ADJUSTMENT OF ZERO BRACKET AMOUNT FOR RESIDENTS OF CERTAIN STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 2554

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO PERMIT ADJUSTMENT OF THE ZERO BRACKET AMOUNT AND THE AMOUNT OF THE EXEMPTIONS ALLOWED BY SECTION 151 FOR RESIDENTS OF STATES FOR WHICH THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET HAS ADJUSTED THE LEVEL OF THE OFFICIAL POVERTY LINE TO A LEVEL GREATER THAN THE PREVAILING LEVEL IN MOST STATES

MARCH 1, 1978

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
26-788 WASHINGTON : 1978

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

HERMAN E. TALMADGE, Georgia
ABRAHAM RIBICOFF, Connecticut
HARRY F. BYRD, Jr., Virginia
GAYLORD NELSON, Wisconsin
MIKE GRAVEL, Alaska
LLOYD BENTSEN, Texas
WILLIAM D. HATHAWAY, Maine
FLOYD K. HASKELL, Colorado
SPARK M. MATSUNAGA, Hawaii
DANIEL PATRICK MOYNIHAN, New York

CARL T. CURTIS, Nebraska
CLIFFORD P. HANSEN, Wyoming
ROBERT DOLE, Kansas
BOB PACKWOOD, Oregon
WILLIAM V. ROTH, Jr., Delaware
PAUL LAXALT, Nevada
JOHN C. DANFORTH, Missouri

MICHAEL STERN, *Staff Director*
GEORGE W. PRITTS, Jr., *Minority Counsel*

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

HARRY F. BYRD, Jr., Virginia, *Chairman*

HERMAN E. TALMADGE, Georgia
MIKE GRAVEL, Alaska
FLOYD K. HASKELL, Colorado

BOB PACKWOOD, Oregon
CLIFFORD P. HANSEN, Wyoming
WILLIAM V. ROTH, Jr., Delaware

CONTENTS

ADMINISTRATION WITNESSES

PUBLIC WITNESSES

ADDITIONAL INFORMATION

ADJUSTMENT OF ZERO BRACKET AMOUNT FOR RESIDENTS OF CERTAIN STATES

WEDNESDAY, MARCH 1, 1978

U.S. SENATE,
SUBCOMMITTEE ON TAXATION AND DEBT
MANAGEMENT GENERALLY OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice at 10 a.m. in room 2221, Dirksen Senate Office Building, Hon. Harry F. Byrd, Jr. (chairman of the subcommittee) presiding.

Present: Senators Byrd and Gravel.

[The committee press release announcing this hearing and the text of the bill, S. 2554, follows:]

[Press Release]

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT SETS HEARING ON S. 2554

Senator Harry F. Byrd, Jr. (I-Va.), Chairman of the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance announced today that the subcommittee will hold a hearing on March 1, 1978 on S. 2554, a bill to amend the Internal Revenue Code of 1954 to provide an increased zero bracket amount and personal exemption deduction amount for individuals residing in Alaska and Hawaii.

The following witnesses have been scheduled to testify at this hearing:

1. Emil Sunley, Deputy Assistant Secretary of the Treasury for Tax Policy, accompanied by Rondal Blankenship, Director, Legislative Analysis Division, Planning and Research, Internal Revenue Service.
2. Edward Hollander, Senior Vice President, Robert R. Nathan Associates, Inc.
3. Sterling Gallagher, Commissioner of Revenue, State of Alaska.

The hearing will be held in room 2221 Dirksen Senate Office Building and will begin at 10:00 A.M.

S. 2554, introduced by Senator Mike Gravel, is designed to adjust the income level at which individuals are called upon to pay Federal income tax in the non-contiguous States of Alaska and Hawaii. A 25 percent adjustment in the standard deduction and personal exemption for taxpayers in Alaska and a 15 percent adjustment for taxpayers in Hawaii would be provided.

Other witnesses who desire to testify at the hearing should submit a written request to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510 by no later than the close of business on February 27, 1978.

Legislative Reorganization Act.—Senator Byrd stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify should comply with the following rules:

(1) A copy of the statement must be filed by noon the day before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Committee, but are to confine their fifteen minute oral presentations to a summary of the points included in the statement.

(5) Not more than 15 minutes will be allowed for oral presentation.

Written Testimony.—Senator Byrd stated that the subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by March 31, 1978, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C.

[S. 2554, 95th Cong., 2d sess.]

A BILL To amend the Internal Revenue Code of 1954 to permit adjustment of the zero bracket amount and the amount of the exemptions allowed by section 151 for residents of States for which the Director of the Office of Management and Budget has adjusted the level of the official poverty line to a level greater than the prevailing level in most States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. ADJUSTMENT OF ZERO BRACKET AMOUNT.

(a) IN GENERAL.—Subsection (d) of section 63 of the Internal Revenue Code of 1954 (relating to zero bracket amount) is amended to read as follows:

"(d) ZERO BRACKET AMOUNT.—For purposes of this subtitle—

"(1) IN GENERAL.—The term 'zero bracket amount' means—

"(A) $3,200 in the case of—

"(i) a joint return under section 6013, or

"(ii) a surviving spouse (as defined in section 2 (a)),

"(B) $2,200 in the case of an individual who is not married and who is not a surviving spouse (as so defined),

"(C) $1,600 in the case of a married individual filing a separate return, or

"(D) zero in any other case.

"(2) ADJUSTMENT OF ZERO BRACKET AMOUNT FOR RESIDENTS OF CERTAIN STATE.—

"(A) IN GENERAL.—In July of each year, the Secretary shall—

"(i) determine the average official poverty line for each State for the 12-month period ending on the preceding June 30, and

"(ii) if the average official poverty line for any State for that period was at a level equal to or greater than 15 percent above the official poverty line for all States for that period, adjust the zero bracket amount for residents of that State by increasing it to an amount which bears the same ratio to the dollar amounts set forth in paragraph (1) as the average official poverty line for that State for the period bears to the average official poverty line for all States for that period. The zero bracket amount, as adjusted by the Secretary under the preceding sentence, shall be the zero bracket amount in effect for residents of that State for taxable years ending after the 30th day of June of the year in which the adjustment is made.

"(B) OFFICIAL POVERTY LINE.—For purposes of this paragraph, the term 'official poverty line' means the official poverty line defined by the Director of the Office of Management and Budget under section 625 of the Economic Opportunity Act of 1964 (42 U.S.C. 2971d) and revised under that section.

"(C) RESIDENCY.—For purposes of this paragraph, an individual shall be treated as a resident of a State if he maintains a household in that State and is physically present in that State for more than 210 days during the taxable year.".

(b) SECRETARY TO PUBLISH SPECIAL AIDS.—The Secretary of the Treasury shall publish such special tables, compilations, and notices as he deems appropriate for residents of States for which an adjusted zero bracket amount is in effect under section 63(d)(2) of the Internal Revenue Code of 1954.

SEC. 2. ADJUSTMENT OF PERSONAL EXEMPTION AMOUNT.

(a) IN GENERAL.—Section 151 of the Internal Revenue Code of 1954 (relating to allowance of deductions for personal exemptions) is amended by adding at the end thereof the following new subsection:

"(f) ADJUSTMENT OF AMOUNT FOR RESIDENTS OF CERTAIN STATES.—Whenevor the Secretary adjusts the zero bracket amount for residents of any State for the taxable year under section 63(d)(2), he shall adjust the amount of each exemption provided for in this section by the same proportionate amount for residents of that State for the taxable year.".

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 3402(b) of such Code (relating to percentage method of withholding) is amended by adding at the end thereof the following: "whenever the Secretary adjusts the amount of an exemption under section 151(f), he shall prescribe a different percentage method withholding table fer use in withholding upon wages paid to individuals with respect to whom the adjusted exemption amount applies for use in lieu of the foregoing table.".

(2) Paragraph (1) of section 3402(m) of such Code (relating to withholding allowances based on personal exemptions) is amended by inserting after "$750" the following: "(or, in the case of an individual with respect to whom an adjusted exemption amount is in effect for the taxable year under section 151(f), the adjusted exemption amount)".

(3) Paragraph (1) of section 6012(a) of such Code (relating to persons required to make returns of income) is amended by adding at the end thereof the following new subparagraph:

"(D) Under regulations prescribed by the Secretary, each dollar amount set forth in subparagraph (A) shall be adjusted to the extent necessary to reflect adjustment of the exemption amount under section 151(f), but any such adjusted amount shall apply only in the case of an individual with respect to whom the exemption amount is adjusted.".

SEC. 3. EFFECTIVE DATE.

The amendments made by this Act shall apply with respect to taxable years beginning after December 31, 1977.

Senator BYRD. The hour of 10 having arrived, the hearing will come to order.

Today we hold hearings on S. 2554, a bill introduced by my friend and colleague, Senator Mike Gravel of Alaska. The bill would provide an increased standard deduction for personal exemption for residents of Hawaii and Alaska.

It is estimated that the proposal would cause a loss in revenues of $70 million in calendar year 1977 and $77 million in fiscal year 1979. The measure benefits taxpayers in Hawaii and Alaska generally. Of greater importance, perhaps, is the principle involved.

The first witness is Mr. Emil Sunley, Deputy Assistant Secretary of the Treasury for Tax Policy and unless the distinguished Senator from Alaska would want to make some comments at this time, Mr. Sunley could proceed as he wishes.

Senator GRAVEL. I thank you, Mr. Chairman. I wonder if I might read my brief comments into the record, it will only take 5 minutes.

Senator BYRD. Certainly.

Senator GRAVEL. I appreciate that we do have to leave here, I believe, by 11 because that is a Senate requirement.

Senator BYRD. Yes.

Senator GRAVEL. Today we are holding hearings, as you have stated, on legislation I have introduced that would deal with the high cost of living and the tax impact in the States of Alaska and Hawaii.

This hearing, of course, will be a multifaceted inquiry. The committee wants to know the magnitude of the cost of living problem in the noncontiguous States of Alaska and Hawaii. Also, we need to know whether the problem is of sufficient magnitude to justify special tax relief for those States. Finally, we must determine the best means of enacting such relief.

Being from Alaska, I have little doubt that the cost of living situation is of a magnitude greater than anywhere else in the Nation. I have seen empirical data on the Alaska cost of living prepared by the Bureau of Labor Statistics and I hope that our witnesses will address this issue.

On the question of policy, we are considering S. 2554, which I introduced in February. It is an update of S. 1978 which I introduced last year.

S. 2554 amends the Internal Revenue Code to permit adjustment of the zero bracket amount and personal exemption deduction for residents of States for which the Director—and this I want to stress—for which the Director of the Office of the Office of Management and Budget has adjusted the official proverty line to a level 15 percent greater than the national average.

Since 1964, Congress has followed the policy of using the minimum standard deduction and personal exemptions to establish a minimum amount of tax-free income approximating the poverty level. This is intended to provide relief from Federal taxation for wage earners at the poverty level. However, the policy has not been consistently applied throughout the United States.

The Office of Management and Budget defines poverty level income for the purposes of eligibility for Community Services Administration programs. OMB prepares one poverty level for the Lower 48 States which is adjusted on the basis of family size for farm or nonfarm families. However, both Alaska and Hawaii receive upward adjustments on the poverty level.

Let me state that again. OMB gives Alaska and Hawaii an upward adjustment in the poverty level in recognition of the high cost of living in these noncontiguous States. The adjustment for Alaska is 25 percent and in Hawaii is 15 percent.

Yet the income tax law does not recognize a similar adjustment to insure that these higher poverty level incomes in Alaska and Hawaii escape taxation. In effect, persons at poverty level income in the continental United States escape tax liability. Poverty level families in Alaska and Hawaii do not.

S. 2554 provides for an adjustment of the zero bracket amount and personal exemption deductions equal to the percentage by which the poverty level is raised above the prevailing level.

On the basis of equity, I have no doubt that this type of legislation should be enacted. From the standpoint of social policy, I find compelling need for this legislation. Most of Alaska's poor citizens live in rural areas which lack road, rail or marine transportation to the regional centers of the State.

Consequently, the cost of living varies from 30 percent to 60 percent greater than the major urban center of Anchorage. Not only does the cost of living oppress Alaskan villagers, but the entire thrust of governmental policy since 1971 has been to place cash responsibilities on subsistence hunters and fisherman. The Federal Government has mandated a cash economy for rural Alaska through enactment of the Alaska Native Claims Settlement Act. As a result, HUD's Indian housing program, and EDA's local public works program are placing increased responsibilities on the poor to come up with some cash.

HUD homes are larger than old shacks and require more cash for heating and electricity. Public works projects, such as schools and community centers, require local contributions for maintenance.

Because of the higher costs for energy, materials, equipment, transportation and food, higher incomes are required to maintain even a poverty level standard of living. Yet incomes which support a poverty level standard of living bear the additional burden of Federal income tax, which other poverty level citizens of our Nation do not bear.

Mr. Chairman, I will put the balance of this statement in the record.

[The prepared statement of Senator Mike Gravel follows:]

STATEMENT OF SENATOR MIKE GRAVEL

Today the Senate Finance Subcommittee on Taxation and Debt Management is conducting what I believe to be the first congressional hearing exploring the effect on the federal income tax system of the high cost of living in the non-contiguous states of Alaska and Hawaii. I would like to express my deep appreciation to Senator Harry Byrd, Jr., Chairman of the subcommittee, for scheduling this hearing. Senator Byrd's interest and concern for the people of Alaska and Hawaii is greatly appreciated by the residents of those states and by this Senator.

This hearing will be a multifaceted inquiry. The Committee wants to know the magnitude of the cost of living problem in the non-contiguous states of Alaska and Hawaii. Also, we need to know whether the problem is of sufficient magnitude to justify special tax relief for those states. Finally, we must determine the best means of enacting such relief.

Being from Alaska, I have little doubt that the cost of living situation is of a magnitude greater than any where else in the nation. I have seen empirical data on the Alaska cost of living prepared by the Bureau of Labor Statistics and I hope that our witnesses will address this issue.

On the question of policy, we are considering S.2554, which I introduced on February 22 of this year. S.2554 is a follow up to a bill I introduced last session, S.1978.

S.2554 amends the Internal Revenue Code to permit adjustment of the zero bracket amount and personal exemption deduction for residents of states for which the Director of the Office of Management and Budget has adjusted the official poverty line to a level at least 15 percent greater than the National average.

Since 1964, Congress has followed the policy of using the minimum standard deduction and personal exemptions to establish a minimum amount of tax-free income approximating the poverty level. This is intended to provide relief from Federal taxation for wage earners at the poverty level. However, the policy has not been consistently applied throughout the United States.

The Office of Management and Budget defines poverty level income for the purposes of eligibility for Community Services Administration Programs. OMB prepares one poverty level for the lower-48 States, which is adjusted on the basis of family size and farm or nonfarm families. However, both Alaska and Hawaii receive upward adjustments in the poverty level in recognition of the high cost of living in those noncontiguous States. The adjustment for Alaska is 25%, and for Hawaii it is 15%. Yet, the income tax law does not recognize a similar adjustment to insure that these higher poverty level incomes in Alaska and Hawaii escape taxation. In effect, persons at poverty level income in the continental United States escape tax liability. Poverty level families in Alaska and Hawaii do not.

S. 2554 provides for an adjustment of the zero bracket amount and personal exemption deductions equal to the percentage by which the poverty level is raised above the prevailing level.

On the basis of equity, I have no doubt that this type of legislation should be enacted. From the standpoint of social policy, I find compelling need for this legislation. Most of Alaska's poor citizens live in rural areas which lack road, rail or marine transportation to the regional centers of the State. Consequently, the the cost of living varies from 30 to 60% greater than the major urban center of Anchorage. Not only does the cost of living oppress Alaskan villagers, but the entire thrust of Governmental policy since 1971 has been to place cash responsibilities on subsistence hunters and fishermen. The Federal Government has mandated a cash economy for rural Alaska through enactment of the Alaska Native Claims Settlement Act. Programs such as HUD's Indian Housing Program and EDA's Local Public Works Program are placing increased cash responsibilities on the poor. HUD homes are larger than old shacks and require more cash for heating and electricity. Public Works projects, such as schools and community centers, require local contributions for maintenance. Because of the higher costs for energy, materials, equipment, transportation and food, higher incomes are required to maintain even a poverty level standard of living. Yet, incomes which support a poverty level standard of living bear the additional burden of federal income tax, which other poverty level citizens of our Nation do not bear. Enactment of this legislation would show that Federal tax policy can be coordinated with other Federal policy to ease the burden of transition for the poor of Alaska.

The job of this committee is to balance equity with uniformity and create a tax code that is just in reality, as well as appearance. The citizens of Alaska and Hawaii have lost faith in the Federal tax system because it is so obviously inequitable. S. 2554 is not the final solution to the tax inequities visited upon the residents of Alaska and Hawaii. It is, however, a clear step in the right direction.

Senator GRAVEL. Let me just say, when I was talking about 30 to 60 percent more for the rural areas than Anchorage, the Bureau of Labor Statistics has shown that Anchorage has a cost of living 64 percent higher than the national average. That compares with 8 percent for New York above the average and 11 percent for Boston above the average.

I thank you for permitting me to make this opening statement. I would be very anxious to hear from Treasury.

Senator BYRD. Thank you, Senator Gravel.

Mr. Sunley?

STATEMENT OF EMIL SUNLEY, DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY, ACCOMPANIED BY RONDAL BLANKENSHIP, DIRECTOR, LEGISLATIVE ANALYSIS DIVISION, PLANNING AND RESEARCH, INTERNAL REVENUE SERVICE

Mr. SUNLEY. Thank you, Mr. Chairman.

I am pleased to appear today to express the administration's position on S. 2554. Accompanying me is Mr. Rondal Blankenship, Director for Legislative Analysis of the Internal Revenue Service.

S. 2554 would provide special tax relief to taxpayers living in States where the income levels used for determining eligibility for certain Federal programs, such as food stamps, exceed the overall official poverty income levels by at least 15 percentage points. In such cases the zero bracket amount and the personal exemption would be increased by the same percentage as the administrative-program income level in that State exceeds the national poverty income level. The only States currently affected would be Alaska and Hawaii.

The objective of this bill is one that we understand and sympathize with as individuals and taxpayers. But the selective relief proposed is not sound tax policy and therefore the administration opposes S. 2554.

Our income tax is based on money income, not on real income measured in dollars of constant purchasing power. While a case can be made for a tax system based on "real" income, that is not the system we have and it would be unfair to adjust the tax base for cost of living differences of some taxpayers and not for others.

It is true that Anchorage and Honolulu have the highest costs of living of any cities in the United States for which such data are available. According to data published by the Bureau of Labor Statistics, for autumn 1976, the annual cost of an intermediate budget for a four-person family in Anchorage was 42 percent above the average for urban United States. The comparable figure for Honolulu was 21 percent.

But the cost of living in New York and Boston was not far behind. There is as much difference in the cost of living between Honolulu and Washington, D.C.—which is very near the average for urban United States—as there is between Washington, D.C. and Austin, Tex. The basic fact is that there is a wide divergence in living costs across the United States and to adjust for differences among some States and not those existing among others is inevitably unfair.

Varying the personal income tax exemption and zero bracket amounts by State would not adjust for intrastate variation in living costs, such as the difference between San Diego and San Francisco, Calif. A State adjustment would be arbitrary, understating costs for some places, typically cities, and overstating them for others.

However, to vary the exemption and zero bracket amounts for geographical areas smaller than a State would be an exceedingly complex change in our income tax system, even assuming adequate cost of living indexes could be developed. Currently there are no cost of living indexes for States as a separate geographical area.

Other questions of equity are raised by S. 2554. The tax saved through higher deductions provided by these bills would increase as income increases. The relief they afford would be determined by the highest bracket tax rate to which an individual's income is subject. Also these bills would provide no benefit to taxpayers who currently pay no income tax and these are probably the families and individuals who suffer the most from high living costs.

Among the many administrative problems raised by these bills would be the development of special rules for taxpayers who move during the year. S. 2554 provides that the speical zero bracket amount and personal exemption will only apply if the taxpayer maintains a household in the State and is physically present in the State for more than 210 days during the taxable year.

Under both bills, special withholding tables would be needed for Alaska and Hawaii and employers in Alaska and Hawaii would be required to use two sets of withholding tables since all of their employees would not be eligible for the tables provided for persons who meet the special residence requirements. Even employers outside Alaska and Hawaii might be required to use the special tables for their employees who meet the residence requirements for Alaska and Hawaii.

Mr. Chairman, these bills would reduce Federal revenues by $70 million per year.

Thank you very much.

Senator BYRD. Thank you, Mr. Sunley.

Senator Gravel?

Senator GRAVEL. Two areas. One, I did not realize that the amount of money was going to be as large as $70 million. If that is the case, our total population is 430,000. I do not know how many precise taxpayers we have. I would guess it is somewhere less than 100,000 people.

So can you break out the difference between what would apply in Hawaii and what would apply in Alaska? It seems like an awful lot of money coming out of Alaska.

Mr. SUNLEY. I do not have those numbers broken down but I will try to supply them for you.

[The following was subsequently supplied for the record:]

The estimates cited—i.e. $33 million for Hawaii and $37 million for Alaska—were developed by the Joint Committee on Taxation. The Treasury Dept. has no reason to question their estimates.

Senator GRAVEL. The figures I have here are $33 million for Hawaii and $37 million for the State of Alaska, so it would be about equal.

Our figures from our Alaskan Department of Revenue, and we will receive testimony from them later, States somewhere around $25 million and this figure has got $37 million, so between $25 and $37 million that is lost would come out of the State of Alaska.

Let me just give you some interesting figures here, just making one comparison. Using a 25-percent differential, which is what we are talking about—not actually the difference which is 64 percent—a family of four in the Lower 48 earning $20,000 a year would be comparable in terms of a standard of living for an Alaskan family earning $25,000 a year.

If each of these families files a joint return using the short form and takes the standard deductions, the Alaska family will pay $3,871 in tax while the Lower 48 family will pay $2,536 in Federal tax. The Alaskan family with the same standard of living will pay 53 percent more in Federal income tax than a Lower 48 family.

That is a lot. Then when you add on top of that that I am only talking about a 25-percent differential. If we are talking about the family of four that has a 60 percent differential, then a family of four that lives in Bethel, Alaska, where you have 120-percent differential, you are talking about somebody who has to pay over $1 a barrel for his fuel oil having to pay 120 percent more taxes than does the citizen in Washington, D.C.

In the face of those kinds of disparities and that apparent injustice, for the Treasury to say, well, it is too complex to work up a table and to talk in terms that our income tax system is based not upon real income but upon some other method I just do not find very persuasive.

We are supposed to have a graduated income tax system, that is those that are affluent pay more than those who are not so affluent. So, I find it very difficult to rely upon a system where, from a deduction point of view, you have a very regressive form of taxation. I can appreciate and sympathize with the loss of revenue, and I have joined my colleague in decrying many times the fact that we have a deficit budget.

But that is not the issue we are focusing on. It is not the problem of complexity, it is a simple matter of justice.

I wonder if you could comment on such a large disparity. I think you tactically took the best advantage by showing the minor disparity that may have existed between Hawaii and Austin, Tex. in comparison with Washington. But how do you face up to the disparity that might exist between Bethel, Alaska and Washington, D.C. where you have American citizens in one case both earning the same sum of money for the same standard of living and one paying over 100 percent more than the other, in effect?

Mr. SUNLEY. Let me first, if I may, Senator Gravel, reflect on the statistics that you used in your example, because I think those statistics overstate the extent of the problem. I can explain it as follows.

You assumed a family in the lower 48 States earns $20,000 and pays $2,536 in tax while a family in Alaska earns the same real income but has money income of $25,000 and pays $3,871 in tax, if I have your money correct.

Now, the difference in those two amounts of tax is, as you state was 53 percent higher in the amount of payment in tax, but their effective tax rate is not 53 percent higher. I believe that really is the important figure, that we should look at, because their money income is higher.

The effective tax rate for the family in the Lower 48 States was 12.68 percent, I believe, if I did my division correctly. So if the family with $25,000 of income paid taxes at that same rate, 12.68 percent, they would have paid $3,170 in tax. Now that is $701 mcre than they would have paid if they paid the same effective tax rate on the same real amount of income, and the increase in effective tax rate is not insignificant. It is 22 percent.

But I think it is still somewhat different than saying that the magnitude of the problem is 53 percent.

Senator GRAVEL. Would you run that by me again? You have succeeded in halving my figures, and I want to see how you do that. I am impressed with your little computer in front of you. Do that one more time for me, very slowly.

Mr. SUNLEY. The family in the Lower 48 States paid tax of $2,536 on $20,000 of income, for an effective tax rate of 12.68 percent. Now, we would believe that if a family in Alaska, under your assumption, earning $25,000 has the same real amount of income in the family in the Lower 48 with $20,000 in tax, that they ought to pay the same effective tax rate, namely 12.68 percent.

If they paid 12.68 percent on the $25,000 of money income, they would have paid a tax of $3,170.

Senator GRAVEL. I see what you have done to me. You have taken the tax of one and applied the percentage to it and applied the same percentage to Alaska. Fine. I will introduce a bill to do that and I hope the Treasury will support me in that regard. That will at least give me a toehold, but that is not what they are paying. The amount of tax that they are paying is $3,871.

So you lost about $700 on me real quick——

Mr. SUNLEY. Their effective tax rate is 15.48 percent so the increase in their effective tax rate due to the fact that our——

Senator GRAVEL. When they write a check for their $3,871 it gives them very little succor for you to tell them why, your effective tax rate is such and such. I think my comparison is still valid. This is what they pay. You cannot work some figures on one and then work it back on the other. This is actually what they pay.

Mr. SUNLEY. Yes, but they also receive more money income than the family in the Lower 48.

Senator GRAVEL. They receive $5,000 more and the cost of living is higher.

Mr. SUNLEY. If they had paid $3,170 in tax, which would be the same effective tax rate as the family that we have been talking about would pay in the Lower 48 States, then their amount of income after tax would be the same real amount as in the Lower 48 States. That is to say that they would have, after tax, 25 percent more money income as the family in the Lower 48 States have.

They have 25 percent more income before tax and 25 percent more after tax, and in some sense they are just as well off in real terms as the family in the Lower 48.

Senator GRAVEL. Well, first off, the tax is progressive so there is no cognizance of the fact that you have a higher cost of living, therefore you have to earn more at that level. You know, we could play games with the figures, but I would just say that 25 percent is not what the situation is, it is 64 percent. So double that and the sum of money differential, around $1,300, is more than valid. It would be more like $1,800. That is still a substantial sum of money for a family of four to have to pay more taxes because they choose to live in Alaska.

I have no further questions. I think it is obvious that the disagreement in opinion is very clear.

Senator BYRD. Let me ask Mr. Sunley, what do you envision the rate of inflation to be during calendar year 1978?

Mr. SUNLEY. During 1978, somewhere between 6 and 7 percent.

Senator BYRD. Now, the January price index went up by 0.8 percent. This is an annual rate of 9.6 percent—almost 10 percent.

Mr. SUNLEY. We are hoping that January will ~~not be typical~~ of the year.

Senator BYRD. Well, let me ask you this. In view of the tremendous deficit which the administration has recommended, and most persons will agree, I think, that a tremendous deficit is highly inflationary, what is the administration doing, or plannning to do, to hold down inflation?

Mr. SUNLEY. The President is aware of and we are concerned, about the size of the deficit that has been proposed in fiscal year 1979 and what is now anticipated for fiscal year 1978 which will end this September. These numbers are too high, and they are disturbing to us.

The President, I believe, has adopted an economic policy here——

Senator BYRD. Mr Sunley, let me get to my question. What are the administration's plans, if any, to hold down inflation?

Mr. SUNLEY. Well, I would like to say, Senator Byrd, that the President has moved to hold down the growth of Federal expenditures, and that this year——

Senator BYRD. What?

Mr. SUNLEY. To hold down the growth of Federal expenditures.

Senator BYRD. The growth, yes. You are dealing in semantics now. Is it not correct that the budget which the President submitted calls for a $38 billion increase in Federal expenditures?

Mr. SUNLEY. That is correct, Senator Byrd. It may even be $39 billion, just looking at this table here; $38 or $39 billion.

In real terms, however, this increase is only 2 percent and it is the smallest increase— -

Senator BYRD. The increase in dollars is 9 percent. The administration recommends an increase in the cost of Government at 9 percent.

Mr. SUNLEY. In money terms, yes.

Senator BYRD. Now, if the cost of Government is going to increase 9 percent, how are you going to hold inflation below 9 percent?

Mr. SUNLEY. Well, I am saying that given the assumption of approximately 6- to 7-percent inflation, the real growth is only 2 percent and the share of the total national product being spent by the Government is declining, so that the role of Government is declining in the economy.

Senator BYRD. The role of Government is declining?

Mr. SUNLEY. As a percent of the total gross national product.

Senator BYRD. My guess is that if you go up and down Main Street of any community in this country of ours and query 10 people, 9 out of those 10 people would say that the role of Government is expanding in this country. And it is expanding. It is expanding in every area.

I do not think it is correct at all to say that the role of Government is diminishing. The role of Government is clearly expanding.

Let me ask you another question.

The President has recommended a tax reduction in individual income taxes of $22 billion. If, instead of using the President's plan, there were to be an across-the-board 10 percent rate reduction, would not such a reduction involve the same, or perhaps less, revenue loss than the President's proposal?

Mr. SUNLEY. Across-the-board reduction in what?

Senator BYRD. In personal income tax.

Mr. SUNLEY. Approximately, yes. The individual income tax receipts are now estimated at $190 billion with the President's program, so 10 percent of what it would have been without the program would have been $20 billion, $21 billion, yes, I think that is correct.

Senator BYRD. In other words, a little bit less than what the President recommended?

Mr. SUNLEY. I believe so.

Senator BYRD. Or, to phrase it another way, the Congress, if it so desired, could give a 10 percent across-the-board tax rate reduction to all individual income taxpayers at a slightly less cost than the President's $22 billion tax reduction?

Mr. SUNLEY. The $22 billion figure, I am not exactly certain of what figure you are referring to. The President has proposed gross individual tax reductions of, I believe, $23.5 billion and this is offset by some revenue raising reforms that the President has proposed. And so the net reduction for individuals is $16.8 billion.

Now, there are additional income tax reductions being proposed for corporations so that the net income tax reductions, both individual and corporate, are approximately $23 billion.

Senator BYRD. But leaving out the presumed offset caused by the so-called "reforms," the reduction as proposed by the President is roughly $23 billion?

Mr. SUNLEY. The gross tax reduction proposed for individuals is approximately $23 billion.

Senator BYRD. Thank you, sir.

Senator GRAVEL. I would like to add just one brief statement.

When we talk in terms of the effective tax rate, the same points that you are making on a national scale I would make on an Alaskan scale. I think it is real people and real income. I can appreciate the argument that you make of the effective rates.

But I think what we spend, what we take home, what we save and what we enjoy is based on what we have in our hand.

Thank you.

Mr. SUNLEY. Thank you, sir.

Senator BYRD. Our next witness will be Mr. Edward Hollander, senior vice president, Robert R. Nathan Associates, Inc.

STATEMENT OF EDWARD HOLLANDER, SENIOR VICE PRESIDENT, ROBERT R. NATHAN ASSOCIATES, INC.

Mr. HOLLANDER. Good morning, Mr. Chairman. I am Edward D. Hollander, senior vice president of Robert R. Nathan Associates, an economic consulting firm based in Washington.

Before joining Nathan Associates I spent many years in the Department of Labor, specifically in the Bureau of Labor Statistics where I was, for some years, in charge of the price index and the consumer income and expenditure studies, so I feel that I have worked intensively in the past.

I believe you have a short statement which I have supplied for the record.

Senator BYRD. Yes, that will be published in the record in full.

Mr. HOLLANDER. I thought that I might conserve your time by simply summarizing the points.

Senator BYRD. Yes, thank you.

Mr. HOLLANDER. We did a study completed in September, 1976 entitled "The Cost of Living in Alaska and Federal Poverty Programs," which was prepared for the Alaskan statewide antipoverty agency and for the State of Alaska.

As the title of the study indicates, its purpose was to assess the appropriateness for Alaska of the income guidelines for Federal programs in view of the actual cost of living of the poor people in the State.

In the course of this study, it became apparent that Federal taxes were an important factor in the higher cost of living in Alaska and that this tax impact on the cost of living was relatively more severe for families with low income.

I will summarize the findings of the study which are relevant to this tax issue.[1]

First, the cost of living in Anchorage for a family with a moderately low income is about 60 percent higher than the average cost for a comparable standard of living in the United States. This degree of differential in the cost of living for Anchorage is on a magnitude much greater than that in other places in the United States. That is to say, if you take other places in the United States, the range from high to low is much less than the difference between the U.S. average and Alaska.

The cost of living for Anchorage understates the difference for all Alaska when compared with the United States because costs are even higher in most other Alaskan cities and especially in rural areas.

[1] The study was made a part of the official committee file.

Finally, families in Alaska with modest and low incomes are estimated to have a higher cost of living index—that is to say compared with similar families in the United States—than do those of Alaskans with higher incomes. In other words, the lower the income, the greater the differential between the cost of living in Alaska and in the United States.

Housing and taxes are the two items in the family budget most responsible for the relatively high cost of living for Alaskan families with low income. The reason for the high cost of housing are obvious in view of the climate and the extremely high cost of building and maintaining and heating houses.

As far as taxes are concerned, Federal income taxes for low income families are at least 2.5 times as great as they are for families of a comparable standard of living in the United States. I wanted to illustrate this with a reference to the lower cost budget of the budgets for 4-person families published by the Bureau of Labor Statistics.

The BLS estimates that the lower-budget Anchorage family, that is, the Anchorage family of 4 persons maintaining a level of living representing that lower budget spend in excess of 50 percent more to maintain itself than its counterpart with a similar standard of living in the rest of the United States.

In dollars, these amounts were in 1976, $16,492 for Alaska and $10,041 to maintain the same level of living in all urban areas in the United States.

Now, to make this statistic in terms of income taxes we found, we calculated, that the family of four living at a level of living represented by the lower family budget of the Bureau of Labor Statistics paid $825 in personal income taxes, including State and local income taxes, in the United States as a whole and $2,214 in personal income taxes, Federal, State and local, in Alaska. So this is a difference, roughly, of $1,400.

In addition, there is a difference of $350 in the social security taxes.

This is obviously the effect of the fact that the family in Alaska has to have a higher money income in order to support the same level of living and because of the graduated nature of the income taxes they pay a disproportionately higher amount of personal income taxes.

That summarizes the statement.

Senator BYRD. Thank you, Mr. Hollander.

Senator Gravel?

Senator GRAVEL. His entire statement will be in the record?

Senator BYRD. Yes. His statement will be in the record.

Senator GRAVEL. How would you, Mr. Hollander, approach the statement that was made by the gentleman, Mr. Sunley, from the Treasury where he talks in terms of effective rate, real rate. I know how I feel about it, but I wonder if you might comment on his statement.

Mr. HOLLANDER. Well, the graduated scale of income taxes and the personal exemptions, deductions, and so on, which are incorporated in the Revenue Code presuppose a fairly homogeneous level of income from one part of the United States to another.

Now, it is true, as he said, that there are distinctions between the highest outside of Alaska and Hawaii, I think in Boston, and the lowest which may have been some nonmetropolitan area in the South, but these differences are relatively small and tolerable, partly because they are a reflection of differences in the cost of living. In the United States, the generalization is that the cost of living is somewhat lower in rural areas than in cities, and of course, incomes are somewhat lower also.

But the reverse of this is true in Alaska. Not only is there a very large gap of an order of magnitude in the cost of maintaining any given level of living described by any specified budget between Anchorage and the average for the United States, but, in the rest of Alaska, both in the cities and in rural areas, the cost of living is not lower than it is in the continental United States, but higher than the principal cities.

So these differences are of such a wide magnitude that it does not seem to me to be quite relevant to say that there are differences in cost of living in the continental United States also. This is a different animal.

Senator GRAVEL. I was struck and I really wanted to underscore what you stated that there were two main reasons for the high cost of living in Alaska. One is housing. Of course, that is an economic problem. And the other is taxes and that, of course, is another problem of another dimension.

I wonder if you could just underscore that and further elaborate the fact that the economic burden in Alaska is that big. I am surprised myself that the taxes would loom as big a burden as the extra cost of housing.

Mr. HOLLANDER. This is a reflection, as the official from the Treasury said, of the graduated income taxes, which you remarked, I think, in your opening statement. The difference in the dollar cost of maintaining the same standard of living was approximately 64 percent or $6,500; the difference in taxes was something like—was nearly $3,200.

So that the income after taxes of the Alaska family is much lower in real terms, that is to say, purchasing power, than the comparable income after taxes in the families in the continental United States.

Senator GRAVEL. And this, of course, progressively works harder on those of lesser income.

Mr. HOLLANDER. Because the differential in the cost of living is even greater among them than it is among the—on the average.

You can do a little arithmetic. If you note that roughly $6,400 differential in income before taxes and then subtract the $3,200, which is half of that differential, represented by the excess in taxes paid, the differential is reduced 32 percent which is far below the differential in living costs between Alaska and the rest of the United States.

There is no doubt that there is an order of magnitude of difference here between Alaska and the rest of the United States as compared to any difference within the continental United States.

Senator GRAVEL. And the only way to give some type of justice as a result of that would be the legislation that I have introduced.

I want to thank you and your firm, because it was the Nathan report that I believe triggered our interest in this and began our efforts in trying to focus on some degree of equity. Whether or not we are successful with this, I think we have launched it in one whole direction where a lot of people have had an attitude about our affluence in Alaska when the facts are quite different from what the perceptions are that have been spectacularized as a result of oil discoveries.

Mr. HOLLANDER. We researchers are always happy when there is some practical application of our——

Senator GRAVEL. Well, this will have a practical application. It may take us 20 years, but it is going to have a lot of application.

Senator BYRD. Thank you, Mr. Hollander.

[The prepared statement of Mr. Hollander follows:]

STATEMENT OF EDWARD D. HOLLANDER, SENIOR VICE-PRESIDENT, ROBERT R. NATHAN ASSOCIATES, INC.

Mr. Chairman, I am Edward D. Hollander, Senior Vice-President of Robert R. Nathan Associates, Inc. (RRNA), an economic consulting firm based in Washington, D.C. and conducting economic research in many areas of the world. Since 1972 RRNA has been responsible for a number of projects in Alaska, conducted for various organizations of Alaskan Natives and for government agencies such as the Department of the Interior.

I have been asked by Senator Gravel to report on some findings from a study our firm completed in September, 1976 entitled: "The Cost of Living in Alaska and Federal Poverty Guidelines." This study was prepared for Rural CAP (the Alaskan statewide, anti-poverty agency) and for the State of Alaska Division of Community Services, Department of Community and Regional Affairs. As the title of our study indicates, its purpose was to assess the appropriateness for Alaska of the income guidelines of federal programs, in view of the actual costs of living for poor people in the state. In the course of this study, it became apparent that federal taxes were an important factor in the higher cost of living in Alaska, and that this tax impact on the cost of living was relatively more severe for families with low incomes. I will summarize and then explain the findings of our study, updated in light of more recent information, which are relevant to this tax issue.

The cost of living in Anchorage, Alaska, for a family with a moderately low income is about 60 percent higher than the average cost for a comparable standard of living in the United States as a whole.

This degree of differential in the cost of living for Anchorage is of a magnitude much greater than that among other places in the United States.

The cost of living for Anchorage understates the difference for all of Alaska compared with the rest of the United States, because costs are even higher in most other Alaska cities and in rural areas.

Families in Alaska with modest and low incomes are estimated to have a higher cost-of-living index (based on a comparison with similar families in the United States as a whole) than do those in Alaska with better incomes.

Housing and taxes are the two items in the family budget most responsible for the relatively high cost of living for Alaskan families with low incomes. Federal income taxes for such families are at least two and a half times as great as for families of a comparable standard of living in the lower 48 states.

Estimates of the cost of maintaining the same standard of living in different parts of the United States are made by the Bureau of Labor Statistics (BLS). In the most recent BLS report, an annual "Lower Budget" for a four-person family in Anchorage receives an index rating of 164 (the average for the United States as a whole is set at 100).[1] That is, the BLS estimates that a lower budget Anchorage family of four spends an excess of 60 percent more to maintain itself than its counterpart with a similar standard of living in the rest of the United States. The actual dollar amounts are $16,492 for Anchorage and $10,041 for the annual budget in all U.S. urban areas.

[1] Bureau of Labor Statistics, "Autumn 1976 Urban Family Budgets and Comparative Indexes for Selected Urban Areas," (USDL; 77-369), Apr. 27, 1977. These BLS statistics are for a hypothetical, but precisely defined urban family with a pattern of consumption which seems to be reasonable on the basis of surveys of consumer expenditures. The BLS budgets, however, do not purport to represent how families actually do spend their money. The BLS estimates are useful for broad comparisons of costs in different geographical areas and in different time periods. Small differences of a few index points probably should not be considered as being significant. BLS budget estimates are also published for "Intermediate" and "Higher" budget families of four persons and for the different budget levels of retired couples. The "Lower-Budget" family of four provides the most appropriate comparison for issues relating to low-income families in Alaska.

This magnitude of difference is unique among the places included by the BLS in the estimates for a "Lower-Budget" family of four persons:

Highest index in the United States—Anchorage	164
Second highest index—Honolulu	127
Third highest index—Boston	111
Average—All cities	100
Lowest index—Nonmetropolitan urban areas in the South	88

Within the continental United States, no index number differs from the average by more than 12 points.

The BLS estimate of the Anchorage cost of living being more than 60 percent above the U.S. average understates the difference for Alaska as a whole. The cost of goods and services in other Alaskan cities and especially in the rural areas is considerably higher than in Anchorage. This higher rural cost of living is indicated by various surveys within Alaska; it is recognized by a wide range of institutional adjustments, including the cost-of-living entitlements for employees and programs of the state government and the per diem allowances for federal employees. By contrast, rural areas in the rest of the United States invariably have a lower estimated cost of living than urban centers.

The BLS index also underestimates the difference in costs facing families in Alaska with incomes near the poverty level compared with a similar standard of living in the United States as a whole. We can observe a pattern in which the relative differences in the cost of living in Alaska (again, in comparison with the United States as a whole) are greater for families with lower incomes. For example, for a four-person family in Anchorage, we observe the following differences in the estimated cost of living index for three BLS budget levels:

Lower Budget	164
Intermediate Budget	142
Higher Budget	140

While the BLS Lower-Budget family provides a useful first indicator of cost-of living differences faced by poor families in Alaska, it is by no means a poverty-level budget. According to the official guidelines used by the Community Services Administration, the poverty level in Alaska for a non-farm family of four begins at $7,320 annual income, compared with an annual income of $16,492 for the BLS Lower-Budget estimate.[2] In the RRNA study based on 1975 data, we calculated that the cost-of-living index for a poverty-level family in Anchorage with an earned income would be even higher than that for families with incomes at the BLS Lower-Budget level.

The pattern of lower-income families in Alaska paying relatively more to maintain themselves than those with higher incomes is explained mainly by two budget items: the especially high cost of rental housing in Alaska, which weighs heavily in lower-income budgets; and the much higher personal income taxes paid by lower-budget families in Alaska, compared with families at a similar standard of living in the rest of the United States.

For 1976, the BLS lower budget family in Anchorage is estimated to pay $3,174 annually in personal income taxes and Social Security, or $1,745 more than its standard-of-living counterpart in other urban areas. The details of the comparison of these are as follows:

TABLE 1.—PERSONAL INCOME TAX OF A BLS LOWER BUDGET FAMILY OF 4 IN ANCHORAGE, ALASKA COMPARED WITH AVERAGE FAMILY IN U.S. URBAN AREAS

Kinds of tax	BLS lower budget family in U.S. urban areas, average personal income tax	BLS lower budget family in Anchorage, personal income tax: Amount	Percent above U.S. average
Social security and disability payments	$604	$960	59
Personal income taxes (including state and local income taxes [1])	825	2,214	68

[1] In calculation RRNA made for similar levels of income and taxes in Alaska in 1975, 84 percent of the personal income tax was the Federal tax; 16 percent was state tax.

Source: BLS data

[2] The CSA guideline provides only a 25-percent adjustment for Alaska above the comparable $5,850 standard for the lower 48 States. If this adjustment were at least 60 percent instead, that is, at the approximate level of the estimated real difference in living costs, the poverty level for a family of four in Alaska would be $9,360, rather than $7,320.

It is quite straightforward to explain why the federal income tax is so much higher for families in Alaska than for those in the rest of the United States with a similar standard of living. Wages and expenses are higher for the Alaskan families, but in the determination of their tax, these families receive the same absolute amounts of personal and family exemptions as others in the United States. As a result, the Alaskan family has a larger taxable income and also pays at a higher tax rate on these additional dollars.[1]

This inequity in the federal income tax determination is even greater for the working poor in Alaska. To use an example from the RRNA study, based on 1975 tax returns:

A four-person lower-48 family with a $5,500 taxable income receives $3,000 in exemptions and has taxable income of only $2,500, on which it can take the standard deduction or other deductions. The Anchorage family with an equivalent income of $8,800 gets only the same $3,000 in exemptions and has a taxable income before deductions of $5,800, more than double that of lower-48 counterpart. Thus an Anchorage family of four at the poverty level paid almost $700 more in federal income and Social Security taxes in 1975 than a family in the lower 48 with an equivalent income.

Senator BYRD. Our next witness will be Mr. Michael I. Sanders. Welcome, Mr. Sanders. You may proceed as you wish.

STATEMENT OF MICHAEL I. SANDERS, ESQ., GINSBURG, FELDMAN & BRESS

Mr. SANDERS. Thank you, Mr. Chairman. My name is Michael I. Sanders. I am a partner in the Washington, D.C. law firm of Ginsburg, Feldman & Bress. I appear today in my individual capacity, not on behalf of any client or organization to present testimony with respect to S. 2554.

This bill provides for adjustments in the so-called zero bracket amount and the personal exemptions for individuals who are residents of States having a poverty level which is 15 percent above the poverty level prevailing in most States. Although the legislation would initially benefit residents of Alaska and Hawaii, it is important to note that it would be equally applicable to residents of any State whose poverty level exceeds the national poverty line by 15 percent or more.

I looked at two questions: First, whether the enactment of S. 2554 would be consistent with the tax policies embodied in current Federal law and second whether the legislation would increase the complexity of the tax laws in an unwarranted fashion.

First, since 1964 Congress has followed the policy that those whose incomes are below the poverty level should be exempt from Federal income tax. Indeed, Congress has been well aware of the impact of inflationary price increases on the purchasing power of the poor.

Historically, this policy has been reflected by increasing and adjusting the standard deduction to such a level that, when combined with the personal exemption, taxpayers below the poverty level are exempt from tax. In effect, a tax threshold has been established.

This policy was reflected in the Tax Reduction and Simplification Act of 1977 which introduced the zero bracket amount concept, replacing the low-income allowance.

The thrust of S. 2554 can be viewed as an attempt to refine this established policy of a tax threshold roughly equal to the national poverty level to take into account the fact that the poverty level in some States may differ substantially from the national poverty level.

[1] It should be noted that Federal employees in Alaska do not face the same disadvantage, since their cost-of-living adjustment above their base salary (COLA) is not taxable.

Such difference in poverty levels are now recognized by the Office of Management and Budget. OMB now recognizes poverty levels in Alaska and Hawaii which are 25 and 15 percent, respectively, above the poverty levels for the other 48 States.

Now, although our tax laws have not, in the past, recognized regional disparities explicitly in the context of a tax threshold, Congress has, on several occasions established precedents for taking such disparities into account through the tax laws and otherwise when a clear need, rather than a minimal variation, is demonstrated.

In this regard, and I go into it in some detail in my statement, code section 165(h), for example, provides special relief for a taxpayer who sustains a loss attributable to a disaster in an area that is determined by the President to warrant such assistance.

Another example, 5 U.S.C. 5702(c) permits the General Services Administration to reimburse government employees at a higher per diem rate for travel to high-rate geographical areas so designated in the regulations.

Another example is the small issue exemptions for industrial development bonds. At present, that exemption is limited to $5 million with no geographical distinction. However, the President, in his 1978 tax reform proposal proposes to eliminate the exemption in general, but in designated economically distressed areas, he would leave the exemption in effect with the present limit doubled to more than $10 million.

There are a number of other illustrations in the tax law of congressional efforts to help the poor—I offer as illustrations the special provisions regarding low-income rental housing, Section 167(k), section 1039 and section 1250, I offer as illustrations. Consistent with these provisions, the provisions of S. 2554 in my judgment will effectuate more fully the congressional policy of equating the Federal income tax threshold with the poverty level.

One further comment. A second issue, in response to those who would argue that enactment would increase the complexity of our law, it is important to recognize that this bill requires a rather substantial deviation, 15 percent, in the national poverty level, before its relief provisions become operative.

Minor variations in poverty levels from State to State would be disregarded under the bill. Only a substantial deviation, such as 15 percent, is desirable so as to prevent the introduction of multiple poverty levels and thus administrative complexity to the law where there is no significant inequity.

This is a case, in my view, of balancing important tax equity or social policy considerations versus, in this case, secondary tax simplification consideration.

Thank you.

Senator BYRD. Thank you, Mr. Sanders.

Senator Gravel?

Senator GRAVEL. I think the tax simplification can be done within the computers of government; it need not be foisted upon the individual.

Mr. SANDERS. Agreed.

Senator GRAVEL. There is one point that struck me while you were talking when you alluded to it. Again, I would like to underscore it, and please make comment if you feel you want to. And that is, when we talk about the disparity in how we are handled, and we talk about consistency in the tax code, we are told that this would be inconsistent if we made these changes based upon real income. Well, that is exactly what we legislate all the time, as I view it.

When a company comes in here and is getting some horrendously unfair impact from tax law, we sit here in the Finance Committee and we pass laws trying to correct that unfair burden that these people are subjected to. And here we have a case where we have a situation by design where poor people in one part of the country do not have to pay any taxes and poor people in my State have to carry the burden of taxation, and where the average citizen carries what appears to be a very unfair burden.

And the fact that the Nathan study pointed out that the two highest contributing elements to the high cost of living in Alaska are one, housing, and two, Federal taxation. I think that is a very, very revealing thing, and so you point out about disaster relief that we get and how GSA can do it or how we give a 10 percent tax credit to incite employment in areas, these are all individual things, manipulations of the tax code to arrive at certain aims.

I wonder if you might comment, if you care to, on this.

Mr. SANDERS. Well, I agree. Real income is critical in understanding the congressional policy in this regard of weighting this threshold with the poverty level. Congress has, many times, recognized this in the past, especially illustrating this in the low-income housing area where there are many benefits, and I go into it in detail in my statement, to encourage construction and rehabilitation of low-income rental housing. That makes this very distinction. Real income is critical, especially when you are dealing with those individuals at the poverty level.

Senator GRAVEL. Thank you very much. I think your statement is very clear and I have no further questions. I thank you for coming forward.

Mr. SANDERS. Thank you.

Senator BYRD. Thank you, Mr. Sanders.

[The prepared statement of Mr. Sanders follows:]

STATEMENT OF MICHAEL I. SANDERS

Mr. Chairman, my name is Michael I. Sanders. I am a partner in the Washington, D.C. law firm of Ginsburg, Feldman & Bress. I appear today in my individual capacity, and not on behalf of any client or organization, to present testimony with respect to S. 2554, a bill which was introduced by Senator Gravel on February 22, 1978. At the request of Senator Gravel, I have analyzed S. 2554 and I appear today, to present the results of my analysis to the Subcommittee.

S. 2554 is a modification of similar legislation introduced earlier in the 95th Congress by Senator Gravel as S. 1978. I am informed that the modified bill has been drafted in such a way as to eliminate the questions raised by some as to its Constitutionality. I am further informed that these doubts have now been resolved and my analysis has been confined to the provisions of the modified bill, S. 2554.

Briefly, S. 2554 provides for adjustments in the so-called "zero bracket amount" and the personal exemptions for individuals who are residents of States having a poverty level which is 15 percent above the poverty level prevailing in most States. The legislation would initially benefit residents of Alaska and Hawaii, but it would be equally applicable to the residents of any State whose poverty level exceeds the national poverty line by 15 percent or more. My analysis has focused upon two questions. First, whether the enactment of S. 2554 would be consistent with the tax policies embodied in current law. Second, whether the legislation would increase the complexity of the tax laws in an unwarranted fashion.

As to the first question, it appears that since 1964 Congress has followed the policy that those whose incomes are below the poverty level should be exempt from Federal income tax. Historically, this policy has been reflected by increasing the standard deduction to such a level that, when combined with the personal exemption, taxpayers below the poverty level are exempt from tax. This policy was explicitly referred to in 1976 by the Finance Committee when it voted to make earlier increases in the standard deduction permanent as part of the Tax Reform Act of 1976. As a partial rationale for this decision, the Finance Committee's Report states that absent such action "the income tax threshold would fall substantially below the poverty level." S. Rep. 94–938, 94th Cong., 2d Sess. 119 (1976).

More recently, this policy was reflected in the Tax Reduction and Simplification Act of 1977, which introduced the "zero bracket amount" concept. Specifically, the Report of the House Ways and Means Committee on the 1977 Act said: "In the past, the Congress has used the minimum standard deduction . . . to establish, in conjunction with other provisions, the tax-free income level approximating the poverty level."

A somewhat similar statement appears in the Report of the Senate Finance Committee with respect to such legislation.

The thrust of S. 2554 can be viewed as an attempt to refine this established policy of a tax threshold roughly equal to the national poverty level to take account of the fact that the poverty levels in some States may differ markedly from the national poverty level. Such differences in poverty levels are now recognized by the Office of Management and Budget and I am informed that OMB now recognizes poverty levels in Alaska and Hawaii which are 25 and 15 percent respectively above the poverty level for the other 48 States.

Although our tax laws have not heretofore recognized regional disparities explicitly in the context of a tax threshold, Congress has on several occasions established precedents for taking such disparities into account through the tax laws and otherwise when a clear need—rather than a minimal variation—is demonstrated. For example, Code section 165(h) provides special tax relief for a taxpayer who sustains a loss attributable to a disaster in an area which is determined by the President to warrant such assistance. Also, 5 U.S.C. §5702(c) permits the General Services Administration to reimburse government employees at a higher per diem rate for travel to "high rate geographical areas" so designated in the regulations.

There is at least one very recent example of the desire to take into account special economic circumstances based upon regional needs through the tax laws. The example to which I refer is part of the President's 1978 tax reform proposals, relating to the small issue exemption for industrial development bonds. At present, that exemption is limited to $5 million, with no geographical distinctions. However, the President proposes to eliminate the exemption in general; but in designated economically distressed areas, he would leave the exemption in effect with the present limit doubled to $10 million.

Congress has on a number of occasions utilized the tax laws as a means to ameliorate the hardships of low income citizens; for example, Congress has consistently provided special rules in order to encourage construction and rehabilitation of low income rental housing. See, e.g., Code section 167(k), which provides a special accelerated depreciation rule for expenditures to rehabilitate low income rental housing; Code section 1039, which permits sellers of low income housing projects to defer recognition of the gain under certain circumstances; and Code section 1250, which provides liberalized rules with regard to recapture of depreciation on low income rental housing.

The provisions of S. 2554 can be viewed as expressing similar concerns, and also as expressing a desire to effectuate more fully the Congressional policy of equating the Federal income tax threshold with the poverty level.

It is important to recognize that S. 2554 requires a rather substantial deviation—15 percent—from the national poverty level before its relief provisions become operative. Minor variations in poverty levels from State to State are thus disregarded under the bill. A substantial deviation such as 15 percent is desirable so as to prevent the introduction of multiple poverty levels into the tax system where there is no significant inequity.

To summarize, the provisions of S. 2554 can be viewed as a refinement of a previously established tax policy to exempt individuals below the poverty level.

Having made this tax policy on several occasions in the past, the Congress could regard S. 2554 as consistent with that policy.

From the standpoint of tax simplification, it can be seen that most of the additional burdens imposed by the bill would be placed upon the Treasury and not upon taxpayers generally. Given the 15 percent test embodied in S. 2554, it would appear that even these burdens would not be widespread since but a few States would be affected. In any event, there is frequently imposed upon the tax-writing committees the burden of balancing tax equity considerations against tax simplification considerations. Should the Committee conclude that tax equity considerations require adjustment of the tax threshold in cases where there are substantial deviations from the national poverty level, achievement of equity may well overbalance the additional administrative duties imposed upon the Treasury.

There is one further point. If S. 2554 is adopted, it may be necessary or desirable to modify it to prescribe special tax tables to assure that individuals in those States to which the bill applies and whose income is slightly above the adjusted "zero bracket amount" will first be taxed at the lowest tax rate of 14 percent. This does not appear to occur under the current draft of the bill.

To summarize, S. 2554 can be viewed as consistent with the current tax policy of equating the tax threshold with the poverty level and as involving attempt to apply that policy more equitably by taking into account those situations where the deviation from the national poverty level is substantial. So long as the triggering deviation is substantial, the administrative burdens may not be insurmountable and there will be little chance of a multiplicity of "zero bracket amounts" and personal exemption levels.

Senator BYRD. The next witness is a public official of the great State of Alaska, Mr. Sterling Gallagher.

We are glad to have you in Washington, Mr. Gallagher. I guess you left warmer weather than you have come to, have you not?

Mr. GALLAGHER. I am afraid that is true, sir.

Senator BYRD. You may proceed as you wish.

STATEMENT OF STERLING GALLAGHER, COMMISSIONER OF REVENUE, STATE OF ALASKA

Mr. GALLAGHER. For the record, I am Sterling Gallagher. I am commissioner of revenue for the State of Alaska.

I have a rather long and involved statement.

Senator BYRD. Your statement will be published in full in the record.

Mr. GALLAGHER. There are a few things I would like to point out in it. On one of the back pages there is a table of where the cost of living has gone in the last—on page 7—where the cost of living has gone in Alaska for the last 4 years, and it points out that for a family of four with a lower income, during the pipeline boom the cost of living for a lower income family was at 147 percent of the south 48. During that period, it went up to 164.

Now, this is based on Anchorage. Let me give you an example of—there are also statistics on what the cost of living is in various areas in Alaska. There is one index put out by "Alaska" magazine that has just the cost of food. The cost of food—and it describes the comparision with Seattle.

Anchorage is, I think, 122 in comparison to Seattle. And Anchorage and Ketchikan and Juneau are all around 122 to 124. Fairbanks is 134. We have cities, like Nome, that are in the 190 range in the cost of food with comparison to Seattle.

So these more rural areas, the cost of living is far worse than even these charts show. They might be as high as 50 percent higher.

We realize that the Senator's bill just tries to make an adjustment for the region, but there are people in the State of Alaska whose cost-of-living is even 50 percent worse than this situation.

So any adjustment, I think, is well worthwhile.

Also, the Federal Government recognizes the legitimate cost-of-living differentials by giving a cost-of-living allowance to Federal employees. In fact, Federal employees are a very privileged class in Alaska. They get 25 percent extra in their income and it is tax exempt. No other citizen in Alaska will get that.

That is a real advantage. After you give a tax break to that, that comes back out to about 140. That is something that has been recognized.

Senator BYRD. Thank you, Mr. Gallagher. Let me ask you this. In Alaska, is the commissioner of revenue an elected office?

Mr. GALLAGHER. I am appointed, sir, by the Governor.

Senator BYRD. Appointed by the Governor.

Mr. GALLAGHER. I serve at his pleasure.

Senator BYRD. Do you happen to know the total assessed value of all of the private property in Alaska?

Mr. GALLAGHER. If you include the pipeline, it is $19 billion.

Senator BYRD. I beg your pardon?

Mr. GALLAGHER. If you include the pipeline, sir, it is $19 billion.

Senator BYRD. $19 billion?

Mr. GALLAGHER. Including the pipeline.

Senator BYRD. What is the value of pipeline?

Mr. GALLAGHER. $10 billion of that.

Senator BYRD. $10 billion out of the $19 billion? That is very interesting.

Mr. GALLAGHER. Sir, 2 years before the pipeline the assessed value in the State was $6 billion and it went through a high inflation and all the assessors came out and got us again and at the end of a 2-year period, we went from $6 to $19 billion.

Senator BYRD. You are assessed at 100 percent of value?

Mr. GALLAGHER. Yes, sir. By the constitution.

Senator BYRD. Thank you very much.

Senator Gravel?

Senator GRAVEL. I would, by a way of question, could you elaborate on how we tax, the way our State tax works as a percentage of Federal tax, and what would be the impact if we were to try to effect greater justice at the Federal level?

Mr. GALLAGHER. Our State tax is a piggyback on the Federal system, so whatever tax law you pass for the Federal system, we also give a similar break to the State citizen. Our tax is equivalent to about 20 percent of the Federal tax. So we estimate that the impact on Alaska will be $25 million for the Federal Government and an additional $5 million for the State government.

Senator GRAVEL. So that when this committee passes a credit or changes the tax law, we are essentially acting to that same percentage or degree on behalf of the citizen of Alaska in tax policy.

Mr. GALLAGHER. Yes, sir.

Senator GRAVEL. So in arriving at justice in the cost of living, 25 percent change at the Federal level means a 5 percent change at the State level?

Mr. GALLAGHER. Right. It would give the citizen approximately a 30 percent break.

Senator GRAVEL. I wonder if you could submit for the record—maybe we already have it—how you arrived at those figures of $25 million. That is a variant from the Treasury which had it at over $70-some-odd million for both Hawaii and Alaska and I think the break-out was $37 million, for Alaska. So there is a $12 million difference with respect to your figures and the Federal figures.

Mr. GALLAGHER. I will be happy to do that for you, Senator. It was developed by my revenue estimating section.[1]

Senator GRAVEL. I wonder if you would comment on the attitude of Alaskans toward taxation. I know that nobody loves to pay taxes, but obviously if we want to provide certain services, we have to pay taxes. But with respect to this particular issue, the high cost of living, high income, in terms of the tax burden?

Mr. GALLAGHER. I expected when I took this job that I would find a real aversion to—you know, more taxpayer resistance than I have found. People do not mind paying taxes if the goals are legitimate and things like that.

When it comes to the cost of living, the cost of living has a severe impact with what you think is legitimate spending. In the rural areas, where the cost of living is even 50 percent higher, taxation in those areas of the State is a much more volatile issue than it is in the urban areas.

In the urban areas, taxation is not nearly as volatile a subject.

I can gage the impact of the cost of living very well that way in the State. In the rural areas, they go to war over taxation issues, where urban areas are much quieter.

Is that a way of answering the question?

Senator GRAVEL. Yes.

The other point that I was just thinking about while you were talking was many times we see published in U.S. News & World Report and others that they are trying to measure the effort by various citizens of various States, you know, where do you rank in your tax effort.

Now, if you are familiar with these types of comparisons, do they take cognizance of this discriminatory feature where we pay, according to Nathan and Associates, 2½ times more just in the income tax alone? Has your Department made any comparability studies or analysis in this regard, because what I have seen is in the last one we came off very poorly in tax effort. But I suspect that there is no cognizance given with what we are talking about on this particular issue.

Mr. GALLAGHER. The real way to look at tax effort is to look at a percentage of personal income and the statistics I have seen on the State level were, if you include oil taxes, were up around the No. 1. If we include personal effort we are down about 30. But when you add, I think, the Federal burden to it, we rapidly rise back up to the top of the heap again.

[1] At presstime May 15, the material had not been received by the committee.

Senator GRAVEL. I have some information that I would like to put into the record and I might really commend your office to maybe initiate some kind of a comparative study on that. It would help us back here tremendously.

Mr. GALLAGHER. I would be happy to do that.

Senator GRAVEL. Not only on this particular legislation but, I think, as people perceive us in Alaska.

Mr. GALLAGHER. We have a good handle, Senator, on just what—we have a very good working relationship with the Internal Revenue Office there and between the two of us we can get the data.

Senator GRAVEL. I think that is because of your personal attention and the good will that you have established.

I want to thank you very much for coming forward. It was just good, since we had the Commissioner here on other matters at this time, that we were able to get him to reinforce this hearing.

Senator BYRD. I am glad the Commissioner could be here today. In Virginia we have a tax segregation system which means that the localities tax real property and tangible property. The State taxes intangible property and neither jurisdiction taxes the type of property allotted to the other jurisdiction.

How does your system compare with that?

Mr. GALLAGHER. Sir, the State of Alaska has only reserved one taxing power onto itself and that is the power for income tax. We have delegated to the local municipalities the power of property and sales tax.

Senator BYRD. Property and sales tax?

Mr. GALLAGHER. Property and sales tax. We are very unusual among the States in that way. The major sources of the State's income are income tax, of course, and severance taxes, which is a type of sales tax. Severance taxes are excluded from local taxing power. They only have sales and property.

Senator BYRD. Virginia localities have the local property tax, the State has the income tax and a part of the sales tax. We have a 4 percent sales tax and the localities have 1 percent of the 4 percent.

Mr. GALLAGHER. We kept the progressive taxes and gave the municipalities the regressive taxes.

Senator BYRD. With regard to the Alaska pipeline, is it being used to capacity?

Mr. GALLAGHER. No, sir, it is not. Tomorrow they are supposed to increase the capacity. Right now, it is shipping 715,000 barrels a day. On March 2, it will increase throughput to about 1,150,000 barrels a day. That was due to pump station 8 blowing up.

Senator BYRD. Is capacity 1 million barrels per day?

Mr. GALLAGHER. Its rating capacity right now is 1.2 million barrels per day, but they have found viscosity problems with the oil and they cannot quite put as much oil into it as they thought so it is going to flow at about 1,150,000 barrels a day.

Senator BYRD. Just one final question. What is the population of Alaska?

Mr. GALLAGHER. 420,000.

Senator BYRD. Thank you very much, Mr. Gallagher.

Senator GRAVEL. Thank you, Commissioner, very much.

[The prepared statement of Mr. Gallagher follows:]

Statement of Commissioner Sterling Gallagher, Department of Revenue, State of Alaska

Testimony supporting S. 2554, a bill introduced by Senator Gravel, to increase the zero bracket amount and personal exemption deduction.

At the very outset I want to express my appreciation of the fact that Congress is willing to consider recognizing the severe impact of a substantially higher cost of living which must be faced by individuals residing in the States of Alaska and Hawaii. I strongly support the concept embodied in this bill whereby individuals whose income is at the poverty level should not be required to pay any tax on their income. The guideline table which Senator Gravel referenced when he introduced the bill was issued by the Office of Management and Budget and defines the poverty level of income for purposes of eligibility for Community Services Administration programs. The table indicates a 25 percent increase over the contiguous States for Alaska and a 15 percent increase for the State of Hawaii. While these adjustments would appear to be very substantial, statistics issued by the Bureau of Labor Statistics would indicate that even these adjustments are not nearly enough to compensate for the much higher costs incurred, especially at the low income levels by individuals residing in the State of Alaska.

As Senator Gravel pointed out when he introduced S. 2554, the current tax laws of the United States make no provision for this severe disparity in costs of living faced by individuals in Alaska.

I would not be so naive as to suggest that Alaska and Hawaii are the only States which suffer an increased cost of living as compared to other parts of the contiguous United States. However, when comparing various parts of the contiguous United States with each other, the disparity from region to region is quite minor when compared with the disparity between any region within the contiguous United States and the State of Alaska.

The statistics which I will be quoting subsequently have been issued by the United States Department of Labor, Bureau of Labor Statistics. The data is entitled, "Urban Family Budgets and Comparative Indexes for Selected Urban Areas". This information was updated through the autumn of 1976 and published on April 27, 1977. This information provides an analysis for three hypothetical annual family budgets and the comparative indexes that can be used to compare the cost of these budgets in selected areas. This information reflects both changes in prices and personal taxes which had been made up through the autumn of 1976.

The first table that I would like to reference is their Table D which summarizes the annual costs of an intermediate budget for a 4-person family residing in urban United States and 38 metropolitan areas. The ranking of the 38 metropolitan areas did not include Anchorage, Alaska or Honolulu, Hawaii; however, the information for these cities was published. Extracting just a few of the cities discloses the following:

Ranking:	*Total cost of budget*
1. Boston, Mass	$19,384
2. New York-Northeaster, N. J.	18,866
3. San Francisco-Oakland, Calif	17,200
7. Washington, D.C., Maryland, Virginia	16,950
32. Houston, Tex	14,978

The average total cost for the urban United States is $16,236. The total cost for a similarly situated family in Anchorage and Honolulu is $23,071 and $19,633 respectively. An analysis of these figures discloses that the average annual cost for an intermediate budget in Anchorage is 42.1 percent more than that for the average urban United States. If sufficient data were available on the bush areas of the State of Alaska, it would disclose that individuals in those areas are faced with an additional 10 to 20 percent higher cost of living than those residing in the vicinity of Anchorage.

The data published by the Bureau of Labor Statistics also includes three tables which disclose the annual cost of a 4-person family with lower, intermediate, and higher income budgets. These costs are summarized in the form of averages for the urban United States, metropolitan areas in the United States, and nonmetropolitan areas. I have added to each table the appropriate annual costs in Anchorage, Alaska for each category.

TABLE 1.—*Annual costs of a lower budget for a 4-person family, autumn of 1976*

	Total budget
Urban United States	$10, 041
Metropolitan areas	10, 189
Nonmetropolitan areas	9, 382
Anchorage, Alaska	16, 492

TABLE 2.—*Annual costs of an intermediate budget for a 4-person family, autumn of 1976*

	Total budget
Urban United States	$16, 236
Metropolitan areas	16, 596
Nonmetropolitan areas	14, 625
Anchorage, Alaska	23, 071

TABLE 3.—*Annual costs of a higher budget for a 4-person family, autumn of 1976*

	Total budget
Urban United States	$23, 759
Metropolitan areas	24, 492
Nonmetropolitan areas	20, 486
Anchorage, Alaska	33, 273

The next three tables published by the Bureau discloses the same information in the form of indexes with the United States urban average annual cost being considered the base or 100 percent. These tables disclose the following:

TABLE 4.—*Indexes of comparative costs based on a lower budget for a 4-person family, autumn of 1976 (U.S. urban average cost=100)*

	Total budget
Urban United States	100
Metropolitan areas	101
Nonmetropolitan areas	93
Anchorage, Alaska	164

TABLE 5.—*Indexes of comparative costs based on an intermediate budget for a 4-person family, autumn of 1976 (U.S. urban average cost=100)*

	Total budget
Urban United States	100
Metropolitan	102
Nonmetropolitan	90
Anchorage, Alaska	142

TABLE 6.—*Indexes of comparative costs based on a higher budget for a 4-person family, autumn of 1976 (U.S. urban average cost=100)*

	Total budget
Urban United States	100
Metropolitan	103
Nonmetropolitan	86
Anchorage, Alaska	140

The first obvious conclusion that can be drawn from these tables is that not only is it substantially more expensive for a 4-person family in any income category to survive in Anchorage, Alaska, but a substantially greater impact is felt by those families in the lower income brackets. The low income family in Anchorage, Alaska must have a budget that is 64 percent higher than a similarly situated family in the urban United States, while a family in the intermediate and higher income brackets requires 40 percent greater income to maintain the same standard of living.

My primary intent in this detailed review of these statistics is to emphasize the fact that while 25 percent appears to be a substantial adjustment for families living in Alaska, it in fact, falls far short of the actual increased cost incurred by individuals residing in Alaska, especially those in the low income areas.

A further review of these statistics for the past four years is especially distressing as it discloses that the disparity between the urban United States average and Anchorage has increased substantially, especially for those individuals in the low income brackets.

SUMMARY OF THE HISTORICAL DATA FOR THE ANCHORAGE INDEXES [1]

Year	Total budget — Lower	Total budget — Intermediate	Total budget — Higher
1973	147	131	126
1974	149	133	128
1975	159	139	136
1976	164	142	140

[1] U.S. urban average cost equals 100.

As you can see, the budget requirements for a low income family in 1973 was 47 percent greater than that for the average urban United States. That figure has now increased to 64 percent greater than for a family in urban United States. Although the increases for families in the intermediate and higher income brackets is less severe, it shows the same general trend.

I do not believe that I can overemphasize the fact that a real need exists for our tax laws to recognize the severe impacts of the higher cost of living experiences by individuals in the noncontiguous States of Alaska and Hawaii. I strongly support S. 2554 and urge that it be passed.

Senator GRAVEL. Thank you, Mr. Chairman. I have several items I would like to submit for the record.

Senator BYRD. Yes, without objection, any matters that Mr. Gravel would like to put in the record will be put into the record.

[The material submitted by Senator Gravel follows:]

UNITED STATES SENATE,
Washington, D.C., February 27, 1978.

HON. MIKE GRAVEL,
U.S. Senate,
Washington, D.C.

DEAR MIKE: Thank you for your letter of February 17, 1978, inviting me to attend the hearings on S. 1978, a bill you had introduced to increase the zero bracket amount and personal exemption deductions for residents of Alaska and Hawaii to reflect the high poverty level income in our States. I regret the delay in answering your letter.

As you have recognized, the poverty income level in Hawaii is much higher than the level in the contiguous 48 states. Acknowledging the higher cost of living in Alaska and Hawaii, the Community Services Administration Programs provide an increase for these two States. In addition, the Department of Labor has found that an intermediate budget for a family of four in Hawaii, is higher in Hawaii than in any other part of the United States, except for Alaska.

The high cost of living in Hawaii, has led to serious economic and social problems. In addition, the high poverty income level has greatly increased the cost of social services program in the State. No doubt, Alaska has experienced the same problems.

You are to be complimented for the effort put forth in your proposal. Your bill deserves full consideration as a proposal to alleviate the complex economic problems facing our two States and the nation.

As with other tax legislation, this bill must be examined in light of our national tax policy. In this regard, I will closely follow the hearings on this measure with an open mind to this as well as other proposals that seek to alleviate the problems facing the residents of our States.

I appreciate this opportunity to comment on your proposal and regret that I am unable to attend your hearings, because of conflicting engagements.

Aloha and best wishes.

Sincerely,

SPARK MATSUNAGA,
U.S. Senator.

[From the Congressional Record, Feb. 22, 1978]

By Mr. GRAVEL:

S. 1978. A bill to amend the Internal Revenue Code of 1954 to provide an increased zero bracket amount and personal exemption deduction amount for individuals residing in Alaska and Hawaii; to the Committee on Finance.

Mr. GRAVEL. Mr. President, the legislation I am introducing today is designed to correct a basic flaw in our tax system that clearly discriminates against lower income persons in the non-contiguous States of Alaska and Hawaii.

Congress has followed the principle, since 1964, that poverty level income should be free from taxation. The report of the Ways and Means Committee of the House of Representatives on the Tax Reduction and Simplification Act of 1977 contained the following paragraph:

In the past, the Congress has used the minimum standard deduction . . . to establish, in conjunction with other provisions, the tax-free income level approximating the poverty level. This policy started with the Revenue Act of 1964. The Committee now believes that a higher floor is now needed to increase the income level at which people begin to pay income tax (the tax threshold) to offset its erosion by inflation.

The Senate Finance Committee report on this legislation contains a similiar statement.

While this policy has offered relief from taxes for wage earners at the poverty level, it has not been consistently applied with respect to Alaska and Hawaii. The Office of Management and Budget defines poverty level income for the purposes of eligibility for Community Services Administration programs. I ask unanimous consent that the poverty guidelines be printed in the RECORD.

The table indicates that Alaska and Hawaii receive an adjustment in the poverty level in recognition of the high cost of living in those non-contiguous States. However, the tax laws do not provide for a similar adjustment in the principle articulated above. In effect, persons at the poverty level in the continental United States escape tax liability. Poverty level families in Alaska and Hawaii do not.

This legislation provides for a 25-percent adjustment in the standard deduction and personal exemption for taxpayers in Alaska and a 15-percent adjustment for taxpayers in Hawaii. I ask unanimous consent that a table showing the effect of this measure be printed in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

CSA POVERTY GUIDELINES

Family size	Nonfarm family	Farm family
Contiguous States:		
1	$2,970	$2,558
2	3,930	3,360
3	4,890	4,170
4	5,850	4,980
5	6,810	5,790
6	7,770	6,600
Noncontiguous States:		
Alaska (25 percent adjustment):		
1	3,720	3,200
2	4,920	4,210
3	6,120	5,220
4	7,320	6,230
5	8,520	7,240
6	9,720	8,250
Hawaii (15 percent adjustment):		
1	3,430	2,940
2	4,530	3,870
3	5,630	4,800
4	6,730	5,730
5	7,830	6,660
6	8,930	7,590

Note: Federal Register, vol. 42, No. 79, Monday, Apr. 25, 1977, p. 21109.

Family size	Standard deduction and personal exemption	Taxable income	Poverty
Contiguous States:			
1	$2,200+$750	$2,950	$2,980
4	3,200+3,000	6,200	5,850
Alaska (25 percent adjustment):			
1	2,750+ 950	3,700	3,720
4	4,000+3,800	7,800	7,320
Hawaii (15 percent adjustment):			
1	2,550+ 850	3,400	3,430
4	3,700+3,400	7,100	6,730

Mr. GRAVEL. I am well aware that other areas of the United States experience high costs of living and I would favor similar relief for taxpayers nationwide. However, the Department of Health, Education, and Welfare has indicated that an accurate measure of cost-of-living differentials across the United States would require an expenditure of $50 million to develop. Studies also indicate that the cost-of-living differential between any two points in the Lower 48 is small in magnitude compared to the differential between the Lower 48 and Alaska and Hawaii.

Since OMB already recognizes a different poverty level for these two States, I believe it is important that Congress provide equity in taxation for the taxpayers in these States. I urge the Finance Committee to act quickly on this legislation.

I ask unanimous consent that the text of the bill be printed in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 1978

A bill to amend the Internal Revenue Code of 1954 to provide an increased zero bracket amount and personal exemption deduction amount for individuals residing in Alaska and Hawaii.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 63 of the Internal Revenue Code of 1954 (relating to taxable income defined) is amended by adding at the end thereof the following new subsection:

"(i) Special Rules for Alaska and Hawaii.—

"(1) Alaska.—In the case of an individual who is a resident of Alaska and who is physically present in Alaska for more than 180 days during the taxable year, subsection (d) shall be applied by substituting—

"(A) '$4,000' for '$3,200',

"(B) '$2,750' for '$2,200', and

"(C) '$2,000' for '$1,600'.

"(2) Hawaii.—In the case of an individual who is a resident of Hawaii and who is physically present in Hawaii for more than 180 days during the taxable year, subsection (d) shall be applied by substituting—

"(A) '$3,700' for '$3,200',

"(B) '$2,550' for '$3,200', and

"(C) '$1,850' for '$1,600'.

(b) Section 151 of such Code (relating to allowance of deduction for personal exemptions) is amended by adding at the end thereof the following new subsection:

"(f) Special Rule for Alaska and Hawaii.—In the case of an individual who is a resident of Alaska and who is physically present in Alaska for more than 180 days during the taxable year, this section shall be applied by substituting '$950' for '$750' each place it appears. In the case of an individual who is a resident of Hawaii and who is physically present in Hawaii for more than 180 days during the taxable year, this section shall be applied by substituting '$850' for '$750' each place it appears.".

(c)(1) Section 3402(a) of such Code (relating to requirement of withholding) is amended by adding at the end thereof the following new sentence: "The Secretary shall prescribe special tables for use in withholding on wages paid to individuals for whom the amount of a withholding exemption is determined under section 151(f).".

(2) Section 6012 of such Code (relating to persons required to make returns of income is amended by redesignating subsection (d) as (e) and by inserting after subsection (c) the following new subsection:

"(d) Special Rules for Alaska and Hawaii.—In the case of an individual whose bracket amount is determined under section 63(i)(1), this section shall be applied by substituting '$950' for '$750' each place it appears, '$3,700' for '$2,950', '$4,950' for '$3,950', and '$5,900' for '$4,700'. In the case of an individual whose zero bracket amount is determined under section 63(i)(2), this section shall be applied by substituting '$850' for '$750' each place it appears, '$3,400 for '$2,950', '$4,500', for '$3,960', and '$5,400' for '$4,700',".

Sec. 2. The amendments made by this Act apply with respect to taxable years beginning after December 31, 1977.

STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTIONS

By Mr. GRAVEL:

S. 2554. A bill to amend the Internal Revenue Code of 1954 to permit adjustment of the zero bracket amount and the amount of the exemptions allowed by section 151 for residents of States for which the Director of the Office of Management and Budget has adjusted the level of the official poverty line to a level greater than the prevailing level in most States; to the Committee on Finance.

Mr. GRAVEL. Mr. President, on August 2, 1977, I introduced S. 1978, a bill to amend the Internal Revenue Code to provide an increased zero bracket amount and personal exemption deduction for individuals residing in Alaska and Hawaii. This legislation proposes to provide relief from taxes to wage earners at the poverty level in Alaska and Hawaii, based upon the principle established by Congress in 1964 that the minimum standard deduction and personal exemption are to be used to establish a tax-free income level approximating the poverty level. As I explained to my colleagues last August, the Office of Management and Budget recognizes poverty levels in Alaska and Hawaii which are 25 and 15 percent respectively above the poverty level for the Lower 48. However, the tax laws provide no similar adjustment and persons at the poverty level in the continental United States escape tax liability while poverty level families in Alaska and Hawaii do not.

Since that bill was introduced, one of the principle objections raised has been one of constitutionality. The objection is that a special rule for certain geographic areas violates the rule of uniformity for the tax code. Although I find little uniformity in the tax code generally, and feel that the absence of this type of adjustment might constitute a special rule for the noncontiguous States, I am willing to acknowledge the possibility of a problem in this area in order that the issue can be considered on its merits. Therefore, I am introducing a modified version of the bill which will permit adjustment of the zero bracket amount and personal exemption deduction for residents of any State for which the Director of the Office of Management and Budget has adjusted tke level of the official poverty line to a level at least 15 percent greater than the prevailing level in most States.

The Senate Finance Subcommittee on Taxation and Debt Management has scheduled a hearing on this matter for March 1. In order that the hearing not be clouded with the issue of constitutionality, I will ask the subcommittee to consider this bill and take a close look at the extent to which the current system discriminates against the residents of Alaska and Hawaii.

WHO'S GOT BIGGEST TAX BURDEN? WE DO

Alaska has moved to the top of the list of all 50 states as the place with the highest per capita burden of local and state taxes, according to a federal report.

Alaskans paid taxes amounting to $1,895.84 per person, or 21.8 percent of each person's personal income, in the year ended June 30, 1976, a story in U.S. News and World Report says. The story was based on Department of Commerce figures.

The 49th state moved ahead of New York, where tax collections amount to $1,139.94 per person, or 17.3 percent of each person's personal income.

The state and local tax bite has increased everywhere, however. Over the past 10 years, the state tax rates have climbed 152 percent, while federal taxes including Social Security have gone up by 105 percent.

Senator GRAVEL. Again, thank you, Mr. Chairman, for accommodating us with this hearing. I know that it is a difficult question and we are just beginning to pioneer here.

Senator BYRD. The committee will stand in adjournment.

[Thereupon, at 11:05 a.m., the hearings in the above-entitled matter adjourned.]