.5 billion
25 in fiscal year 1978. That is the investment tax credit,

1 refundable: Ribicoff.

2 Senator Ribicoff. In addition to the \$2.4 billion?

3 Mr. Shapiro. This is based on a 10 percent credit.

4 Mr. Woodworth. We believe, Senator Ribicoff, that the
5 refundable investment credit is a proposal that deserves
6 study and it is bigger, however, in terms of cost. We
7 think that it is appropriate under the present conditions.

8 We would like to have the opportunity of studying that
9 and seeing whether, in our major tax revision, something of
10 that type might be incorporated or should be incorporated.

11 I think that the Administration has an open mind on that
12 issue but is reluctant to see you act on it now because it
13 is a major structural change in the tax law and we would
14 like to reserve those for the tax reform and revision proposals
15 this fall.

16 Senator Ribicoff. What would have the greatest impact
17 on helping the economy, the suggestion of Senator Laxalt or
18 cutting down the number of \$50 rebates?

19 Mr. Woodworth. We think, first of all, that the first
20 stimulus that is needed is a market stimulus and a market
21 stimulus is best provided by the \$50 rebate.

22 The particular advantage of it is the fact that the
23 rebate is a one-shot proposition, so it does not use up
24 revenues that perhaps should be devoted to other purposes
25 in the longrun.

1 Senator Laxalt. The Chairman has brought up an option.
2 We would like to protect ourselves, to bring up a piece of
3 legislation. We will have a good discussion here that we
4 will go by way of the tax credit or the rebate or some other
5 kind of relief of the type I outlined.

6 Senator Haskell. If I may, I would hope we could get
7 some figures also on making the job credit refundable.

8 Mr. Shapiro. We do have some of those. It depends on
9 the proposal. It is in the neighborhood of \$200 million, to
10 make the jobs tax credit refundable. It depends on the
11 various proposals. There are separate proposals.

12 Senator Haskell. \$200 million, as opposed to \$3.5
13 billion, making the investment credit refundable?

14 Mr. Shapiro. Because it is incremental. The invest-
15 ment tax credit, if you talk about keeping it at the 10
16 percent, probably you have a significant amount of tax
17 credit that has been carried over.

18 Senator Haskell. It happens that my proposal, which is
19 not refundable, the revenue is \$2.2 billion as opposed to
20 the Administration's \$2.4 billion.

21 If I should amend that to make it refundable, I come
22 up exactly with the Administration, am I correct? I guess
23 I am. That might be a good thing to do.

24 Senator Danforth. Mr. Chairman, I am not sure what
25 the drift of the discussion is, or where we are heading. I

1 take it what we are doing at this point is simply throwing
2 out all of our own ideas about how to solve it with particu-
3 lar reference to this point as to what to do about business
4 and business hiring, making it possible for business to
5 employ more people in the private sector.

6 I would like to simply throw out a couple of proposals
7 that I do not think have been mentioned today. One is for
8 a permanent tax reduction aimed at small corporations aimed
9 at the first \$100,000 of corporate income; reducing the
10 corporate tax rate for the first \$100,000 to 18 percent.
11 That would target in at the small businesses, the ones that
12 are so often in trouble, the ones which are so often facing
13 failure and recognizing, as one of the witnesses pointed out
14 last week that -- what is it, Senator Hansen? Something like
15 a 66 times greater rate of growth in employment which is
16 attained in small business than in the large corporation.

17 Senator Hansen. I believe that is correct.

18 Senator Danforth. The second proposal, I think, going
19 to Senator Moynihan's position, if you want to target areas
20 of high unemployment, if the object is to provide jobs, not
21 simply to complicate the Internal Revenue Code, the way to
22 do that is to target changes in depreciation schedules, more
23 rapid depreciation, for investment in the areas of high
24 unemployment.

25 Senator Ribicoff. I would suggest that there are many

1 ideas being generated here, that the Chairman has indicated
2 that he did not want to go this afternoon, that we would
3 meet again tomorrow morning at 10:00 o'clock. Any member who
4 has some thoughts and ideas and would like the staff to cost
5 them out should not hesitate to present their thoughts and
6 ideas informally through their staffs, or themselves person-
7 ally, to Mr. Shapiro or Mr. Stern, bringing forth the
8 information to the Committee as a whole.

9 We are not going to vote on anything. I have come in
10 late because I have been presiding over the Department of
11 Energy hearings, but it is very obvious that we are talking
12 about a couple of the basic decisions that are going to
13 determine where this Committee is going to do.

14 Senator Curtis. Mr. Chairman, the Minority has a
15 Policy Luncheon right now.

16 Senator Ribicoff. I think in all fairness --

17 Senator Dole. Mr. Chairman?

18 Senator Ribicoff. Senator Dole?

19 Senator Dole. Lots of us have other committees, too.
20 I have a somewhat different version of the jobs tax credit.
21 We will have an opportunity to offer that tomorrow?

22 Senator Ribicoff. I cannot speak for Senator Long, but
23 I am sure everybody will have an opportunity to discuss it.

24 I think that, without objection, the Committee will
25 stand adjourned until 10:00 o'clock tomorrow morning.

(Thereupon, at 12:30 p.m. the Committee recessed to reconvene at 10:00 a.m. on Wednesday, March 16, 1977.

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