

EXECUTIVE SESSION

- - -
WEDNESDAY, MARCH 16, 1977
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United States Senate,
Committee on Finance,
Washington, D.C.

The Committee met, pursuant to recess, at 10:15 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell T. Long (Chairman of the Committee) presiding.

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

The Chairman. Let us start out today -- I had to leave at ten minutes to 12:00 yesterday. Suppose you tell me where we stand now.

Mr. Shapiro. At the end of yesterday, we were talking about the business tax reduction portion of the package. The description you see on the board, the House bill -- Senator Haskell had a series of amendments to the jobs tax credit. Senator Bentsen followed with a combination of the House bill, changes to the jobs tax credit and adding the Administration's two percentage point increases to the investment tax credit.

Both proposals were trying to achieve the objective of

1 maintaining a balance of the House's level, the same budgetary
2 level the Administration and the House achieved.

3 Senator Dole's proposal, on the board now, was not
4 mentioned yesterday. Senator Dole, I think, was not here
5 when it was brought up. It was one of the proposals Senator
6 Curtis reserved to allow Senator Dole to bring up.

7 It departs from the jobs credit because it does not go
8 on the FUTA base -- I am sorry. The one on the board is
9 different because his original proposal was based on hours,
10 number of employers. He has now changed it to use the FUTA
11 base.

12 He spends all the money there by not having the 3
13 percent increment. It is 100 percent of the base year, and
14 then 15 percent credit rather than the 25 percent credit of
15 Senator Bentsen and a \$40,000 cap.

16 In the discussion yesterday, you have two basic objec-
17 tives in the business area. One deals with the capital-
18 intensive industries, the second is the labor-intensive
19 industries. The investment tax credit is channeled more to
20 the capital-intensive industries; the job credit is channeled
21 more to the labor-intensive industries.

22 Some of the proposals wanted to go more to labor-inten-
23 sive because of the feeling, the need to get at unemployment.
24 Present law still has a 10 percent investment tax credit
25 still oriented towards the capital-intensive industries.

1 There are other proposals that try to combine them to try to
2 say you need to go to the labor-intensive and capital-
3 intensive and try to have a mix in this particular package.

4 At the end of the session yesterday, the concern seemed
5 to be that there were some corporations and businesses that
6 would not benefit from either of these proposals because
7 they either are not profitable or, with respect to the
8 investment tax credit, they are at the ceiling.

9 As you know, there is a ceiling on the investment tax
10 credit where you can get the investment tax credit on the
11 first \$25,000 of taxes. You can only get the investment tax
12 credit to the extent of 50 percent of your tax liability in
13 excess of the first \$25,000.

14 Therefore, there are many businesses that are at the
15 ceiling; that is, they can only take 50 percent of their
16 tax liability. Although they have additional investment tax
17 credits, the 50 percent ceiling limits the amount of invest-
18 ment tax credits they can take.

19 Some other suggestions were being discussed, that is
20 possibly eliminating the 50 percent ceiling and going to 100
21 percent or to make a portion of the investment tax credit
22 refundable.

23 Senator Hansen. You are talking about the application of
24 present law?

25 Mr. Shapiro. That is correct. The considerations were,

1 what do you do with respect to present law? You can combine
2 this with the House bill, the Administration proposal, the
3 present law, or either of these. It is expensive to do all
4 of them, so there are certain compromises.

5 There are three basic objectives that some of the members
6 can be focusing on. One is to provide the jobs tax credit to
7 labor-intensive industries. The second is to increase the
8 investment tax credit to the capital-intensive industries.
9 Then there was a focus on the businesses who could not use
10 either of these because they have no profits, or they were
11 at the ceiling at the investment tax credit. Some of the
12 members indicated an interest in providing some refundability
13 or increasing the ceiling on the investment tax credit to
14 deal with the problem of the ceiling and the nonprofits.

15 This is where you were in the business area, possibly
16 some combination of these.

17 Senator Packwood. Would you explain once more how you
18 get to the ceiling and cannot go above it in the investment
19 tax credit?

20 Mr. Shapiro. Let me give an example that maybe Mike
21 can put on the board. It would be easier so that you can
22 see it.

23 We will have two columns. The left column we will call
24 the tax payment; the righthand column, we will have the
25 investment tax credit. I assume for this example we are

1 talking about the existing 10 percent investment credit.

2 Let us assume for the tax payment column that you have
3 a corporation, after making all their computation of income
4 and deductions, they owe taxes of \$85,000, so their tax
5 payment without the investment tax credit will be \$85,000.

6 Let us assume, for the righthand column, the corporation
7 would be entitled to an \$80,000 investment credit. The first
8 limitation on the investment tax credit, you can get up to
9 \$25,000. We can subtract \$25,000 from both columns.

10 Senator Packwood. Under present law?

11 Mr. Shapiro. This is present law. In other words, you
12 have taken \$25,000 so you have \$60,000 the corporation
13 still owes some taxes and \$55,000 of investment tax credit.

14 Senator Curtis. That is the cap on the yearly allowance?
15 You carry the rest forward?

16 Mr. Shapiro. No, we have a second step.

17 Senator Packwood. What is the \$25,000?

18 Mr. Shapiro. The \$25,000, you can use the investment
19 tax credit up to \$25,000 without any limits whatsoever.

20 Now we are at the second stage. You can only use an
21 amount of 50 percent of your tax payment, so you are now
22 entitled to 50 percent of the investment tax credit, or your
23 tax payments. You can use \$30,000 of the investment tax
24 credit against the remaining taxes you owe.

25 We subtract that, so the corporation will now owe

1 \$30,000 of taxes. They use the \$25,000 and then 50 percent
2 of their tax liability. That is the second limitation.
3 That means they pay taxes on \$30,000.

4 Senator Bentsen. Do you have a carry-forward?

5 Mr. Shapiro. You have a carry-forward, \$25,000 of
6 investment tax credit that you have not used in that year.
7 You can carry it back three years, or carry it forward seven
8 years. You cannot use it in the current year.

9 As you can see from the top lines, if you did not have
10 these limitations, the corporation could use the entire
11 \$80,000 against their \$85,000 tax payment, and only have
12 taxes of \$5,000.

13 Because of these limitations, the corporations cannot
14 use \$25,000 of the investment tax credit. They must carry
15 that \$25,000 forward, or back, but they have to pay taxes
16 on \$30,000.

17 Senator Packwood. When they carry it back, do they
18 recompute the past taxes?

19 Mr. Shapiro. Yes.

20 Now, in the 1975 Tax Reduction Act, you eliminated the
21 ceiling for public utilities. You said they could get a
22 100 percent investment tax credit for two years and reduce
23 10 percent each year until after 1980 where they are back to
24 the 50 percent ceiling.

25 In the Tax Reform Act of 1976, you provided that same

1 rule with respect to railroads and airlines. They, for
2 two years, do not have that 50 percent ceiling. All other
3 corporations, all other businesses, are restricted to the
4 investment tax credit ceiling in this matter.

5 Senator Laxalt. Why is that?

6 Mr. Shapiro. This was done in 1962. Presumably the
7 reason for this is to say you have incentive here, but you
8 cannot wipe out all of your taxes with the investment tax
9 credit, that you would have to pay some taxes.

10 You are given an investment tax credit, but you have to
11 pay some taxes on your income.

12 Senator Laxalt. Is that valid, in view of our rationale
13 that this stimulus is supposed to stimulate the economy?

14 Mr. Shapiro. This is one of the points. In 1962, you
15 had different economic circumstances. The question now is
16 if you want to have an economic stimulus, you are saying you
17 are having a program to encourage investment, encourage
18 the use of this. Do you still feel this ceiling is valid?

19 It may be the Committee wants to eliminate the ceiling
20 for a two-year period, saying that this is a short-range
21 program, temporary program. In two years you will suspend
22 the ceiling. So all businesses could deduct the entire
23 amount of the investment tax credit up to their tax limit.

24 After two years, you can re-examine it, or in the
25 context of the full tax reform bill, you can decide what to

1 do.

2 Senator Bentsen. I am not too concerned about it, if
3 they have that kind of investment tax credit and have a
4 carry-forward. I am concerned about the deficit. How much
5 would it cost?

6 Mr. Shapiro. It would cost about \$800 million to
7 eliminate those two limitations and have a 100 percent tax
8 credit.

9 Senator Packwood. \$800 million a year?

10 Mr. Shapiro. \$800 million a year; to have it completely
11 refundable it would be \$3.5 billion. We are not talking
12 about refundability, just the ceiling.

13 Senator Curtis. If we go for refundability, as far as
14 those people refunded, all limitations are wiped out, are
15 they not?

16 Mr. Shapiro. Let us assume a case where a person has
17 under \$85,000 tax payment or has \$0 tax payment. They will
18 benefit nothing by taking the ceiling off. They would need
19 a refundable credit to get any type of benefit.

20 Senator Curtis. They are way beyond those who are
21 subject to limitations?

22 Mr. Shapiro. Oh yes. The limitation affects those who
23 have some taxes.

24 Senator Curtis. The taxpayer could conceivably owe a
25 \$100 tax and draw a \$50,000 refundable tax credit.

1 Mr. Shapiro. He would have a \$50,000 investment tax
2 credit. He would be eligible for it. If he does not have
3 the taxes to offset it, he could not take it.

4 Senator Curtis. If we made it refundable?

5 Mr. Shapiro. Then he could get the whole amount back.

6 Senator Curtis. In that respect, he would be given more
7 favorable treatment than the individual who does owe
8 tax?

9 Mr. Shapiro. If you made it refundable, I would assume
10 you would take the ceiling off as well.

11 Senator Hansen. That would cost \$3.5 billion a year?

12 Mr. Shapiro. Yes.

13 Senator Hathaway. What if you left it refundable and
14 put a limit on so they could only take \$25,000?

15 Mr. Shapiro. You could make a number of these compro-
16 mises.

17 Senator Hathaway. How much would that cost?

18 Mr. Shapiro. You say refundable up to the first \$25,000?

19 Senator Hathaway. Yes.

20 Mr. Shapiro. It may not be very much. We would have
21 to get an estimate on that.

22 Mr. Woodworth. If I could inquire, if you did that would
23 you allow them to wipe out their total tax liability plus
24 \$25,000, or do you say they are where they are and they get
25 \$25,000 more? There are two different ways of interpreting

1 what you said.

2 Senator Hathaway. Say they had a \$15,000 tax liability.
3 They would get a refund of \$10,000. Then they would carry
4 forward or back, and wipe out the rest.

5 Senator Hansen. Would it not be difficult, philosophically,
6 to support the concept that we would have full refundability
7 but still keep it a provision that any business that shows
8 a profit would have to comply with other regulations?

9 Senator Hathaway. That is what I am saying. We could
10 limit them to a \$25,000 responsibility, same cap.

11 Senator Hansen. That would be difficult for me, if I
12 understand what you are saying. I would not go that far
13 to penalize a business that shows a little profit.

14 Senator Hathaway. You are doing that now.

15 The Chairman. Senator Danforth?

16 Senator Danforth. Mr. Chairman, it seems to me that
17 there is general agreement that some form of stimulus pack-
18 age is in order and the total amount of which there is general
19 agreement is about roughly \$30 billion.

20 Some of this should go to individuals. Some of it should
21 be tax relief, in one form or another, for business enter-
22 prises.

23 I am not sure that we have decided the threshold ques-
24 tion, namely, how much of the total amount should be tax
25 relief for business. It seems to me that we are kind of

1 talking about different kinds of ways of devising the invest-
2 ment credit, or changing the investment credit. Whether the
3 investment credit is preferable to an employment credit;
4 whether a Social Security tax credit, which we have not
5 discussed very much, may be preferable to either of the other
6 two; or one that does not appear on this board at all, which
7 is a rate reduction for the first hundred dollars of corpor-
8 ate income.

9 It would seem to me that we should have some thought as
10 to the total pie that we are going to cut for business tax
11 reductions and figure out the cost of these proposals and
12 which one would have the greatest effect in creating more
13 jobs.

14 I do not know, at this point, how much of the pie we
15 want for business and how much we want for others. I do not
16 know the cost of those three or four possible proposals.

17 The Chairman. Let me make one or two things clear.
18 This provision which we are talking about here merely is
19 effective for fiscal '77.

20 Mr. Shapiro. The employment credit is effective for
21 1977 and '78, a two-year provision, beginning in '77.

22 The Chairman. All right.

23 Mr. Shapiro. The fiscal impact in fiscal '77 is very
24 small.

25 The Chairman. A very small impact in '77.

1 As a practical matter, for all practical purposes, the
2 impact starts falling in fiscal '78?

3 Mr. Shapiro. That is right.

4 The Chairman. The same thing would be true about the
5 investment tax credit, if we want to put it in there?

6 Mr. Shapiro. That is right.

7 The Chairman. With regard to these structural changes
8 we might want to make in the law to make the income tax
9 law more favorable to people, practically all of those will
10 have to be in 1978, fiscal '78, even including the part
11 that the House did?

12 Mr. Shapiro. Yes.

13 The Chairman. That means, really, if we are going to
14 keep the basic reform for simplification to improve the tax
15 structure generally that the House passed, and nobody seems
16 to be opposed to, even though they may want to make some
17 minor changes in it.

18 We do not have a lot of revenue to work with. The House
19 bill leaves us a \$1 billion slack we could take up. They
20 gave us that much consideration in their activities, as I
21 recall.

22 Mr. Shapiro. In fiscal '77, there is a slack in the
23 neighborhood of \$700 million. Included in that are some other
24 things that the Budget Committee, I understood, considered.
25 They changed the effective date on sick pay and some of those

1 things are factored in that slack. There is some slack for
2 the Committee to increase the House bill.

3 The Chairman. How much slack is there for 1978?

4 Mr. Shapiro. I will let Mike tell you.

5 Mr. Stern. In your report to the Budget Committee you
6 assume roughly \$1 billion higher revenue loss in '78 than
7 the House bill. That is the recommendation of the Budget
8 Committee.

9 The Chairman. Did that prevail?

10 Mr. Stern. Nothing has happened since. We do not have
11 a Budget Committee Resolution or a Senate Resolution. Your
12 position now is that you have \$1 billion more than the House
13 bill.

14 The Chairman. If we assume that for fiscal '78 we are
15 going to keep the tax reforms suggested in terms of simpli-
16 fication, which undoubtedly the President is strongly for,
17 but the whole country is now avidly for the idea of a simpler
18 tax program; if we are going to keep that in there, we will
19 try to simplify it.

20 Senator Danforth. What simplification are you talking
21 about?

22 The Chairman. I am talking about where you have two
23 tax schedules. You start off, instead of making three
24 computations, you make one. You start out with a standard
25 deduction of \$2300 for a single person and \$3000, depending on

1 how we decide that, for a married person.

2 If you start out with those simplifications which they
3 regard as important to reform, how much do we have to work
4 with then within the budget limitations?

5 Mr. Shapiro. The difficult thing there is --

6 The Chairman. For '78.

7 Mr. Shapiro. You would have the refund portion of the
8 House bill the Committee has now passed on and some proposals
9 here to expand on the House standard deduction.

10 The Chairman. The refund thing is '77. The structural
11 changes have their impact on '78. How much do we have to
12 work with in '78 if we keep the reforms?

13 Mr. Shapiro. The House bill for fiscal '78 was \$17
14 billion. As Mike said, you sent over to the Budget Committee
15 \$18 billion. You have \$1 billion more than the House bill,
16 assuming you have not made any changes to the House bill
17 yet.

18 Senator Danforth. The cost of the standard deduction
19 change would be what?

20 Mr. Shapiro. The standard deduction change in the House
21 bill is \$5.6 billion. If you go to \$2300 and \$3100, it is
22 approximately \$100 million over that \$5.6. If you do that,
23 you reduce that \$1 billion that you have down to \$900 million.

24 The Chairman. What page are you looking at?

25 Mr. Shapiro. I am looking at the first summary pamphlet

1 that I passed out, table 2, page II. Excuse me. Let me
2 have you look at table 1, the House bill. You can see the
3 total down at page 10, fiscal '78, the righthand column is
4 \$17 billion. You can see how the House got to their \$17
5 billion.

6 The Chairman. So \$6.7 billion for the increase in the
7 standard deduction. They add the \$35 for the aged and blind,
8 a uniformity type thing. The new jobs credit at \$2.4 billion,
9 I say roughly \$900 million plus the \$2.4. That is about
10 what we have to work with. Nobody wants to take out what
11 we are doing for the blind and we do not want to take out
12 the increase in the standard deduction.

13 Senator Danforth. Mr. Chairman, I would like to play
14 the Devil's Advocate and argue that maybe we would, that we
15 want to defer consideration of changing the standard deduc-
16 tion at this time.

17 Senator Packwood. I agree.

18 Senator Danforth. Here is my thought on this. It seems
19 to me that the essential question is, what part of the
20 stimulus package should be for individuals, what part of the
21 stimulus package should be for business enterprises.

22 If you consider X number of dollars which will be total
23 tax relief for individuals then the basic question, it would
24 seem to me, is how much of that is going to be in the form of
25 a one-shot rebate, how much of that is going to be in the

1 form of a permanent tax reduction. That is really the
2 threshold question.

3 What concerns me about considering a matter of highly
4 technical reform, the standard deduction question, what
5 concerns me about that is that we tend to preclude the real
6 decision which is the rebate versus the permanent tax
7 reduction.

8 I do not think that anybody is going to argue that \$5.6
9 or \$5.7 billion change in the standard deduction is going to
10 be a sufficient permanent tax reduction to stimulate the
11 economy through that particular mechanism.

12 In fact, I would argue that it is such a complicated
13 change that it would have no psychological effect at all.

14 So what I am concerned with is that we have removed, by
15 considering the standard deduction at this time, \$5.6 or
16 \$5.7 or whatever or Senator Packwood's proposal up to \$6
17 billion by trying to correct what amounts to a tax reform
18 problem at this point.

19 Therefore, what I would like to address is the question,
20 do we want a rebate or do we want a permanent tax reduction?
21 If we want a permanent tax reduction, we get to the question
22 of what kind of a permanent tax reduction? I would say at
23 this point, the standard deduction is not the kind that we
24 want.

25 The Chairman. Senator Packwood?

1 Senator Packwood. I am inclined to agree. Senator
2 Moynihan yesterday raised the issue of the marriage penalty.
3 It is a marriage penalty for some but not to others. It
4 depends on whether your spouse works or not.

5 I think there is a lot of data that we do not have. We
6 do not know how many people are working or not working
7 exactly. I would like to put it off until the tax reform
8 bill this fall and limit ourselves to the stimulus, and what
9 form we want it to take.

10 The Chairman. Let me ask this question of Mr. Woodworth.
11 Here is the thought that was occurring to me, as well as to
12 other Senators here.

13 Is there a way that we could postpone some of the cost
14 of this increase in the standard deduction so that they would
15 still be able to use a simplified approach next year in
16 April without putting it into effect now?

17 Could we postpone the effect, the change of the with-
18 holding until later in the year in October or something like
19 that, instead of doing it in this bill or doing it now in
20 April and achieve the same simplification that you had advo-
21 cated be built into this bill?

22 Mr. Woodworth. If you do not make the change apply for
23 the current calendar year it will not be reflected in the tax
24 returns filed next year. In other words, the complexity --
25 unless you do it now, the complexity of the existing return

1 form will be also true in the return filed next year.

2 That was an important aspect that the Administration was
3 trying to prevent, that result from occurring. The return
4 is complicated now; we do not want that carried over and
5 true of the next return that is filed. That is a very impor-
6 tant point to the Administration.

7 Postponing the withholding starting date, the only
8 effect that would have would be to decrease the impact that
9 would have on the fiscal year '77. It probably would pile
10 that much more on in fiscal '78 because it would make it more
11 refundable. That is, the refund is larger in 1978.

12 I do not think that a postponement of the withholding
13 rate will achieve what I understand what you are trying to
14 do. At the same time, if you do not do it this year, then
15 you are carrying over all of the complexity into next year.

16 The Chairman. I think the public will condemn us if
17 we give them the tax form next year as complicated as they
18 have this year. On the complaint about the tax form and
19 the complexity, all I can tell my constituents is, wait
20 until next year.

21 I hope Congress will act to make it less complicated.
22 That is not a safe assumption at all.

23 Mr. Shapiro. The Administration proposal on the standard
24 deduction is \$1.1 billion less than the House bill. The
25 Administration proposed \$2200 for single returns and \$3000

1 for joint returns. The House increased that from \$2200 to
2 \$2400.

3 If you went to the Administration's original proposal
4 on the standard deduction, it would be \$1.1 billion less
5 than the House proposal.

6 Mr. Woodworth. That is correct. That would be a way of
7 saving in the revenue that we would fully support and
8 endorse.

9 The Chairman. If the Administration had their recommen-
10 dation, you would have another \$1 billion to work with?

11 Mr. Woodworth. That is right. You would automatically
12 achieve what you want in the other area if you went along
13 with the Administration in this area.

14 The Chairman. Let me see if I understand this, because
15 someone may have a different opinion.

16 Do I understand that your thought is that if you want
17 to give people this simplification for 75 percent of the
18 taxpayers which has been much heralded by some of us, you
19 are going to have to put it in this bill. Otherwise, it
20 is not going to happen because you will not be able to get
21 that done in time and you will not be able to change the
22 withholding rates to affect it next year?

23 Mr. Woodworth. That is correct. Actually, we are
24 talking about liabilities to taxpayers for the current year.
25 It is the returns filed next year and liabilities of the year

1 we are on right now.

2 Obviously you cannot have that not affect fiscal year
3 '78. That is the year in which the return is filed that you
4 are dealing with.

5 Senator Danforth. Mr. Chairman, the problem with this
6 proposed simplification, as it is called, is that the cost
7 of the simplification as it has been proposed, \$5.6 or \$5.7
8 billion which is a permanent cost that would be true in '78,
9 '79, '80 and so on -- what I am concerned about, if we do
10 it with that kind of cost, we are precluding the rate
11 reduction.

12 The Chairman. Does that also not entail less with-
13 holding all during the year, Mr. Woodworth?

14 Does that not mean that all during the year you are
15 going to be withholding less from people's paychecks, with
16 more money to spend?

17 Mr. Woodworth. That is correct. Also, in terms of
18 longrun, it is \$4 billion.

19 What you are doing, there is a pile-up in the amount
20 for fiscal year '78 because part of the calendar year '77.
21 effect of not having a lower withholding in the first part
22 of the year is reflected that way.

23 If you are looking at the long run, it is \$4 billion,
24 not \$5.5 or \$5.6 billion.

25 The Chairman. I would like to remind you, Senator, when

1 I first came here, Senator Sheridan Downey used to tell us
2 what a great, free country this was. Somebody sent him a
3 postcard through the mail that said, "Dear Senator, may you
4 roast in Hell a thousand years for every hour that I spent
5 working on this damnable tax return."

6 That was to indicate that this was a pretty free country,
7 that you could send that in open mail to your United States
8 Senator.

9 The public is pretty much up in arms, and they have a
10 right to be, about the complexities they have to suffer when
11 they pay their honest taxes.

12 What we levy on them, I think that most of us would feel
13 if we cannot do anything else we should be able to simplify
14 this thing for people. This part to me is one part that there
15 is little criticism of. It is a tax cut and a tax cut that
16 means simplification and reform.

17 Senator Bentsen. Mr. Chairman, if I could comment on
18 that, I totally agree that we want to try to bring about
19 simplification to the individual. I think there is, in
20 addition, the other point you made that ought to be stressed.

21 We have seen a situation with inflation where everyone
22 has more of an inflated income and they get bumped up into
23 another bracket and, in effect, get their taxes increased.
24 All we are trying to do is try to restore some of that
25 increased cost to them and let them keep a little more of

1 their money. I am awfully interested in seeing that we
2 give these individuals a tax cut.

3 Senator Danforth. You are not giving them enough, that
4 is the point.

5 Senator Bentsen. You have to be on one side or the
6 other. You are saying we are not giving them enough, but
7 let's not do it now.

8 Senator Danforth. I say, let's have a permanent tax
9 cut, let's have a major permanent tax cut. Let's have a
10 major reduction for the first \$18,000 of adjusted gross
11 income and not a rebate.

12 I just met, before I came into this room, without about
13 fifty adult leaders of the 4-H Program in Missouri who were
14 here. I asked them what was their view of a rebate plus a
15 permanent cut in their tax rates.

16 Not one single person favored the rebate. I think that
17 is the essential question.

18 What I am concerned about here in the name of reform and
19 in the name of a very slapdash, back of the envelope type
20 of reform, in my opinion, that we will have to redo next
21 year when we find out the effect of what we just did on the
22 blackboard, in the name of reform, we are going to take \$5.6
23 or \$5.7 or \$4 billion out of what otherwise would be a major
24 rate reduction, which I think is the best way of stimulating
25 the economy.

1 In the end, I thought our purpose here was to try to
2 determine how to stimulate the economy. I think a permanent
3 tax cut is the way to do it in this situation.

4 The figures that we have, the hypothetical situation that
5 we had yesterday, was one that did not plug in other factors.
6 It did not plug in the tax tables. It did not plug in the
7 difference in the tax tables between the joint return and an
8 individual return and it did not plug in the difference
9 between husbands and wives who earned about the same amount
10 of money and earned very different amounts of money.

11 This is going to help some people, yes, but it will hurt
12 other people.

13 A permanent tax reduction is going to help about 65
14 million taxpayers where the standard deduction change is
15 going to affect about 45 million.

16 The Chairman. Senator Curtis?

17 Senator Curtis. When we get back to the investment tax
18 credit and refundability, I would like to say something.

19 The Chairman. Senator Packwood?

20 Senator Packwood. If you are worried about rate
21 reductions and not having the deduction now, we can change
22 the withholding on the tax rate now. It does not have to
23 be on the standard deduction.

24 If you are looking for simplicity, you can say, every-
25 body will get whatever your percentage is, a 2 percent or

1 5 percent tax cut. That is simple.

2 With the standard deduction, you are not doing anything
3 for the people who itemize anything for the home owners in
4 this country to change their tax, because they do not use
5 the standard deduction.

6 If we are looking for equity, what Senator Danforth says
7 has merit, and you can skew the rates any way you want in
8 order to have stimulus.

9 Senator Bentsen. Let me say that I do not think that
10 this is a slapdash approach at all. I think it is a really
11 simplified approach. When you are talking about increasing
12 the standard deduction, if I were to put it to a vote in a
13 group and say to them, do you want a single deduction one
14 year or do you want it from now on, I know how that vote
15 would go. I have no illusions about that.

16 But that is ignoring the purposes of this package. As
17 I understand, the purpose of the package is to give a short-
18 term, temporary stimulus to try to put more people back to
19 work and try to take care of a very current situation. That
20 is why it has been proposed as a tax rebate on a \$50 basis.

21 I well understand the political implications of wanting
22 a longterm tax cut.

23 Senator Danforth. Let's not talk about the political
24 considerations. The rebate is a flop; that is all there is
25 to it.

1 The Chairman. Let us go on this procedure. On behalf
2 of the President and his Administration, I really think that
3 it would help, from their point of view -- and I think they
4 are entitled to that consideration -- to let them bring
5 somebody in here, Mr. Schultze or somebody, to explain, from
6 the economic point of view why they believe this \$50 rebate
7 should be passed.

8 We have heard so much by now. It all gets confused, all
9 the parts run together.

10 I would like them to bring in somebody, maybe tomorrow
11 morning, and review why they think that is necessary. It
12 has been testified to, but it was not cross-examined or
13 explored in depth at all.

14 After that then we can vote on that. It is all right
15 with me to vote on it tomorrow morning. You can have all of
16 the discussion you want to, but I would like to do that.

17 As far as I am concerned, we can vote today on this
18 increase in the standard deduction. I think the case has
19 been pretty well made.

20 I do not think many folks are going to change. If the
21 absentees want to record themselves, we can settle that
22 today, if you want to.

23 Senator Packwood. If you are going to have Mr.
24 Schultze in, or somebody from the Administration, I think
25 you ought to vote on the rebate before the deduction, in

1 fairness. I think you ought to consider the reduction versus
2 the rebate, vote on it, see what you do. The reduction makes
3 good sense.

4 After that vote, you can decide what you want to do
5 about the standard deduction. If, by chance, the Committee
6 were to go for the reduction -- I do not think you want the
7 standard deduction necessarily mixed in with the same package.

8 The Chairman. You want to vote on the idea of a
9 permanent tax cut rather than a rebate?

10 Senator Danforth. Yes.

11 The Chairman. Why do you not specify what it is? As
12 I have said many times, I can play it anyway you want to
13 play it. It is all right with me if you want to do it that
14 way.

15 If you want to offer your proposal for a permanent tax
16 cut, I think it would be well for you to specify just how
17 you would do that.

18 Is that all right with the Committee? Explain how you
19 would propose to do your permanent tax cut, explain it and
20 we will vote on it -- vote on it this morning, if you want
21 to.

22 Senator Bentsen. I would like to intervene to say that
23 that is fine, but we walked right up to the edge of deciding
24 what we were going to do on this other proposal yesterday.
25 Now we have left it.

1 Senator Packwood. I think we can decide on that
2 proposal, that is, the business side of it, without deciding
3 the standard deduction and the rebate.

4 The Chairman. You can vote on whatever you would like
5 to vote on. It seems to me, since this matter came up, if
6 you want to get into it, we will get into it. If you do not
7 want to, we can wait until tomorrow.

8 Senator Roth. Mr. Chairman, as one person who tends to
9 propose an across-the-board tax cut, I would suggest that
10 if Mr. Schultze is coming tomorrow, I think that there are
11 at least two proposals that I am aware of, the one that
12 Jack is referring to on the first \$17,500 where I intend
13 to propose a 10 percent tax cut as a substitute for the
14 economic stimulus of the Administration.

15 It would seem to me that perhaps the personal income
16 tax cut, instead of the standard deduction, should be
17 brought up tomorrow when Mr. Schultze is here and we should
18 proceed today with whatever we want to do on the business
19 side.

20 Senator Haskell. If we go ahead with the business
21 side, I would like to mention something.

22 The Chairman. Senator Curtis has wanted to speak for
23 awhile. Let him go ahead on the business side of it; then
24 we will call on you.

25 Senator Curtis. I have been impressed by what it would

1 cost to make the investment credit completely refundable.

2 I am also aware that nontaxpaying entities, university and
3 others, are pressing to have an investment tax credit, to make
4 it refundable.

5 But I do believe that there is a problem that is of
6 lesser magnitude that we should direct our attention to.
7 There are businesses that ought to buy equipment; they need
8 equipment to serve our economy.

9 Take for existence, Con-Rail and the other marginally
10 situated railroads. If they are not going to be in a profit
11 position -- and it looks as though in the future they are
12 not going to be -- should something be done to give them
13 the investment credit or any other credits that this
14 Committee chooses?

15 And I wonder if the staff has any suggestions or can
16 they come up with some that would deal with that problem
17 which would avoid making the investment credit totally
18 refundable for all taxpayers and would avoid intermingling
19 it with the issue of abolishing present limitations?

20 I address that both to the Secretary and to our own
21 staff. It occurred to me that without changing the rules
22 under present law, they have a carry forward. If you have
23 a situation where that carry-forward is unlikely to be
24 turned into cash, suppose a company has a \$70,000 of tax
25 credit to carry forward and they have no profit. They can

1 carry that ten years. They would have a \$10,000 -- depending
2 on what their picture was -- in the future, they would have
3 \$10,000 in seven years ahead.

4 Could you come up with any plan where they could
5 discount that for a percentage without getting involved in
6 the entire cost of making the investment tax credit refun-
7 dable?

8 Mr. Shapiro. The staff could develop any kind of
9 proposal the Committee would like to have. One problem, of
10 course, the more specialized you have it, the more compli-
11 cated the provision would be and I think I would like to
12 say the question is, who are you trying to direct it at?

13 We are aware of a particular problem in certain rail-
14 roads -- ConRail and some of the other nonprofitable rail-
15 roads. Even though there is a 100 percent ceiling, being
16 nonprofitable, they cannot benefit.

17 Someone like ConRail was very much enthused about the
18 refundable Social Security tax. They wanted that reduction.

19 We could design any proposal the Committee wants. It
20 would be complicated as you are trying to specialize it and
21 target it to a special industry or a certain group.

22 To use the jobs tax credit would be very complicated
23 because you have a special rule for a special industry and
24 a specially refundable feature for that industry. If they
25 are not paying taxes, they cannot benefit by any credit. You

1 would have to reduce the threshold.

2 You could even take the 100 percent base where it would
3 take 103 or 102 percent; you could go to 90 percent. By giving
4 them more of a credit, you would have to make it refundable.

5 What I am really saying is that you could take any
6 proposal before you, target it to the group that you would
7 like to benefit and make it refundable.

8 Senator Curtis. How expensive would it be to say to
9 all taxpayers that in any year your carry-forward credit,
10 that it would be identifiable for that one year, could be
11 cashed in at a percentage discount?

12 Mr. Shapiro. The discount factor, if you are talking
13 about complete refundability --

14 Senator Curtis. Not completely. In lieu of refundabil-
15 ity, they could take the carry-forward and turn it into
16 60 percent cash or 75 or 38 percent.

17 Mr. Shapiro. Complete refundability, I want to give
18 it to you so we can build up to it. Complete refundability
19 in '78 would be \$3.5 on the investment tax credit. If you
20 say 60 percent of that, you are talking about \$2.1 billion.

21 Senator Curtis. You have made it all in one year?

22 Mr. Shapiro. That is correct. If you want to discount
23 the present value of that refundable portion, if they had to
24 wait seven years and you are giving it to them now, the
25 discounted value.

1 Senator Curtis. No, in 1978 I would give them an
2 option of taking -- I do not know whether 60 percent is the
3 right one of the amount of carry forward that they would
4 use in the next year. They could discount on it, but in
5 subsequent years they would have to carry it forward to
6 see if they have it.

7 Mr. Shapiro. We do not have estimates based on the
8 information we do have.

9 Let me see if I understand your proposal. You are talking
10 about the carry-forward they would otherwise have available.
11 In the next year, you would allow them to have that refunda-
12 ble in fiscal '78?

13 Senator Curtis. Or to discount it.

14 Mr. Shapiro. They could get a cash refund?

15 Senator Curtis. Yes.

16 Mr. Woodworth. We have been figuring it out here. To
17 start with the same base that Mr. Shapiro has, if you took
18 the 12 percent credit instead of 10 and were to make that
19 fully refundable, I think it would come to \$4.3 billion in
20 total. If you were to discount that at 50 percent, if it
21 were used I would think it would be approximately half that
22 or about 2.1 or 2.2 in revenue costs in that feature.

23 That assumes that they all used it; some would not.

24 Senator Curtis. If they all discounted at the same
25 time?

1 Mr. Woodworth. Some would not.

2 Obviously, those who thought they had a good prospect
3 of using it next year at the full level would not.
4 I am giving that as simply what it looks as an outer limit.

5 Senator Curtis. What if they discount one-seventh of
6 it because they have a seven year carry-forward?

7 Mr. Woodworth. However much you cut it back, Senator
8 Curtis, that would reduce the revenue cost by that propor-
9 tion. You are saying, if they would reduce it by one-
10 seventh then the revenue costs would be more. If you say
11 a 50 percent reduction in it, it would come out to a little
12 bit over \$2 billion if they all used it.

13 Senator Long. It seems to me, if what you have in mind
14 is that you want to help the railroad industry to repair their
15 rails and put their equipment in order and you are trying to
16 hold the cost of it down, the best way to hold the cost of
17 it down is just to limit that to the railroad industry.

18 You already have a provision -- did we not say last year
19 that the railroads and the airlines could buy new equipment
20 and get 100 percent? If you made it just refundable for
21 those two industries for one or both, what is your guess,
22 how much would be involved in that?

23 Mr. Shapiro. We are going to make a call to our
24 revenue estimators.

25 The Chairman. You could cut the cost 90 percent.

1 Mr. Shapiro. Sure. There are a large amount of
2 credits, but it is a small industry.

3 The Chairman. A small part of the total American
4 productive endeavor. On the whole, if you limit it to just
5 that industry, you could very much hold down the cost of
6 it.

7 Senator Curtis. Have we, at this time, acted upon the
8 jobs credit?

9 Mr. Shapiro. No, we have not.

10 The Chairman. I would like to see us make some of these
11 decisions, even though we may reconsider them and undo them.
12 The more things we decide, the closer we are getting to
13 where we are trying to go.

14 Senator Haskell?

15 Senator Haskell. Mr. Chairman, yesterday, in connection
16 with the jobs credit listed under my name on the board, the
17 point was raised that the jobs credit discriminated against
18 the Midwest and the New England area.

19 I believe Dr. Woodworth said that he supported that.
20 I believe he said that that was not true in the investment
21 credit.

22 I have here two telegrams which I will read the
23 first paragraph; then I will read the signators and I would
24 like it included in the record. "The members of the Council
25 of Small and Independent Business Associations wish to

1 urge you to support the Haskell-Matsunaga Jobs Tax Credit
2 Amendment to H.R. 3477 currently before the Senate Finance
3 Committee." That is signed by the Council of Smaller
4 Enterprises, located in Cleveland -- the Midwest; The
5 Independent Business Association of Wisconsin -- obviously
6 the Midwest; The National Association of Small Investment
7 Companies; The National Business League, which is a black
8 organization; The National Federation of Independent Business;
9 The National Small Business Association; The Smaller Business
10 Council of New England; and The Smaller Manufacturers
11 Council, located in Pittsburgh.

12 Then, Mr. Chairman, there is another telegram that
13 apparently has been sent, but had to be read over the telephone
14 and it is addressed to all members of the Senate Finance
15 Committee and the New England Senatorial Delegation. I will
16 just read the first sentence.

17 "Your support is urged for the Jobs Tax Credit proposed
18 in tax stimulus legislation by both Senator Haskell and
19 Chairman Ullman."

20 Mr. Chairman and gentlemen, I think that people affected
21 by the Jobs Tax Credit, that small business people of the
22 entire nation, the Midwest and New England included, do not
23 consider that the jobs tax credit is discriminatory towards
24 them. In fact, they support it.

25 I would hope that we could get a vote on my proposal in

1 which Senator Matsunaga joins me on the Jobs Tax Credit.

2 Senator Hathaway. Before we vote, I would like Senator
3 Dole to explain his proposal. It was just put up on the
4 board.

5 The only difference are the figures, or is yours targeted
6 in to certain groups?

7 Senator Dole. To answer some of the criticisms that I
8 heard in my brief time here yesterday, we have lowered the
9 threshold from the 103 percent level provided in the House
10 bill which would extend the employment credit, we think, to
11 an additional 11 percent of the labor force, according to
12 the Congressional Budget Office.

13 This does respond to the concern expressed by members
14 of the House that it would provide no incentive to business
15 experiencing only stable or slightly increasing levels of
16 employment.

17 The 102 percent of the Haskell bill only extends to an
18 additional 2 percent of the labor force. When we combine
19 the 100 percent threshold and extend the benefits, we cover
20 about 70 percent of the individuals employed. We retain the
21 \$40,000 limit in the House bill and also have the option for
22 business to elect to claim the additional 2 percent invest-
23 ment tax credit.

24 We set the tax credit at an amount equal to 15 percent
25 of the increase over the 1976 FUTA wage base of \$4200.

1 Senator Haskell. What percent?

2 Senator Dole. 15 percent. The full year credit would
3 amount to \$6.30 per worker hour because of provision 5 where
4 we tried to avoid any sheltering.

5 The business deduction would be reduced by the amount
6 of credits claimed. The effective tax relief would be \$500
7 per worker for businesses taxed at the 20 percent rate;
8 \$330 for businesses taxed at the 40 percent rate.

9 That is the essential difference.

10 In addition to that, there might be some interest in
11 what we have worked on, the targeted tax credit, not on the
12 board, where we really go after the hard core, those who
13 have been unemployed for twenty-six years or longer. You
14 would have to be unemployed actually for twenty-seven weeks
15 or longer. The tax credit would amount fo \$1.00 per hour
16 for the first twenty-six weeks of employment and half a
17 dollar per hour for the next twenty-six weeks.

18 The total credit for the full year would be \$1,500 per
19 eligible employee.

20 In order to avoid the tax shelter situation again,
21 one-half of the credit claim would not be allowed as a normal
22 business deduction. The cost in fiscal '78 would be \$1.9
23 billion.

24 The credit is not refundable. There are no caps for
25 an employer. There is a carryback and carry-forward allowed.

1 There is no credit if the employer replaces an employee,
2 laid off in anticipation of a credit. This has some merit,
3 if we are just looking at the hard core, those who have been
4 unemployed for that period of time.

5 Senator Hathaway. Are you offering that in addition to
6 the other one?

7 Senator Dole. I would like to have them both considered,
8 either that or work out some compromise with other sponsors,
9 Senator Haskell and Senator Bentsen and many others who have
10 an interest in the tax credit approach.

11 Senator Bentsen. Mr. Chairman, if I may, each of them
12 have spoken on theirs; if I may speak on mine?

13 All of these proposals are compromises in trying to
14 achieve objectives. The point was made by one of the sponsors
15 that he was trying to take care of the persons particularly
16 affected. So am I. But it is not just small business, not
17 just big business, it is employees -- trying to put people
18 back to work.

19 I think mine puts more people back to work.

20 I have taken the cap off so as not to limit it to
21 twenty-four new jobs or sixty-three new jobs per company,
22 but to as many people as can be hired. No limit at all.

23 If you look at Senator Haskell's proposal, he does give
24 a bigger jobs credit than I do. He gives about \$2100 as
25 compared to my \$1050 per employee, but then you look at

1 Senator Dole's and he gives \$630 per employee. We have
2 all tried to take care of the double-dipping situation. That
3 means what we are giving in that is something less than that.

4 Frankly, I think I have struck a balance between these
5 two approaches. I have extended it far beyond what they
6 have extended it to by taking that cap off the number of
7 employees that could be affected. I have recognized the
8 problems of a capital-intensive company that Senator
9 Haskell's proposal does not do and have given the option to
10 capital-intensive companies to go the tax credit route,
11 if that is what they desire, to say to those that are labor-
12 intensive that they go the employee tax credit route.

13 I believe I have put enough of a carrot out there for
14 labor-intensive companies with \$1050 credit per hired
15 employee to make it a true incentive. I'm afraid if you
16 get it too low you do not give a fair test to this idea,
17 and if you try to go to what Senator Haskell has done, then
18 you do not help the capital-intensive companies; so this
19 is the proposal that I made, that I believe strikes a balance,
20 that best achieves the objective that we are all trying to
21 achieve, and that is helping to put people back to work
22 and trying to do something where we do not have to do it
23 all through public service jobs or public works jobs, but
24 try to give them long term jobs, hopefully where they can be
25 productive and be a part of the private enterprise system.

1 Senator Hathaway. Would you yield for that question?

2 Senator Bentsen. Yes.

3 Senator Hathaway. I believe the question applies to
4 Senator Haskell's and Senator Dole's provision as well.

5 What insurance do we have that the money we are going
6 to spend on this program and the credit we are going to
7 give, which is the same thing, is not just going to go to
8 those who are going to be expanding their employment anyway?

9 It is the same argument raised against the investment
10 tax credit.

11 Senator Bentsen. Absolutely.

12 Senator Hathaway. Maybe just a small percentage of
13 this money is actually going to expand the economy. I would
14 rather see the money go on the demand side to the buyers in
15 the form of some sort of tax relief, or rebate, or something
16 like that.

17 Senator Bentsen. That is a legitimate argument and
18 one we will never be able to know fully, but I cannot help
19 but believe when you have a carrot out there for these
20 people that they are going to utilize that credit, Senator
21 Haskell's, Senator Dole's, or mine.

22 Senator Haskell. If the Senator would yield, in mine --
23 I do not know about Senator Bentsen's, but certainly in mine,
24 you have to have an overall 105 percent of prior year's
25 wages, which mitigates the figure involved. It would not

1 eliminate it, but it mitigates it.

2 Senator Hathaway. It mitigates it; that is right. I
3 can see certain situations where a person is going to say I
4 will hire one more or two more people because that will
5 increase my market. I will hire another salesman for
6 example, put him on the floor. There is a better chance of
7 selling TV sets, or whatever he is selling. But I would
8 imagine that those cases are the exception.

9 The rule is going to be that those, as I have mentioned
10 before, who were expanding anyway, were just going to get
11 their expansion subsidized.

12 Senator Bentsen. I would like to ask, if I may, Dr.
13 Woodworth, on taking this cap off, how many more people are
14 covered in the labor force?

15 Mrs. Woodworth. As I indicated before, our estimates
16 are that the House bill cuts out an opportunity for about
17 66 percent of all opportunities for jobs, either because of
18 the floor or because of the cap.

19 We attributed 34 percent to the floor and attribute
20 36 percent of that to the cap. In other words, we believe
21 with the change that you propose in that regard, it will
22 be down to where only 30 percent will be denied the
23 opportunity to provide employment instead of 66 percent.

24 So there is a substantial difference, and I think that
25 I should say, as far as the Administration is concerned,

1 while we do not favor any proposal which involves the
2 marginal or incremental base in the employment credit, of
3 all of those which are on the board, the Administration thinks
4 that the one you present would be the most desirable, or the
5 least objectionable, depending on how you want to say that.

6 Senator Bentsen. Be it ever so back-handed, I accept
7 it.

8 Senator Danforth. I wonder if I could add on the board
9 the projected number of jobs produced and the revenue loss?

10 The Chairman. Let me get this straight.

11 The Bentsen proposal, by reducing in some respects,
12 would try to make room to continue to make available the
13 2 percent investment tax credit?

14 Mr. Woodworth. Yes, it does.

15 Senator Dole. Mine does the same.

16 Senator Haskell. May I speak to that point?

17 That is, I would say the major difference between my
18 proposal and Senator Bentsen's, Senator Dole's and the
19 Administration, having raised the investment tax credit I
20 believe just a year ago, I do not see how an additional
21 2 percent is going to do anything.

22 The investment tax credit basically helps the people
23 who are right now are the big industrial sector who,
24 according to my figures, are doing very well.

25 My wage credit, employment credit, is designed to help

1 small businesses whom I think need help. I purposefully
2 eliminated the extra 2 percent. I would like to ask Dr.
3 Woodworth, suppose Senator Bentsen knocked off his additional
4 2 percent investment credit. Would you like his proposal
5 still?

6 Mr. Woodworth. I would like it considerably less without
7 that. At the same time, the Administration, I believe,
8 does not believe that it is desirable to combine aiding small
9 business with providing more job opportunities. There are
10 different objectives.

11 Obviously, there need to be proposals for small business.
12 That is not the only area where you get jobs.

13 From that standpoint, even apart from the investment
14 credit, we would favor the smaller percentage credit without
15 the cap. In our opinion, it is more logical to the extent
16 that your objective is to provide more jobs; if your objec-
17 tive were to help small business, then probably you would
18 not deal with the employment credit at all, but would go to
19 some kind of a rate.

20 Senator Haskell. My credit is twice what Lloyd's
21 is. I think you have to have a substantial credit to induce
22 employment, and that is why mine is substantial: \$2100 per
23 individual.

24 I think in a small business, that small business takes
25 care of 53 percent of the employment in the private

1 sector -- and I am told it does. And you give it a substan-
2 tial carrot, I think you are going to decrease unemployment.

3 Senator Danforth. May I ask the various sponsors of
4 these various proposals to state the projected number of
5 jobs increases; the job impacts of your various proposals
6 and what the basis of your estimate is?

7 Senator Matsunaga. The small business representatives
8 have indicated it will be anywhere from 700,000 to 1.5
9 million new jobs.

10 Senator Danforth. 700,000 to 1.5 million by when?

11 Senator Matsunaga. 1980.

12 Senator Danforth. As a result of your proposal?

13 Senator Matsunaga. Senator Haskell.

14 Senator Danforth. Who indicated that to you?

15 Senator Matsunaga. Representatives of small business,
16 Mr. Stewart. Were you present in the hearings? I thought
17 you were at that time?

18 Senator Danforth. I was present at the hearings, but
19 I do not remember anybody estimating. I think it would be
20 absolutely fabulous if at a cost of only \$2.4 billion we
21 could create 700,000 to 1.5 million new jobs. Are there
22 any economists who take this position?

23 Has the Congressional Budget Office addressed itself to
24 it?

25 Senator Matsunaga. No, this was in the testimony alone of

1 the business representatives. Of course, they are advised
2 by their own economists.

3 Senator Danforth. The other sponsors?

4 Senator Dole. I think I can respond.

5 The Congressional Budget Office indicates that the
6 Haskell proposal could create 325,000 jobs. Because they
7 indicate mine would indicate 75,000 less, the figure they
8 gave me 250,000 because my incentive is not as large.

9 I do address some of the pitfalls that Senator Moynihan
10 addressed himself to yesterday by lowering it to 100
11 percent by lowering regional differences.

12 I would say mine would cost \$1.2 billion that would
13 eat up the \$2.4, if we look at the \$1.2 of the investment
14 tax credit option. It would create 250,000 jobs. It doesn't
15 provide the least incentive. It makes it less attractive,
16 therefore, fewer jobs.

17 I wonder if I could pursue that. What feature in the
18 Bentsen bill makes it more attractive other than -- maybe
19 that is the right way to go.

20 Mr. Woodworth. It is a combination of the no cap.
21 That is probably the principal point of difference.

22 In other words, if you are going to go this way, we
23 cannot see that there is any particular logic to putting
24 the cap on it as such. You convert it into a small business
25 proposal rather than a jobs proposal.

1 Senator Dole. What are the cost estimates on yours?

2 Senator Bentsen. The same as yours, \$1.2 billion.

3 The other \$1.2 billion for the investment tax credit, a total
4 of \$2.4. I think that is the total cost estimate of
5 Senator Haskell's.

6 Senator Haskell. \$2.2 billion.

7 The Chairman. We ought to begin to narrow down what
8 we are going to talk about. Why do we not vote between
9 the Bentsen proposal and the Haskell proposal. Then you
10 can offer other substitutes on whatever one we would prefer.

11 Mr. Shapiro. In effect, what you are saying is the
12 Committee is to vote as to what they want, only a jobs tax
13 credit or a combination of jobs tax credit and investment
14 tax credit?

15 The Chairman. Let us vote on the Bentsen proposal as
16 a substitute for the Haskell proposal. If you prefer the
17 Bentsen proposal --

18 Senator Haskell. How about voting on the Haskell
19 proposal?

20 The Chairman. I will do it however you want to do
21 it.

22 Let us call the roll.

23 Senator Matsunaga. Do both proposals presuppose the
24 elimination of the \$50 rebate?

25 Mr. Shapiro. This is only dealing with the business

1 sector.

2 Senator Hathaway. Could I ask one more question? Are
3 we using a FUTA base? What employees are we excluding?

4 Mr. Shapiro. We included agriculture and railroads who
5 do not use the FUTA base. We have a special rule, the House
6 bill has a special rule, that deals with it.

7 There are certain fishing groups, a small select group,
8 who are on a contract basis and cannot fit in the structure.

9 Senator Hathaway. Independent contractors?

10 Mr. Shapiro. That is right.

11 Senator Hathaway. Any who are not independent contrac-
12 tors that would not be included?

13 Mr. Shapiro. Domestic workers. Every trade or business
14 is included.

15 Senator Hathaway. Either FUTA or FICA you are going to
16 get in?

17 Mr. Shapiro. Yes.

18 Senator Bentsen. I agree with Senator Haskell. He has
19 his amendment up. Let us vote it up or down and then vote
20 on mine.

21 The Chairman. Let us vote on the Haskell amendment.

22 We are voting now on the Haskell amendment.

23 Call the roll.

24 Senator Curtis. Could we have it stated?

25 The Chairman. It is on the board.

1 Mr. Stern. This is the 102 threshold, 50 percent credit
2 with a \$50,000 maximum credit, a 105 percent wage cap.
3 Senator Curtis. The Haskell proposal on the jobs
4 credit?

5 Mr. Stern. Yes, sir.

6 The Chairman. Call the roll.

7 Mr. Stern. Mr. Talmadge?

8 (No response)

9 Mr. Stern. Mr. Ribicoff?

10 Senator Ribicoff. No.

11 Mr. Stern. Mr. Byrd?

12 Senator Byrd? No.

13 Mr. Stern. Mr. Nelson?

14 Senator Haskell. Aye, by proxy.

15 Mr. Stern. Mr. Gravel?

16 Senator Gravel. No.

17 Mr. Stern. Mr. Bentsen?

18 Senator Bentsen. No.

19 Mr. Stern. Mr. Hathaway?

20 Senator Hathaway. No.

21 Mr. Stern. Mr. Haskell?

22 Senator Haskell. Aye.

23 Mr. Stern. Mr. Matsunaga?

24 Senator Matsunaga. Aye.

25 Mr. Stern. Mr. Moynihan?

1 Senator Moynihan. No.

2 Mr. Stern. Mr. Curtis?

3 Senator Curtis. No.

4 Mr. Stern. Mr. Hansen?

5 Senator Hansen. No.

6 Mr. Stern. Mr. Dole?

7 Senator Dole. No.

8 Mr. Stern. Mr. Packwood?

9 Senator Packwood. No.

10 Mr. Stern. Mr. Roth?

11 Senator Roth. No.

12 Mr. Stern. Mr. Laxalt?

13 Senator Laxalt. Aye.

14 Mr. Stern. Mr. Danforth?

15 Senator Danforth. No.

16 Mr. Stern. Mr. Chairman?

17 The Chairman. Aye.

18 The vote is five yeas, twelve nays.

19 Now we will vote on the Bentsen proposal which is a
20 .2 percent investment tax credit and also the option that he
21 discussed here for the 25 percent.

22 Senator Dole. There is only one basic difference, and
23 that is the cap or no cap. They both have an option. I
24 cannot see how his costs the same and provides more benefits.

25 Mr. Stern. You have no increment required. He has a

1 3 percent.

2 Senator Dole. The increment is to express the concerns
3 that many Senators had yesterday where they might not benefit
4 from such a proposal.

5 Senator Bentsen. If the debate still continues, let me
6 also say he talks about a \$630 jobs credit where mine talks
7 about a \$750 jobs credit. I am deeply concerned that at
8 \$630 you do not give enough incentive to the small business
9 in particular to hire the employee.

10 Senator Dole. I spread it around the country more.

11 Senator Bentsen. I spread it around the country more
12 because I take the cap off so that it applies where yours
13 excludes about 36 percent of the employees.

14 Senator Dole. Essentially, they are pretty much the
15 same. If his is accepted, can I still offer mine?

16 The Chairman. Yes.

17 Senator Dole. This seems to be a losing battle, but we
18 will try it.

19 The Chairman. Let us vote on the Bentsen proposal,
20 then.

21 Mr. Stern. Mr. Talmadge?

22 (No response)

23 Mr. Stern. Mr. Ribicoff?

24 Senator Ribicoff. Aye.

25 Mr. Stern. Mr. Byrd?

1 Senator Byrd. Aye.
2 Mr. Ribicoff. Mr. Nelson?
3 (No response)
4 Mr. Stern. Mr. Gravel?
5 Senator Gravel. No.
6 Mr. Stern. Mr. Bentsen?
7 Senator Bentsen. Aye.
8 Mr. Stern. Mr. Hathaway?
9 Senator Hathaway. No.
10 Mr. Stern. Mr. Haskell?
11 Senator Haskell. No.
12 Mr. Stern. Mr. Matsunaga?
13 Senator Matsunaga. No.
14 Mr. Stern. Mr. Moynihan?
15 Senator Moynihan. Aye.
16 Mr. Stern. Mr. Curtis?
17 Senator Curtis. No.
18 Mr. Stern. Mr. Hansen?
19 Senator Hansen. Aye.
20 Mr. Stern. Mr. Dole?
21 Senator Dole. I pass.
22 Mr. Stern. Mr. Packwood?
23 Senator Packwood. Aye.
24 Mr. Stern. Mr. Roth?
25 Senator Roth. Aye.

1 Mr. Stern. Mr. Laxalt?

2 Senator Laxalt. Aye.

3 Mr. Stern. Mr. Danforth?

4 Senator Danforth. Aye.

5 Mr. Stern. Mr. Chairman?

6 The Chairman. Aye.

7 I have Mr. Talmadge's proxy; I will vote aye on that.

8 Senator Dole. I will vote aye.

9 Senator Matsunaga. I change my vote from no to aye.

10 Senator Danforth. Mr. Chairman, what is in order now?

11 Senator Bentsen. I would like the count.

12 The Chairman. Thirteen ayes, four nays.

13 Senator Dole would like to offer his suggestion. He
14 can offer his amendment, or a substitute. Would you like to
15 offer it as an amendment to the Bentsen proposal?

16 Senator Dole. I would just say that they are essentially
17 pretty much the same. We did remove the increment because
18 of the objections raised. We do, of course, have a cap that
19 Senator Bentsen's does not have.

20 Otherwise, my credit is smaller and less attractive from
21 the standpoint of how many people it could put to work. It
22 would also cover about 70 percent of those employed, which
23 I think is a plus.

24 In addition to the substitute, maybe at some later time
25 if we decide that the cost is too great, we also have one

1 that is targeted to the hard core unemployed that there is
2 some interest in that I may offer later. I will just offer
3 the one on the board.

4 Senator Bentsen. If I might say, Mr. Chairman, if
5 Senator Haskell recontacted all of the small business organiza-
6 tions that he is talking about that he had his correspondence
7 from, I would be confident that they, in choosing between
8 these two amendments, would choose the one that gave the
9 \$1050 credit per employee hired, which would be mine, as
10 compared to the \$630, which is his.

11 The Chairman. I would like to make this clear to all of
12 those here. If we agree to any part of this, we are going
13 to still be in conference with the House figure of 40
14 percent. That is similar to the Matsunaga proposal.

15 Let's call the roll on the Dole amendment.

16 Senator Curtis. Is this an addition to Bentsen?

17 The Chairman. He is offering it as a substitute. As I
18 understand it he would keep the investment tax credit. He
19 would have a lower credit, 15 percent rather than the 25
20 percent -- and what is the other difference?

21 Mr. Stern. He would limit it to \$40,000 and it would
22 apply to the entire increase above the base year.

23 The Chairman. Take out the incremental features. All
24 right.

25 Mr. Woodworth. It does not take out the incremental, but

1 it takes out the increase on incremental.

2 Mr. Stern. Mr. Talmadge?

3 (No response)

4 Mr. Stern. Mr. Ribicoff?

5 Senator Ribicoff. No.

6 Mr. Stern. Mr. Byrd?

7 Senator Byrd. No.

8 Mr. Stern. Mr. Nelson?

9 (No response)

10 Mr. Stern. Mr. Gravel?

11 Senator Gravel. No.

12 Mr. Stern. Mr. Bentsen?

13 Senator Bentsen. No.

14 Mr. Stern. Mr. Hathaway?

15 Senator Hathaway. No.

16 Mr. Stern. Mr. Haskell?

17 Senator Haskell. No.

18 Mr. Stern. Mr. Matsunaga?

19 Senator Matsunaga. No.

20 Mr. Stern. Mr. Moynihan?

21 Senator Moynihan. No.

22 Mr. Stern. Mr. Curtis?

23 Senator Curtis. Aye.

24 Mr. Stern. Mr. Hansen?

25 Senator Hansen. Aye.

1 Mr. Stern. Mr. Dole?

2 Senator Dole. Aye.

3 Mr. Stern. Mr. Packwood?

4 Senator Packwood. No.

5 Mr. Stern. Mr. Roth?

6 Senator Roth. Aye.

7 Mr. Stern. Mr. Laxalt?

8 Senator Laxalt. Aye.

9 Mr. Stern. Mr. Danforth?

10 Senator Danforth. No.

11 Mr. Stern. Mr. Chairman?

12 The Chairman. No.

13 Five ayes, eleven nays.

14 Senator Danforth. I do not know what is in order now.

15 I would like to propose consideration of the proposal con-
16 tained in Senate bill 1232, which is a rate reduction for
17 the first \$100,000 of corporate income, reducing it to the
18 tax of 18 percent which would have the effect, if the
19 corporation was earning \$100,000, it would reduce its tax
20 liability of \$34,500 to \$18,000 for a savings of \$16,500.

21 The projected revenue loss for this -- there is always
22 the argument that when you decrease taxes you do not really
23 lose the revenue, but the paper revenue loss is \$2.1 billion
24 in 1978. It would create an estimated \$100,000 to \$200,000
25 jobs.

1 The testimony that we had last week was that the
2 small businesses in America are the ones who tend to be the
3 most labor intensive and the ones which tend to add workers
4 at a much higher rate than large businesses do. I think
5 that it is anomalous that a Mom and Pop company has to pay
6 a 48 percent rate of taxes on the second \$50,000 that it
7 earns, which is the same rate that is paid by General Motors
8 or Ford, and therefore one of the best ways that we can help
9 the business community employ more people is to pay more
10 attention to small businesses and to provide tax relief for
11 them by reducing their rates.

12 Therefore, I would propose at this time that the same
13 proposal --

14 The Chairman. Are you offering that as a substitute to
15 something in the bill, or offering it as an add-on?

16 Senator Danforth. Offering it as an add-on.

17 The Chairman. Mr. Woodworth.

18 Mr. Woodworth. The Administration would be strongly
19 opposed to this provision for several reasons. First of all,
20 the provision you already adopted indicates business
21 absorbs the \$2.4 billion of revenue effect. This would
22 involve \$2.1 billion of additional revenue loss, way over
23 the total that the Administration believes is desirable
24 insofar as this package is concerned for a tax reduction in
25 this area.

1 Also, and I think this is a serious problem that you
2 need to think about, that is by lowering the rate to 18
3 percent on the first \$100,000, you have to remember that you
4 are really creating -- the more you get that rate down the
5 more the corporate organization becomes a tax shelter for
6 individuals.

7 Remember that doctors and lawyers and others can form
8 corporations and carry on their practice through corporations
9 that you are, in effect, reducing the tax rate on the first
10 \$100,000 of their income, in effect to 18 percent.

11 Now, you already have a problem in this regard with the
12 existing rates. The more you bring this rate down, the more
13 of a problem this becomes.

14 I am suggesting to you that this is on its way and this
15 could lead you on the way to a major new tax shelter.

16 Senator Packwood. We still tax them when they take it
17 out in dividends or wages.

18 Mr. Woodworth. For the most part they see that a large
19 part of it is not brought out in the form of dividends or
20 wages. They leave it in the corporation to the full extent
21 they can.

22 Senator Packwood. How do they benefit, then?

23 Mr. Woodworth. They benefit through provisions for
24 the pension fund plans for themselves to a very substantial
25 degree. They do it through provision for cars which are

1 charged to the corporation rather than for their own use
2 and many other ways of getting personal benefit out of
3 the corporation.

4 The Chairman. Basically, what you would do, the money
5 you were going to spend, you take it out of the corporation
6 and spend it and pay a tax on, that money you are not going
7 to spend, you would leave it in the corporation?

8 Mr. Woodworth. That is correct.

9 Senator Packwood. All of those personal benefits that
10 you mentioned are taxable. If they are taking them out
11 and using cars for personal business, they cannot get around
12 it legally.

13 Mr. Woodworth. It is a very difficult line to draw,
14 Senator Packwood, as to personal use and business use. I
15 agree with you that technically it should be, perhaps,
16 subject to tax, but in practice, in large part, I do not think
17 it is.

18 It is also possible for them to borrow money from the
19 corporation. That is another way of deriving benefit
20 from it.

21 But the basic point is the point that Chairman Long
22 made. To the extent that they are not going to spend it
23 anyway, they are far better to accumulate it in the
24 corporate form. I recognize the importance of aiding small
25 business, but you do have to remember that there is this real

1 relationship between the individual tax and the corporate
2 tax. The more you bring this rate down, the more you create
3 stress and strain because of this difference.

4 The Chairman. You are a doctor or a lawyer in a 50
5 percent, or 70 percent tax bracket. If you do not watch out,
6 you are going to make it very easy for him to use these small
7 business corporations to pay taxes at 18 percent when other-
8 wise they would be owing a tax of 50 or 70 percent.

9 Senator Packwood. He does not have the money.

10 The Chairman. There are all kinds of ways he can get
11 the money and put it into a retirement program for himself.
12 He can borrow the money.

13 Mr. Woodworth. He can save it.

14 The Chairman. If you do not need it, just keep it in the
15 corporation.

16 Senator Danforth. If he were to do that, he would go
17 the Subchapter S route. This particular route is, by nature,
18 a double tax route. Furthermore, with respect to use of
19 cars, I think that the argument that you are making sort of
20 argues against yourself because it seems that the higher the
21 tax rate the greater incentive there would be to abuse what
22 would be a deductible business expense.

23 The Chairman. Basically, what you have here is a
24 question, if you want to make this into a major, long-term
25 tax reduction bill, that is a popular item if you want to do

1 that, but it busts the budget -- with the other things we
2 have in there, it busts the budget by \$2 billion. If you
3 offer it as an add-on, we have to think in those terms.

4 Frankly I can think of more things that benefit grandpa
5 and grandma and housewives and various and sundry groups
6 that I would like to do if we could take off the budget
7 limitations. We may not be able to deal with the cause of
8 them, but that is also an impediment to this. That goes
9 beyond our budget estimates, does it not?

10 Mr. Shapiro. Yes.

11 I would like to make two general observations to the
12 proposal. Whether you consider it as an add-on or a sub-
13 stitute, with respect to a substitute the proposals that you
14 have agreed to, or attempted to agree to, the investment tax
15 credit or the employment tax credit goes to all businesses.

16 A proposal that changes corporate rates only affects
17 corporatations and not businesses that are not incorporated.
18 With respect to any benefit for small businesses, many small
19 businesses are not incorporated today. They are operating
20 through partnerships and sole proprietorships.

21 Congress has enacted, in addition, with respect to
22 small business Subchapter S that Senator Danforth referred
23 to which is they do not pay the corporate tax. The pure
24 integration system where the entire amount of income is
25 passed through to the individuals.

1 These are some of the considerations you should take
2 into account with respect to a corporate rate reduction.

3 Senator Curtis. Here is something that bothers me.
4 I am not too sold on the idea of anything that we agree on
5 here. I am disturbed by the fact that we are acting on a
6 premise that the reason we cannot reduce taxes on small
7 corporations on the first \$100,000 is because of the problem
8 of incorporating professions.

9 It seems to me that that is two different problems. I
10 think that we should deal with each problem separately. I
11 do not know if we can go on taking the position here that
12 a small corporation, maybe a manufacturing corporation, what
13 have you, cannot get any tax relief because it helps some
14 doctors incorporate.

15 Senator Packwood. Is it not also true, if I may ask a
16 question, if they leave this money in the corporation they
17 are going to be subject to the accumulation.

18 Mr. Woodworth. That already has an exemption of \$150,000
19 plus any reasonable needs of the business. One of the obvious
20 things they do is that they buy medical buildings and set
21 up their offices there, which in a sense is a need of the
22 business, but also a way of lessening.

23 Senator Packwood. If they have legitimate needs as a
24 business, then we do have quarrel. What you say is that they
25 would unjustifiably leave the money in the business. On

1 that, do you have a 28.5 percent surtax on top of what is
2 already an 18 percent tax up to \$100,000 and 48 above that.

3 Mr. Woodworth. I am simply suggesting that they can
4 leave the money in the business even though it is a
5 professional group, or any other, so to the extent that they
6 do not need the money for consumption themselves currently
7 they can leave it in the business. They have an exemption
8 of \$150,000 to start with on that, plus any reasonable needs
9 of the business.

10 So in practice, the lower tax rate does have the effect
11 of providing a tax shelter.

12 Senator Danforth. Maybe this is some serious problem
13 but the people I am concerned about here are the people who
14 run the drygoods store in a small town in Missouri. That is
15 who I concerned about.

16 When I talk to small business people, not the big guys
17 but small business people, they tell me it is hardly worth-
18 while being in business anywhere, between what inflation is
19 doing to them, high interest rates are doing to them, taxes
20 are doing to them, the cost of regulation is doing to them.
21 They are being put through the wringer.

22 If we are interested, as the Administration purported to
23 be last week, in giving this signal to the business community,
24 it seems to me the best signal we can give to the business
25 community is to the small business community, the people who

1 are oftentimes the most hard-hit, the people who are taking
2 the biggest personal risk in their endeavors and the people
3 who are responsible for the greatest potential growth in
4 hiring those that we are concerned about in the stimulus
5 proposal, namely the 7 to 8 million Americans,

6 The Chairman. We just got through voting on a proposal.
7 We are going to give people a \$2 billion tax advantage if they
8 buy a lot of new equipment. That puts people to work manu-
9 facturing equipment; or if they would hire more people.

10 This would cost almost the same amount of money. This
11 would let them get the tax advantage without hiring anybody
12 or buying any new equipment, either one.

13 While it has a lot of appeal to it, we cannot do all of
14 these things. You can think of a lot of others that have a
15 lot of appeal to it, but it certainly leaves a lot of people
16 out.

17 Senator Ribicoff. What are the Administration's
18 intentions on tax reform proposals, including the reform of
19 the rate structure, either way, up and down the line? What
20 are your intentions?

21 Mr. Woodworth. We are going to review the whole area of
22 capital reformations in detail without being sure as to the
23 form of the proposals. We are certainly are reviewing the
24 whole area of double taxation.

25 I might say that the more you cut rates, the more difficult

1 you make any solution in the double taxation area. And I
2 think that it is very likely that the Administration will come
3 up with a substantial method of aiding investment and capital
4 formation.

5 To get more specific than that is very difficult with
6 me.

7 Senator Ribicoff. When?

8 Mr. Woodworth. The intent is to present that to the
9 Congress this fall.

10 The Chairman. Senator Bentsen?

11 Senator Bentsen. Let me say to Senator Danforth, I
12 think everything you have said about small business is true.
13 I have been there and I know what they are up against. I
14 still feel it.

15 Last year, what we did, we increased the \$25,000
16 exemption in the surtax to \$50,000. We doubled it, then we
17 lowered the rate at the same time. We doubled the exemption
18 from the surtax to small business \$25,000 to \$50,000, lowered
19 the rate, then in addition to that, we took the family
20 corporations --

21 Mr. Woodworth. Subchapter S.

22 Senator Bentsen. Subchapter S and increased it 50
23 percent, all because we shared the same concern that you
24 are sharing.

25 As the Chairman stated, our problem is we have an awful

1 lot of other concerns. We have some budget constraints
2 here.

3 Mr. Woodworth. I should indicate to you, Senator
4 Bentsen, that this bill right before you continues the
5 small business tax relief that you provided in the '75 Act,
6 '75 and '76 Acts for one more year, so that there is
7 substantial small business relief in here right now.

8 In other words, the starting rate for small business
9 through 1978 if you act on the bill the way it is would be
10 20 percent.

11 The Chairman. Shall we vote?

12 Call the roll.

13 Mr. Stern. Mr. Talmadge?

14 (No response)

15 Mr. Stern. Mr. Ribicoff?

16 Senator Ribicoff. No.

17 Mr. Stern. Mr. Byrd?

18 Senator Byrd. Present.

19 Mr. Stern. Mr. Nelson?

20 (No response)

21 Mr. Stern. Mr. Gravel?

22 Senator Gravel. No.

23 Mr. Stern. Mr. Bentsen?

24 Senator Bentsen. No.

25 Mr. Stern. Mr. Hathaway?

1 Senator Hathaway. No.

2 Mr. Stern. Mr. Haskell?

3 (No response)

4 Mr. Stern. Mr. Matsunaga?

5 Senator Matsunaga. No.

6 Mr. Stern. Mr. Moynihan?

7 Senator Moynihan. No.

8 Mr. Stern. Mr. Curtis?

9 Senator Curtis. Aye.

10 Mr. Stern. Mr. Hansen?

11 Senator Hansen. Aye.

12 Mr. Stern. Mr. Dole?

13 Senator Dole. Aye.

14 Mr. Stern. Mr. Packwood?

15 Senator Packwood. Aye.

16 Mr. Stern. Mr. Roth?

17 Senator Roth. Present.

18 Mr. Stern. Mr. Laxalt?

19 Senator Laxalt. Aye.

20 Mr. Stern. Mr. Danforth?

21 Senator Danforth. Aye.

22 Mr. Stern. Mr. Chairman?

23 The Chairman. No.

24 Six yeas, seven nays. I think that Senator Talmadge

25

1 should be voted no. I have his proxy. Eight to six.

2 Senator Moynihan?

3 Senator Moynihan. May I say that tomorrow Senator
4 Danforth and I will have a proposal on accelerated deprecia-
5 tion which we hope might be part of this package and we will
6 be introducing it then and we will have some material behind
7 it.

8 A second thing, sir, yesterday Secretary Woodworth
9 granted that there were different regional impacts of the
10 jobs credit bill. By region, I refer not to geographical
11 region by economic region, areas of higher unemployment against
12 lower unemployment.

13 That would be a different impact than, say, the invest-
14 ment tax credit. I voted for Senator Bentsen's proposal,
15 not least because of the somewhat ambiguous statement that
16 you made.

17 This is a new idea for us. I wonder if I could not
18 ask that the Treasury give us some early estimates as to what
19 will be the impact as between jurisdictions with high rates
20 of unemployment and relatively low rates of unemployment,
21 because this is a measure designed to increase employment
22 but if it has its major effect in areas where unemployment
23 is already high, maybe that is not a good idea.

24 Maybe you are also working with the natural tendencies
25 of the economy, and that is a good idea. It could be argued

1 both ways. I wonder if we could not get such a statement
2 from the Administration?

3 I wonder if we could not ask them to keep an eye on
4 that?

5 Senator Bentsen. I think that is fine.

6 Let me also say to the distinguished Senator from
7 New York that this was certainly not the form of the employ-
8 ment tax credit I started introducing two years ago. I
9 think it was a much better approach you had in it, a level
10 of 90 percent to take care of the very problem that you are
11 talking about.

12 I ran into such a cost problem that I had to retreat
13 from that. That is what happened.

14 The Chairman. Let me ask the staff and Mr. Woodworth
15 if they can help me get an estimate of what it would do to
16 add to what we have already done here. Here is what I am
17 thinking.

18 We have made this very much more attractive for small
19 businesses and individual employers in business to employ
20 someone, it is an incremental thing, on this interim basis.
21 It had a lot of appeal to me, and we did something last year
22 to provide a 20 percent, I believe it was, tax credit for
23 day care to help working mothers to employ someone to look
24 after the children and help with the housework as they tried
25 to improve the family situation.

1 It seems to me that we would have a chance to find out
2 just how much this type of credit could do in a situation
3 like that. If we could give those people the additional 25
4 percent in the same interim, I would think you would have a
5 record of those who are claiming day care if you make it
6 just incremental and then you say, all right, those working
7 mothers who go out and try to find employment to try to
8 benefit their families, during the interim while the 25
9 percent applies they get an extra 25 percent tax credit.

10 Can you get us an estimate of what that would take if
11 you apply that on an incremental basis, or what it would take
12 if we just gave them the additional 25 percent?

13 Mr. Shapiro. Senator, if you want to work with the
14 modification of the child care credit within the present
15 law, you probably would not want an incremental rate. You
16 probably would want to expand it to encourage wider use,
17 because you have people presently not able to use the child
18 care credit. With the modifications, they could use it and
19 they would have a much larger increment than those presently
20 using it.

21 We can prepare proposals for you in this area with
22 estimates doing a series of modifications.

23 The Chairman. I became very much aware during this
24 last year, also, that a lot of dear old people in this
25 nation who do not want to be moved into these institutions

1 but would like to stay in their homes. If someone can
2 go in there and fix them a meal about once a day and visit
3 with them a little bit and help do some housework they would
4 be a lot happier staying where they were than moving up into
5 one of these nursing homes.

6 I think, Senator Curtis, you suggested that we should
7 provide some kind of tax consideration for people who try
8 to help these aging people who are infirmed; try to help
9 them stay in their homes awhile longer and not moving them
10 into these various homes set up for these elderly people who
11 cannot be cared for in their own homes, nursing homes.

12 You might see if you can get an estimate of what it
13 would take if we tried to make it more attractive taxwise
14 to hire someone to help these old people.

15 If someone goes in and helps them, there is no tax
16 benefit now.

17 Mr. Shapiro. That is correct.

18 Mr. Woodworth. Unless they were eligible for the jobs
19 credit. I am referring to an organization doing this
20 thing.

21 The Chairman. A private organization that did it who
22 provided services for old people might be eligible for it
23 under the jobs credit, but if they or their relatives
24 decided to employ someone to do that, that would not be
25 available to them.

1 Mr. Woodworth. That is right.

2 The Chairman. Check the cost.

3 Mr. Stern. Yes, sir.

4 Senator Dole. I wonder if we could dispose of the
5 sickpay exclusion. You are talking about the same thing.

6 Larry is familiar with what happened and many people
7 are now discovering that they are going to have to pay,
8 no tax was withheld, the revenue loss was \$300 million.

9 Thirty-five Senators are cosponsoring legislation to
10 change the effective date, two hundred members of the House.
11 If we do not do something before April 15th, we are going
12 to require that all of these people file amended returns and
13 go to extra costs. Some may have already filed their tax
14 returns.

15 Mr. Shapiro. What happened here, in the 1975 Tax Reform
16 Bill they eliminated the sick pay exclusion and dated it
17 prospectively effective 1976. When the Senate acted, they
18 did it -- I think it was 1977. Then when you came into
19 Conference, the problem there was there was a concern of
20 raising revenue in the general guideline that all revenue
21 that raised revenue was effective the first of 1976.

22 The sick pay exclusion was one of those provisions and
23 made retroactive to the first of 1976.

24 There are a number of bills in the House in broad
25 sponsorship. The Ways and Means Committee is holding a hearing

1 on that Monday. The interest is there. The Budget Committee
2 has put additional revenue into the budget to take this
3 into account.

4 Senator Dole. I raised it in the Budget Committee as a
5 member of the Budget Committee. There is language in the
6 report to take care of this is to change the effective date,
7 making it January 1, 1977. If we could dispose of that
8 now,

9 Mr. Woodworth. There are problems, of course, in doing
10 it at this time in the sense that the tax returns do not
11 make any provision for this. The tax returns that have
12 been filed do not make any provision for it.

13 In discussing it very briefly -- I have not discussed
14 it extensively yet with the Internal Revenue Service, but
15 in discussing it with them very briefly, I think that the
16 major thing that would have to be done is to have them
17 file a claim for a refund to the extent of the sick pay
18 exclusion using last year's form.

19 It is a serious administrative problem. We know that.

20 Senator Dole. Also a very serious problem for a lot of people
21 when we passed the bill in October to make it retroactive.

22 Mr. Woodworth. I am not going to go into that; I think
23 you are probably right. But it is a serious and difficult
24 administrative problem. I must say that to you.

25 Senator Byrd. Mr. Chairman?

1 The Chairman. Senator Byrd?

2 Senator Byrd. It seems to me that Congress did not
3 treat those people right. I endorse Senator Dole's proposal
4 and I hope the Committee will approve it.

5 Senator Ribicoff. Mr. Chairman, while you are on that,
6 in addition to that unfairness what we have done with those
7 people earning income abroad, making it retroactive. Twelve
8 Senators went abroad in November and we tried something new
9 wherever we went. We asked Americans to come and talk to
10 us.

11 These were not big executives. These were people with
12 all kinds of jobs and with complete outrage that we cut
13 back their taxes on earned income, the fact it was retroactive
14 until 1976 to '77. I have never seen such universal out-
15 rage. It is a part of the same sense of unfairness that we
16 suddenly make them come up with a retroactive tax.

17 Senator Moynihan. If the Senator would yield?

18 Since I very much share the Senator's view on that,
19 I wonder if you would not comment that if it is not exactly
20 the letter, certainly retroactive legislation is against
21 the spirit of the American Constitution.

22 Senator Ribicoff. I agree with Senator Dole and
23 Senator Matsunaga and I have an amendment. Generally you
24 will find very strong support. We did treat them unfairly.

25 As Larry said, the House passed their bill in one year.

1 We passed our bill in the next year and took the House
2 provision.

3 The Chairman. Let me say this. I have been through it
4 and I had a big argument with Senator Kennedy and others
5 last year about changing the so-called tax shelters when
6 you were voting in the middle of the year and it applied
7 back to the first of the year.

8 They cited me a lot of precedents, in that regard. The
9 way it turns out, Senator Moynihan, if you think something
10 is a rip-off or you think it is a tax shelter or a tax
11 dodge, if that is what you think from your point of view,
12 you ought to stop it immediately and tax the fellow for
13 what has been going on from the first of the year.

14 On the other hand, if you think that maybe it ought to
15 be done for the future, then of course you think it has a
16 lot of merit to it and you are going to change it anyway,
17 logically you would want to change it from the beginning of
18 the next year.

19 Senator Moynihan. Ex post facto legislation is against
20 the spirit of the Constitution.

21 The Chairman. Just wait until you find somebody getting
22 away with some real mischief and see if you feel the same
23 way about it.

24 Senator Curtis. I disagree with my Chairman a little
25 bit on that. I think the greatest share of the time the

1 practice has been that where we corrected something it was
2 made effective ^{as of} on the date that either the Ways and Means
3 Committee or the Finance Committee would act. I think that
4 we get into a lot of trouble by retroactive taxes.

5 I think it is unfair. I know it is going to be a mess
6 to straighten it out at this late date. It will not be
7 any better thirty days from now.

8 Mr. Woodworth. In neither of these cases did you go
9 back to the day of the Ways and Means Committee action so
10 it does meet the test that you just laid down.

11 Senator Curtis. I know, but I am talking about the
12 so-called loopholes where you have groups with a sizable
13 amount and they have their own tax people and so on. This
14 relates only to individuals.

15 The Chairman. Here is the point that bothers me about
16 what we are saying. I am just wondering, if we do this,
17 I wonder to what extent a lot of people are not going to get
18 the benefit of it. They do not know about it --

19 Senator Ribicoff. They know about it, Mr. Chairman, and
20 let them put in a credit. They can work that out. I am not
21 worried about the IRS making up a form.

22 The Chairman. How much would the Dole amendment cost?

23 Senator Dole. It does not really cost anything.

24 Mr. Shapiro. \$ 27 million for fiscal year 1977.

1 The Ribicoff amendment dealing with the foreign income
2 exclusion is a \$38 million amendment. Both of these provisions
3 affect fiscal year 1977. One calendar year, 1976. It allows
4 the provisions that the Congress had in the 1976 Tax Reform
5 Act to be operative beginning January 1, 1977.

6 The Chairman. Let us vote first on the Dole amendment.

7 Mrs. Woodworth. If I could raise a problem that may not
8 change a single penny in here, I do think it is important
9 for you to realize that last year, because of the Budget
10 Resolution, you felt obligated in Conference to raise this
11 nearly \$3 billion amount as you could. You make a series
12 of provisions apply because of that proposition; made a
13 series of provisions apply as to the first of the year.
14 These were two of those provisions.

15 I think that you may have trouble if you, in effect,
16 make these apply now as to the beginning of the next year.
17 You are undoubtedly going to be faced with complaints that
18 the other provisions, of which there are many, which also
19 apply as to the first of the year likewise should be changed.

20 The Chairman. You have a good point, but let me address
21 this to you.

22 Were we not doing that because the Budget Committee had
23 imposed these limitations on us and we were trying, in good
24 faith, to comply with them?

25 Senator Dole. Some of them are sponsors of my bill.

1 The Chairman. In this case, Senator Dole tells me that
2 the Budget Committee --

3 Senator Dole. They have recognized this problem.

4 The Chairman. And they have made allowance in the
5 budget for it.

6 The same logic that compelled it has been changed in
7 some respect and the Budget Committee has on both sides
8 now recognized it. Is that right?

9 Mr. Shapiro. That is correct. The sick pay exclusion
10 has been taken into account in the Third Budget Resolution.
11 That is only for the sick pay.

12 Senator Ribicoff's amendment was not taken into account,
13 as far as I know, in the Budget Committee.

14 Senator Ribicoff. Nobody pushed it. I think we can
15 vote on it, and take our chances on the Floor.

16 The Chairman. That is right. We have asked them to
17 put \$100 million in there to take account of the bills that do
18 not have a major impact, so we can act on these lesser
19 things.

20 Mr. Shapiro. I was going to make a point that was
21 not mentioned that they did leave room to take care of
22 certain other matters.

23 The Chairman. Let us vote first on the Dole amendment.
24 Call the roll.

25 Mr. Stern. Senator Talmadge?

1 (No response)

2 Mr. Stern. Senator Ribicoff?

3 Senator Ribicoff. Aye.

4 Mr. Stern. Senator Byrd?

5 Senator Byrd. Aye.

6 Mr. Stern. Senator Nelson?

7 (No response)

8 Mr. Stern. Senator Gravel?

9 (No response)

10 Mr. Stern. Senator Bentsen?

11 (No response)

12 Mr. Stern. Senator Hathaway?

13 Senator Hathaway. Aye.

14 Mr. Stern. Senator Haskell?

15 (No response)

16 Mr. Stern. Senator Matsunaga?

17 Senator Matsunaga. Aye.

18 Mr. Stern. Senator Moynihan?

19 Senator Moynihan. Aye.

20 Mr. Stern. Senator Curtis?

21 Senator Curtis. Aye.

22 Mr. Stern. Senator Hansen?

23 Senator Hansen. Aye.

24 Mr. Stern. Senator Dole?

25 Senator Dole. Aye.

1 Mr. Stern. Senator Packwood?

2 Senator Packwood. Aye.

3 Mr. Stern. Senator Roth?

4 Senator Roth. Aye.

5 Mr. Stern. Senator Laxalt?

6 Senator Laxalt. Aye.

7 Mr. Stern. Senator Danforth?

8 Senator Danforth. Aye.

9 Mr. Stern. Mr. Chairman.

10 The Chairman. Aye.

11 I think Senator Talmadge might want to vote aye, also.

12 Thirteen ayes, no nays.

13 Mr. Woodworth. There is another point you might want
14 to consider and that is the question of the fact that waiving
15 the penalties in addition to tax on interest for all '76
16 tax increases resulting from the Tax Reform Act of '76, of
17 which these are two principal examples --

18 Senator Hansen. Say that again?

19 Mr. Woodworth. In other words, when you make your
20 declaration payments or estimated tax, withholding payments
21 this last year, it was technically under the law required
22 that you make those withholding payments or declaration
23 payments on the assumption that these benefits were not
24 available to you, like sick pay or the exclusion, and it is
25 clear that the taxpayers did not know about this, at best,

1 until October.

2 To impose the penalties, the law requires you impose
3 the penalties in that case. What you have done still does
4 not remove the penalty.

5 Senator Dole. Let us do it.

6 Mr. Woodworth. If you are going to take care of the
7 problems you have, you would also want to take care of the
8 penalty.

9 Senator Curtis. I so move.

10 The Chairman. Those in favor, say aye.

11 (A chorus of ayes.)

12 The Chairman. Opposed, nay?

13 (No response)

14 The Chairman. Let's go to the Ribicoff amendment.

15 Call the roll.

16 Mr. Stern. Mr. Talmadge?

17 (No response)

18 Mr. Stern. Mr. Ribicoff?

19 Senator Ribicoff. Aye.

20 Mr. Stern. Mr. Byrd?

21 Senator Byrd. Aye.

22 Mr. Stern. Mr. Nelson?

23 (No response)

24 Mr. Stern. Mr. Gravel?

25 (No response)

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Mr. Stern. Mr. Bentsen?

Senator Ribicoff. Aye by proxy.

Mr. Stern. Mr. Hathaway?

Senator Hathaway. Aye.

Mr. Stern. Mr. Haskell?

(No response)

Mr. Stern. Mr. Matsunaga?

Senator Matsunaga. Aye.

Mr. Stern. Mr. Moynihan?

Senator Moynihan. Aye.

Mr. Stern. Mr. Curtis?

Senator Curtis. Aye.

Mr. Stern. Mr. Hansen?

Senator Hansen. Aye.

Mr. Stern. Mr. Dole?

Senator Dole. Aye.

Mr. Stern. Mr. Packwood?

Senator Packwood. Aye.

Mr. Stern. Mr. Roth?

Senator Roth. Aye.

Mr. Stern. Mr. Laxalt?

Senator Laxalt. Aye.

Mr. Stern. Mr. Danforth?

Senator Danforth. Aye.

Mr. Stern. Mr. Chairman?

1 The Chairman. Aye.

2 Fourteen yeas and no nays. I suggest that you contact
3 the absentees.

4 Senator Danforth. One of the issues, obviously, tomorrow
5 is going to concern the standard deduction. I wonder if it
6 would be possible, between tonight and tomorrow morning, that
7 the staff could address itself to the question of whether or
8 not the standard deduction could be simplified without having
9 this \$5.6 or \$5.7 billion cost, if doing so, if they could
10 be thinking about that?

11 Mr. Shapiro. We will prepare some material for that.

12 The Chairman. I would like to get more business done
13 this afternoon if the Committee feels like voting.

14 Senator Packwood. If we are going to put off standard
15 deduction or deduction versus rebate until tomorrow, what
16 do we have left for this afternoon?

17 Senator Curtis. I think we could make more haste
18 tomorrow.

19 The Chairman. It seems to me that the sentiment is
20 that we resume at 10:00 o'clock tomorrow.

21 (Thereupon, at 12:15 p.m. the Committee recessed to
22 reconvene 10:00 a.m., Thursday, March 17, 1977.)

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