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HEARINGS

BEFORE THE COMMITTEE

on
FINANCE

EXECUTIVE SESSION

Thursday, June 25, 1981

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Executive Session

Thursday, June 25, 1981

U. S. SENATE,
Committee on Finance,
Washington, D. C.

The Committee, met, pursuant to adjournment, at
10:00 a.m., in room 2221, Dirksen Senate Office Building,
Hon. Robert J. Dole, (Chairman), presiding.

Present: Senators Dole, Packwood, Roth, Danforth,
Chafee, Heinz, Wallop, Durenberger, Armstrong, Symms,
Grassley, Long, Byrd, Bentsen, Matsunaga, Moynihan, Baucus,
Boren, Bradley and Mitchell.

P R O C E E D I N G S

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The Chairman. Let me say that this could be the last session on this bill. I am not certain. But, there may be a number of votes that will interrupt us. Otherwise, I think we could probably complete action very quickly.

My understanding is there are only a few matters that are pending. We adopted a provision yesterday with reference to certificates and truckers.

I had a discussion with Senator Baucus on that, and others, who had an interest. It would be my hope that we might modify that in some way to stretch that over a five year period.

If that could be done, I have assured Senator Baucus and others that it would be my purpose to make certain it survived the rigors of the Senate floor and the conference.

Could someone give me, if it were five years, how that would work as far as cost is concerned.

Mr. McConaghy. Mr. Chairman, we will have those in a minute. The total, essentially, would be about \$340 million spread over a different pattern. That pattern we are getting and we will have in a minute or two.

The Chairman. But that would lower the cost in three years.

Mr. McConaghy. Yes.

The Chairman. Is that satisfactory, Senator Baucus?

1 Senator Baucus. Mr. Chairman, we did have the votes
2 to pass this amendment under a three year period, however,
3 since that vote I strongly sense a strong current develop-
4 ing which would cause some problems for it. I am willing to
5 take a half loaf better than a whole loaf. A bird in the
6 hand is worth two in the bush.

7 I think the five-year is fine, with the understanding
8 that the measure pass unanimously and that the Committee
9 fight for it in all other forums and --

10 Senator Long. No further retreat.

11 Senator Baucus. That's right.

12 There is one slight modification though I think that
13 should be considered and that is sometimes there are a few
14 stock companies and holding companies that have operating
15 rights. I think some report language could be developed to
16 take care of their situation.

17 The Chairman. I am certainly willing to do that.
18 I think to indicate we mean what we say and have a record
19 vote on this, on the modification.

20 Is that all right with you?

21 Senator Baucus. Fine.

22 Senator Chafee. Mr. Chairman.

23 The Chairman. Senator Chafee.

24 Senator Chafee. Mr. Chairman, I think that is a good
25 idea. I think yesterday, when we took that vote, there were

1 extremely sympathetic to it. It was a problem of these
2 additions and I think this is a salubrious solution to a
3 difficult problem.

4 The Chairman. Whatever that is, I'll vote for it.
5 (Laughter.)

6 The Chairman. Mike, call the roll for us.

7 Senator Baucus. Mr. Chairman, this also makes it
8 more of a bipartisan bill, too.

9 The Chairman. It gives it a good vehicle to send it
10 out on.

11 Senator Baucus. Yes, sir.

12 The Chairman. The clerk will call the roll.

13 Mr. Lighthizer. Mr. Packwood.

14 The Chairman. Aye.

15 Mr. Lighthizer. Mr. Roth.

16 The Chairman. Aye.

17 Mr. Lighthizer. Mr. Danforth.

18 Senator Danforth. Aye.

19 Mr. Lighthizer. Mr. Chafee.

20 Senator Chafee. Aye.

21 Mr. Lighthizer. Mr. Heinz.

22 Senator Heinz. Aye.

23 Mr. Lighthizer. Mr. Wallop.

24 The Chairman. Mr. Wallop votes aye.

25 Mr. Lighthizer. Mr. Durenberger.

1 Senator Durenberger. Aye.
2 Mr. Lighthizer. Mr. Armstrong.
3 Senator Armstrong. Aye.
4 Mr. Lighthizer. Mr. Symms.
5 Senator Symms. Aye.
6 Mr. Lighthizer. Mr. Grassley.
7 The Chairman. Aye.
8 Mr. Lighthizer. Mr. Long.
9 Senator Long. Aye.
10 Mr. Lighthizer. Mr. Byrd.
11 Senator Byrd. Aye.
12 Mr. Lighthizer. Mr. Bentsen.
13 Senator Bentsen. Aye.
14 Mr. Lighthizer. Mr. Matsunaga.
15 (No response.)
16 Mr. Lighthizer. Mr. Moynihan.
17 (No response.)
18 Mr. Lightizer. Mr. Baucus.
19 Senator Baucus. Aye.
20 Mr. Lighthizer. Mr. Boren.
21 Senator Boren. Aye.
22 Mr. Lighthizer. Mr. Bradley.
23 (No response.)
24 Mr. Lighthizer. Mr. Mitchell.
25 (No response.)

1 Mr. Lighthizer. Mr. Chairman.

2 The Chairman. Aye.

3 (Pause.)

4 The Chairman. On this vote the yeas are 16, the
5 nays are zero.

6 The absentees will be permitted to record their vote.

7 The amendment is agreed to.

8 Senator Heinz. Mr. Chairman.

9 The Chairman. Senator Heinz.

10 Senator Heinz. Thank you, Mr. Chairman.

11 Mr. Chairman, I would like to raise an issue that
12 I know a lot of members are concerned about and that is, as
13 you know, the Administration proposal on ACRS, when it was
14 changed, from its original form which was that assets would
15 be -- might start taking their depreciation before they
16 were placed in service.

17 That was changed in the kind of ACRS II proposal

18 Now, I understand why the Administration did that.
19 They were concerned about cost. But there is a particular
20 problem it creates for very long lead time undertaking such
21 as synfuel plants.

22 It seems to me that if we want to get the synfuel
23 industry to stand on its own two feet, if we want people to
24 get into the production of energy from domestic resources
25 without Government help, we would be very well advised to

1 permit such long lead time projects, particularly synfuels
2 to have a more liberalized approach.

3 I would like to offer an amendment to do that, Mr.
4 Chairman.

5 Senator Bentsen. You are referring to progress
6 payments as we had in the bill last fall?

7 Senator Heinz. That is correct.

8 Senator Bentsen. I certainly agree with the Senator.
9 I think they made a very bad trade-off.

10 The Chairman. Mr. Chapoton.

11 Mr. Chapoton. Mr. Chairman, in our original proposal
12 as Senator Heinz points out, we provided for progress
13 expenditures on long construction period property.

14 We, in analyzing the overall bill there are some
15 benefits from that. We think overall, however, that long
16 lived equipment -- excuse me, long construction period
17 equipment is going to receive a very significant benefit
18 under the ACRS proposal in general.

19 It is true, the benefit will not take place like
20 with respect to all other properties, until the property
21 is placed in service. But the benefit is quite significant
22 because it is long, it has long life under current law and
23 the ACRS proposal will drop that life to five years, in
24 most cases.

25 So, we are talking about a significant benefit. They

1 will still be entitled to the investment tax credit on the
2 qualified progress expenditures, but we think overall, we
3 are better off postponing the deductions for cost recovery
4 until the equipment, until the property is placed in service
5 and at that time, when the income starts coming in from the
6 property, you will have an offsetting of the income with the
7 cost recovery deductions.

8 The deductions, of course, will be, as I said, much
9 accelerated as compared to present law.

10 We originally had the qualified progress expenditure
11 deduction allowed for a broad range of, well, any property
12 that would be long construction period.

13 As I understand this proposal, it would be limited
14 to a certain type of property. But we would not like to
15 go back, if we did revisit that, I think we would really
16 in fairness be required to revisit for any long construction
17 period property, not just synfuel plants.

18 There are others who have been pushing to reinstate
19 this.

20 Senator Bentsen. May I interrupt and ask the
21 Senator from Pennsylvania?

22 Senator Heinz. Yes, by all means.

23 Senator Bentsen. You are not limiting that to
24 synfuel plants, are you?

25 Senator Heinz. No, I single out synfuel plants as

1 the item that I am most concerned about. They constitute the
2 bulk of those -- any long, lead time project.

3 Senator Bentsen. It is not exclusive of that, of
4 course?

5 Senator Heinz. No, that's correct.

6 Senator Bentsen. All right.

7 The Chairman. Well, as I understand, the cost, if
8 it is not limited, in '84 -- if we are talking about putting
9 it all back in, it is \$4.4 billion.

10 Mr. Chapoton. That's correct. The revenue cost is
11 quite high if we put it all back in. It was a trade-off
12 for other items in the bill when we deleted it.

13 Senator Heinz. Mr. Chairman, what we have not
14 settled, I don't think, on a definition of what constitutes
15 an extremely long lead item here.

16 I think the Treasury is right, with every item in on
17 a progress payment basis would be very costly. While I
18 would prefer to do that, I think it makes sense to allow
19 people to recover their cost as the costs are incurred.

20 What I would like to propose is a rule that allows
21 properties that require three years or more to be built to
22 qualify for progress payments.

23 That will really limit the class pretty much to
24 things like synfuels.

25 Mr. Chapoton. Senator, would that include real estate?

1 Senator Heinz. No, it would not include real estate.

2 Mr. Chairman, let me also say this would apply in
3 effect to the three and the five classes.

4 Let me also say, Mr. Chairman, that I listened
5 carefully to what Mr. Chapoton was saying. Some of these
6 synfuels projects take five or six or even seven years before
7 you get any income from them, and then, he was saying the
8 five, the five year write off was very advantageous.

9 What that is another way of saying is that it would
10 be 12 years before anybody wholly recovers their costs.

11 Mr. Chapoton. Well, I am comparing with existing law.

12 My point is that the present value of their deductions
13 are much accelerated as compared to existing law, more than
14 for shorter life property.

15 A concern in ACRS throughout is that we do less for
16 longer lived property, excuse me, for shorter lived property
17 than for longer lived property.

18 So, synfuel plants or any other equipment that takes
19 or has a long construction period, is going to be by and
20 large long life property, so will receive the bulk of the
21 benefit under ACRS without this benefit.

22 Senator Heinz. Mr. Chairman, I think they are trying
23 to work up some numbers, it looks like. I see some frantic
24 scurrying around down there. Why don't we proceed to other
25 matters and come back to this.

1 The Chairman. The other matter I think is final
2 passage.

3 (Laughter.)

4 Senator Heinz. Well, that may not be a bad idea.

5 The Chairman. Not quite, but I think -- we are
6 waiting for Senator Mitchell to arrive.

7 Senator Heinz. Well, Mr. Chairman, could we dispose
8 of the matter I raised last night which is the additional
9 flexibility by virtue of --

10 The Chairman. That is another form of banking. I
11 think that is another bank breaker.

12 Senator Heinz. Well, it saves money. It doesn't
13 cost any more, that we know.

14 Senator Long. Mr. Chairman, I thought Senator Heinz
15 wrote a very thoughtful and well-reasoned letter to one of
16 the Washington newspapers about the targeted tax credit for
17 these various and sundry people who are really getting the
18 worst of it in society. Most of them are unemployed.

19 Senator Heinz so well made the case of what we on
20 the Finance Committee sought to do. The bureaucracy has
21 prevented that measure from ever really having a chance to
22 help all sorts of poor souls who are really getting the
23 worst of it.

24 The people, about 50 percent of them are unemployed
25 and we ought to have -- the bureaucracy has dragged its feet

1 never given the help and active cooperation it ought to have
2 and so that the suggestion is made that we dispense with
3 something that has never had a fair trial.

4 I would hope that this could be continued.

5 Now, I am afraid if we voted on it right now, it
6 might give the Chairman and the Treasury some budgetary
7 problems. But I would like to suggest that maybe we could
8 find a way before this matter is finally disposed of on
9 the floor, to make it a part of the package, in a way that
10 is revenue neutral.

11 Senator Heinz. Would the Senator yield?

12 Senator Long. Yes.

13 Senator Heinz. Senator Dole and others who share an
14 interest in keeping the targeted jobs tax credit first of
15 all alive, and second of all improving it, have discussed
16 it.

17 Senator Dole feels -- he is a co-sponsor of the bill,
18 as you know. While he would like to try and keep this bill
19 as clean as possible, he has indicated, and I think I can
20 say this, if I may, Bob, that we will proceed to mark-up of
21 that bill, and that mark-up, the date of that mark-up will
22 be announced very shortly, maybe if I yield to Senator Dole,
23 --

24 Senator Bentsen. May I say to the Chairman, that
25 since I think I was the original sponsor of that in the

1 original legislation that was passed and the previous
2 Administration which fought it tooth and toenail, it was one
3 of the best kept secrets that we had in the law.

4 Senator Long. That's right.

5 Senator Heinz. That is right.

6 Senator Bentsen. They were against it. They didn't
7 let anyone know it. Then they put in a set of regulations
8 that made it almost impossible and I have not see this
9 Administration either.

10 Senator Heinz. Let me just say that we had hearings
11 on the targeted jobs tax credit. We identified a number of
12 things that really should be changed to make it work better
13 and that a mark-up on it need not be a long mark-up, but
14 there needs to be a mark-up on it.

15 Since Senator Dole believes it would be a good idea
16 to report it to the floor just as quickly as possible, let
17 me yield to Senator Dole.

18 Senator Long. Let me just make one point that I
19 think deserves to be made in connection with all this. There
20 are various provisions in the law which have been described
21 as tax expenditures.

22 Those are measures that we can quarrel indefinitely
23 about whether they are a subsidy or whether they are
24 justified, but in any event they are areas where business
25 gets a tax advantage and it is subject to challenge.

1 Now, my thought is that in some of those areas we
2 could well say. "Yes, Mr. Businessman, you could have the
3 advantage of this tax expenditure on one condition. You are
4 accepting the social responsibility of trying to help people
5 with problems. You are trying to do your part for your
6 community and your fellow man and your fellow woman.

7 "But, if you can't come in here and show us that you
8 are doing some good somewhere along the line, then I am sorry,
9 you don't get the full benefit of this tax law that might
10 otherwise be yours."

11 It is sort of like, if I might take one second to
12 tell you that story that Uncle Earl used to love to tell
13 about the miser who thought he ought to be admitted to
14 heaven because he had given five cents to a widow woman and
15 ten cents to an orphan child. St. Peter said, "Give him
16 back his 15 cents and tell him to go to hell."

17 (Laughter.)

18 Senator Long. So, it seems to me that that if we
19 would gear this type program to trying to just to take one
20 example, here are souls trying to redeem themselves who
21 served time for a felony, in the penitentiary. All doors
22 are closed to them. They can get no job anywhere. They are
23 asked, when they fill out a job application, "Have you ever
24 served time in the penitentiary," if the answer to that
25 question is yes, you have wasted your time to fill out the

1 application to begin with.

2 Now, yet we receive reports that when people give
3 some of these people, particularly first offenders a chance,
4 a substantial number who have been redeemed. Otherwise,
5 they are forced into a law of crime for the rest of their
6 lives.

7 Now that sort of thing should be implemented. I just
8 hope that this Committee will find enough time to focus on
9 it to give it the attention that it deserves.

10 I want to applaud the Senator from Pennsylvania for
11 what he has done to direct this matter to the attention and
12 the conscience of thinking people in the Washington area. I
13 hope the Chairman will continue his interest in this matter
14 until we act, implement and make this thing do what we had
15 in mind.

16 Give people a chance to work for an honest living,
17 and in doing so, I think we need to challenge the business
18 community to do its part, to see that they have that
19 chance.

20 We want to help business, but we want them to
21 measure up. Those that don't measure up, I don't believe
22 they are entitled to get the best of everything we offer to
23 those who do.

24 The Chairman. I would just say, I guess we are all
25 thinking about the same thing this morning, because less than

1 30 minutes ago, Senator Heinz raised this with me. I
2 indicated we could mark it up very quickly, and if possible,
3 maybe we could have it ready by the time we pick up this
4 bill on the floor, if we can find some way to make it revenue
5 neutral.

6 It is a good program. Senator Bentsen said it was a
7 secret. No one in the last Administration and so far this,
8 has shown much interest in the program. But I think it
9 has great potential.

10 Well, I think we are in agreement on that.

11 Did Senator Bradley have an amendment? You indicated
12 that you had an amendment around for two years.

13 Senator Bradley. Mr. Chairman, I have thought about
14 it and I thought I would just keep it in my pocket for
15 another day.

16 The Chairman. That's the best news I have had so
17 far.

18 (Laughter.)

19 Senator Chafee. Mr. Chairman, as you know, I have
20 been deeply concerned about this lack of incentives for
21 savings in this legislation. Indeed, to some degree we
22 backed off from savings when we eliminated the \$200 and
23 \$400 which is in itself an incentive to a degree.

24 As you know, Mr. Chairman, I strongly feel that the
25 biggest single element in this bill to promote savings is to
encourage the use and expansion of the IRA's, the Individual

1 Retirement Accounts.

2 Now we have moved the LIRA's, the IRA's up to \$2,000.
3 The LIRA's, that is for somebody in a qualified plan is
4 stuck at \$1,000. I would like to see that at \$2,000, as you
5 know, Mr. Chairman. We have been back and forth on this.

6 I think if it were \$2,000, then we would have an
7 incentive for the bankers and credit unions and everybody
8 else involved to go out and aggressively peddle these so
9 that people would then be able to set aside up to \$2,000
10 and not only have something for their retirement, which is
11 extremely important, but just as important it would be a
12 supplement to Social Security.

13 The tragic thing under Social Security is that 60
14 percent of the retirees are dependent almost entirely on
15 Social Security for their retirement.

16 Now, Mr. Chairman, I have discussed this with Mr.
17 Chapoton. Yesterday I made a proposal to Treasury that we
18 permit an equal amount, a deductible amount to be non-
19 deductible, but the feature of it being that the money will
20 be there and interest would not be taxable.

21 Mr. Chapoton and I have spoken further on this and
22 now I would like to press Mr. Chapoton to going to \$1,500
23 on this LIRA, making that entire amount deductible, and be
24 willing to forego the non-deductible contribution.

25 What I am trying to do is get these up to a parity.

1 Frankly, I would like to go to the \$2,000, but Mr. Chapoton
2 has some strong arguments. I would like to propose the
3 \$1,500, Mr. Chairman.

4 Mr. Chapoton. Senator Chafee, as we discussed on the
5 \$2,000 or even \$1,000, non-deductible contribution to an
6 IRA, we have problems with that because it in effect is not
7 money that needs to be set aside for retirement, because it
8 can be withdraw, you would have to provide, since it is
9 voluntary contribution, non-deductible, that it could be
10 withdrawn by the individual at any time.

11 So it would be in effect a tax deferred savings
12 mechanism. We would prefer, if you are going to do something
13 in this area that it does provide for additional savings
14 for retirement.

15 So, of the two, we would much prefer that you go a
16 higher deductible contribution to the LIRA, that is the
17 plan that is for someone who is covered by an employer-
18 sponsored plan, and as we discussed, if you take it to,
19 our proposal from \$1,000 to \$1,500, the additional cost
20 would be \$100 million, in 1982; \$300 million, in 1983;
21 \$400 million, in 1984.

22 Now, of the two, we would prefer that, of those
23 two proposals.

24 Senator Chafee. Well, Mr. Chairman, I know that
25 other Senators have been interested in this. Senator

1 Durenberger has been interested in this. Senator Durenberger
2 has been active in it. Others on the other side have shown
3 an interest.

4 Mr. Chairman, I would press the \$1,500, then on the
5 LIRA, and forego the non-deductible.

6 The Chairman. We were out of the room.

7 Mr. Chapoton. Of the two, we would certainly prefer
8 the increase in the deductible amounts of the LIRA rather
9 than the non-voluntary.

10 So, if the Committee figures, if we have the money,
11 that would be acceptable.

12 The Chairman. Is that acceptable?

13 Senator Chafee. Yes, that is satisfactory.

14 The Chairman. Senator Durenberger?

15 Senator Durenberger. Yes.

16 The Chairman. Without objection that modification is
17 made.

18 Senator Mitchell.

19 Senator Chafee. Senator Mitchell is on his way in.

20 The Chairman. I think he is in the other room.

21 Senator Chafee. Here he is right now.

22 The Chairman. Senator Mitchell, if you want to raise
23 the last item. As I understand, we agreed on two of the
24 proposals, rejected one and there was still the most
25 important one in my view, the expensing matter that was

1 still pending.

2 Senator Mitchell. That is correct, Mr. Chairman. I
3 urged and offered an amendment which would pick up the
4 proposal approved by this Committee last year to provide
5 expensing of up to \$25,000.

6 The Chairman indicated and others that the revenue
7 loss would be too great. So, over the -- overnight there
8 have been further discussions on this line.

9 Senator Armstrong expressed an interest. Senator
10 Chafee expressed a great interest in that. I understand
11 that perhaps the Joint Committee has an alternative
12 proposal that I think we should consider at this time.

13 The Chairman. I think that Senator Chafee agrees
14 with that. What we might do is have Mr. McConaghy go
15 through what we would like to do. In other words, this is
16 a responsible move to pay for it, a pay as you go plan.

17 It has been discussed. We discussed it briefly
18 outside, Senator Mitchell and myself, and Senator Armstrong.
19 I discussed it earlier with Senator Chafee.

20 So, if Mr. McConaghy could describe the details
21 and it is agreeable to the Committee, then I would propose
22 we accept the so-called compromise.

23 Mr. McConaghy. Mr. Chairman, under the ACRS proposal
24 adopted yesterday with respect to public utilities, those
25 that have a life under 18.5 years, drop into the 5 year

1 class.

2 Those that have a life of under 18 and a half years,
3 drop into the 5 year class. The rate on those is 150
4 percent for '81 through '84 and then it phases up to 175
5 and 200.

6 For utilities that are over 18 years, they are put
7 into the ten year class, again with that same rate that
8 goes to 200 percent.

9 One way that this could be paid for would be to
10 split the class for utilities, for property above 18 years.
11 So property between 18 and 25 years would go into the 10
12 year class, as under ACRS property.

13 Property over 25 years would go into the 15 year
14 class. That would essentially raise money of \$300 million
15 in 1982; \$700 million, in 1983; \$1.1 billion, in 1984;
16 \$1.4 billion in 1985 and \$2.2 billion in 1986.

17 If you had then a partial expensing scheme where
18 perhaps you had \$5,000 of expensing phasing up to \$10,000
19 expensing by 1985, that essentially would pretty much
20 offset the revenue pick up from splitting the utilities in
21 the two classes.

22 The Chairman. Is there objection to that proposal?

23 Senator Long. How much does that leave?

24 The Chairman. We are talking about phasing in
25 expensing starting with 5. Mark you might recite how we

1 phase that in. I think we may have made one change in
2 it.

3 Mr. McConaghy. You could phase it in either one of
4 two ways, both of which would start in 1982, with \$5,000
5 and they would go up to \$10,000. So it would be under
6 one scheme, \$5,000, for 1982; \$5,000 for '83; \$7,500 for
7 1984; \$7,500 for 1985 and \$10,000 for 1986.

8 When we subtract out the pick up and this loss you
9 end up with essentially losing the \$100 million in 1982,
10 breaking even in 1983, picking up about \$700 million in
11 1984 and so forth.

12 Mr. Long. Mr. Chairman, I want to say that is a good
13 proposal. It points us in the direction that I think is
14 going to be the wave of the future. I really believe that
15 in the long run, and I don't mean the very distant future,
16 in a fairly short run, we are going to conclude that
17 expensing is the better answer than even the 10-5-3 or
18 any arbitrary numbers on depreciation.

19 The reason we are not doing it is mainly because
20 of the cost of it, moving in immediately to it. But I
21 believe we ought to start moving toward expensing and this
22 does that at least for small business, and it will cause
23 everybody to understand what we are talking about when we
24 are talking about expensing. That will be the way it is
25 for about 50 percent of commercial enterprises, very small

1 ones, and then that will set the stage for further con-
2 versation.

3 I would hope that would hasten us to the point to
4 where down the road we will accord business the opportun-
5 ity for expensing.

6 So at least we will be seeing both sides of the
7 argument and giving people a chance at having an experience
8 with expensing as well as the 10-5-3 and I think that is a
9 good answer.

10 The Chairman. Senator Bentsen.

11 Senator Bentsen. Mr. Chairman, this is something
12 we had also last year in our tax bill. I want to congratu-
13 late Senator Mitchell on proposing it.

14 The vast majority, as I understand, will ultimately
15 be on a basis of expensing of what they normally would
16 buy in one year. It certainly helps their accounting
17 costs and simplifies it.

18 The Chairman. In fact, I think when you get up to
19 \$10,000 you eliminate about 74 percent of the firms. Is
20 that right, Mr. McConaghy?

21 Mr. McConaghy. That is correct, on the average it
22 does, Mr. Chairman.

23 The Chairman. Even at \$5,000, it is above 50
24 percent.

25 I want to make certain this is satisfactory with

1 Senator Chafee, Senator Durenberger and Senator Armstrong
2 and others, and Senator Heinz.

3 Senator Chafee. Yes, Mr. Chairman, this is and I
4 think that there is a good solution. I think Senator
5 Mitchell deserves credit. He has been interested in this
6 and worked hard on it.

7 The Chairman. Senator Heinz?

8 Senator Heinz. Yes, Mr. Chairman.

9 The Chairman. Senator Durenberger?

10 Senator Durenberger. Yes.

11 The Chairman. Senator Armstrong.

12 Senator Armstrong. Mr. Chairman, I think it is a
13 lot better than satisfactory. I really think you have gone
14 the extra mile to put this together. Frankly, after all
15 we have been through here the last two or three days, it
16 would be easy for you last night to just brush this off.
17 I am really glad you didn't, because I think it is a very
18 worthy proposal.

19 I congratulate Mr. Mitchell for bringing it to our
20 attention and you and the staff for coming up with this
21 way out of a fiscal dilemma because I personally think it
22 is a worthy amendment, that will have a great impact on a
23 lot of small business enterprises.

24 So, I am pleased we have been able to work that out.

25 The Chairman. I failed to ask the Administration.

1 You already had sort of an indication of the support
2 up here.

3 Mr. Chapoton. Thank you, Mr. Chairman. I just
4 wanted to comment. We recognize the desirability of
5 providing an expensing for small business, partially as
6 we commented yesterday.

7 I would just point out that we have deal with
8 utilities in a very specific way in our ACRS proposal.
9 This would change it slightly. We do not, I do not have
10 an immediate feel for the reaction of the utilities and
11 what it will be.

12 I do know that this Committee, in the bill last
13 fall, dealt with utilities in a different way. So, I
14 recognize you want to do that.

15 I just would point out that we have worked out a
16 provision dealing with utilities. I would not be, I do
17 not feel I can just go along with a change in that without
18 further consulting with those industries.

19 The Chairman. Let the record show that you are
20 opposed.

21 Mr. Chapoton. Let the record show that I have --
22 I recognize the will of the Committee, but we have some
23 qualms about the treatment of utilities.

24 The Chairman. Senator Bentsen.

25 Senator Bentsen. Mr. Chairman, I would want a

1 clarification on this. Will this remain elective or does
2 it become mandatory? There is a difference there.

3 Mr. Chapoton. It would become mandatory. The
4 utilities will be moved into --

5 Senator Bentsen. No. No. No. I am talking about --

6 Mr. McConaghy. Expensing.

7 Mr. Chapoton. It would be optional.

8 Senator Bentsen. Optional, good, because there will
9 be some cases where they might want it optional.

10 Mr. Chapoton. Right.

11 The Chairman. Well, let's just have a record vote
12 on this then.

13 Senator Byrd. On expensing?

14 The Chairman. Yes.

15 Call the roll.

16 The Clerk. Mr. Packwood.

17 The Chairman. Yea.

18 The Clerk. Mr. Roth.

19 Senator Roth. Aye.

20 The Clerk. Mr. Danforth.

21 Senator Danforth. Aye.

22 The Clerk. Mr. Chafee.

23 Senator Chafee. Aye.

24 The Clerk. Mr. Heinz.

25 Senator Heinz. Aye.

1 The Clerk. Mr. Wallop.
2 (No response.)
3 The Clerk. Mr. Durenberger.
4 Senator Durenberger. Aye.
5 The Clerk. Mr. Armstrong.
6 Senator Armstrong. Aye.
7 The Clerk. Mr. Symms.
8 Senator Symms. Aye.
9 The Clerk. Mr. Grassley.
10 Senator Grassley. Aye.
11 The Clerk. Mr. Long.
12 Senator Long. Aye.
13 The Clerk. Mr. Byrd.
14 Senator Byrd. Aye.
15 The Clerk. Mr. Bentsen.
16 Senator Bentsen. Aye.
17 The Clerk. Mr. Matsunaga.
18 Senator Matsunaga. Aye.
19 The Clerk. Mr. Moynihan.
20 (No response.)
21 The Clerk. Mr. Baucus.
22 Senator Baucus. Aye.
23 The Clerk. Mr. Boren.
24 Senator Boren. Aye.
25 The Clerk. Mr. Bradley.

1 Senator Bradley. Aye.

2 The Clerk. Mr. Mitchell.

3 Senator Mitchell. Aye.

4 The Clerk. Mr. Chairman.

5 The Chairman. Aye.

6 (Pause.)

7 The Chairman. On this vote the ayes are 17, the nays
8 are zero. The amendment is agreed to. The absentees will
9 be allowed to record their vote.

10 Senator Mitchell.

11 Senator Mitchell. Mr. Chairman, I want to thank you
12 for your patience and cooperation on this, also, Senator
13 Armstrong and Senator Chafee for their contribution.

14 I had one other amendment which we raised yesterday
15 and put over until today. That dealt with donation of
16 research equipment to universities for research.

17 We had some discussions with Mr. Chapoton, but I
18 believe -- well, why don't I let Mr. Chapoton state the
19 Administration's position.

20 Mr. Chapoton. Well, Senator, my initial reaction was
21 a proposal such as that makes -- has a lot to be said for
22 it.

23 Number one, it is not really germane, I think, to the
24 point of this bill, productivity, cost recovery. I have
25 that concern.

1 In addition, I have the concern whether we studied
2 the impact on the broader question of charitable giving to
3 universities to different types of equipment. We would be
4 singling out one type of gift and favoring that.

5 I just question whether we thought about that or not.
6 The Chairman. Senator Mitchell.

7 Senator Mitchell. I would like to just briefly, Mr.
8 Chairman, state the arguments for the members of the
9 committee who were not here last night.

10 The United States is suffering from an alarming
11 shortage of engineers. Japan graduates more engineers in
12 absolute numbers each year, than the United States does,
13 even though their population is less than half of ours.

14 Most Western Nations now graduate more engineers
15 per capita than does the United States.

16 On small step we can take to meet this problem, it
17 will not solve the problem, but is a step in the right
18 direction, is to encourage the donation of research
19 equipment by corporations to universities, for use by those
20 universities, in such areas.

21 Under existing law, the corporation is limited to
22 a deduction for the cost of the equipment.

23 This amendment would permit them to deduct the
24 market value of the equipment with safe guards which we
25 discussed yesterday, to rule out the possibility of any

1 profit being made on the transaction by the corporation.
2 It is important to high technology industries, particularly.
3 It is important to universities and technical institutes
4 which graduate engineers.

5 The revenue effect, according to the Joint Committee
6 yesterday, would be about \$5 million. It is small, it is
7 a modest step. There is no question about it. But it is a
8 step in the right direction to meet a real national
9 problem.

10 Senator Durenberger. Mr. Chairman, I would urge the
11 members of the Committee to give careful consideration of
12 this. I won't repeat the comment that I made earlier in
13 favor of that portion of the various persons' legislation
14 regarding contributions to universities that I made before.
15 But the importance to high technology industry of a
16 consistency in university research and university education
17 is incredibly important.

18 This is just one of those small steps I think that
19 is in the right direction.

20 Senator Long. Let me ask a question here. Mr.
21 Chapoton, I want you to hear this question and give me
22 your thought about this.

23 Do not under the law, we permit somebody to buy a
24 painting and give the painting to a museum and in doing
25 so deduct what the painting is worth at the time he gives

1 it so that he is giving what the market value of the paint-
2 ing is or the presumed market value rather than the cost?

3 Mr. Chapoton. We do if the gift, the personal
4 property is to be used by the donee as opposed to being
5 sold.

6 We have a distinction between tangible property
7 and intangible property. A gift of tangible property is
8 limited to the basis of the donor, if the property is not
9 to be used by the donee.

10 Senator Mitchell. We have a limitation on this to
11 provide that it must be used by the university and not sold.

12 Senator Long. Well now doesn't this amendment fit
13 that situation just exactly where if some wealthy person
14 buys a painting and he gives a painting to the Metropolitan
15 Museum of Art or any museum, and they hang it up on display
16 where people can see it; he can put that in and deduct
17 what the value is as of the time he gives it.

18 We call that the gift of appreciated property.

19 Mr. Chapoton. Yes, sir. The decision here evidently
20 the donor, the property in the hands of the donor would
21 generate ordinary income if sold. The painting, in your
22 case would generate capital gains.

23 Where the rule in the present law is if the
24 disposition would generate ordinary income either because
25 it is inventory or because it has been used, depreciation

1 has been taken and therefore recapture would occur on the
2 sale of the property.

3 To the extent it is ordinary income, the charitable
4 deduction is reduced.

5 Under Senator Mitchell's bill, that reduction would
6 not occur. I presume most of these cases we are talking
7 about inventory.

8 Senator Long. But aren't we talking about a case
9 where the company would not make any money out of this.
10 We aren't talking about a double deduction on it.

11 Mr. Chapoton. I am not certain about it. That was
12 the problem that was addressed in 1969, that gifts of
13 inventory were traditionally made by corporations and you
14 could come very close to having no cost or even a net
15 benefit from the gift.

16 I mentioned that problem to Senator Mitchell and
17 the restriction he placed on the amendment was similar to
18 the restriction that was placed on gifts of pharmaceuticals
19 in the last, when there was an amendment in the '70's some
20 time and it would certainly prevent that being a net
21 benefit to the donor from the gift. There would be some
22 cost in other words.

23 Senator Long. It seems to me that if you are talking
24 about a net benefit, you are talking about doing something
25 that's going to advance the Nation's interest. It sounds to

1 me as though that would be even more advantageous to it
2 than it would where you give a painting to one of these
3 museums around here.

4 Mr. Chapoton. I think that is correct. The distinction
5 is to the donor whether it is ordinary income property or
6 capital gain property.

7 The concern was specifically addressed in 1969, and
8 it was felt that gifts of ordinary income property caused
9 undue tax benefits to the donor and that should be
10 reduced.

11 That is the problem that is raised by the amendment
12 the Senator is addressing.

13 The Chairman. I wonder, we have a roll call in
14 progress. If we could all trot over and vote. As I under-
15 stand it, this amendment is still pending. If there is no
16 way to resolve it, we will just have a vote on it.

17 Then we have an amendment of Senator Heinz which is
18 pending. I know there is an amendment from Senator Boren
19 and Senator Armstrong.

20 I would hope there are no further amendments. If
21 there are, we will address those. I guess my point is, we
22 should be able to complete this within 30 or 45 minutes when
23 we return.

24 Thank you.

25 (A short recess was taken.)

1 The Chairman. The Committee will come to order.

2 I wonder if we might -- I can see we are getting into
3 the same problem we had yesterday with so many members
4 voting and being caught on the floor for other things.

5 While we are waiting for other members to return, I
6 might ask the Treasury. Senator Boren raised a question
7 with reference to Keogh plans. I just talked to Treasury
8 about that.

9 It is my understanding you might now be willing to
10 make some adjustment between \$100,000 and \$200,000 figures.

11 Mr. Chapoton. The question that Senator Boren raised
12 yesterday and we talked about it subsequently is in increas-
13 sing the limit on the amount self-employed persons may
14 contribute to a H. R. 10 or Keogh plan for their own
15 benefit.

16 As I mentioned yesterday, we have been somewhat on
17 the fence about that question, because it is true that
18 under corporate plans, the increased contribution may be
19 made without a commensurate increase in contribution for
20 common law employees.

21 Therefore, what we have been seeing over the last
22 several years is a tendency for law firms, medical partner-
23 ships and others to incorporate which is probably an
24 undesirable tendency.

25 There is a question about equity between the two.

1 On the other hand, we have to worry about, when you
2 raise the \$100,000 limit, whether you make it possible for
3 self-employed persons to discriminate unfairly against
4 their employees.

5 Our conclusion is that some increase in the \$100,000
6 is probably reasonable. We were thinking maybe up to
7 \$150,000. Logic does not compel you to go all the way to
8 \$200,000.

9 We do that to have the discretion, if we can, to
10 draft a rule that would try to protect decreases in benefits
11 for common law employees.

12 Senator Boren. I think that would be very good as
13 a suggestion, Mr. Chairman.

14 As I said yesterday, I raised the question. I
15 realize it is a difficult one and it is a hard question to
16 balance. I, myself am not 100 percent convinced that the
17 issue I raised was the right one.

18 In other words, I am not 100 percent convinced we
19 should go that far.

20 So, I think this is a very good suggestion. I do
21 think there will be real problems in terms of having an
22 appropriate incentive. You say you are going to raise the
23 amount, but you are going to keep that percentage cap in.

24 Mr. Chapoton. Right.

25 Senator Boren. That is going to make it very, very

1 difficult for people to take advantage of it.

2 So, Mr. Chairman, I would propose that the Committee
3 accept this proposal. It would go to \$150,000, and we would
4 give appropriate rule-making authority to try to protect
5 those employees Mr. Chapoton has suggested.

6 This will give us a kind of an opportunity to
7 experiment with this without jumping off the cliff at
8 either extreme of it.

9 I think it is a very good approach.

10 Mr. Chapoton. Yes, sir.

11 Senator Boren. I would move then that we adopt
12 that.

13 The Chairman. Well, I appreciate the comments of
14 Senator Boren and the attitude of Treasury. I think this
15 is a good compromise.

16 Without objection, it will be accepted.

17 Senator Byrd.

18 Senator Byrd. Thank you, Mr. Chairman.

19 Mr. Chairman, yesterday I brought up a matter
20 dealing with sub-chapter S. I understand the Treasury is
21 working out something satisfactory in this regard.

22 Is it necessary to do anything additional at this
23 time?

24 Mr. Chapoton. Well, Senator, I think I should just
25 mention if we are to pursue that, if the Committee is to

1 pursue that, the question raised yesterday was whether
2 trusts could be stockholders of sub chapter S corporations.
3 The rule now is that a grantor trust, that is, a trust
4 pursuant to which the income of which is taxed to the
5 grantor, may be a stockholder for a sub chapter S corporation
6 but other trusts cannot be.

7 In the study of sub chapter S that is now being
8 conducted, now, this problem is being addressed, along with
9 a number of other problems.

10 There are a number of technical difficulties if a
11 trust is a sub chapter S shareholder. It would be possible
12 unless severe restrictions are placed on the trust, for
13 significant deferral of income from the sub S corporation
14 to be achieved, to be spread among different employees.

15 So, if you wish to pursue this, I guess our first
16 preference would be that it be held over to the sub chapter
17 S study group altogether.

18 If the Committee wished to do something now, I think
19 we would have to say, we would have to suggest that severe
20 limits be put on the trust that would qualify. It would have
21 to be a simple trust. It could have no spray powers. It
22 would have to distribute all income annually is what that
23 means. No spray powers.

24 I think it would have to have the same fiscal year
25 as either the sub chapter S corporation or the beneficiary.

1 I am not certain, probably either of those would be okay
2 and we probably would have to have some correction in the
3 present law throw back rules and indeed, we may have to
4 suggest that the trust itself be deemed to have distributed
5 any income distribution, any deemed distribution it receives
6 from the sub-S stock.

7 So that any amount the trust receives as a deemed
8 distribution of a dividend from the sub S corporation, would
9 be deemed distributed to the beneficiary.

10 In other words, as you can see, it is a complicated
11 area.

12 Senator Byrd. In other words, it would be the same
13 as the present law says in the case of a trust, each bene-
14 ficiary of the trust shall for the purposes of this section
15 be treated as shareholder.

16 Mr. Chapoton. That is in the case of a grantor trust.

17 Senator Byrd. Yes. This could be circumscribed in
18 the same way.

19 Mr. Chapoton. Yes, sir.

20 Senator Byrd. I think all those suggestions you have
21 are fine. They are certainly satisfactory.

22 If you could work along that line and put it in this
23 bill, it would be fine. There is no cost involved.

24 Mr. Chapoton. I don't believe there would be any cost
25 involved.

1 The Chairman. I wonder if I might suggest that the
2 Treasury staff and Senator Byrd's staff work it out to your
3 satisfaction.

4 Senator Byrd. That would be fine.

5 The Chairman. Mutual satisfaction.

6 Senator Byrd. That would be fine, Mr. Chairman.

7 Mr. Chapoton. What I am concerned about is in doing
8 this we may run into a problem that we haven't thought of
9 overnight.

10 Senator Byrd. Well, any problem that you run into,
11 just take care of it to your satisfaction. That will be
12 all right with me.

13 The Chairman. Right.

14 Senator Bentsen.

15 Senator Bentsen. Let me get into another technical
16 field and that is on the progress payments we were talking
17 about earlier, and we have not resolved.

18 That is a question of where you in effect have two
19 set of rules based on a company doing its own work --

20 The Chairman. Let me get order, Senator.

21 Senator Bentsen. Or having the work done by others.
22 This is again, a very complex, very complicated field.

23 I would hope we could set up one set of standards,
24 because I know -- this is under CUPE. Under that kind of
25 a deal, as I understand it, you have two sets of rules

1 based on whether a company does its own work there or you
2 have it done by a third party, in effect.

3 Then you get into the question of sub-contractors
4 that are under the control of the company.

5 You set the two sets of rules up. You are really
6 trying to stop some abuses, and justifiably so. It seems
7 to me that some of those abuses are addressed under the at
8 risk rules, changes you are promulgating now.

9 If that's the case and you have been able to take care
10 of those abuses, then I would hope that we get a simplifi-
11 cation here where we just get ourselves one set of rules.

12 Mr. Chapoton. Well, we have been over this problem
13 Senator. I do think you need two sets of rules for self-
14 constructed and purchased property.

15 It is, as you pointed out, complicated.

16 One problem that does seem to be a problem in this
17 area is so-called pre-construction expenditures.

18 Under the present rule, if in the case to which you
19 are referring, the progress payments would not qualify,
20 there would be no credit under present law, because you
21 would only get the investment tax credit for qualified
22 progress expenditures.

23 For payments made prior to commencement of con-
24 struction; until a property is placed in service, and there
25 is a good deal of logic for saying those preconstruction

1 expenditures ought to qualify for the credit once con-
2 struction commences, not have to skip the whole period of
3 construction and wait until placed in service.

4 Now that seemed to be a reasonable change in the
5 present law. But doing away with the distinction between
6 purchased and self-constructed property, seems to us to be
7 going too far and does raise serious concerns to us.

8 Senator Bentsen. What if you get into the situation
9 of sub-contractors under the contractor? How does that
10 break out?

11 Mr. Chapoton. It is complicated, Senator, if you
12 would bear with us.

13 (Pause.)

14 Senator Bentsen. You bet it is complicated. Let me
15 say, like Senator Byrd. I would just urge on the Secretary,
16 trying to find some simplification of that and try to ease
17 some of the complications and not give the lawyers not
18 quite as much business there as they are getting.

19 Mr. Chapoton. All right, let us work on that, Senator.

20 The Chairman. Senator Roth.

21 Senator Roth. Mr. Chairman, I have had some in-
22 dividuals express concern about the impact that IRA would
23 have on qualified retirement plans, the question of whether
24 or not employees participated in IRA and opt out of, I
25 guess the retirement plan, that this could have some impact

1 on whether or not it is a qualified retirement plan.

2 There are a number of people who are concerned that
3 this could make some of those plans not qualified.

4 Mr. Chapoton. Senator, that problems exists under
5 current law, because under the current IRA rules, an
6 individual may not participate in an employer-sponsored
7 plan and contribute to his own \$1,500 to an IRA he estab-
8 lishes for himself.

9 The concern has always been expressed that you might
10 undermine the employer-sponsored pension system by making
11 individual retirement accounts too generous.

12 We are making them slightly more generous now. We are
13 raising them \$1,500 to \$2,000.

14 In addition, we are saying you can also stay in your
15 employer's sponsored plan and create an IRA as well, up to
16 \$1,500, under the Committee's decision this morning.

17 So, I think we take care of the problem to some extent.

18 As you can see, we give some benefit to the employee
19 who remains in his plan. He may still take advantage of
20 the LIRA.

21 But we do not take care of the problem that I think is
22 a legitimate concern. We do not allow deduction for manda-
23 tory contributions to plans. That is, if you are required
24 as a condition to participation in an employer's sponsored
25 plan, to make a contribution of your own to the plan, we are

1 not allowing an income tax deduction for that contribution.

2 So, the argument has been made and will continue to be
3 made that those employees will have some incentive not to
4 participate in the employer plan, but to go on their own
5 individual retirement account.

6 We discussed earlier in the week the tremendous cost of
7 covering mandatory -- of allowing a deduction for mandatory
8 contributions. We have concluded we cannot go that far.

9 We have to keep in mind that by foregoing participation
10 in the employer-sponsored plan, the employee gives up
11 significant benefits that the employer provides for him,
12 a tremendous incentive not to forego participation.

13 Senator Roth. I wonder, since a number are concerned
14 about the effect this might have on the existing plan, if
15 the Treasury will take a careful look at this matter as
16 they write up the --

17 Mr. Chapoton. Yes, sir. We will be happy to do that.

18 Senator Roth. I would appreciate that.

19 The Chairman. I wonder if there might be some way to
20 work out the Durenberger-Mitchell Amendment. I think the
21 Treasury can work that out. It doesn't seem to me we are
22 talking about \$5 million, not that our time is valuable,
23 but yours is. Maybe you could work that out to the mutual
24 satisfaction, if not to the satisfaction of the Treasury,
25 and with their views in mind so we could pass on to

1 something else.

2 We would like to report the bill out this morning, if
3 possible.

4 Mr. Chapoton. We would be happy to work with the
5 Senator.

6 The Chairman. Is that all right with Senator Mitchell
7 and Durenberger if the Treasury and your staff try to resolve
8 that problem and do resolve that problem?

9 Senator Durenberger. And do resolve it.

10 The Chairman. Right.

11 Senator Mitchell. Does that mean it is in the bill,
12 Mr. Chairman?

13 The Chairman. That means you are going to resolve it
14 and as soon as you do, it will be in the bill.

15 It is my view, we spent a lot of time on that. We
16 would like to go on to something that is of great signi-
17 ficance.

18 Mr. Chapoton. We have the message, Mr. Chairman. We
19 will work to resolve it.

20 The Chairman. Good.

21 Senator Armstrong would like to offer an amendment. It
22 will not be a part of the bill, but it would be reported as
23 a Committee amendment.

24 I think since we are waiting for others to come back
25 this might be an appropriate time, Senator Armstrong, to

1 bring up the Committee Amendment and hopefully we can resolve
2 that. That will help us resolve a couple of other items,
3 while we are waiting for members.

4 Senator Armstrong. Thank you, Mr. Chairman. I can
5 present that very quickly.

6 What I would propose for that Committee amendment you
7 have described would be in all respects except one, the
8 text of S. 1, which is the bill which adjusts the personal
9 income tax schedule to the CPI.

10 That is, it adjusts every bracket. It adjusts the
11 standard deduction and also the personal exemption.

12 The only change which I would propose from the text
13 of S. 1, is that instead of the effective date in that bill,
14 I would suggest an effective date of January 1, 1984, for
15 tax returns that would be due and payable in April, 1985.

16 Mr. Chairman, this proposal is something that would
17 affect every single taxpayer in the country. Every taxpayer
18 would benefit from the correction of what is now, in my
19 view, a very serious injustice in our tax system.

20 But, the fact of the matter is, that this particular
21 institutional reform would have its greatest impact and its
22 greatest significance for low income taxpayers. They are
23 the ones that are most directly and irrevocably affected
24 when they are inflated into higher tax brackets.

25 As we all know, inflation has been an increasingly

1 pervasive factor in our economy. I believe as the President's
2 economic program takes hold, that inflation will moderate
3 and it is my hope --

4 Senator Chafee. Mr. Chairman, there seems to be a
5 constant dull roar in the background here. I think this is
6 extremely important.

7 The Chairman. Order.

8 I know it is difficult when we don't have enough
9 seating capacity. We apologize for that. I assume the room
10 will clear rather quickly if we could vote final passage.

11 So, Senator Armstrong.

12 Senator Armstrong. Thank you, Mr. Chairman.

13 The point I was making was that while every taxpayer
14 will be affected by this amendment because we will auto-
15 matically under this amendment adjust the individual tax
16 bracket so that people will not be pushed into higher
17 brackets through the sheer operation of inflation, it does
18 bear in its most important way, on low income taxpayers
19 because they are the people who are traditionally are less
20 able to find ways to arrange their business and personal
21 affairs, and take advantage of other provisions of the tax
22 code.

23 Aside from the justice of it, which is the main reason,
24 it seems to me, to adopt this proposal, I would note in
25 passing that the adoption of tax indexing has an antiinflation

1 aspect built right into it.

2 Obviously rising wages are not themselves either the
3 cause or the only effect of inflation. But it is true that
4 one of the arguments that are frequently used to justify
5 wage increases in negotiations, wage increases above the
6 rate of inflation is the argument that you have to get more
7 than the inflation rate in order to make up for the higher
8 taxes we are all inflated into as a result of what has been
9 termed taxflation or sometimes called bracket creep.

10 So, Mr. Chairman, that is the amendment. I think it
11 is a topic that is familiar to most members of the Committee.

12 It has been recommended by many economists and
13 scholars.

14 It has been endorsed by the American Bar Association,
15 by the American Institute of Certified Public Accountants,
16 by the National Taxpayers Union.

17 It was a provision and a recommendation of at least
18 one and possibly both of the national political party
19 platforms last year.

20 It has been endorsed by the ACIR. It has been
21 gradually picking up steam. I truly believe that it is an
22 idea whose time has come.

23 I was going to propose this yesterday. It was in my
24 thought that I would report to the Committee. But, at that
25 time, there were no less than 211 co-sponsors for this idea

1 in the House of Representatives.

2 But I thought I would check this morning and take the
3 temperature of this idea over in the other body. I find
4 that there are now 218 co-sponsors for this suggestion.

5 Of course, as all the members of the Finance Committee
6 know, a version of this, not exactly what I have proposed,
7 but a bill which incorporates the indexing concept, has
8 been previously passed by the other body.

9 So, it is a very timely thing.

10 Last, but not least, Mr. Chairman, I would note this
11 is an extraordinarily popular idea. There have been a
12 number of polls by the Chamber of Commerce and the Roper
13 Organization and others.

14 In fact, out in Montana, there was a referendum on it.
15 I believe my state was the first to adopt it. Our legis-
16 lature adopted the tax indexing principle a few years ago
17 and it is gradually -- Senator Durenberger's state, Minnesota
18 now has it. It is gaining acceptance.

19 Last fall, in Montana, they had a vote on it. I think
20 that referendum passed by a margin of nearly 4 to 1.

21 So, it is just a recognition that everybody's indexed
22 that deals with the Federal Government, except the taxpayer.
23 People who receive the benefit and largesse of the Federal
24 Government are protected against inflation.

25 The only people that at this moment who I can think of

1 who are not protected are the taxpayers. That is the
2 purpose of this amendment.

3 Senator Durenberger. Mr. Chairman.

4 The Chairman. Senator Durenberger.

5 Senator Durenberger. Thank you, Mr. Chairman.

6 I congratulate you for the authorship of S. 1, and
7 for your leadership over the years on this issue, and
8 congratulate the Senator from Colorado for his persistence
9 on this issue in connection with the debate in which we are
10 engaged.

11 This has been put in practice by nine states. Before
12 we hear some of the arguments about balancing the budget
13 and licking inflation and so forth, I think it is important
14 to know that among those nine states are some heavy tax
15 states and some very heavy spending states, states like
16 California, Colorado, Iowa, Minnesota, Oregon, Wisconsin.

17 States that are at a lot of the lists in terms of
18 responding to the health, education and welfare needs of
19 the people of this country.

20 States that are also highly dependent on the income
21 tax, have gone to indexing the brackets. They have had a
22 variety of interesting experiences, as my state found out
23 this past year. They come up short. It does wonderful
24 things to the logic of the spending process at the state
25 level.

1 I think that is the reason why there is such broad
2 support across the country. I heartily endorse your efforts
3 and the efforts of the Senator from Colorado.

4 The Chairman. I know not everyone shares the same view
5 that some of us do about indexing. But I would like to put
6 a statement in the record in support of the amendment.

7 In fact, for 50 some days we put statements in the
8 Congressional Record in support of the concept. Since it
9 does take effect in '85, it is limited in a way that Senator
10 Armstrong has indicated.

11 It is not a part of the package... It probably should be,
12 but it is not a part of the package. It will give Senator
13 Armstrong an opportunity on the floor, because I will raise
14 this Committee amendment.

15 I would like to hear Treasury's views and then others.
16 (The Chairman's statement to be inserted.)
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1 Mr. Chapoton. Well, Mr. Chairman, we will just comment
2 that we would much prefer this not be a part of this bill.
3 It is a matter that needs to be dealt with, but not for a
4 number of years.

5 We considered this as a part of this package and
6 decided it did not need to be on this. We would much
7 prefer it not be.

8 I might ask, point of information, Senator Armstrong,
9 did you say effective January 1, 1984? I believe you said
10 1984. Did you mean 1984 or 1985?

11 Senator Armstrong. It would be my thought, Mr. Chapoton,
12 that if it became effective for tax years beginning January
13 1, 1984, that it would then not affect revenues until the
14 following year.

15 Mr. Chapoton. It would affect withholding and quarterly
16 payments of tax.

17 Senator Armstrong. Well, I would be glad to seek the
18 advice of the Joint Committee on it, but my thought is that
19 the effect from a withholding standpoint, it would be so
20 modest it would be insignificant.

21 Mr. McConaghy. There is a five percent cut that would
22 take effect now under the bill, in 1984.

23 There would be changes, some changes in withholding,
24 based on the indexed amount. I am not sure we have a number,
25 but it does cost money to do it.

1 Senator Armstrong. I beg your pardon. I think that is
2 correct. I think we slipped the date so that it becomes
3 -- so that the first date on which the indexed rate becomes
4 effective is January 1, 1985, rather than 1984.

5 So it would be for the tax returns due the following
6 year.

7 Thank you. I appreciate your clarifying it.

8 Mr. Chairman, while I have Mr. Chapoton's attention;
9 I appreciate his statement, but I think it should also be
10 on the record that he has not, on behalf of the Adminis-
11 tration endorsed the concept in this bill. But, I think
12 on the record, on many occasions, the concept itself enjoys
13 the support of the Administration even though it was not
14 proposed as part of this particular tax bill.

15 Mr. Chapoton. Well, certainly the concept has been
16 endorsed by the President on many occasions. As we all
17 know, the Treasury Department has not itself taken an
18 official position on it.

19 But we do know the feeling of the President on it.
20 We do know, we will address it at a later time, assuming it
21 is not put on this bill.

22 As I say, we would prefer it not be.

23 Senator Armstrong. We are hoping to spare you that
24 later responsibility.

25 Mr. Chapoton. All right.

1 Senator Bentsen. Mr. Chairman.

2 The Chairman. Senator Bentsen.

3 Senator Bentsen. If I might comment on indexing, for
4 just a moment.

5 I was intrigued with the idea once upon a time. I
6 recall we sent someone from the Joint Economic Committee
7 down to look at the Brazilian situation and what they had
8 been able to do with indexing.

9 Then I took a look at what the Israelis had done,
10 because they have indexing, and they also have triple digit
11 inflation.

12 And, the Brazilians are experiencing something very
13 comparable to that.

14 I recall the Brazilian economics minister saying,
15 "Don't make the same mistake we did -- go to indexing."
16 I know it is a politically popular issue. I know the polls
17 show overwhelming support for it.

18 But I frankly think it is a cop out when it comes to
19 fighting inflation. I would have to oppose it and vote
20 against it.

21 Senator Chafee. Mr. Chairman.

22 The Chairman. Senator Chafee.

23 Senator Chafee. Mr. Chairman, I vigorously oppose
24 this. I think this is a disastrous route to follow. I
25 think that when you go to indexing, you are taking one more

1 large segment of the population and insulating them from
2 the evil effects of inflation. The more people you insulate
3 in this Nation from inflation, and Lord knows we have got
4 enough now. We have the Federal retirees. We have those
5 dependent solely on Social Security insulated from it.

6 We have a host of people who are now immune to the
7 effects or immune to a considerable degree from the effects
8 of the evils of inflation.

9 Now you do this and you reduce the outpouring of
10 indignation against what inflation is doing to our country.

11 I think this is snake oil. I think it is the wrong way
12 to go. I believe that tough though it may sound, if we are
13 having inflation, we want it to hurt and annoy and infuriate
14 as many members of the American public as possible so then
15 we will do something about it.

16 But if we take a whole segment of our population and
17 annually reduce their income taxes in accordance with
18 inflation, then what do they care about inflation. They
19 are protected.

20 There will be some people out there who aren't... Some
21 people who have taken the trouble to accumulate savings and
22 are trying to live on it. They will be hurt by inflation.
23 But they will be such a small percentage of our population
24 that who cares, and we will rumble on with inflation un-
25 attended to, just like in Brazil and Israel, where everything

1 is indexed, even your interest on your savings account.

2 So, Mr. Chairman, I think to go down this route would
3 be a great mistake.

4 Senator Grassley. Mr. Chairman.

5 The Chairman. Senator Grassley.

6 Senator Grassley. I suppose there is some credence to
7 what the Senator from Rhode Island says, but if you carry it
8 out you will find that the people who are insulated against
9 inflation are 535 Congressmen and 100 Senators, who have
10 the benefit of inflation bringing more revenue in year after
11 year and more for us to spend and that sort of increased
12 expenditure is what has promoted and fed the fires of
13 inflation.

14 So, the fact that we aren't cognizant of inflation as
15 far as our Treasury is concerned is one of the things we
16 hope to overcome with this bill.

17 But, getting to a more basic reason for supporting
18 indexing. Number one, we always wanted, most of us on the
19 Republican side have wanted a three year tax bill, because
20 it was felt important to tell the people of this country,
21 particularly the savers and investors, what the long-term
22 tax policy of this country was.

23 There is nothing that is going to tell the people of
24 this country any better that we are even having a longer term
25 tax policy than the three years in the Kemp-Roth legislation

1 than indexing.

2 Because it means from here on out, the only way we are
3 going to have increased revenue into the Federal Treasury
4 is, number one, that Congress would vote increased revenue
5 or number two, that there be that increased revenue that
6 legitimately comes from the economic growth of our country,
7 real economic growth.

8 I don't know any better way for us to be responsible
9 legislators than for us to tailor our spending to one of
10 two things, either expanding our Treasury and our Government
11 programs as there is a true expansion of the economy.

12 Or, number two, that we would be responsible and vote
13 those tax increases, as opposed to having tax increases come
14 through the back door.

15 So, I think that is why -- I know that is why I
16 support indexing. In fact, I think it is even more important
17 than anything else we are doing in this legislation.

18 Senator Symms. Mr. Chairman.

19 The Chairman. Senator Symms.

20 Senator Symms. Thank you, Mr. Chairman.

21 Mr. Chairman, along with what Senator Grassley is
22 saying, I think one of the reasons that this is so important
23 is that indexing of the bracket creep will take the profit
24 out of inflation for the Government planners and schemers
25 and those people who have given us Big Government in the

1 40 years, because there will be no longer a profit in a
2 10 percent inflation rate, that will automatically increase
3 Government revenues the next year.

4 I think we all know that historically, the Congress
5 has pretty consistently spent all the money they could get
6 their hands on throughout my lifetime anyway. I have never
7 seen it where Congress didn't spend every dollar they got
8 and they have been able to add \$1 trillion to it, and then
9 some.

10 So, it is going to be an incentive for Government to
11 have a stable currency, number one, and there will be a
12 disincentive in fact for them to allow inflation to take
13 place because the revenues won't grow with the inflation
14 rate like they have in the past.

15 It will put the squeeze on every single operation of
16 the Federal Government.

17 I agree with Senator Grassley, this will have something
18 that will have a lasting impact. I know this is the kind of
19 measure the American people voted for in the fall of 1980
20 when they elected Ronald Reagan and many of the rest of us
21 to the Congress.

22 That is really what they are saying is, that they have
23 had enough growth of Government and this is one way to cut
24 off the source of funds in a long-term basis, to the Federal
25 Treasury, so that we can leave that money out there in the

1 private sector where it can do some good.

2 The Chairman. Senator Wallop.

3 Senator Wallop. Thank you, Mr. Chairman.

4 Mr. Chairman, this talk of indexing is and always has
5 been pretty seductive. I hear the arguments that are made,
6 on the fact that Government does result and one of the
7 principal beneficiaries of inflation. We get approximately
8 one and a half percent return for every 1 percent of inflation

9 But I think we are bordering on a misguided course,
10 because the index includes too many things that are not in
11 fact basics of life in this country.

12 I don't know that Government revenues ought to be tied
13 to the increase in scotch whiskey or beer, which are on the
14 index and a lot of other things which may be that people
15 consider basic, but they are not necessary for survival and
16 they oughtn't be tied to the amount of revenues the Govern-
17 ment collects.

18 I would hope that there would be a concurrent commitment
19 on the part of Senator Armstrong and others who are espousing
20 this amendment, that we do something basic about the index
21 before tying everything to it.

22 You have heard plenty of people in here talk about why
23 the index is not accurate and the relevant measure with
24 regard to increase in Social Security and other segments of
25 beneficiaries in this country who are already indexed.

1 I would hope that we would hear from them a real
2 expression of commitment that we would change that. It is
3 unpopular to change it. Labor hates the idea of changing it
4 because they tie a lot of wage increases to the cost of
5 living benefit and the more you can load it with things over
6 which there are no control and really not necessary to the
7 basic needs of Americans which ought to be our concern,
8 the better they like it because those things have an effect
9 on it.

10 So, I will cast a reluctant vote on behalf of this as
11 a Committee amendment, and you know, it is really not a part
12 of the bill. I understand the concept of circumstances we
13 are talking about here today.

14 I hope we might have some talk about that before we go
15 the rest of the road.

16 Senator Durenberger. Just a brief comment on that
17 point. I will give you the Minnesota experience and my
18 feelings about the index.

19 We indexed two years ago, at 85 percent of the CPI
20 and found that was cutting unrealistically into the income.
21 So this year, it got changed to 100 percent at the lower of
22 the CPI or a growth in personal income indexed.

23 I think we can find a better index than the CPI and I
24 would hope that that a part of our vote we would indicate to
25 Treasury that is what we would like to see.

1 Senator Durenberger. I really do believe we ought to
2 have some other index besides the CPI. There is a lot of
3 pretty basic decisions that are tied to a circumstance that
4 really doesn't affect the day-to-day living.

5 The Chairman. Senator Byrd and then Senator Heinz.

6 Senator Byrd. Thank you, Mr. Chairman.

7 May I ask, does the Treasury favor or oppose this
8 proposal?

9 Mr. Chapoton. We oppose this proposal.

10 Senator Byrd. Thank you.

11 The Chairman. Senator Heinz.

12 Senator Heinz. Mr. Chairman, I find this a very tempt-
13 ing amendment, but particularly so since there have been
14 occasions on which we have looked at indexing as a short
15 term solution.

16 We had some votes a year or two ago on it, as a means
17 of trying to take the very large benefits to Government that
18 Government gets out of inflation, away from Government.

19 In this instance, we are talking about an indexing
20 proposal that won't have effect until 1985, a very long way
21 away.

22 We do not know exactly how we are going to index it.
23 There is a lot of discussion about changing the index. We
24 all know we shouldn't buy pigs in a poke.

25 I am sympathetic to exactly what the Senator from

1 Colorado wants to do. But I think this is the wrong time
2 to do it.

3 I may very well support him on another occasion, as we
4 get closer to the time when we work through the benefits of
5 these tax cuts we are voting today.

6 But, I just think it is too early to commit ourselves
7 given the very dramatic changes that we are making in this
8 tax bill, to yet another further dramatic change.

9 It may be the right thing to do, ultimately. As I say,
10 my heart is with the Senator from Colorado. But, in my
11 heart of hearts, today, I just don't think it is good policy
12 to reach that far out into the future.

13 So, I am going to have to very reluctantly oppose the
14 Senator's amendment.

15 Senator Byrd. Could I ask a question.

16 The Chairman. Sure.

17 Senator Byrd. What is the indexing mechanism in the
18 amendment?

19 Senator Armstrong. It simply provides that the various
20 schedules, the exemption, the zero bracket, the individual
21 brackets, the standard deduction would be adjusted annually
22 based on the CPI.

23 Senator Byrd. On the CPI?

24 Senator Armstrong. Yes. I think, since you raise that
25 question, unless you wanted to pursue that, I would like to

1 comment on what Senator Wallop has said about the CPI,
2 because I think, as usual, his observations are very
3 thoughtful and very insightful.

4 I believe he is correct about the concerns he has
5 expressed.

6 My own feeling is that at this point it is the proper
7 index to tie the tax to, simply because that is what every-
8 thing else is tied to.

9 That doesn't in any way deny the point he has made
10 that there is serious doubt about the validity of the CPI
11 as a measure, since that is what we are using to measure
12 practically everything else that is indexed, particularly
13 that is the index that is widely used in wage negotiations.

14 So, that seems to me the appropriate measure. But the
15 composition of the index, the way it is computed I think is
16 open to real question.

17 I join him in pressing interest and making changes in
18 that.

19 In comparison with Brazil and Israel I think is not
20 really very useful. The economic conditions in both of
21 those countries are far different than our own. The circum-
22 stances under which indexing was adopted and the other
23 economic factors that put them both in such precarious
24 financial position are quite different than ours.

25 Really, I think the Canadian experience or the experience

1 of the nine states that Senator Durenberger are far more
2 germane to the situation.

3 I think really, the basis question is this. I also
4 want to comment on what Senator Chafee has said, because I
5 agree in large measure with the principle he is espousing.
6 But the fact of the matter is that every, maybe there is an
7 exception, but it seems to me just about everybody who
8 benefits from the Government program, is already indexed.

9 The only people who are hurting are the ones that are
10 forced to pay for this program. Maybe it isn't a good idea
11 to index food stamps and social benefits or all of the other
12 programs or as somebody has pointed out, salaries of
13 Senators and Congressmen and Federal employees and military
14 retirees and so on.

15 Maybe that is a poor idea, but we already made that
16 decision. We are doing it for everybody who receives.

17 The question is whether we shouldn't afford at least
18 an equivalent degree of protection to the people who are
19 forced to pay the bill.

20 Senator Wallop. Mr. Chairman.

21 The Chairman. Senator Wallop.

22 Senator Wallop. Mr. Chairman, I just want to raise one
23 point and I think everyone in here would make the same point.
24 I don't think it ought to go out to the public that the
25 salaries of Senators and Congressmen are indexed.

1 Senator Armstrong. Of course that is right, the salaries
2 of Government workers generally are indexed, although with
3 some exceptions to that as well. There are some caps on it.

4 The Chairman. Senator Grassley.

5 Senator Grassley. I just want to follow up on the
6 question the Senator from Virginia asked Treasury, and it is
7 true that Treasury is opposing indexing. But, in our
8 discussions with the President, people on this side of the
9 aisle, he has reiterated his support of indexing, not in
10 this first bill, but he has always talked of it in terms of
11 the second bill.

12 For the people who think we should wait a long time
13 before we include or adopt indexing, closer to the time we
14 want it to start, remember we were promised a second tax
15 bill, this Congress, and we would look at indexing at that
16 point.

17 I think it was inferential that the President's support
18 for indexing would be made public at that particular time.

19 Senator Baucus. Mr. Chairman.

20 The Chairman. Senator Baucus.

21 Senator Baucus. Thank you, Mr. Chairman.

22 I would like to ask the Treasury why the Treasury
23 opposes this amendment?

24 Mr. Chapoton. Senator, I think I said earlier the
25 President has on many occasions endorsed the concept of

1 indexing. I am not sure I can give a direct answer to that.
2 We did discuss it in the development of this legislation.

3 As the point has been made here, we are -- anything
4 you do in indexing would be quite far off in the future
5 now, because we are giving rate cuts over these early years
6 which would more than offset inflation.

7 So, the thought was that was a question that should be
8 addressed in a later bill. Certainly there will be a number
9 of tax bills between now and then.

10 We just thought it was not directly germane to this
11 initial package.

12 Senator Chafee. Mr. Chairman, could I just make one
13 point here?

14 First, to use the analogy of the states, it seems to
15 me is an unfortunate one, because every state I suspect
16 Minnesota, as well as others, have a constitutional provision
17 that the state cannot spend more than it takes in.

18 So, as far as the states go, that is splendid. If you
19 reduce the revenue then you reduce the spending, unless you
20 take other means to increase the taxes.

21 Well, the Federal Government doesn't have that. We
22 have merrily gone along spending more than we take in. To
23 suggest if we reduce the amount of revenue coming into the
24 general treasury, that thus, it will reduce our spending,
25 it seems to me is a fallacy.

1 Why have we gotten nearly \$1 trillion debt?

2 Now, the other point, Mr. President is that once we
3 go into this indexing.-- no, let me make this point. The
4 reason we are here and I think the reason the President was
5 elected last fall was the effects of inflation. That is
6 why we are making these dramatic changes in the country,
7 the effects of the inflation as it caused the increase in
8 taxes.

9 Everybody's taxes were going up. There was a promise
10 of a tax cut that made us take these very dramatic changes
11 in the budget. That is why we made them. That is why we
12 are cutting the budget. That is why we are having this
13 session.

14 Absent that, if taxes were indexed in some manner, I
15 doubt if we would make these large cuts in the budget
16 we did last week and we are currently involved in.

17 The Chairman. Let me say there is going to be another
18 vote in about 15 minutes. It is my hope, it may only be a
19 hope, that we can have final passage before then. Otherwise,
20 there will be nine more amendments picked up on the way back.

21 So, I suggest we have a vote on this amendment. It is
22 a Committee amendment. If it passes, I hope it will, it
23 will be offered on the floor as a Committee amendment to the
24 bill.

25 The Clerk. Mr. Packwood.

1 (No response.)
2 The Clerk. Mr. Roth.
3 Senator Roth. Aye.
4 The Clerk. Mr. Danforth.
5 Senator Danforth. Aye.
6 The Clerk. Mr. Chafee.
7 Senator Chafee. No.
8 The Clerk. Mr. Heinz.
9 Senator Heinz. No.
10 The Clerk. Mr. Wallop.
11 Senator Wallop. Aye.
12 The Clerk. Mr. Durenberger.
13 Senator Durenberger. Aye.
14 The Clerk. Mr. Armstrong.
15 Senator Armstrong. Aye.
16 The Clerk. Mr. Symms.
17 Senator Symms. Aye.
18 The Clerk. Mr. Grassley.
19 Senator Grassley. Aye.
20 The Clerk. Mr. Long.
21 (No response.)
22 The Clerk. Mr. Byrd.
23 Senator Byrd. No.
24 The Clerk. Senator Bentsen.
25 Senator Bentsen. No.

1 The Clerk. Senator Matsunaga.
2 Senator Matsunaga. No.
3 The Clerk. Senator Moynihan.
4 (No response.)
5 The Clerk. Mr. Baucus.
6 (No response.)
7 The Clerk. Mr. Boren.
8 Senator Boren. Aye.
9 The Clerk. Mr. Bradley.
10 (No response.)
11 The Clerk. Mr. Mitchell.
12 (No response.)
13 The Clerk. Mr. Chairman.
14 The Chairman. Aye.
15 (Pause.)
16 The Chairman. On this vote the yeas are 9, the nays
17 are 5. That would not -- we will have to await the vote of
18 the absentees.
19 The absentees will be recorded.
20 Senator Heinz. Mr. Chairman.
21 The Chairman. Senator Heinz.
22 Senator Heinz. Mr. Chairman, I have two measures pending.
23 I don't think we need to debate them. I think people are
24 pretty familiar with them.
25 There is one we made last night, by the way, the Treasury

1 opposes them both. I know where we stand on both of them.

2 The first one costs no money, but the Treasury opposes
3 it anyway. This is the one that would allow some flexibility
4 in the timing of deductions by permitting a maximum of two
5 elections by corporate taxpayers to shift from the acceler-
6 ated cost recovery system to a slower method and then back
7 on one other occasion.

8 It costs no money, but Treasury doesn't like it because
9 it is complicated, even though we limit it to two elections.

10 The other measure is to permit qualified progress
11 payments just for synfuels plants which have exceptionally
12 long lead times.

13 The revenue losses on that amendment, with the phase in
14 provisions that are in it, would be \$100 million, in '81;
15 \$100 million, in '82, and \$200 million, in '83.

16 This is different from the amendment I offered a few
17 minutes ago which included all long lead times greater than
18 three years, with non-real estate, because of the high
19 revenue costs associated with that.

20 I think we could vote them up or down.

21 Senator Roth. Mr. Chairman, if I could make just one
22 comment on this.

23 The Chairman. Senator Roth.

24 Senator Roth. Thank you, Mr. Chairman.

25 It would concern me to give progress payments just to

1 synfuels and not to other industries that are likewise
2 affected.

3 For example, I think there is great merit to the
4 proposal, if we had the funds. But I am concerned that,
5 for example, there -- we would be treating unfavorably the
6 chemical industry which is facing a threat from world
7 competition by not providing the same kind of treatment.

8 I would like to ask the Treasury, I think a mistake was
9 made when we backed off of the phased in progress payments,
10 but I would ask whether or not the Administration would
11 assure us that they give some sympathetic consideration to
12 this problem in the second bill.

13 Mr. Chapoton. Senator, we would do that. As you
14 obviously know, we proposed it initially. There is some
15 concern about long lead time construction property.

16 Our thinking was though that this property also is the
17 type that benefits the most from the ACRS system. The
18 complaint we hear more is short life property, computer
19 technology, high technology type equipment, which already has
20 a very short life, does not benefit from the change of
21 ACRS nearly as much whereas long-lived property does and
22 long lead construction property is in that class.

23 So, it was a trade off. But we certainly could consider
24 it further, yes.

25 Senator Roth. Well, I talked to a number of people in

1 the Treasury about this. They all have expressed some
2 concern about the problem and feel there is a legitimate
3 need here.

4 As I say, I cannot support giving just one small segment
5 of industry this treatment, special treatment, when it is
6 much needed by other industry as well.

7 The Chairman. Again, I don't want to be scrooge, but
8 I think as the Treasury Secretary has pointed out, it is
9 not that we haven't done something for the timber industry
10 and other businesses who would benefit directly from this,
11 the steel industry, timber and who else.

12 Mr. Chapoton. I am not sure about timber. We are on
13 the qualified progress expenditure?

14 The Chairman. Yes.

15 Mr. Chapoton. He is now raising synfuel plants only.

16 The Chairman. The first amendment.

17 Mr. Chapoton. The first one, I would --

18 The Chairman. Do you oppose the first amendment?

19 Mr. Chapoton. We oppose the first amendment vigorously,
20 Mr. Chairman. We are not even clear on what the rule would
21 be. When you switch back, do you switch back to the older
22 system? I gave Senator Heinz two methods that we reviewed.
23 You can go two different ways. You pick up with the old
24 schedule, let's say you elected a 25 year plan, 25 year
25 recovery first, and then as I understand it, you would allow

1 a one-time election back into a faster recovery system.

2 Senator Heinz. Let me go back to the proposal we made
3 last night. You start off in a category which you would be
4 normally placed in, like a three.

5 In the three you may elect to go to the next category,
6 that is to say a five, with straight line. You cannot go
7 from a three to a 25. You can only go to the next category
8 and then you have the one time right to elect to come back
9 to the original category, and only your original category.

10 Mr. Chapoton. Then when you come back, let's say you
11 are in the three and --

12 Senator Heinz. You are there forever.

13 Mr. Chapoton. I know, but we are not clear on what
14 period you come back to. Do you take three years on the
15 remaining basis from that point forward?

16 Senator Heinz. If you elected at the outset to never
17 to claim anything under the first category and you went to
18 the three to the five -- from the three to the five without
19 ever having claimed any accelerated depreciation under the
20 three, you then would have the right to come back to the
21 three as if you were in the very first year.

22 Mr. Chapoton. What if you come back in year four?

23 Senator Heinz. You have an undepreciated balance and
24 you would treat that just as if you were starting out in the
25 three.

1 Mr. Chapoton. You would take that over the remaining
2 three years? The original three year period has expired,
3 so you would take that over three additional years?

4 Senator Heinz. You would take that over the three years.

5 Mr. Chapoton. So the total --

6 Senator Heinz. You would never exceed the total amount
7 of depreciation.

8 Mr. Chapoton. No, I understand that.

9 Senator Heinz. You would always be spread out over a
10 longer period of time and you would -- the only thing you
11 would do is you would postpone in effect, on a one-time
12 only basis, some of your undepreciated balance that you
13 could otherwise have taken had you stayed on the original
14 method.

15 Mr. Chapoton. You limit it, the election to the next
16 higher category, 5 to 10, only?

17 Senator Heinz. That's right.

18 Mr. Chapoton. And I guess 10 to 15.

19 Senator Heinz. Yes.

20 Mr. Chapoton. You could not go beyond that?

21 Senator Heinz. That's correct.

22 The Chairman. That surfaced as a compromise, yesterday,
23 didn't it?

24 Senator Heinz. Yes. That is what we proposed last night
25 as a compromise.

1 The Chairman. I think there was discussion ahead of
2 that, Senator Heinz, that might be acceptable. Maybe I am
3 misstating it.

4 Mr. Chapoton. Senator, there are a number of problems.
5 That is a very, very significant change in the ACRS proposal.
6 I know it doesn't sound like much, but you then are adding
7 an election, an additional election or I guess two additional
8 elections for every piece of equipment placed in service.

9 As I mentioned yesterday, you are then telling taxpayers
10 that have other limitations under the code, obviously someone
11 would elect to do this only if they thought they -- the
12 greatest, the most prominent example that comes to mind is
13 either mining or timber.

14 They will not want deductions in one year, will try to
15 bunch deductions from accelerated cost recovery in certain
16 numbers of years or as in a few years as possible so that
17 other benefits that they are limited by the annual accounting
18 system, annual reporting system of income tax, will not be
19 offset.

20 So they would like to minimize their income in years
21 one, two, three -- excuse me, minimize their deductions in
22 years one, two and three, and maximize it in years 4 through
23 8, maybe.

24 Senator Heinz. This may be true. The result to the
25 Treasury is that you are going to make more money.

1 Mr. Chapoton. No, sir. We absolutely disagree with
2 that. We have difficulty -- we clearly -- no taxpayer is
3 going to voluntarily pay more tax under this system.

4 Indeed, what they will have to do, anyone who can
5 afford the advisor to do it, and probably put it in a
6 computer and see which way they pay the least tax, nobody
7 is going to take this and pay voluntarily more tax.

8 Senator Heinz. But you don't maintain it is going to
9 cost more?

10 Mr. Chapoton. It is going to cost, yes. We do maintain
11 it is going to cost something. We cannot determine the
12 amount though.

13 Senator Heinz. That is a reversal of your --

14 Mr. Chapoton. No. No. It is not a reversal. I did not
15 agree last night.

16 Senator Heinz. And Joint Tax.

17 The Chairman. Maybe we can vote on it.

18 Mr. Chapoton. I would just point out again that even
19 small taxpayers will then be required to hire an accountant
20 to try to compute their lowest tax cost, which system, which
21 piece of property.

22 Senator Heinz. Mr. Chairman, I think we ought to have a
23 vote.

24 I think though that Joint Tax will confirm that this
25 either makes money in the first few years.

1 Is that right, Mark?

2 Mr. McConaghy. Senator Heinz, it may make a slight bit
3 in the first year or so and then it would lose money in the
4 long run.

5 Senator Heinz. Thank you.

6 The Chairman. But it does lose money in the long run?

7 Mr. McConaghy. Yes.

8 The Chairman. Does the Treasury strongly oppose this?

9 Mr. Chapoton. The Treasury strongly opposes, yes sir.

10 The Chairman. The clerk will call the roll.

11 The Clerk. Mr. Packwood.

12 (No response.)

13 The Clerk. Mr. Roth.

14 Senator Roth. No.

15 The Clerk. Mr. Danforth.

16 Senator Danforth. No.

17 The Clerk. Mr. Chafee.

18 Senator Chafee. No.

19 The Clerk. Mr. Heinz.

20 Senator Heinz. Aye.

21 The Clerk. Mr. Wallop.

22 Senator Wallop. No.

23 The Clerk. Mr. Durenberger.

24 (No response.)

25 The Clerk. Mr. Armstrong.

1 (No response.)
2 The Clerk. Mr. Symms.
3 (No response.)
4 The Clerk. Mr. Grassley.
5 Senator Grassley. No.
6 The Clerk. Mr. Long.
7 (No response.)
8 The Clerk. Mr. Byrd.
9 Senator Byrd. No.
10 The Clerk. Mr. Bentsen.
11 Senator Bentsen. Aye.
12 The Clerk. Mr. Matsunaga.
13 Senator Matsunaga. No.
14 The Clerk. Mr. Moynihan.
15 (No response.)
16 The Clerk. Mr. Baucus.
17 Senator Baucus. No.
18 The Clerk. Mr. Boren.
19 Senator Boren. No..
20 The Clerk. Mr. Bradley.
21 (No response.)
22 The Clerk. Mr. Mitchell.
23 Senator Mitchell. Aye.
24 The Clerk. Mr. Chairman.
25 The Chairman. No. Durenberger, no.

1 (Pause.)

2 The Chairman. It is 11 years and 3 nays. The amendment
3 is not agreed to, and the absentees may record their votes.

4 Excuse me, it is 3 yeas and 11 nays.

5 Senator Armstrong. Mr. Chairman, could I be recorded as
6 voting aye?

7 The Chairman. We have 4 yeas.

8 Now there is a second amendment?

9 Senator Heinz. Yes, Mr. Chairman, on synfuels, but I
10 have a feeling we are not going to do very well. I haven't
11 heard anyone else speak for it. I will shorten the consid-
12 eration here by withdrawing it.

13 The Chairman. I thank the distinguished Senator from
14 Pennsylvania.

15 Are there any other amendments?

16 Senator Matsunaga. Mr. Chairman.

17 The Chairman. Do you still have the horse, Senator
18 Matsunaga?

19 (Laughter.)

20 Senator Matsunaga. Mr. Chairman, I asked yesterday for
21 the Treasury to look into the hold harmless amendment for
22 the Governments of Guam and Virgin Islands. I do hope that
23 Treasury, after studying it, now looks upon it favorably.

24 Mr. Chapoton. Senator, it is a very interesting question.
25 As we discussed yesterday, Guam and the Virgin Islands has

1 what we refer to as the Mirror of our Internal Revenue Code.

2 When we cut our taxes, their receipts go down as well.

3 This problem has been addressed by the Congress in the
4 past. When we have had tax cuts, in 1975, 1976, 1977 and
5 1978, the way the problem has been addressed is a reimburse-
6 ment grant from the U. S. Government to the effected Govern-
7 ments.

8 Now, the Treasury has consistently said they did not,
9 consistently opposed such grants. There has been a proposal
10 to streamline the system of taxation there. I don't think
11 we want to get into that now.

12 I would just comment that in 1978, President Carter did
13 veto the appropriation, the grant.

14 Another way to handle this problem, we are just looking
15 at revenues that they will not have because we cut their
16 taxes.

17 They could, of course, could elect to raise their own
18 taxes or the Congress could provide a surtax on the citizens
19 of those countries, the governments could elect not to
20 impose, to decide if they want to reduce their own taxes or
21 the Congress.

22 There are a number of ways of handling it so that they
23 would make the decision rather than the United States Govern-
24 ment making the decision.

25 But, if none of those are done, then they will lose

1 revenues unless an appropriation is provided.

2 Now, we would not support, we would oppose an amendment
3 at this time on that.

4 Senator Matsunaga. Well, Mr. Chairman, as it is now
5 every time the Federal Government reduces taxes, the
6 Governments of Guam and Virgin Islands suffer a reduction
7 in tax, because they have what is know as the Mirror Tax
8 System. Their tax is exactly according to what the Federal
9 Tax is.

10 It is a good system there. They are used to it. I
11 offer an amendment at this time, regardless of the position
12 of the Treasury, that the Secretary of the Treasury be
13 authorized to make separate payments for each of the calendar
14 years, '81, '82, '83, '84, to the Governments of Guam and
15 Virgin Islands.

16 The payment to the Government of each territory and I
17 might point out, these are U. S. territories, for any of
18 the calendar year shall be in an amount equal to the loss
19 to the possession with respect to tax returns for the taxable
20 years beginning in such calendar year by reason of this Act
21 which we will be reporting out.

22 I move the adoption of the amendment.

23 The Chairman. Well, is there any way we can resolve
24 this? I think that is the question.

25 Mr. Chapoton. Senator, we have been trying to get a

1 number on that. We do not have a current number. It would
2 be in 1975, just as a matter of interest, it was \$8.5 million.
3 It would be much bigger now. But I think that gives you an
4 idea of the order of magnitude.

5 We will have a number within a couple of hours. We
6 just don't have one now.

7 The Chairman. Is this something which might be worked
8 out between now and the time the bill reaches the floor?

9 Again, I think the votes are there to defeat the
10 amendment. My point is if you want to try to work it out
11 with Treasury and see if we can accept it on the Senate
12 floor.

13 Mr. Chapoton. It is not necessarily, I believe, the
14 Senator would agree, necessarily a tax amendment. It can be
15 dealt with at any time the loss will occur to these countries
16 in the ensuing years, as the loss occurs to the Federal
17 Treasury from these tax cuts.

18 The Chairman. I am happy to have a vote on it now if
19 the Senator wants to vote.

20 Senator Matsunaga. Yes. I promised I would offer this
21 amendment. If we fail, I will offer it on the floor.

22 The Chairman. We will have the clerk call the roll.

23 The Clerk. Mr. Packwood.

24 (No response.)

25 The Clerk. Mr. Roth.

1 Senator Roth. No.
2 The Clerk. Mr. Danforth.
3 Senator Danforth. No.
4 The Clerk. Mr. Chafee.
5 Senator Chafee. No.
6 The Clerk. Mr. Heinz.
7 The Chairman. No.
8 The Clerk. Mr. Wallop.
9 (No response.)
10 The Clerk. Mr. Durenberger.
11 (No response.)
12 The Clerk. Mr. Armstrong.
13 (No response.)
14 The Clerk. Mr. Symms.
15 (No response.)
16 The Clerk. Mr. Grassley.
17 (No response.)
18 The Clerk. Mr. Long.
19 (No response.)
20 The Clerk. Mr. Byrd.
21 Senator Byrd. No.
22 The Clerk. Mr. Bentsen.
23 Senator Bentsen. Aye.
24 The Clerk. Mr. Matsunaga.
25 Senator Matsunaga. Aye.

1 The Clerk. Mr. Moynihan.

2 (No response.)

3 The Clerk. Mr. Baucus.

4 Senator Baucus. Aye.

5 The Clerk. Mr. Boren.

6 Senator Boren. Aye.

7 The Clerk. Mr. Bradley.

8 (No response.)

9 The Clerk. Mr. Mitchell.

10 Senator Mitchell. Aye.

11 The Clerk. Mr. Chairman.

12 The Chairman. No. Mr. Packwood, no.

13 Senator Grassley. Grassley, no.

14 Senator Armstrong. Armstrong, no.

15 The Chairman. Mr. Durenberger, no.

16 I think the only other amendment is the -- the vote
17 is 5 yeas, and 11 nays.

18 The amendment is not agreed to.

19 Yesterday, the Senator from Oklahoma offered an
20 amendment which prevailed by a vote of 9 to 7. On that
21 basis, I asked the Senator from Oklahoma if he would retreat
22 from that position to see if there wasn't some -- on the
23 theory that it was probably a good amendment. I would like
24 to vote for it. But I wasn't certain it belonged on this
25 bill.

1 I believe the Senator from Oklahoma hasn't withdrawn
2 the amendment, but has made, has another proposal that he
3 could present at this time.

4 Senator Boren. Mr. Chairman, after some discussions
5 with several members of the Committee about it, I think there
6 was some concern about the revenue loss, that we might phase
7 this in to take care of these concerns, dropping the rate on
8 new oil from 30 percent down to 15 percent, newly discovered
9 oil, as defined in the present law, and begin that phase
10 down on January 1, of 1983.

11 That would, I believe staff has the revenue losses.
12 That would significantly reduce the revenue losses. I
13 think if the staff could give that figure for me.

14 Mr. DeArment. Yes, Senator Boren.

15 The phase down would begin in '83. There would be
16 no loss, obviously, in '82. In '83, there would be \$200
17 million. In '84, \$300 million. In '85, \$700 million. In
18 '86, \$1.3 billion.

19 That would basically reduce the tax rate from 30 percent
20 to 15 percent over five years. It would go, 30 percent,
21 25, 25, 20 and 15.

22 Senator Boren. Mr. Chairman, I gave all the arguments.
23 I will not make my impassioned speech again on it. But, I
24 am hopeful this change would make the revenue adjustments
25 acceptable to a majority of the Committee.

1 I would again point out, I think this is very sound
2 economic policy. When we passed the Windfall Profits Tax
3 it was completely fallacious that it was ever argued if
4 you use the inventory profit analogy, that you could have
5 an inventory profit on something that hadn't been discovered
6 at the time the tax was passed.

7 In terms of production response, I think everybody
8 across the philosophical spectrum agrees that as you get
9 the greatest production response in terms of newly discovered
10 oil and CBO has estimated that a total exemption would
11 produce 1.1 million barrels per day additional production.

12 I think that is a very significant matter in terms of
13 our Nation's energy independence.

14 So, I would just not prolong the argument.

15 The Chairman. Do I understand, Mr. DeArment, correct me
16 that we are not going down to zero? We are going from 30
17 to 15?

18 Mr. DeArment. That is correct.

19 The Chairman. The revenue loss in '84 has now been
20 reduced to \$300 million?

21 Mr. DeArment. \$300 million.

22 The Chairman. None in '82.

23 Mr. DeArment. That's correct.

24 The Chairman. And \$200 million in '83?

25 Mr. DeArment. Correct.

1 To some extent, there is some money left over from
2 the change we made.

3 The Chairman. That is not what the Senator from
4 Oklahoma prevailed on yesterday.

5 Senator Boren. Mr. Chairman, I think I can read the
6 votes on the Committee, and my discussion with all of those,
7 including those not recorded yesterday.

8 It would indicate to me that I have -- let me say I
9 have high hopes. I think it is sound policy, I think we have
10 high hopes we can get a majority for this.

11 I would be willing to go to 1.1 in terms of the
12 economic model used, they used. I would say also that
13 every source knowledgeable about the industry that I know
14 of, including those who might prefer some other categories
15 affected because of their own interest, will admit themselves
16 from an economic point of view, this certainly has the
17 greatest production response of any approach we could take.

18 I know that is the same argument made by several others
19 on the Committee at the time the Windfall Profits Tax was
20 first passed.

21 Senator Matsunaga. Mr. Chairman, my prime concern is
22 whether or not this will provide an incentive to produce
23 more new oil. I have been assured by the Senator from
24 Oklahoma that it will produce an additional 1.1 million
25 barrels per day.

1 This is what we need to strive for to produce more
2 oil which would not be otherwise be produced in order to
3 gain the objective of energy self-sufficiency as soon as
4 possible.

5 It is for that reason I have agreed to support the
6 amendment.

7 There is one question however which staff has raised
8 and that is by making it prospective beginning January 1,
9 1983, it would cause some problem of accounting as I under-
10 stand.

11 The Chairman. It causes another classification, I
12 think.

13 Senator Boren. That is the reason, on staff suggestion
14 again, returned back to the same definition as we now have
15 in the law.

16 Senator Matsunaga. Then your amendment will --

17 Senator Boren. It will start as of -- I have forgotten
18 the exact date. It is the definition of new oil that is
19 contained in the Windfall Profits Tax.

20 Senator Matsunaga. As contained in the existing law?

21 Senator Boren. Correct.

22 Mr. DeArment. Yes. So we will not have to add another
23 new category.

24 Senator Boren. Right.

25 The Chairman. Based on the modification and our checking,

1 I think the best thing to do would be to call the roll.

2 Senator Bentsen. Mr. Chairman, let me state my strong
3 support for it. I think it is a production incentive. I
4 am just sorry it has to be deferred that far, but apparently
5 that is necessary from a practical standpoint of trying to
6 get additional support.

7 I congratulate the Senator. I am very supportive of
8 it.

9 Senator Boren. I want to thank my colleague from
10 Texas and also express appreciation to him for co-sponsoring
11 this amendment with me.

12 The Chairman. Senator Byrd.

13 Senator Byrd. Mr. Chairman, I would like to ask the
14 Treasury's view on this. Does Treasury support it or
15 oppose it?

16 Mr. Chapoton. We opposed it yesterday. We would like
17 this better than yesterday; let me put it that way. We would
18 prefer no exemption whatsoever.

19 But, this is an improvement over yesterday in our
20 view.

21 Senator Byrd. You do oppose this, then?

22 Mr. Chapoton. I am not quite sure which way -- if this
23 amendment were defeated, I am not sure where we would be.

24 Would we have no reduction in the rate? Or would we
25 be back to yesterday.

1 The Chairman. Well, to be very candid about it, when
2 we lost -- I say "we," when the Administration lost yester-
3 day, the Chairman was able to persuade two reluctant people
4 to switch their votes.

5 So, in the final analysis, late last night, Senator
6 Boren lost, after the Committee meeting.

7 It seemed to us, having known where the votes were,
8 it was in the interest of the Administration to try to do
9 less and win.

10 Mr. Chapoton. I think we better stay out of this one.

11 (Laughter.)

12 Senator Boren. I would say, Mr. Chairman, that I also
13 undertook this. I always hate to see someone racked with
14 guilt and those in need of absolution, I am always one who
15 wants to help participate in help giving it to them. This
16 may be a way to do it.

17 Senator Danforth. Well, Mr. Chairman, I was simply
18 going to ask the question Senator Byrd asked. I am not
19 sure I caught the answer.

20 (Laughter.)

21 The Chairman. I think I caught the answer. We turned
22 the answer around. Now we are trying to come down somewhere
23 in the middle.

24 Mr. Chapoton. I think we would just say the Committee
25 will work its will on this one, Senator Danforth.

1 Senator Chafee. Mr. Chairman, what is the revenue loss
2 in '86?

3 Mr. DeArment. In '86, \$1.3 billion.

4 Senator Chafee. \$1.3 billion.

5 The Chairman. Barrels.

6 (Laughter.)

7 Senator Danforth. Mr. Chairman, it is my understanding
8 that this is not just to help the small producers. This is
9 to help essentially the large ones; is that correct?

10 Senator Boren. No, I would say, Senator Danforth, that
11 you are going to help across the board, but particularly
12 this is an amendment that has been supported by the indep-
13 endent producers because they are the ones that go out and
14 do a majority of the exploration and the new wildcatting.

15 I think this will be very, very significant incentive
16 for them. But it does not discriminate. I think what it
17 will do is encourage that capital investment necessary and
18 really put the push where we want it and that is behind new
19 exploration, because that is what this applies to.

20 Senator Danforth. Will Exxon be able to put more money
21 in its little office computer business that it is getting
22 into?

23 The Chairman. For that tax credit they can.

24 (Laughter.)

25 Senator Chafee. Well, Mr. Chairman, I just want to say

1 that yesterday, against tremendous pressure, we resisted
2 -- we held the line on the charitable contributions. Now
3 this is going quite far.

4 I suppose, will the cuts in school lunches pay for
5 this? Or how will this be paid?

6 Senator Boren. I would say to the Senator from Rhode
7 Island, I don't think that is the kind of trade off that
8 is involved here. I am espousing the exact position, as
9 I recall when we debated the Windfall Profits Tax. I
10 comment the Senator from Rhode Island for his position
11 because he was economically right.

12 In fact, he resisted some of my other amendments which
13 he regarded as parochial, to argue strenuously the new oil
14 portion was really where we could get the production
15 incentives.

16 I would today commend his arguments to him of last
17 year.

18 Senator Chafee. Thank you.

19 The Chairman. Well, Senator Symms.

20 Senator Symms. Mr. Chairman, I will just be very, very
21 brief. I would say that I have resisted some of the amend-
22 ments that have come along that I have supported in the
23 past, such as tuition tax credits and other things, because
24 they don't really apply to productivity.

25 But, in the eight years I spent in the House, I sat dow

1 when I left that body and thought through what I consider
2 to be the worse piece of legislation that ever passed whi
3 I was there. It took some time because there were so many

4 But I had to say, that when I filtered down there it
5 I really believe that the Windfall Profits Tax was the
6 most anti-productivity, the most anti-competitive, the
7 most pro-OPEC piece of legislation that ever passed the
8 Congress.

9 This modest little amendment just does a little bit
10 to lessen some of the damage that that has done to the
11 competitive capability of our producers, independent
12 producers to produce oil in this country.

13 I am glad the Senator from Oklahoma has offered it
14 and I hope Treasury won't resist it too much, as the
15 Chairman point out. I intend to vote for it.

16 The Chairman. I just want to, in fairness to Senator
17 Boren, I want the record to show he prevailed. We actual
18 turned a couple of people around. That is what happened.
19 We appreciate their turning around, so that we could redu
20 the cost and impact of the amendment.

21 So, I don't want anybody to feel that Senator Boren
22 taking advantage of us. It may have been the other way
23 around.

24 The clerk will call the roll.

25 The Clerk. Mr. Packwood.

1 (no response.)
2 The Clerk. Mr. Roth.
3 Senator Roth. No.
4 The Clerk. Mr. Danforth.
5 Senator Danforth. No.
6 The Clerk. Mr. Chafee.
7 Senator Chafee. No.
8 The Clerk. Mr. Heinz.
9 (No response.)
10 The Clerk. Mr. Wallop.
11 Senator Boren. Aye by proxy.
12 The Clerk. Mr. Durénberger.
13 (No response.)
14 The Clerk. Mr. Armstrong.
15 Senator Armstrong. Aye.
16 The Clerk. Mr. Symms.
17 Senator Symms. Aye.
18 The Clerk. Mr. Grassley.
19 Senator Grassley. Aye.
20 The Clerk. Mr. Long.
21 Senator Boren. Aye by proxy.
22 The Clerk. Mr. Byrd.
23 Senator Byrd. No.
24 The Clerk. Mr. Bentsen.
25 Senator Bentsen. Aye.

1 The Clerk. Mr. Matsunaga.

2 Senator Matsunaga. Aye.

3 The Clerk. Mr. Moynihan.

4 (No response.)

5 The Clerk. Mr. Baucus.

6 Senator Baucus. Aye.

7 The Clerk. Mr. Boren.

8 Senator Boren. Aye.

9 The Clerk. Mr. Bradley.

10 (No response.)

11 The Clerk. Mr. Mitchell.

12 Senator Mitchell. Aye.

13 The Clerk. Mr. Chairman.

14 The Chairman. Aye.

15 (Pause.)

16 The Chairman. I think Senator Bradley wanted to be
17 recognized and make a statement. Senator Long -- the vote
18 is 10 yeas, and 4 nays. The absentees will be recorded.

19 Senator Long is on his way.

20 We are now ready for the statement of Senator Bradley.

21 Senator Bradley. Mr. Chairman, I appreciate the
22 opportunity to make a statement before final passage, which
23 is, as I understand it, where we are right now.

24 The Chairman. Yes. We are finished with the amendments
25 unless somebody leaves the room.

1 Senator Bradley. Well, first of all, what I would like
2 to say is that I think there are a lot of good things in
3 this bill. But I think that the three year tax cut in the
4 context of the other Administration economic policy, is
5 really a recipe for higher inflation, higher interest rates,
6 slower growth and much higher deficits.

7 Now I have stated my objections to the plan during the
8 course of this mark-up. My objections are really three.

9 The first objection was to the across-the-board nature
10 of the tax cuts. I felt that they did not provide enough
11 tax relief for middle and low income individuals.

12 I proposed an amendment to correct that. That amendment
13 was rejected.

14 I didn't demagogue this issue. I didn't hold up the
15 sheets and say "This is what a \$2,000 income gets and this
16 is what \$20,000 income gets," because I felt that the real
17 issue was economic growth, and targeting the individual rate
18 cuts was necessary in order to develop a consensus for
19 economic growth in the country, particularly when you are
20 reducing the top rate on investment income, which I support,
21 from 70 to 50. I thought that we should rather ruthlessly
22 target the other individual cuts to the middle and lower
23 income in order to generate that consensus for economic
24 growth.

25 My second objection, Mr. Chairman, if you will recall,

1 was to the three year nature of the bill.

2 My objection there was we have no idea what the budget
3 picture is going to be in 1983. That, by agreeing to load
4 on this sizable tax cut now, we have the potential for a
5 very serious deficit and the deficit will be much bigger
6 than most people think and that the three year nature of
7 the tax cut will be directly contributing to those expect-
8 ations of inflation and therefore the size of the deficit.

9 I offered an amendment, therefore, to make the third
10 year conditional, not conditional upon unreasonable assump-
11 tions necessarily, but conditional upon the plan working.

12 Since it was an experimental plan, and everyone says
13 that, no one really knows if it will work, I felt it was
14 important to provide a safety valve so that we don't load
15 on to the economy this enormous inflationary potential.

16 The third objection I had to the bill, Mr. Chairman,
17 is that the three year tax cut, in combination with other
18 Administration policies, specifically the rigid adherence
19 to a kind of extreme monetarism will not promote economic
20 growth, but will rather stifle economic growth.

21 I think it is instructive in that area to point to
22 a recent annual report of the International Bank of
23 International Settlements that warns that this stringent
24 adherence to monetarism might indeed be crippling our
25 allies and having long-term economic consequences for the

1 trading system as we know it in the world.

2 I point to the recent report by the San Francisco
3 Federal Reserve that warns that strict adherence to
4 monetarism is a very dangerous path and parallels very
5 much that direction the Thatcher Administration has followed
6 in Great Britain.

7 I also point to a recent statement by one of the
8 architects certainly, or one of the thinkers behind this
9 whole tax approach, Arthur Laffer, who says that these
10 high interest rates and this rigid adherence to monetarism
11 will most likely lead to a failure of the Reagan Economic
12 Program.

13 So, Mr. Chairman, I make these arguments only to say
14 that particularly the last one shows, that within the Adminis-
15 tration, the ambivalence that has characterized candidate
16 Reagan's whole approach to the economy has now surfaced into
17 conflict.

18 That is a conflict between the supply side advocates
19 of tax cuts and the rigid monetarists who believe that is
20 the only way to stop inflation.

21 Someone in this process is going to have to achieve
22 ascendancy.

23 If the monetarists do, what you have is a very deep
24 recession in this country.

25 If the supply side tax advocates achieve ascendancy

1 what you have is a window of risk. That if the economy
2 doesn't respond and blossom dramatically and interest rates
3 are forced down as Art Laffer would like to see, the result
4 will be a very rapid increase in inflation.

5 In either of those two circumstances, the deep tax
6 cuts exacerbate the already troublesome situation.

7 So, Mr. Chairman, I would have to say that if this
8 were a two-year tax cut, I would probably support it. But
9 it is not. I attempted to make it a conditional three
10 years.

11 I attempted to target primarily to middle and low
12 income. But I will have to say the tax cut, three years,
13 deep tax cuts, combined with the rigid monetary policy,
14 in my view is too great a risk to take with the only economy
15 we have.

16 I am afraid I will not be able to support this tax
17 program.

18 The Chairman. Well, let me say very briefly that there
19 is a vote in progress. We will vote on this before we
20 leave.

21 I want to thank the members of the staff and all my
22 colleagues and their staff for their cooperation. I think
23 according to the numbers I have just received, we come out
24 in '84, with a margin, as delicate as it is. But I think
25 we have a good proposal.

1 I know a number of members would like to speak before
2 the final vote. I would recognize Senator Long.

3 In the meantime, I think one of the real movers as
4 you look back over the years that finally brought us to
5 across-the-board tax cuts, without any doubt, has been
6 my colleague, Bill Roth.

7 I would ask Bill if he would be willing to preside
8 over the vote on passage of this legislation.

9 I will give my chair to Senator Roth -- not permanently.
10 (Laughter.)

11 The Chairman. And then Senator Mitchell wanted to
12 say a word, or Senator Long first, and then Senator Mitchell
13 and then Senator Roth.

14 Senator Roth. (Acting Chairman), presiding. Thank you,
15 Senator Dole.

16 Senator Long.

17 Senator Long. Mr. Chairman, I simply want to congratul-
18 ate the Chairman of the Committee, Mr. Cole, for the very
19 fine job that he has done. I believe he has been fair. He
20 has tried to accommodate all Senators.

21 While I am sure every one of us would like to have
22 something in the bill that remains outside the bill, I
23 believe we are recommending a good piece of legislation
24 to the Senate.

25 I am proud to vote for it.

1 Senator Roth. Senator Mitchell.

2 Senator Mitchell. I just wanted to make a brief
3 statement, Mr. Chairman. I don't know if there are others
4 who want to speak more senior. I would defer to them if
5 they want to do so.

6 Senator Roth. Please proceed.

7 Senator Mitchell. Let me say just briefly, I intend
8 to vote for this bill because I think it contains more good
9 than bad.

10 I think a lot of the provisions make a lot of sense
11 and I think a tax cut is essential.

12 The one part of the bill which I think is seriously
13 deficient and one which I would hope all members of this
14 Committee will think about as we go to the floor, because
15 we have voted on individual items here.

16 Now that we have passed them all, we can see the
17 cumulative impact. That impact clearly is on individual
18 tax cuts. This bill is overwhelmingly favorable to those
19 with incomes above \$50,000, and provides modest relief for
20 those between \$20,000 and \$50,000, and provides no relief,
21 no relief at all for persons in this country making less
22 than \$20,000.

23 Leaving aside the impact of reducing the maximum rate
24 from 70 to 50 percent, which reduces the capital gains rate
25 from 28 to 20 percent, leaving aside our termination of the

1 interest exclusion and retaining the dividend exclusion,
2 leaving aside virtually eliminating estate tax, leaving
3 aside increasing the gift tax, all of which favor primarily
4 the wealthy, leaving that aside, the effect of this
5 individual tax cut is that persons in the category of zero
6 to \$20,000, after factoring in inflation and Social Security
7 Tax increases, will pay higher taxes after this cut is
8 implemented.

9 Those persons in the United States of America whose
10 incomes are less than \$20,000, get minus 3 percent of this
11 tax reduction, the net effect. They pay more taxes.

12 Presently, they bear 16 percent of the burden of tax-
13 ation in this country.

14 At the other end of the scale, those persons making
15 more than \$50,000, who now bear the burden of 34 percent of
16 the taxes in this country, they are getting a reduction of
17 62 percent.

18 So, 62 percent of the net effect of this tax reduction
19 goes to Americans who make more than \$50,000 and Americans
20 who make less than \$20,000 will actually be paying more in
21 taxes when the net effect is in.

22 I have more to say, but I don't want to keep the
23 members here and extend it.

24 That concerns me. I think everybody in this Committee
25 ought to think about the effect of that before this bill

1 goes to the floor, because when you combine it with the
2 other factors, this truly is disproportionate relief for
3 those who need it least and nothing for those who need it
4 most.

5 Thank you, Mr. Chairman. Thank you especially, Mr.
6 Chairman, for your courtesy in the handling of this bill.

7 Senator Roth. Senator Dole, I too want to thank you
8 for your great leadership, your graciousness in letting me
9 preside at this moment.

10 I want to say that I think this is a historic day for
11 the American people. Historic because this Committee is
12 about to report the largest tax cut in the history of
13 America.

14 Historic because this legislation is a clear and
15 unmistakable break with the past. And, historic because
16 this measure demonstrates that there is bi-partisan support
17 for supply side economics.

18 During this Committee's deliberation it has been
19 refreshing to note that the principle concerns has been
20 to turn the economy around, and how to insure all Americans
21 a share in our Nation's prosperity.

22 I would say this is in sharp contrast with a few years
23 ago, when our greatest concern seemed to be the three
24 martini lunch.

25 As Jack Kennedy so eloquently said, "A rising tide lifts

1 all the boats." This bill is such a tide.

2 In this bill, we have finally recognized the American
3 working people. There is much in this package that helps
4 get our country moving again. The center piece of the
5 tax package is a 25 percent, across-the-board tax cut.

6 I would agree that it is not as much as I would like.
7 If I had my druthers, Congress would have adopted the full
8 30 percent, effective in 1980.

9 But, I recognize that the Government is the art of
10 compromise.

11 Senator Dole, I know we are running out of time. So,
12 I too will --

13 Senator Dole. They are slowing down the vote.

14 (Laughter.)

15 Senator Roth. Just let me --

16 Senator Dole. I have sent word to slow it down.

17 (Laughter.)

18 Senator Roth. That shows the wheels of progress do
19 move slowly.

20 But I would just like to say that four years ago when
21 Jack Kemp and I first proposed our multiyear, across-the-
22 board tax cut, there were those who looked upon us as if we
23 had been in the sun too long.

24 So, I am pleased today to see that yesterday's
25 impossibility has become today's reality.

1 Certainly there are two people on this Committee that
2 deserve the lion's share of the credit for making things
3 happen.

4 Our Chairman, Bob Dole, and I must say, I am getting
5 to like the Chair --

6 (Laughter.)

7 Senator Roth. And our Chairman Emeritus, Russell
8 Long.

9 Senator Dole. That is right.

10 Senator Roth. Senator Dole has provided the leadership
11 for this enormously important package, and in doing so he
12 has followed the tradition set by Chairman Long.

13 The American people should have today a deep sense of
14 gratitude to these two gentlemen, as well as all the other
15 members of this Committee, for what they have done in
16 passing this truly bi-partisan measure.

17 So, having said that, I move that the Committee order
18 H. J. Resolution 266, a resolution to increase the public
19 debt limit for the current fiscal year, reported with the
20 Committee's tax bill, as an amendment, in the form of a
21 substitute.

22 I would ask the Clerk to call the roll.

23 The Clerk. Mr. Packwood.

24 The Chairman. Aye.

25 The Clerk. Mr. Roth.

1 Senator Roth. Aye.
2 The Clerk. Mr. Danforth.
3 Senator Danforth. Aye.
4 The Clerk. Mr. Chafee.
5 Senator Chafee. Aye.
6 The Clerk. Mr. Heinz.
7 The Chairman. Aye.
8 The Clerk. Mr. Wallop.
9 The Chairman. Aye.
10 The Clerk. Mr. Durenberger.
11 The Chairman. Aye.
12 The Clerk. Mr. Armstrong.
13 Senator Armstrong. Aye.
14 The Clerk. Mr. Symms.
15 Senator Symms. Aye.
16 The Clerk. Mr. Grassley.
17 Senator Grassley. Aye.
18 The Clerk. Mr. Long.
19 Senator Long. Aye.
20 The Clerk. Mr. Byrd.
21 Senator Byrd. Aye.
22 The Clerk. Mr. Bentsen.
23 Senator Bentsen. Aye.
24 The Clerk. Mr. Matsunaga.
25 Senator Matsunaga. Aye.

1 The Clerk. Mr. Moynihan.

2 (No response.)

3 The Clerk. Mr. Baucus.

4 Senator Baucus. Aye.

5 The Clerk. Mr. Boren.

6 Senator Boren. Aye.

7 The Clerk. Mr. Bradley.

8 Senator Bradley. No.

9 The Clerk. Mr. Mitchell.

10 Senator Mitchell. Aye.

11 The Clerk. Mr. Chairman.

12 Senator Dole. Aye.

13 (Pause.)

14 Senator Dole. The vote is 19 ayes and 1 nay. It is
15 agreed to.

16 Senator Roth. The staff of the Committee and the
17 Joint Committee will draft a bill and report and file it
18 during the recess, and are authorized to make technical
19 changes.

20 The Committee is in recess, subject to the Call of
21 the Chairman.

22 (Whereupon, at 12:37 p.m., the Executive Session
23 adjourned, subject to the Call of the Chair.)

24

25