

# LEGISLATIVE REVIEW ACTIVITY

---

REPORT

OF THE

## COMMITTEE ON FINANCE UNITED STATES SENATE

FOR THE

95TH CONGRESS

PURSUANT TO

SECTION 136 OF THE LEGISLATIVE REORGANIZATION  
ACT OF 1946, AS AMENDED BY THE LEGISLATIVE REOR-  
GANIZATION ACT OF 1970 AND BY PUBLIC LAWS 92-136  
AND 93-344



MARCH 21 (legislative day, FEBRUARY 22), 1979.—Ordered to be printed

---

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1979



## LEGISLATIVE REVIEW ACTIVITY

MARCH 21 (legislative day, FEBRUARY 22), 1979.—Ordered to be printed

Mr. LONG, from the Committee on Finance,  
submitted the following

### REPORT

[Pursuant to sec. 136 of the Legislative Reorganization Act of 1946, as amended by the Legislative Reorganization Act of 1970 and by Public Laws 92-136 and 93-344]

### FOREWORD

This report by the Committee on Finance on its legislative review activity during the 95th Congress is submitted pursuant to section 136 of the Legislative Reorganization Act of 1946 (2 U.S.C. 190d), as amended by Public Laws 91-510, 92-136, and 93-344. The statute requires standing committees of the House and Senate to "review and study, on a continuing basis, the application, administration, and execution" of laws within their jurisdiction and to submit biennial reports to the Congress. The full text of section 136 follows:

SEC. 136. (a) In order to assist the Congress in—

(1) its analysis, appraisal, and evaluation of the application, administration, and execution of the laws enacted by the Congress, and

(2) its formulation, consideration, and enactment of such modifications of or changes in those laws, and of such additional legislation, as may be necessary or appropriate, each standing committee of the Senate and the House of Representatives shall review and study, on a continuing basis, the application, administration, and execution of those laws, or parts of laws, the subject matter of which is within the jurisdiction of that committee. Such committees may carry out the required analysis, appraisal, and evaluation themselves, or by contract, or may require a Government agency to do so and furnish a report thereon to the Congress. Such committees may rely on such techniques as pilot testing, analysis of costs in comparison with benefits, or provision for evaluation after a defined period of time.

(b) In each odd-numbered year beginning on or after January 1, 1973, each standing committee of the Senate shall

submit, not later than March 31, to the Senate, and each standing committee of the House shall submit, not later than January 2, to the House, a report on the activities of that committee under this section during the Congress ending at noon on January 3 of such year.

(c) The preceding provisions of this section do not apply to the Committee on Appropriations of the Senate and the Committees on Appropriations, House Administration, Rules, and Standards of Official Conduct of the House.

The Committee on Finance, in the course of its work, publishes additional committee prints reporting on various aspects of legislation within its jurisdiction. Copies of those committee prints, as well as additional copies of the instant report, can be obtained from the office of the committee, room 2227, Dirksen Senate Office Building, Washington, D.C. 20015. Written requests should be accompanied by a return address label.

#### REPORT OF LEGISLATIVE REVIEW ACTIVITY OF THE COMMITTEE ON FINANCE DURING THE 95TH CONGRESS

Rule XXV of the Standing Rules of the U.S. Senate provides that at the commencement of each Congress there shall be appointed a—  
Committee on Finance, to which committee shall be referred all proposed legislation, messages, petitions, memorials, and other matters relating to the following subjects:

- "1. Bonded debt of the United States, except as provided in the Congressional Budget Act of 1974.
- "2. Customs, collection districts, and ports of entry and delivery.
- "3. Deposit of public moneys.
- "4. General revenue sharing.
- "5. Health programs under the Social Security Act and health programs financed by a specific tax or trust fund.
- "6. National social security.
- "7. Reciprocal trade agreements.
- "8. Revenue measures generally, except as provided in the Congressional Budget Act of 1974.
- "9. Revenue measures relating to the insular possessions.
- "10. Tariffs and import quotas, and matters related thereto.
- "11. Transportation of dutiable goods."

Legislation before the Committee on Finance commonly falls into three major categories: amendments to the internal revenue laws, to the Social Security Act (which includes old-age, survivors and disability insurance, medicare, medicaid, public assistance, and unemployment compensation programs) and legislation affecting foreign trade and tariffs. Legislation relating to the bonded debt of the United States is also within the committee's jurisdiction.

Following is the report of the Committee on Finance on its legislative review activities during the 95th Congress.

## LEGISLATIVE REVIEW OF PROGRAMS UNDER THE SOCIAL SECURITY ACT

## OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE

Title II of the Social Security Act provides monthly benefit payments to retired and disabled workers who have sufficient credit from employment and self-employment in work subject to social security taxes. Benefits are also provided for the dependents of such workers and for the survivors of deceased workers. Over the years, benefit levels under this program have been periodically reviewed and adjusted to keep pace with changing economic conditions. Legislation providing for specific benefit increases was enacted in each of the 89th through 93d Congresses. Starting with the 94th Congress, however, specific legislation to increase benefits has not been required since automatic increase provisions were incorporated into the permanent structure of the program in 1972. Under these automatic increase provisions, benefit levels were adjusted in June 1977 by 5.9 percent and again in June 1978 by an additional 6.5 percent.

Although the automatic benefit increase provisions eliminated the need for specific legislation in that area, the Committee on Finance continued the careful oversight over the status of the social security program which had always accompanied such legislation in the past.

During the 93d and 94th Congresses, the committee had commissioned the establishment of two expert panels of actuaries and economists to evaluate the fiscal condition of the social security trust funds and to suggest alternative ways in which that condition might be improved. On the basis of the findings of these panels and other evidence which came before the committee, it was clear that remedial legislation would be required in the 95th Congress.

In June of 1977, the Subcommittee on Social Security commenced hearings on proposals to strengthen the financing of the social security system. Several days of hearings were held. Subsequently, the committee undertook to develop legislation to restore the financial soundness of the program and to deal with a number of other aspects of the program requiring attention. By November 1, 1977, the committee had completed action on this issue and reported to the Senate a comprehensive bill entitled the Social Security Amendments of 1977.

As reported to the Senate, this legislation would have restored both the long-range and short-range actuarial soundness of the program. This was accomplished by providing for increased social security tax revenues and by making program changes which would reduce future outgo. In particular, the legislation proposed to revamp the formula for calculating benefits which under the prior law would have resulted in greatly excessive benefit levels in future years.

The legislation reported by the committee in November 1977 also eased the limitations on earnings for beneficiaries under age 72, authorized the negotiation of international agreements for coordinated social security coverage when people are employed in different countries, and made a number of other changes in the program.

The social security legislation recommended by the committee in 1977 was subsequently enacted into law with certain changes resulting from Senate floor action and from the action of the House-Senate

conference. The major elements of the legislation as reported by the committee were included in the version finally enacted except that the long-range financing deficit was significantly reduced rather than completely eliminated.

As enacted into law, the 1977 amendments recognized the need for future action, to further resolve the financing needs of the program. As a first step in addressing these continuing requirements, the Subcommittee on Social Security resumed its consideration of the issue by holding hearings on social security financing in April 1978. The 1977 amendments also put in motion a number of studies designed to provide the committee and the Congress with the necessary information to deal with the unresolved problems. In addition to providing for the creation of a 2-year National Commission on Society Security, the amendments called for a special study of the implications of expanding coverage to public employees and employees of nonprofit organizations, and a special study of the differential treatment which may exist under the program in the treatment of men and women.

Publications of the Committee on Finance during the 95th Congress related to the old-age, survivors, and disability insurance programs include:

Staff Data and Materials Relating to Social Security Financing (June 1977);

Social Security Financing—Summary of Testimony of Public Witnesses Before the Subcommittee on Social Security (July 1977);

Staff Data and Materials on Social Security Financing Proposals (September 1977);

Social Security Financing Amendments of 1977—H.R. 9346 (November 28, 1977);

Summary of H.R. 9346, the Social Security Amendments of 1977 as Passed by the Congress (December 23, 1977);

Staff Data and Materials on Financing of the Social Security Programs (April 1978); and

The Social Security Act and Related Laws: April 1978 Edition (April 30, 1978).

#### SUPPLEMENTAL SECURITY INCOME

The supplemental security income program (SSI), administered by the Social Security Administration, provides income assurance for needy aged, blind, and disabled persons. This program was enacted in 1972 and commenced operations in January of 1974. The program currently provides benefits sufficient to bring the income of an aged, blind, or disabled person up to \$189.40 per month (\$284.10 for an eligible couple). (These amounts are automatically increased each July to reflect cost-of-living changes.) In determining benefits, \$20 of monthly income from any source is not counted and additional amounts of income from employment may also be disregarded. In many States these Federal benefit levels are further increased by State-funded supplementary payments.

During the 94th Congress, the committee staff, at the direction of the committee, had undertaken a comprehensive study of the policy and operations of the new SSI program. The results of this staff study

were incorporated into a document printed by the committee in April 1977 outlining a number of areas in which the staff recommended committee consideration. In July 1977, the Subcommittee on Public Assistance held several days of hearings to receive testimony concerning proposed changes in public assistance programs including SSI. After these hearings, the committee undertook to develop legislation addressing the various problems in the SSI program which had been identified.

In November 1977, the committee completed action on a comprehensive public assistance amendments bill which it reported to the Senate. This bill proposed several improvements in the supplemental security income program including a change in the rules for counting in-kind income, modification of the mandatory State supplementation provisions, an increase in the level of payments to institutionalized recipients, and a provision allowing recipients to maintain a reasonable amount of savings intended to meet their burial costs upon death. The legislation also proposed the establishment of a program to provide temporary assistance in emergency situations to the aged, blind, and disabled similar in purpose to the existing emergency assistance program for needy children.

The proposed SSI amendments covered a number of other aspects of the program and also required the Secretary of Health, Education, and Welfare to report to the Congress on two major problem areas which had been identified in the staff study conducted during the prior Congress. One report was to provide a thorough examination and assessment of the program's manpower needs in view of the difficulties which had been experienced in administering SSI as a result of staffing shortages. The other report would have required a review of various areas identified in the staff study in which the policy implemented by the administration seemed at variance with the requirements of the statute and its legislative history.

During September of 1978, the Subcommittee on Public Assistance held a public hearing on proposals related specifically to the disability aspects of the supplemental security income program. The committee subsequently reported legislation to the Senate recommending certain changes designed to encourage recipients to seek rehabilitation and reemployment.

Final congressional action on the SSI legislation reported by the committee in November 1977 and October 1978 was not completed prior to the conclusion of the 95th Congress. Consequently, it is expected that the committee will review these issues again in the 96th Congress.

Publications of the Committee on Finance during the 95th Congress related to the supplemental security income program include:

The Supplemental Security Income Program: Report of the Staff (April 1977);

Public Assistance Amendments—Staff Data and Materials (July 11, 1977);

Staff Data and Materials on Public Welfare Programs (April 1978); and

Supplemental Security Income (SSI) Disability Proposals—Staff Data and Materials (September 1978).

## AID TO FAMILIES WITH DEPENDENT CHILDREN

Since 1937, the aid to families with dependent children (AFDC) program has provided public assistance to needy families with children who are deprived of parental support or care by reason of death, incapacity or continued absence from the home of a parent. In addition, beginning in 1961, States were given the option to extend the AFDC program to needy families with children whose fathers were unemployed. The AFDC program is administered by States or by counties under State supervision. The Federal Government matches AFDC costs at rates ranging from 50 to 83 percent. Families who are eligible for AFDC are also eligible for medicaid. States set standards of eligibility and payment subject to broad Federal guidelines.

The 95th Congress approved several provisions reported by the committee relating to protective and vendor payments for AFDC recipients. As enacted in P.L. 95-171, amendments to the Social Security Act provided the States with expanded authority for the use of these types of payments. The new law gives the State welfare agency explicit authority to make payments in the form of joint checks as a kind of vendor payment in cases in which the agency has made a determination that the relative of an AFDC child is unable to manage funds in the interests of the child. In addition, the limit on the number of recipients with respect to whom a State could make protective or vendor payments in cases of inability to manage funds was increased from 10 to 20 percent.

As part of its effort to strengthen the AFDC program and reduce fraud and abuse, the committee reported an amendment to establish a system of fiscal incentives for States that have low dollar error rates as measured by the AFDC quality control findings. As enacted in P.L. 95-216, dollar error rates were defined to include payments to ineligible, overpayments, underpayments, and the amount which would have been paid as benefits if the case had not been erroneously terminated or the application erroneously denied. The incentive payment is based on Federal savings compared with a 4 percent rate of excessive payments, i.e., erroneous payments for ineligible and overpayments.

A Finance Committee amendment was enacted in P.L. 95-216 which specifically authorized State AFDC agencies to obtain wage information from the wage records maintained by the Social Security Administration and the wage records maintained by State unemployment compensation agencies for purposes of determining eligibility for (or amount of) AFDC. The Secretary of HEW is required to establish the necessary safeguards to prevent the improper use of such information. Effective October 1, 1979, States will be required to request and make use of this wage information either from the State unemployment compensation agency (if available there) or from the Social Security Administration.

The 95th Congress also approved as part of P.L. 95-216 an amendment reported by the Finance Committee which broadened and made more explicit the provisions in prior law for State demonstration programs. The objectives of the new demonstration authority are to permit States to achieve more efficient and effective use of funds for public assistance, to reduce dependency, and to improve the living

conditions and increase the incomes of persons who are on assistance—or who otherwise would be on assistance. These objectives are to be achieved through experiments designed to make employment more attractive for welfare recipients.

The amendment limits States to not more than three demonstration projects. One of the projects may be statewide and none of the projects may last for more than two years. The amendment permits States to waive the requirements of the AFDC program relating to (1) state-wideness; (2) administration by a single State agency; (3) the earned income disregard; and (4) the work incentive program.

The provision allows States to use welfare funds to pay part of the cost of public service employment, which is required to meet specified conditions. Participation in the demonstration projects is voluntary. Costs of the projects are eligible for the same matching as other AFDC costs, with the limitation that the amount matchable with respect to any participant in the project may not exceed the amount which would otherwise be payable to him under AFDC. The new authority expires September 30, 1980.

The committee reported legislation authorizing up to \$1 billion in additional Federal funding of welfare costs as a means of providing fiscal relief to State and local governments for fiscal years 1978 and 1979. As ultimately enacted, P.L. 95-216 provided \$187 million payable in fiscal year 1978. The money was distributed on the basis of a two-part formula. Half of the fiscal relief funds were distributed to States in proportion to their share of total expenditures under the AFDC program for December 1976, and half under the general revenue sharing formula. States were required to pass through to local jurisdictions the full amount of the payment, but not in excess of the full amount of the AFDC costs for which the local government was otherwise responsible.

Under permanent law, there is a dollar ceiling on Federal matching for costs of cash assistance, administration and social services provided under the programs of aid to families with dependent children and aid to the aged, blind and disabled in the jurisdictions of Puerto Rico, Guam and the Virgin Islands. The annual ceiling is \$24 million for Puerto Rico, \$1.1 million for Guam, and \$0.8 million for the Virgin Islands. These limits have been in effect since 1972. In addition, these jurisdictions are limited to 50 percent Federal matching, whereas the States may receive from 50 to 83 percent Federal matching, depending on State per capita income.

The committee reported an amendment, enacted in P.L. 95-600, designed to enable the territories to raise their payment levels for recipients and to improve their services programs by increasing the Federal matching percentage from 50 to 75 percent, while tripling the dollar limitations. This will permit the territories to double the size of their federally matched assistance under these programs with no increase in non-Federal matching. The committee's provision would have made these increases effective on a permanent basis. The provisions agreed to by House-Senate conferees limited the increases to fiscal year 1979 only.

Amendments to AFDC legislation which were reported by the committee, and were passed by the Senate as part of H.R. 13511, included provisions for incentives to States to develop and operate

AFDC management information systems, for incentives to recipients to report earnings in order to reduce AFDC errors and overpayments, and for modification of the law specifying amounts of earned income to be disregarded in determining AFDC payment amounts. These provisions were not agreed to by House-Senate conferees.

The committee included a number of amendments to AFDC in its reported version of H.R. 7200 which were not considered by the Senate and were not enacted into law by the 95th Congress. These include provisions for improvements in State quality control programs, Federal matching for recipient identification cards and for antifraud activities, authority for States to prorate benefits for AFDC children in certain living arrangements, authority for States to operate community work and training programs, and clarification of law providing for safeguarding of recipient information under the AFDC program.

The committee held hearings in 1977 and 1978 on various proposals to amend existing welfare legislation. These include hearings in July, 1977 on H.R. 7200, which contained provisions relating to AFDC and SSI, as well as the child welfare services, and the title XX social services programs. Hearings were also held in February, April, and May, 1978 on welfare reform proposals which at that time were pending before committees of the House of Representatives. Hearings on S. 3470, the welfare block grant/fiscal relief proposal, were held in September, 1978. Hearings on findings of the income maintenance experiments and other major welfare research projects were held in November, 1978.

#### SOCIAL SERVICES

Under the social services program, Federal matching funds are available on an entitlement basis to assist States in providing a variety of services to welfare recipients and other appropriate individuals. Examples of the types of services available under this program include child care, homemaker services, family planning, information and referral, protective services, and others. Since 1972, there has been an overall \$2.5 billion annual limit on Federal funding for the social services program with each State having a ceiling within this overall limit reflecting its relative share of the total national population.

The social services program was restructured during the 93d Congress under a new title XX of the Social Security Act. The title XX program became effective on October 1, 1975. Included in the legislation establishing the title XX program were minimum staffing requirements for child care providers getting Federal funding through this program. These staffing standards were a modified version of the Federal Interagency Day Care Requirements of 1968, compliance with which had not previously been carefully monitored by the Department of Health, Education, and Welfare. Many States believed that compliance with the staffing standards in the law would substantially increase the cost of providing child care and consequently require a reduction in the amount of services provided.

In order to prevent a cutback in child care services, the committee in the 94th Congress proposed legislation which deferred the effective date of the staffing standards and which provided a temporary \$200 million increase in the annual limit on social services funding.

Under the original legislation, the Secretary of Health, Education, and Welfare had been directed to undertake a study of the appropriateness of the child care standards mandated in the 1974 legislation and to report on this matter to Congress by July 1, 1977. After submitting this report, the Secretary would have authority to make any appropriate changes in the standards by regulation. In early 1977, the committee was informed that the Department would be unable to complete the study by the July 1, 1977, deadline. Consequently legislation was enacted deferring the deadline for the report to April 1, 1978, and extending the suspension of the standards until October 1, 1978. Legislation was also enacted in 1977 providing for a 1-year extension of the additional \$200 million in child care funds (through September 30, 1978).

During the second session of the 95th Congress, the committee examined the adequacy of the basic \$2.5 billion limitation on social services funding which had been in effect since fiscal 1973. A hearing on the social services program was held by the Public Assistance Subcommittee in August 1978. Subsequently, the committee reported legislation to expand the funding ceiling for the program to a level of \$2.9 billion in fiscal year 1979. (This included a 1-year continuation of the special \$200 million increment for child care that had been provided during fiscal years 1977 and 1978.) This committee recommendation was enacted into law as a part of the tax-cut bill.

The committee also recommended a number of other modifications of the social services program including the extension of certain expiring provisions relating to child care employment of welfare recipients, an increase in State flexibility in developing social services plans, and authority for using the social services program to provide temporary emergency shelter for adults. Action on the legislation embodying these proposals (which also included a directive to the General Accounting Office to conduct an evaluation study of the title XX program) was not completed by the Congress prior to the end of the 95th Congress. A further suspension of the child care staffing standards had also been proposed in this legislation; under the original title XX statute, however, the authority of the Secretary of Health, Education, and Welfare to deal with this issue by regulation became effective at approximately the same time that the statutory moratorium on the standards expired.

During the 95th Congress, the committee also acted to bring to a close certain longstanding disputes between the States and the Department of Health, Education, and Welfare over the funding of social services expenditures prior to the inauguration in fiscal 1976 of the new title XX program. During the time just prior to that date, the Department had modified its guidelines for that program and on the basis of the modified guidelines had begun to disallow certain costs which would otherwise have been eligible for Federal matching. The dispute involved both demands by the Department for repayment of previously allowed claims and claims by the States for reimbursement of additional expenses. Altogether the amount in dispute totaled over \$2.5 billion. The committee recommended legislation to authorize an appropriation of \$543 million to resolve this matter on the basis of settlements negotiated between the Department and the affected States. The authorization recommended by the committee was approved by the Senate and enacted into law.

Publications of the Committee on Finance during the 95th Congress related to the social services programs include the following:

Child Care Data and Materials (December 1977); and  
Staff Data and Materials on Public Welfare Programs (April 1978).

#### CHILD WELFARE SERVICES, FOSTER CARE, AND ADOPTIONS

Activities in the areas of foster care and adoptions are now primarily a responsibility of State and local governments. The child welfare services program under title IV-B of the Social Security Act provides a relatively small Federal contribution to the costs of State programs to protect and promote the welfare of children including the provision of services to enable children to remain in their own homes, action to remove children from unsuitable homes and place them in foster care homes or institutions, and measures to place children in adoptive homes. Title IV-B authorizes annual appropriations of up to \$266 million for child welfare services but the appropriation has never exceeded \$56.5 million. Reported State costs of operating these programs actually amount to approximately \$800 million.

Where a child placed for foster care is found to have been eligible for aid to families with dependent children (AFDC) payments in his own home, Federal funding for the costs of foster care is available through the AFDC program. This applies only if the child has been removed from his own home and placed in foster care as a result of a judicial proceeding. This provision now accounts for about \$200 million annually in Federal funding of the costs of foster care.

During the 95th Congress, the committee, as a part of its legislative consideration of public assistance programs, determined to revise substantially the elements of those programs that have an impact in the area of child welfare, foster care, and adoption. The purpose of the changes proposed by the committee was to modify the incentive structure of Federal aid in this area to encourage increased efforts to obtain permanent placements for children through a return to their own home or adoptive placement. The committee concluded that this desirable objective was not well served by the present law which provides completely open-ended Federal funding for AFDC foster care but terminates that funding upon adoption and provides only limited funding through the closed-end title IV-B program for services designed to enable children to remain in their own homes. The legislation reported by the committee in 1977 would have placed a ceiling on the AFDC foster care funding (after an allowance for substantial growth over the next few years), but would have allowed States which hold their AFDC foster care costs below that ceiling to devote any excess to the child welfare services program. The bill would also have established an adoption assistance program to facilitate the adoptive placement of hard-to-place children who would otherwise be retained in foster care with funding through the AFDC program. The adoption assistance program would allow the continuation of a monthly grant for such children which would be the equivalent of the amount otherwise payable under the foster care program in cases where the adoptive family met the title XX income guidelines. Continuation of medical assistance would also have been provided for in cases where a medical disability

existed prior to adoption. Another feature of the bill would have restructured the child welfare services program under title IV-B to emphasize services aimed at permanent placement and to prohibit the use of any new funding for that program for foster care. The committee assumed that, with these changes, increased funding would in fact be sought and obtained for that program.

These changes in the child welfare services, foster care, and adoption assistance provisions were included in a bill reported to the Senate in November 1977. Final action on this legislation was not, however, completed prior to the conclusion of the 95th Congress.

#### UNEMPLOYMENT COMPENSATION

Most employment in the United States is covered under the Federal-State unemployment compensation program. Covered workers who become unemployed qualify for benefits under conditions specified by State laws which meet certain general requirements of the Federal statute. Regular State benefits funded from State unemployment taxes are paid usually for a maximum of 26 weeks. In times of high unemployment, up to 13 additional weeks of benefits are available under the Federal-State extended unemployment compensation program. These benefits are funded half from State unemployment tax funds and half from the Federal unemployment payroll tax.

High levels of unemployment during the 93d Congress led to the enactment at the end of 1974 of an emergency unemployment compensation program providing benefits for an additional 13 weeks for workers who had exhausted their entitlement to both regular and extended benefits. The new emergency benefits were to be funded entirely from Federal unemployment tax revenues (or from general fund advances to be repaid ultimately from those revenues).

Continuing levels of high unemployment led to the extension of the emergency benefits program throughout the 94th Congress and to its expansion to a 26-week program (providing for a maximum total of 65 weeks unemployment benefit duration). At the beginning of the 95th Congress, the emergency program continued in operation with a scheduled expiration date of March 31, 1977. Although the employment situation had improved substantially, levels of unemployment were still significantly high. In March 1977, the committee held a public hearing to consider a possible further extension of the emergency benefits program.

Subsequently, the committee met and reported out legislation authorizing a final extension of the program. In its consideration of the previous extension legislation during the 94th Congress, the committee had proposed that the program be amended to provide that applicants for emergency benefits be required, as a condition of eligibility, to accept any reasonable job offer. The House of Representatives had been unwilling to accept this provision but the legislation had included provision for a Labor Department study of the program and its beneficiaries. The results of this study were available to the committee when it considered further extension legislation in March 1977. On the basis of this study and other information developed by the committee, the committee again recommended that applicants for emergency unemployment benefits be required to accept any reason-

able job offer. This provision was accepted by the House of Representatives and included as a part of the extension legislation.

The 1977 legislation also reduced the duration of emergency benefits to a maximum of 13 weeks (making the maximum overall unemployment benefit duration 52 weeks). The new law also provided that the emergency program would accept no new applicants after September 30, 1977, and would terminate altogether on January 31, 1978. Financing for this emergency program for the remainder of its operation was transferred from payroll tax funding to general revenue funding. The extension legislation also contained a number of amendments to the permanent unemployment compensation program clarifying the prohibition against payment of benefits to illegal aliens, correcting a technical defect so that benefits are not payable to teachers during vacation periods between terms, and delaying the effective date of a provision related to the reduction of unemployment benefits for persons concurrently receiving pension payments.

The 1976 Unemployment Compensation Amendments had provided for the establishment of a 13-member national commission to conduct a thorough study of the unemployment compensation program. This commission got underway during the 95th Congress and its first interim report was submitted in November 1978, subsequent to the adjournment of the 95th Congress. Because of delays in appointing the membership of the commission, the committee recommended legislation extending the life of the Commission. This legislation was enacted at the beginning of the 95th Congress. However, the Commission subsequently requested a further extension and in 1978 the committee reported legislation granting the requested extension of the deadline for filing the final report of that body. Action on that legislation was not, however, completed by Congress prior to adjournment.

As provided for in the legislation enacted at the beginning of the 95th Congress, the emergency unemployment compensation program terminated operations as of January 31, 1978. During 1978, insured unemployment rates continued to decline so that the extended unemployment compensation ceased to be in operation on a nationwide basis and by the end of 1978 was effective in only a few States. In most States, by the end of the 95th Congress, unemployment benefits were payable only under the regular State programs which generally have a maximum benefit duration of 26 weeks.

During the 95th Congress, the Committee on Finance printed the following document related to unemployment compensation programs:

Staff Data and Materials on the Emergency Unemployment Compensation Act of 1974 (February 1977).

#### THE CHILD SUPPORT ENFORCEMENT PROGRAM

The child support enforcement program, enacted at the end of the 94th Congress as title IV-D of the Social Security Act, mandates aggressive administration at both the Federal and State levels with various incentives for compliance and with penalties for noncompliance. The child support enforcement program leaves basic responsibility for child support and establishment of paternity to the States, but provides for an active role in the part of the Federal Government in monitoring and evaluating State child support enforcement programs,

in providing technical assistance, and, in certain instances, in undertaking to give direct assistance to the States in locating absent parents and obtaining support payments from them. To assist and oversee the operation of State child support programs, the Department of Health, Education, and Welfare is required to set up a separate organizational unit under the direct control of a person designated by and reporting to the Secretary. This office reviews and approves State child support enforcement plans, evaluates and audits the implementation of the program in each State, and provides technical assistance to the States. The act also provides for a parent locator service within the Department of HEW's separate child support enforcement unit. The act further required that a mother as a condition of eligibility for welfare assign her right to support payments to the State and cooperate in identifying and locating the father, securing support payments and obtaining any money or property due to the family.

The effective date of the new child support enforcement law was to be July 1, 1975. During the first session of the 94th Congress, however, the Congress approved legislation postponing the effective date to August 1, 1975. Congress also approved legislation in July 1975 restricting the disclosure of information about AFDC applications or recipients to purposes directly connected with the administration of the child support program or any other federally funded assistance program, or with investigations or other proceedings related to such programs; and making the requirement that AFDC applicants and recipients cooperate in establishing paternity and collecting support payments inapplicable in cases in which it is determined that it would be against the best interests of the child to do so and that the applicants and recipients had "good cause" for their refusal to cooperate.

The Department of HEW sent final regulations defining "good cause" to the Senate Committee on Finance and to the House Ways and Means Committee in early January 1978 with an effective date of March 1978. The regulations were controversial and, pursuant to law, a resolution to rescind the regulations was introduced in the Senate. After several days of questioning HEW officials in executive session, the committee reached agreement with the Department that the regulations would become final but that HEW would officially clarify several portions of these regulations and would submit a revised set of final regulations later in 1978 after holding a public hearing in May. Revised final regulations were subsequently issued and became effective December 4, 1978.

The child support legislation enacted in 1974 authorized the garnishment for child support and alimony purposes of Federal paychecks (and Federal benefit payments based upon employment). No regulations on the garnishment provision under title IV-D of the Social Security Act have been issued to date for the executive branch of the U.S. Government although the President issued an Executive order in October 1975, requiring that such regulations be promulgated. The garnishment provisions were clarified and definitions provided as to their meaning in May 1977 in the Tax Reduction and Simplification Act of 1977. In addition, the act provided for the issuance of regulations for the executive, legislative, and judicial

branches of Government, for the establishment of conditions and procedures to be followed in carrying out the garnishment provision and for limiting the amount of wages subject to garnishment. The act specifically included the District of Columbia in the garnishment provisions of title IV-D of the Social Security Act.

Pursuant to the May 1977 amendments, the President issued a second Executive order on December 19, 1978, authorizing the U.S. Civil Service Commission (now the Office of Personnel Management) to promulgate regulations for the garnishment of moneys payable to employees of the executive agencies and the District of Columbia. In October 1978, the Director of the Administrative Office of the U.S. Courts issued regulations relating to garnishment of salaries on wages of officers and employees in the judicial branch of the Federal Government. The regulations of the legislative branch are in the draft stage.

Other provisions in the Tax Reduction and Simplification Act dealt with the separation of the collection and accounting functions, bonding of employees, simplification of the incentive payment provisions, and reporting requirements.

In June 1977, Congress extended until September 30, 1978, Federal matching equal to 75 percent of the expenditures for providing child support enforcement assistance to nonwelfare families. The committee reported out several bills with an amendment making this matching provision permanent. Two House-passed bills passed the Senate with amendments including the amendment for permanent Federal matching for child support services for families not on welfare. One of these bills passed the House on the day Congress adjourned with amendments to other provisions in the Senate-passed bill and including the amendment for permanent funding for non-AFDC child support services. However, final action on this bill was not completed prior to the adjournment of the 95th Congress.

The continuing appropriation resolution (Public Law 95-482) does provide Federal funds to continue operation of the programs in fiscal year 1979; however, the Federal matching for expenditures incurred in providing child support services to families not on welfare is authorized at a rate not to exceed the fiscal year 1978 rate.

In October 1977, the Medicare-Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act were enacted. Medicaid applicants and recipients may be required by a State to assign their rights to medical support to the State. It authorized the State to utilize the State Child Support Enforcement Agency for enforcement of rights due from an absent parent to pay for medical care. The bill also provided incentives similar to those in the child-support enforcement program for the collection of such support.

Congress also enacted a provision clarifying and upholding HEW's interpretation that, for the 3-month period after AFDC benefits have been terminated, the States may continue to collect support payments from an absent parent and continue to retain payments in excess of the regular monthly support order to reimburse them for past assistance payments.

In October 1978, the Senate passed an amendment to title IV-D of the act providing for Federal matching for expenditures for judges and other court personnel which are clearly identifiable and directly

related to services performed under the child support enforcement program. The amendment was deleted in conference. The Senate also passed an amendment providing that the failure of an employee of the United States or the District of Columbia to pay a legal obligation for child support would be grounds for a reprimand of the employee and, if continued, would be grounds for dismissal. The bill with the amendments did not pass Congress.

The Finance Committee also reported to the Senate child support amendments strengthening the collection and disbursement requirements; increasing the Federal matching for States and localities to develop new computerized management information systems, expand or enhance their existing systems, or utilize model systems developed by HEW's Office of Child Support Enforcement; providing authority for the States to have access to earnings information in records retained by the Social Security Administration and in State employment security records; and extending IRS collection responsibilities to non-AFDC child-support enforcement cases. Final action on these committee recommendations was not completed prior to the adjournment of the Congress.

During the 95th Congress, the committee continued to watch carefully the implementation and operation of the new child support enforcement program. The program has been implemented in all States and program data indicate that the child support program is generally working as the Congress intended. Collections of child support more than triple the cost of such collections, and paternity is being established at an increasing rate each year. Analysis of the data, however, shows that there is still a wide performance variance among States.

The following statistics illustrate the importance of the child support enforcement program to the children of families not receiving welfare, as well as to the families receiving welfare and to the taxpayers.

In the first 38 months of the child support program (August 1975 through September 30, 1978), States have reported total collections of over \$2.6 billion, of which \$1.2 billion was for AFDC families and \$1.4 billion was for families not on welfare, at a total cost of \$0.8 billion or 31 cents per dollar collected.

The child support collections are also affecting the AFDC rolls.

The number of AFDC recipients in November 1978 (10.32 million) was the lowest since August 1971, over 7 years. This was a decrease of over 1.1 million recipients when compared with March 1976 and a decrease of almost 450,000 when compared to November 1977.

The number of families receiving AFDC in November 1978 (3.47 million) was the lowest since March 1975, over 3 years.

This reduction can certainly be attributed in large measure to the two programs which reduce or eliminate financial dependency on welfare. These are the child support enforcement program through collection of child support for all families and the work incentive program through placing AFDC recipients in employment.

The increasing success of the child support enforcement program is reflected not just in the amounts of child support collected, but also in other program results.

In the first 38 months of the child support enforcement program, over 1 million absent parents have been located.

There were 315,700 support obligations established in fiscal year 1978 compared to 75,000 in fiscal year 1976, an increase of 321 per cent.

Paternity was established by the courts of 110,700 children in fiscal year 1978 compared to 14,800 children in fiscal year 1976, an increase of 666 percent.

#### WORK INCENTIVE PROGRAM

The work incentive (WIN) program was enacted by the Congress in 1967 with the purpose of reducing welfare dependency through the provision of manpower training, job placement and other services. In 1971 the Congress adopted amendments aimed at strengthening the administrative framework of the program and at placing greater emphasis on employment instead of institutional training. Under the 1971 provisions Federal funds pay 90 percent of the costs of the program.

The 1971 amendments also provided for a tax credit to employers who hire WIN participants. This tax credit was expanded in 1976 to include a welfare recipient tax credit. Under these provisions, employers could claim a tax credit equal to 20 percent of the wages paid during the first 12 months of employment to recipients of aid to families with dependent children (AFDC) who had received AFDC for at least 90 days or who were placed in employment under the WIN program. The amount of the credit available to any employer was limited to \$50,000 of tax liability plus one-half of tax liability in excess of \$50,000. Generally, up to \$5,000 of wages paid for nonbusiness employment were eligible for the credit.

The Revenue Act of 1978 combined the provisions of the WIN tax credit and the Welfare Recipient Incentive Employment Tax Credit, increased the amount of the credit for the first year and added a tax credit for the second year for employing either a WIN participant or a welfare recipient.

Under the act, employers who hire AFDC recipients who are placed in employment under the WIN program, or who have received AFDC for at least 90 days, are entitled to a credit equal to 50 percent of up to \$6,000 of wages per employee for the first year of trade or business employment and 25 percent of such wages for the second year of trade or business employment. An employer's deduction for wages is reduced by the amount of the credit.

The act also provides for employment not in a trade or business, the credit is to be 35 percent of the first \$6,000 of wages per employee for the first year of employment. Eligible nonbusiness wages are limited to \$12,000 for any employer.

In addition, the Act provides that no credit is allowed for: (1) expenses reimbursed by a grant; (2) employees who have not worked for the employer for more than 30 days on a substantially full-time basis; (3) employees who displace other employees from employment; (4) migrant workers; or (5) employees who are close relatives, dependents, or major stockholders of the employer. In addition, the WIN-welfare recipient tax credit is limited to 100 percent of tax liability.

The WIN-welfare recipient tax credit amendments generally are effective for expenses paid or incurred after December 31, 1978, for employees hired after September 26, 1978.

The Revenue Act of 1978 as passed by the Senate also included amendments to the WIN program; these provisions were deleted by the House-Senate conferees. These amendments would have added other employment related activities (including job search) as an element of the program for which recipients are required to register; necessary social and supportive services would have to have been provided during the employment search. The amendments also would have eliminated the provision for a 60-day counseling period, and authorized the Secretaries of Labor and HEW to establish, by regulation, the period of time during which an individual would not be eligible for assistance in the case of refusal without good cause to participate in a WIN program. Other provisions would have (1) required that the special AFDC units which provide supportive services to WIN registrants be colocated with the manpower units to the maximum extent feasible; (2) allowed State matching for supportive services to be in cash or in kind; (3) clarified that income from public service employment is not excluded in determining benefits; and (4) added individuals who are working at least 30 hours a week to the group exempt from mandatory registration for WIN.

For several years the administration has requested no increase in the level of funding for the WIN program. The amounts appropriated for both manpower and supportive services have not exceeded \$365 million a year. The committee approved increased authorizations for fiscal years 1978 and 1979. These authorization increases, amounting to \$435 million for each year (with 100 percent Federal funding), were enacted by the Congress in the Tax Reduction and Simplification Act of 1977. Funds were neither requested by the administration nor appropriated by Congress under this legislation. In 1978 the committee reported a second bill to increase the authorization for the WIN program. S. 2779 provided for an increase for 1979 of \$265 million above previously authorized amounts, and for funding for WIN of up to \$1.5 billion in succeeding years. This bill passed the Senate but was not considered by the House.

#### MEDICARE AND MEDICAID

Throughout the 95th Congress, the Committee on Finance, working primarily through the Subcommittee on Health, chaired by Senator Herman E. Talmadge, continued its ongoing legislative review activities with respect to the medicare and medicaid programs.

Extensive review activity by the committee during the 93d and 94th Congresses led to proposals designed to further major and basic changes in the administrative and reimbursement structure and methodology of medicare and medicaid.

In 1977, the Subcommittee on Health held 5 days of hearings on the operation of the medicare and medicaid programs and, specifically, how those programs would be affected by passage of the bill which had been introduced by Senator Talmadge and others as S. 1470.

Three major areas were addressed by S. 1470 and these were the subject matters of the hearings:

First were provisions dealing with the administration at both Federal and State levels of the two health financing programs. One of these provisions called for consolidating the Bureau of Health Insurance of the Social Security Administration, the Medical Services Administration of the Social and Rehabilitation Service and the Bureau of

Quality Assurance of the Public Health Service into one unit—an Administration for Health Care Financing, which would have responsibility for the administration of the medicare and medicaid programs. Another provision, aimed at improving administration of the State medicaid programs, provided for the Federal Government to establish performance standards which the States must meet in their administration of the program. Failure to meet these standards would result in a cutback of Federal matching for administrative costs.

Second, were a series of changes in the mechanism by which the programs reimburse hospitals.

The most important of these called for a move away from our current cost-based reimbursement mechanisms toward a prospective or target rate reimbursement system for routine hospital costs. This new reimbursement system contains the potential for rewarding efficiently operated facilities and penalizing those which are run inefficiently.

The third major set of amendments called for changes in mechanisms for physician reimbursement. One of these sought to limit reimbursement to hospital-based physicians and another sought to even out physicians' fees within different areas of a State.

Witnesses at the hearings included spokesmen from the Administration and from nearly every major interest group in the health care area. As a result of the hearings the committee gained further knowledge of what effect the passage of the Talmadge proposals would have on the existing programs.

Following up on these hearings the full Committee subsequently considered the subject matter in executive session, and reported appropriate legislation to the Senate as an amendment to H.R. 5285.

H.R. 5285 was passed by the Senate but final action on the legislation was not completed prior to the adjournment of the 95th Congress.

The Subcommittee on Health held two field hearings and one Washington hearing on the unique problems and gaps in the provision and financing of health care services for rural citizens. As a result of these and related efforts, legislation was developed and ultimately enacted (Public Law 95-210) to enhance the capacity of medicare and medicaid to respond more fully to the health care financing needs of eligible rural Americans.

Following extensive informal effort by committee members, a formal hearing was held by the Subcommittee on Health to consider approaches designed to enhance the effectiveness of the medicare program for sufferers of serious kidney disease while at the same time moderating the soaring costs of that program. These efforts contributed to the ultimate enactment of a reform measure, Public Law 95-292.

The Health Care Financing Administration was established, by administrative order, to consolidate the Federal role in medicare and medicaid. The concept and name of the new entity had been originally proposed in S. 3205 of the 94th Congress a bill sponsored by Senator Talmadge and others. Serious concern existed, however, as to whether the new agency had been organized in reasonable and effective fashion. The Subcommittee on Health requested the Comptroller General to secure answers to an extensive series of questions concerning the reorganization. The response of the Comptroller General was considered at a hearing of the subcommittee. Some modifications in the new organization resulted—including a reduction in the number of supergrade positions and sub-organizational units originally proposed.

The Subcommittee on Health also conducted a number of other hearings during the 95th Congress dealing with such subjects as cost containment and the impact of health care costs, confidentiality of medical records, mental health coverage under medicare and medicaid, and health maintenance organizations.

During the 95th Congress, the Committee on Finance printed the following documents related to health programs:

Selected Hospital Cost Containment Proposals: Major Provisions (October 11, 1977); and

Background materials relating to H.R. 8423—End stage renal disease program (October 21, 1977).

## LEGISLATIVE REVIEW OF INTERNAL REVENUE LAWS

During the 95th Congress the Committee on Finance was extensively involved in examining and revising the Federal tax laws. Four subcommittees with legislative review responsibilities involving tax matters examined a number of different areas of the Federal tax laws. Those subcommittees were the Subcommittee on Taxation and Debt Management Generally, the Subcommittee on Energy and Foundations, the Subcommittee on Private Pension Plans and Employee Fringe Benefits, and the Subcommittee on Administration of the Internal Revenue Code.

### TAX REDUCTION AND SIMPLIFICATION ACT OF 1977

The performance of the economy in early 1977 could best be described as sluggish. The major economic forecasts presented to the committee suggested that growth in real output would, without an economic stimulus, average no better than 5.9% in 1977 and no more than 5.6% in 1978 and could be well below those rates. Moreover, the unemployment rate was expected to be in excess of 7% in 1977.

The Tax Reduction and Simplification Act was designed to provide the economic stimulus to increase consumer spending, expand the production of goods and services, and reduce unemployment. In addition, a major purpose of the act was to simplify individual income tax returns and tax computations for almost all taxpayers.

The standard deduction was increased and simplified by eliminating a range of deductions and substituting at an increased level a flat deduction for both single and joint returns.

One of the more significant simplification changes was the revision of the tax tables so that taxpayers who itemize deductions as well as those claiming the standard deduction could find their tax by the use of the new tables. It was estimated that 96% of all taxpayers would be able to use the tax tables.

Another element in the economic stimulus package as proposed by the committee was the extension of the general tax credit and the earned income credit through 1978. These two tax reductions, which were initially enacted in the Tax Reduction Act of 1975 were scheduled to expire at the end of 1977. The extension of these tax credits prevented a tax increase that would have occurred after the end of 1977 and which would adversely affect the course of the recovery. It was also believed that extending the tax credits in early 1977 would add to business and consumer certainty and confidence.

In any plan to stimulate the economy, the business sector must also be given special attention. Consequently, reductions in the corporate tax rate made in 1975 and 1976 and due to expire at the end of 1977 were extended through 1978. This move was primarily designed to aid small businesses with taxable income of less than \$50,000 and was in recognition of the vital role that small business play in our overall economy.

A major goal of the economic recovery plan was to reduce unemployment. To this end the committee approved a new jobs credit for businesses that increase the number of their employees within certain limitations and guidelines. The committee also approved an additional nonincremental credit for certain wages paid to handicapped individuals who receive vocational rehabilitation.

In addition to the provisions dealing with economic stimulus and simplification, the committee also approved a number of miscellaneous tax provisions aimed at particular problems caused by the Tax Reform Act of 1976. The committee agreed that 1976 changes made concerning the tax treatment of sick pay and income earned abroad should be studied further before implementation. Therefore, the effective date of the change made by the Tax Reform Act of 1976 affecting income earned abroad was postponed one year and the repeal of the sick pay exclusion under the 1976 act was postponed for 1 year.

#### REVENUE ACT OF 1978

During the 95th Congress the Committee on Finance also completed action on the Revenue Act of 1978. This measure was designed to provide additional tax reductions to stimulate consumer and business spending to increase economic growth. It was structured to improve the equity of the tax system and to provide additional simplification of the tax laws. Under this measure a tax cut in excess of \$18 billion for 1979 and \$22.5 billion for 1980 has been provided. This act was approved in the waning moments of the 95th Congress, capping a marathon final day session that continued for 36 hours straight.

In this act, the committee attempted to provide individual income tax reductions to offset the impact of inflation and increased social security taxes.

##### *Individual tax cuts*

The committee considered a number of possible reductions in individual income taxes and settled on three principal income tax cuts which will affect virtually all taxpayers. First, the committee approved an increase in the personal exemption from \$750 to \$1,000. This permanent increase in the exemption has replaced the temporary \$35 general tax credit which was allowed to expire at the end of 1978. Second, the committee approved a revision of the existing tax rate schedule, which contained 25 brackets, with a new schedule of 15 wider brackets and lower rates. Third, the zero bracket amount was increased from \$2,200 to \$2,300 for single persons and from \$3,200 to \$3,400 for joint returns.

Another important change approved by the committee involved the tax treatment of payments to certain relatives for child care services. The Revenue Act of 1978 spells out that payments to grandparents for the care of their grandchildren may qualify for the child care credit.

In 1978, the Congress approved a significant tax reform measure. Unemployment compensation had traditionally not been included in gross income for tax purposes. However, the Congress believed that this exclusion should not continue at higher levels of income and approved a phasing out of the exclusion when gross income exceeds \$20,000 for single taxpayers and \$25,000 for married persons.

The 1978 Revenue Act also made changes in the earned income tax credit which are described separately elsewhere in this report.

### *Capital gains tax reduction*

One of the serious economic problems that the committee attacked during the 95th Congress was that of capital formation. Witness after witness testified that the lack of new capital investment in our domestic industries was stifling growth, was responsible for little or no growth in productivity, and was a major factor in the softening of the economy.

The committee concluded that the high level of taxes applicable to capital gains diminished the return on most investments to the point where the purchase of risk assets had become excessively unattractive in comparison with other, safer investments with high yields and relatively low risk. In addition, the committee found that the prospect of very high capital gains taxes effectively may have locked some taxpayers into holding existing investments.

The committee was convinced that lower capital gains taxes would markedly increase sales of appreciated assets, which should offset much of the revenue loss from the tax cut, and potentially lead to an actual increase in revenues. In addition, the improved mobility of capital should stimulate investment, generating more economic activity and more tax revenue. Six former Secretaries of the Treasury informed the committee that lower capital gains taxes would raise, not lower, revenues. The committee concluded that the effect of inflation would be significantly offset by reducing the amount of gain subject to tax. Thus, taxable gain will now, in the committee's view, be more in line with real, rather than inflationary, gain.

The committee effectively lowered capital gains taxes for individuals in several ways. First, the amount of gains that may be deducted from gross income was increased from 50% to 60%, and the alternative tax on capital gains was repealed. The committee also provided a one-time \$100,000 exclusion for gain from the sale of a principal residence for individuals over age 55. In addition, the corporate alternative tax rate on capital gains was reduced from 30% to 28%.

Finally, the Congress approved a formal study to be prepared by the Treasury Department on the effectiveness of the reductions of both the individual and corporate capital gains rates in stimulating investment, increasing the rate of economic growth, increasing employment, and of the effects of these reductions on income tax revenues. The study is to be completed by September 30, 1981.

In conjunction with the changes made in the capital gains tax, the committee also approved an alternative minimum tax applicable to capital gains only when an individual taxpayer has little or no regular tax liability. As a result of these changes, the maximum tax applicable to capital gains has been reduced from nearly 50% to 28%.

The "add-on" minimum tax was also significantly revised by the committee. The minimum tax on individuals amounted to 15% on certain items of tax preference income above a \$10,000 exemption. This tax was then added to the taxpayer's regular tax liability. The committee concluded that the "add-on" minimum tax did not serve well either the goal of tax equity or the goal of encouraging capital formation and economic growth by means of tax incentives.

Congress retained the "add-on" minimum tax for most preference items. However, the untaxed amount of capital gains and excess itemized deductions were made subject to the new alternative minimum tax which is paid by an individual only when it exceeds the individual's regular tax liability plus any "add-on" minimum tax applicable to items of tax preference. The new provision also excludes any gain from the sale of a principal residence from the new alternative minimum tax.

Still another area of law that the committee modified was the maximum tax. This provision limits the highest marginal tax rate on personal service income to 50%. However, the amount eligible for this maximum tax rate was reduced dollar for dollar by the individual's items of tax preference, including the untaxed portion of capital gains. The law also provided that in the case of an individual engaged in a trade or business where both personal services and capital were material income-producing factors, a reasonable allowance for personal services was treated as personal service income, but the amount could not exceed 30% of the income from the business.

The committee believed that the provision reducing income eligible for the maximum tax by the untaxed portion of capital gains acted as a serious obstacle to productive investment. Also, in certain situations the 30% limitation unfairly treated individuals who conduct their businesses as sole proprietorships or partnerships by imposing a greater tax burden on them than was imposed on an individual who conducts the identical business in corporate form. Consequently, the committee recommended two changes in the maximum tax. First, the capital gains tax preference offset of the amount eligible for the maximum tax was removed. Second, the 30% limitation on the amount of income from a trade or business that can be treated as personal services income was also removed.

#### *Employee stock ownership plans*

As part of the Revenue Act, the committee substantially amended the law regarding employee stock ownership plans (ESOPs) and employee stock ownership plans adopted pursuant to the Tax Reduction Act of 1975 (TRASOPs). The provision regarding TRASOPs were incorporated for the first time in the Internal Revenue Code and the TRASOP investment tax credit was extended through December 31, 1983. In addition, the TRASOP credit would no longer be subject to the minimum tax on tax preferences. At the same time, significant technical changes were made in the law to make ESOPs and TRASOPs more attractive to employers and to further protect employee benefits.

#### *Individual retirement accounts*

The committee made a number of substantial changes in the law affecting individual retirement accounts (IRAs). These changes were intended to facilitate the adoption of IRAs by individuals who are not

covered under corporate-sponsored retirement plans and to remove many of the tax penalties which were previously imposed with respect to IRA accounts as a result of inadvertent errors made by individuals due to excessive complexities in the law regarding IRAs. The tax penalties for excess contributions, premature withdrawals to correct excess contributions, and other transactions which would have violated the strict IRA rules and created an automatic tax penalty have been eliminated.

#### *Deferred compensation*

In the Revenue Act of 1978, the committee approved the continuation of existing law regarding unfunded, nonqualified deferred compensation agreements for employees of taxable corporations. However, a dollar limitation and an alternative percentage of compensation tests were made applicable to amounts which can be deferred by an individual employee of a State or local government.

In an effort to alleviate some of the paperwork burdens which exist for employers who sponsor qualified retirement plans for their employees, the committee created a new form of plan, an employer-sponsored group individual retirement account. Such a plan would require reduced paperwork for employers because a bank or insurance company administering the plan would maintain the records and make the necessary filings with Federal agencies. The committee imposed certain restrictions on amounts which can be contributed to such a plan each year. It also agreed to require broad participation in the plan among the employees of the sponsoring employer and immediate vesting for participating employees.

#### *Business tax cuts*

Under prior law, the tax on corporations was a two-part tax, a "normal tax" and a "surtax." This has been replaced with a single rate schedule analogous to the rate schedules used for individual taxpayers. There are five tax brackets, the first four of which subject income up to \$100,000 to rates ranging from 17% to 40%. The tax on income over \$100,000 has been reduced from 48% to 46%, to decrease the tax burden on doing business in corporate form and to encourage greater business investment.

To further encourage capital formation, the investment tax credit was strengthened in several ways. The investment tax credit rate and amount of eligible used property had been increased on a temporary basis in 1975. These increases were made permanent to facilitate the making of investment decisions. In addition, taxpayers can apply the credit against a higher percentage of income tax otherwise due.

The changes made with regard to the investment tax credit include an increase in the credit for pollution control facilities, clarification of the availability of the credit for single purpose agricultural or horticultural structures, expansion of the credit to expenditures for the rehabilitation of most types of buildings held for business or investment purposes and in use for at least 20 years, and expansion of the amount of the credit available to corporations.

#### *Small business tax changes*

A number of changes have been made in the taxation of small businesses. The reduction in corporate tax rates at lower income levels has already been mentioned. In addition, the rules governing subchapter

S corporations were generally relaxed as were the rules applicable to losses on section 1244 stock. Both Subchapter S and section 1244 provide favorable tax treatment for investments in small business corporations.

The act tightens the rules for deducting certain business expenses. Under the new provisions, deductions for yachts, hunting lodges, and similar entertainment facilities will be disallowed.

### *Tax shelters*

The Tax Revenue Act of 1976 severely restricted tax shelters in general by limiting write-offs to the amount "at risk" and by making specific changes in the partnership rules. The Revenue Act of 1978 further restricts tax shelters by extending the "at risk" rules to all activities other than real estate and making them applicable to certain closely-held corporations. Additional changes were also made in the partnership rules to aid in the audit of partnerships.

### *Tax-exempt bonds*

The committee has also examined the area of State and local tax-exempt bonds in two separate hearings. Based in part upon information presented at these hearings, the committee and the Congress have approved several changes with respect to "Industrial Development Bonds." In the Revenue Act of 1978, the committee and the Congress have approved an increase in the size of small issues of Industrial Development Bonds which can be issued as tax-exempt bonds. The amount of such bonds that can be issued has been increased from \$5 million to \$10 million. In addition, the committee and the Congress have made it clear that qualified bonds issued for the purpose of providing certain electric energy facilities and bonds used to provide certain facilities for the furnishing of water, available on reasonable demand to members of the general public, will be treated as tax-exempt bonds. The law was further amended by the committee and the Congress to permit advance refunding of certain outstanding tax-exempt Industrial Development Bonds where substantially all of the proceeds of the refunded issue are related to a qualified public facility.

In order to provide for judicial review of the tax status of proposed issues of municipal bonds, the committee and the Congress have approved a procedure under which proposed issuers can seek judicial review. Under this procedure an issuer can request a private letter ruling from the Internal Revenue Service regarding the tax status of a proposed issue of municipal bonds. After a specified period of time or issuance of an unfavorable ruling, the proposed issuer can petition the United States Tax Court for the issuance of a declaratory judgment with respect to the tax status of the municipal bonds proposed to be issued. The decision of the Tax Court can be appealed to the United States Court of Appeals for the District of Columbia. This procedure was adopted to facilitate review of IRS and Treasury determinations, including proposed regulations, which was previously not practical.

### THE TECHNICAL CORRECTIONS ACT

The 1976 Tax Reform Act was the most comprehensive revision of the tax laws since 1954. That act contained 21 titles and over 200

provisions touching on almost every area of tax policy. It is not surprising therefore that as time permitted a thorough review of this major act, the need for numerous technical, clerical, and clarifying changes became evident. The Subcommittee on Taxation and Debt Management Generally held four days of hearings on the various suggested changes, and the Technical Corrections Act of 1978 (later incorporated into the Revenue Act of 1978) contained over 100 minor changes to the Internal Revenue Code.

Several minor changes were made in the minimum tax as it relates to Subchapter S corporations, personal holding companies, and trusts and estates. Nearly a third of the changes were in the area of estate and gift taxation. The 1976 Tax Reform Act provided the first major overhaul in this area in nearly 30 years and radical changes were made.

The unification of estate and gift taxes together with the introduction of the carryover basis principle offered untested concepts that needed much refining.

For example, the interrelation of the gift tax marital deduction with the estate tax marital deduction had the effect, under certain circumstances, of penalizing certain transfers to a spouse. This was corrected so that the full marital deduction would be available to the estate in those circumstances. Some of the other changes that either clarify or correct the operation of the law were made in the provisions dealing with joint tenancies, the orphan's exclusion and generation-skipping trusts.

#### CARRYOVER BASIS

The 1976 Tax Reform Act included a radical change in the method of computing capital gains on assets received from an estate. Prior to 1976 the basis of assets passing through an estate were generally "stepped up" to equal the fair market value of those assets on the date of death. The Tax Reform Act introduced a new concept by which the basis of assets passing through an estate were "carried over" to the person inheriting those assets. This meant that for purposes of computing capital gains, the basis of assets in the hands of the beneficiary was the same, in general, as the basis in the hands of the decedent.

Unfortunately, the committee did not have the opportunity to conduct extensive legislative hearings to review the "carryover" concept prior to enactment. Although the principle appeared simple to understand, the practical application of the provision has produced a number of serious problems. One frequent problem has been the difficulty, in the absence of adequate records, in determining the basis of an asset that a decedent may have purchased 10, 20 or even 50 years ago. Another problem was that although the Federal estate tax is expected to affect only 2% of all estates, the carryover basis provision affected all estates, large and small, and the extensive recordkeeping necessary for the application of the law has proven a hardship for many estates. Consequently, the committee was convinced that the effective date of the carryover basis provision should be delayed until the end of 1979 in order to give the Congress an opportunity to review this concept in depth and to decide whether to adopt this concept, return to prior law, or adopt some alternative concept.

## OTHER TAX PROVISIONS

In addition to the major tax policy areas that the committee must study, there are minor, miscellaneous, tax law problems which must be resolved.

For example, in the estate tax area, the Internal Revenue Service has traditionally not taken account of the nonmonetary contribution of a wife in determining each spouse's interest in jointly-owned property.

The committee was convinced that a wife who does not work outside the home nevertheless is contributing to the growth in value of jointly-owned property just as the spouse who is actually earning a wage.

Consequently, the committee approved a provision which mechanically recognizes a wife's interest in a farm or closely-held business by crediting her at the rate of 2% per year for each year she materially participates in the farm or business.

Another change in the estate tax area was the clarification that certain special liens for additional estate tax would be subordinated to other, private liens. Private lenders are thus assured that loans secured by farm property would be protected even though a special tax lien may already exist on the property.

The committee also reduced the excise tax levied on the net investment income of domestic private foundations from 4% to 2%. A number of technical changes were made in the provisions dealing with Individual Retirement Accounts. Several penalty provisions have been repealed in case of improper contributions, rollovers, and distributions.

The committee also decided that a number of areas needed further study before either administrative or legislative action should be taken. Further administrative action was barred, pending congressional review, in the area of the employment status of independent contractors and employees. Additionally, a thorough review of the whole concept of "carryover basis" as introduced in the 1976 Tax Reform Act has been mandated, and the Congress has postponed the effective date of that provision until the end of 1979.

Other formal studies were commissioned in the areas of the simplification of tax returns, the taxation of nonresident alien real estate transactions in the U.S., and the effects of the changes on capital gains tax treatment on economic growth.

## FOREIGN EARNED INCOME ACT OF 1978

In the Tax Reform Act of 1976, Congress enacted changes in the provisions taxing Americans working overseas. These changes reduced the tax benefits available to such taxpayers. The 1976 Act changes were postponed for one year in the Tax Reduction and Simplification Act of 1977 so as to allow time for reconsideration of the changes.

On May 8, 1979, the Finance Committee held hearings on the taxation of Americans working abroad.

The Foreign Earned Income Act of 1978 represents a major rethinking of this area of the law. Instead of exclusions from income for Americans abroad (generally \$15,000 under the 1976 Act), a new

series of deductions for excess foreign costs of living have been created. Special rules for persons subject to adverse living conditions, persons residing in hardship areas, and persons residing in so-called camps have been provided.

The new rules will apply for 1978 unless the taxpayer elects the 1976 act rules. The new rules will apply to all taxpayers beginning in 1979.

While U.S. citizens remain taxable on their worldwide income, these provisions provide some relief from the excess costs of living abroad and remove some of the disincentives for Americans to go and work overseas.

#### MISCELLANEOUS TAX BILLS

It is not surprising that in our very complicated and diverse society that general rules on taxation may work in a manner neither foreseen nor intended by the Congress. The Committee investigated and approved a number of miscellaneous tax bills aimed at relieving inequities or simplifying compliance with the tax code.

For example, taxpayers attempted in good faith to comply with a lengthy list of technical and complicated rules in the area of Individual Retirement Accounts sometimes inadvertently violated the rules and significant tax penalties were imposed. A committee bill which was later enacted into law relaxed the requirements and ameliorated the harsh tax results.

Similarly, a committee approved bill provided relief to farmers receiving crop disaster payments by permitting them to treat these payments as income in a year earlier than actually received. This prevented a "bunching" of income and the imposition of a higher than normal tax.

Some of the other problems that were resolved were in the area of health profession, scholarships, cooperative telephone companies, and pension plans.

#### EARNED INCOME CREDIT

The work bonus concept providing for a tax credit for low income workers with families was recommended by the Senate Finance Committee to the Senate in the 93d and 94th Congresses and was approved by the Senate each time, but was not agreed to by the House of Representatives. It finally became law for calendar year 1975 on March 29, 1975 in the Tax Reduction Act of 1975, as the Earned Income Credit.

The 1975 provision allowed a refundable tax credit of 10 percent of earned income (earned income does not include amounts received as a pension or annuity) for the taxable year which did not exceed \$4,000 (a maximum credit of \$400). The \$400 maximum was reduced \$1 for each \$10 of income in excess of \$4,000. Thus the credit was completely phased out at an income level of \$8,000. Only individuals who maintained a household in the United States for themselves and for a dependent child under 19 or a student were eligible to claim the credit, and, in the case of married persons, the earned income credit is available only if a joint return is filed.

The earned income credit was extended through June 30, 1976 with passage of Public Law 94-164, the Revenue Adjustment Act of 1975. This act also added a provision that the earned income credit will be

disregarded as income for purposes of determining the continuing eligibility (and benefit amount) for individuals and children who receive benefits or assistance under any Federal or Federally financed program.

Six-and-one-half million families with dependent children, or approximately 20 million individuals, were affected in calendar year 1975.

The Tax Reform Act of 1976 extended the earned income credit and the related disregard provisions through the last six months of 1976 and all of calendar year 1977. It also extended eligibility for the credit to taxpayers with adult disabled dependents and to those who maintain a household for a child who is either under age 19 or a student, but who are not entitled to claim a personal exemption for the child. The Tax Reduction and Simplification Act of 1977 extended the earned income credit through December 31, 1978.

The Revenue Act of 1978 made the earned income credit permanent, increased the amount of the credit to a maximum of \$500, effective with taxable years beginning after December 31, 1978. The credit is 10 percent of the first \$5,000 of earned income. The allowable credit will be limited to the excess of \$500 over 12.5 percent of the excess of adjusted gross income (or earned income, if greater) over \$6,000. The credit is zero for taxpayers with incomes over \$10,000. The act also repeals the provision that earned income eligible for the credit does not include any items which are excluded from adjusted gross income. (Thus, excludible items such as excluded disability income and the rental value of a parsonage need not be subtracted in determining earned income eligible for the credit.)

The act further provides that, as of July 1, 1979, employees may elect to have advance payments of the earned income credit added to their paychecks each pay period. The amount of advance payment would be determined from tax tables which take into account the amount of wages paid and whether or not an employee's spouse was also claiming advance payments. Employers would reduce their liability for income tax withholding and FICA taxes for the aggregate amount of advance payments made to employees in any pay period.

In addition, the Act also changes eligibility requirements for the credit so that individuals who are eligible for the credit can be identified from entries on the individual Federal income tax return (Form 1040) to allow the Internal Revenue Service to give the credit to taxpayers who are eligible for the credit but who neglect to claim it. Any individual who is considered to be married and who is entitled to a dependency exemption for a child, any surviving spouse, and any head of a household who maintains a household for a child generally will be eligible for the earned income credit if the taxpayer and child reside in the United States.

The act also repeals the provision of prior law requiring that the credit be disregarded for purposes of Federal or federally aided assistance program, effective January 1, 1980. In addition, it provides specifically that the earned income credit, and advance payments of the credit, be treated as earned income for purposes of the aid to families with dependent children program (AFDC) and supplemental security income (SSI) programs.

## WATERWAY USER TAX

The full Finance Committee convened on October 21, 1977, to receive testimony on H.R. 8309 which would impose an excise tax on fuel used by commercial vessels on specified inland waterways. The committee received information from over 30 interested parties, not only concerning the excise tax but also on the advisability of replacing certain locks and dams on the Mississippi River. The excise tax later became law as part of H.R. 8533 which also mandated a comprehensive study of inland waterway user taxes and charges.

## ROPER OPINION POLL

The full committee met in executive session on July 27, 1978, to receive the testimony of Burns Roper and Henry Block on the result of several studies on the public understanding of tax measures. These studies were conducted for H&R Block for presentation to the Congress and the Administration and others concerned with tax policy.

One of the major findings of the study was that the American public is not very clear on how the tax system works or on whom the tax burden actually falls. The lack of understanding may be the reason that a large portion of the public believes the tax system is unfair.

The committee has requested a thorough study of the findings of the Roper public opinion poll by the staff. The committee welcomed the opportunity to review these studies.

## ENERGY

Throughout the 95th Congress, the Committee on Finance was involved with the consideration of various energy related tax matters. In March, 1977, the Subcommittee on Energy, held hearings to examine Federal incentives for developing new energy sources. The primary focus of the inquiry was on the development of conventional fossil fuel resources and the commercialization of new energy technologies.

Beginning in August, 1977, the Committee on Finance held five days of hearings on title II of the Energy Tax Act of 1977. During September and October, the committee met in executive session to consider legislation. The committee bill provided incentives for energy conservation in three major categories: residential, transportation, and business.

The committee provided tax credits for individuals for qualified energy conservation expenditures. Qualified expenditures included the cost of insulation, storm windows and doors, and devices to improve the efficiency of residential furnaces. The committee decided to make the credit refundable.

The committee, recognizing the important role that unconventional energy sources will play in reducing U.S. dependence on foreign oil supplies, provided a refundable credit for individuals who purchase qualifying geothermal, solar, and wind energy equipment.

The committee made numerous changes to the Federal excise tax on gasoline. Recognizing the potential importance of alcohol-gasoline blends, the committee decided to exempt these fuels from Federal excise tax for a five-year period. In order to qualify for the exemp-

tion, the alcohol-gasoline blend was required to contain at least 10 percent ethanol and/or methanol by volume. The excise tax on buses and bus parts was repealed. The Secretary of the Treasury was authorized to add to the list of qualifying equipment for the business energy tax credit transportation devices which conserve energy.

The committee agreed to provide a business energy investment tax credit, in addition to the regular tax credit, for certain types of energy property intended to reduce the amounts of oil, natural gas, or other energy consumed in heating or cooling a building or used in an industrial process. The committee also agreed to allow a credit and a current deduction for geological, geophysical, and intangible drilling costs for geopressurized methane.

The committee also agreed to a number of miscellaneous provisions including: (1) a depletion allowance for peat used for energy; (2) a shale oil tax credit; (3) an exemption from the 6-cents-per gallon manufacturer's excise tax for re-refined lubricating oil; and (4) an annual report on energy and revenue effects of the energy tax provisions.

The committee agreed not to include the crude oil equalization tax and related provisions in the bill.

At the end of October, the Finance Committee reported out the energy tax bill. The Senate acted favorably on an amended version of the committee's bill on October 31, 1977.

#### TAX ASPECTS OF BLACK LUNG BENEFITS PROGRAM

The black lung benefits program administered by the Department of Labor and the Department of Health, Education, and Welfare provides payments to former coal miners and to the survivors of such miners in cases involving disability or death from pneumoconiosis. As originally enacted, this program provided benefits funded from general revenues, and the program did not fall within the jurisdiction of the Committee on Finance. During the 94th Congress, however, the committees of jurisdiction in both the Senate and the House of Representatives reported legislation designed to substantially amend the program and its financing. A major source of funding for benefits under the revised program would have been a tax imposed upon the mining of coal.

Since this change involved the revenues of the United States, the legislation was referred to the Committee on Finance. The committee conducted a public hearing on the bill and subsequently reported the legislation with amendments related to its tax aspects. This legislation was not, however, considered by the Senate prior to the close of the 94th Congress.

The proposal was again considered early in the 95th Congress and a hearing on the tax aspects was held in June 1977 by the Subcommittee on Taxation and Debt Management Generally. In July 1977, the committee reported legislation establishing a black lung disability trust fund and creating a new excise tax on coal production to provide the financing for that fund. This legislation was enacted as the Black Lung Benefits Revenue Act of 1977 on February 10, 1978. As enacted, the legislation imposes a coal tax of 50 cents per ton from underground mines and 25 cents per ton from surface mines with an overall maximum of 2 percent of the sale price.

### CONFIRMATION HEARINGS

In addition to its work on remedial legislation and hearings on legislation, the committee has also found that its legislative review of the internal revenue laws can be pursued effectively through the confirmation hearings held to consider appointments to the positions of Secretary of the Treasury, Under Secretary of the Treasury, Assistant Secretary for Tax Policy, Commissioner of Internal Revenue, and Chief Counsel of Internal Revenue. In such hearings the committee is able to bring up matters concerning the administration and execution of the internal revenue laws which have come to the committee's attention from constituents, hearings on proposed tax legislation and through its own initiative. The committee seeks the cooperation of the prospective appointee as to tax policies and procedures designed to remedy the administrative actions the committee believes inconsistent with established congressional intent.

The effectiveness of legislative review through confirmation hearings on proposed Treasury appointees has been proven many times through the subsequent actions of the confirmed appointees with respect to specific problems and general approaches relevant to the implementation of laws in areas under the jurisdiction of the committee.

### COMMITTEE INQUIRIES

From time to time, the committee also directs specific complaints concerning administration of the internal revenue laws to the Commissioner of Internal Revenue with a request for him to investigate and report back to the committee. Generally, these complaints raise questions concerning the lack of efficiency or impartiality by the Internal Revenue Service in the administration of the tax laws. The Commissioner of Internal Revenue invariably shows considerable diligence and attention to such inquiries from the committee.

### PUBLIC INQUIRIES

Finally, because of the broad impact of the internal revenue laws, the public, including individuals and associated groups, is relied on to bring to the committee's attention inequities in the execution of substantive tax laws and inefficiencies in the procedural administration of such laws.

### LEGISLATIVE REVIEW OF TAXATION AND DEBT MANAGEMENT

The Subcommittee on Taxation and Debt Management met over 20 times during the 95th Congress and analyzed a wide range of tax topics. In addition to specific pieces of legislation, the subcommittee also took the opportunity to explore broad questions of tax policy. One such area was the examination of the effects of tax policy upon the growth of the private sector of our economy. In four days of hearings, May 16 and 17, 1977 and June 13 and 14, 1977, the subcommittee focused on the relationship between taxation and economic growth.

In addition, the subcommittee, in other hearings during the 95th Congress, received testimony on Tax Credits for Contributions to Candidates; Tax Aspects of Black Lung Benefits Reform Act; Estate

and Gift Tax problems arising out of the 1976 Tax Reform Act; and the Bankruptcy Act.

The subcommittee also held hearings in June, July and August, 1978, in which it considered over 30 miscellaneous tax bills.

The subcommittee met on March 17, 1978 to consider H.R. 7320, a bill to revise miscellaneous timing requirements of the revenue laws. The hearing was significant because, with the cooperation of the Ways and Means Committee, it was part of an emerging procedure whereby noncontroversial yet important technical and conforming changes in the Internal Revenue Code could be made expeditiously. It is hoped that the procedure can be refined and formalized in future Congresses.

[The bill provisions had been developed from a list of legislative recommendations submitted by the American Bar Association, the American Institute of Certified Public Accountants and other groups including State and local bar and accounting associations. The bill went on to become Public Law 95-628.]

One of the most important responsibilities of the subcommittee is the oversight of the national debt. The Federal debt represents the accumulated budget deficits of the United States.

The subcommittee met and held hearings on four different occasions during the 95th Congress to consider the debt limit. The subcommittee believes that it is only through such continued oversight proceedings that the Congress can attempt to focus attention on efforts to slow the growth of the national debt.

The subcommittee also monitors the status of foreign debts owed to the United States. The subcommittee conducted a hearing on January 23, 1978 specifically for that purpose.

Another oversight duty of the subcommittee is the issue of the collection of debt owed the Federal Government. This debt is owed by private individuals and in 1977 amounted to \$84 billion. On December 18, 1978 the subcommittee met to focus upon the magnitude of the problem created by unpaid debts and to look at ways to collect these debts more efficiently. It was suggested at such hearings that the projected budget deficit could be reduced substantially, not by any additional taxation, but simply by collecting the debts that are owed to the Government.

#### LEGISLATIVE REVIEW OF ADMINISTRATION OF THE INTERNAL REVENUE CODE

The Subcommittee on Administration of the Internal Revenue Code concentrated on three problems during the 95th Congress. The first was the recycling of energy tax revenues which were anticipated from the President's energy program. Hearings were held on June 6 and June 27, 1977 to receive testimony from noted economists. The subcommittee met on March 28, 1978 to review suggestions by professional tax return preparers, accountants, tax lawyers and small businessmen on simplifying income tax returns. On May 10, 1978, the subcommittee met to review a decision by the IRS to reorganize its 12 smallest districts and to eliminate certain administrative positions in these IRS offices. The subcommittee was concerned about public criticism that the proposed changes would affect service to the public.

## LEGISLATIVE REVIEW OF PRIVATE PENSIONS

The Subcommittee on Private Pension Plans held public hearings on numerous bills for pension simplification and paperwork reduction, pension plan bookkeeping methods, nonfunded deferred compensation plans and reporting requirements for State and local government pension plans, the Pension Benefit Guaranty Corporation coverage of single and multiemployer defined benefit pension plans and New York City pension plan investments were enacted into law as part of the New York City Loan Guarantee Act of 1978, and provisions relating to simplified pension plans were incorporated into the Revenue Act of 1978. In addition, on August 15 and 16, 1978, the subcommittee held joint public hearings with the Senate Human Resources Committee on various bills to reduce paperwork under ERISA and to otherwise amend ERISA.

## LEGISLATIVE REVIEW OF EMPLOYEE STOCK OWNERSHIP PLANS

On July 19 and 20, 1978, the committee held hearings on S. 3241, a bill to revise the Internal Revenue Code regarding employee stock ownership plans (ESOPs and TRASOPs). Many of the provisions of this bill were enacted into law as part of the Revenue Act of 1978. In addition, the Committee published a booklet explaining ESOPs and TRASOPs to employees.

## LEGISLATIVE REVIEW OF SUPPLEMENTAL FISCAL ASSISTANCE

The Subcommittee on Unemployment Compensation, Revenue Sharing and Economic Problems, on May 3, 1978, held hearings on the subject of supplemental fiscal assistance. The subcommittee received testimony from the Deputy Secretary of the Treasury concerning an Administration proposal to revise and extend the Supplementary Fiscal Assistance Program. The subcommittee also received testimony from State and local officials urging extension of the Countercyclical Program. Included in the testimony was some critical analysis of the existing program. Subsequent to the hearings the full Committee on Finance met and approved legislation entitled, "The Intergovernmental Anti-recession and Supplementary Fiscal Assistance Amendments of 1978." This legislation was approved as an amendment to H.R. 2852, a minor House-passed revenue measure. The amendment approved by the committee extended the Supplementary Fiscal Assistance Program for State and local governments which continue to have high unemployment. The provision approved by the committee was designed to achieve a more equitable national distribution of supplementary assistance as well as a better regional balance.

This legislation was subsequently approved with amendments by the full Senate, but was not acted upon by the House of Representatives. The Anti-recession Fiscal Assistance Program was thus not extended during the 95th Congress.

## LEGISLATIVE REVIEW OF DEEP SEABED MINING LEGISLATION

During the 95th Congress, deep seabed mining legislation (H.R. 3350) was passed by the House of Representatives. A Senate bill (S. 2053) was reported by the Energy and Commerce Committees and the

Foreign Relations Committee. The House and Senate Energy Committee bills contained tax provisions. The Commerce Committee struck the tax provisions in the Senate bill and the Foreign Relations Committee recommended a tax provision in its committee report.

On October 2, 1978, the Finance Committee reported out a committee amendment on deep seabed mining taxes to be offered in the event that S. 2053 was considered on the floor of the Senate. That legislation was not considered by the Senate prior to adjournment.

#### LEGISLATIVE REVIEW OF INTERNATIONAL TRADE

During the 95th Congress, the committee continued its intensive oversight of the Multilateral Trade Negotiations in Geneva, Switzerland. Committee members held numerous meetings with American and foreign trade negotiators both in Washington and in Geneva. Representatives of the Office of the Special Representative for Trade Negotiations met with the committee on a regular basis to discuss the progress of negotiations.

The nature of trade negotiations requires that the Congress be fully informed on all U.S. negotiating positions. General procedures under the Trade Act of 1974 for consultation with the administration have been implemented by the committee to provide a continuous flow of information to the Congress on these matters. As a result of improved communications, Congress will be better able to fulfill its constitutional responsibilities for foreign trade at such time as trade agreements are submitted for approval.

Legislatively, the principal activities of the committee on international trade matters during the 95th Congress were the consideration of the Customs Procedural Reform and Simplification Act of 1978, the Sugar Stabilization Act of 1978, the Meat Import Act of 1978, and a bill to improve the trade adjustment assistance programs under the Trade Act of 1974.

The committee held a number of hearings on trade matters during the 95th Congress. In February 1978, the committee held hearings on proposed amendments to the Meat Import Quota Act. In April 1978, the committee approved the Meat Import Act of 1978 which changed the existing meat import quota system to a countercyclical approach which would result in increased imports during periods of short supply and decreased imports during periods of oversupply of beef. Although this bill passed both Houses, it did not become law.

#### SUBCOMMITTEE ON INTERNATIONAL TRADE

The Subcommittee on International Trade had the primary responsibility for vigorous oversight of trade negotiations to which the United States is party. In addition, the subcommittee carried on oversight of the operations of the U.S. International Trade Commission and of the United States-Romanian trade agreement.

In addition to these oversight activities, the Subcommittee held numerous hearings on trade matters during the 95th Congress. In July of 1977 and 1978, the subcommittee held hearings on miscellaneous tariff bills. In July 1977, the subcommittee received testimony on "Problems in International Agricultural Trade." During January 1978, the subcommittee held hearings on the Customs Procedural Reform Act of 1977. Subsequent to these hearings, the committee ap-

proved the Customs Procedural Reform and Simplification Act of 1978 which completely revised customs entry procedures for the United States. This act subsequently became law.

In January 1978, the subcommittee held hearings on an act to "Implement the United Nations Convention on Cultural Property." The full committee took no action on this bill. Also during January 1978, the subcommittee held hearings on "United States/Japanese Trade Relations." During March 1978, the subcommittee held hearings on a resolution to "Disapprove the President's Decision Not to Provide Import Relief to the Domestic Industry Producing Bolts, Nuts, and Screws of Iron or Steel." The full committee took no action on this resolution.

In April 1978, the subcommittee held hearings on the "Resolution to Approve the Agreement on Trade Relations between the United States and the Hungarian People's Republic." Subsequent to these hearings, the full committee approved this resolution which resulted in the granting of most-favored-nation tariff treatment to Hungary. The subcommittee also held hearings in June 1978, on "Continuing the President's Authority to Waive the Trade Act Freedom of Emigration Provisions." Subsequent to these hearings, the committee agreed to permit the continuation of the President's waiver authority for an additional year, thereby continuing MFN tariff treatment for both Hungary and Romania.

In July 1978, the subcommittee held hearings on a resolution to "Disapprove the Waiver of Countervailing Duties on Certain Fish from Canada." Also in July, the subcommittee held hearings on a bill to "Prohibit the Reduction or Elimination in Trade Negotiations of Duties or Import Restrictions on Textiles and Textile Products." The full committee took no action on these measures.

During August 1978, the subcommittee solicited written comments on the "Tariff Treatment of Watches and Watch Movements from the Insular Possessions Assembled from Parts Manufactured in Countries not Currently Receiving Nondiscriminatory Tariff Treatment." Subsequent to these hearings, the committee approved a bill which would have imposed a temporary quota on duty-free imports of certain "low-labor" watch movements from the insular possessions while the Department of Commerce reviewed the potential threat which such imports pose to the domestic watch industry. This bill did not become law.

During September 1978, the subcommittee held hearings on amendments to the Trade Adjustment Assistance programs under the Trade Act of 1974. Subsequent to these hearings, the committee approved a bill which would have broadened the coverage of workers and firms eligible for adjustment assistance benefits, liberalized adjustment assistance benefits for workers and firms, and accelerated the certification process and delivery of benefits. This bill did not become law.

#### SUBCOMMITTEE ON TOURISM AND SUGAR

The Subcommittee on Tourism and Sugar held hearings on the Sugar Stabilization Act of 1978 during April 1978. In October 1978, the full committee approved the act. The Sugar Act did not become law.

LIST OF HEARINGS HELD BY THE COMMITTEE ON FINANCE—FULL  
COMMITTEE

LEGISLATIVE HEARINGS

H.R. 3477—Tax Reduction and Simplification Act of 1977 (March 8, 9, 10, and 11, 1977).

H.R. 4800—The Emergency Unemployment Compensation Act of 1977 (March 22, 1977).

H.R. 8444 (title II)—Energy Tax Act of 1977 (August 8-12, 19, September 8, 9, 12-15, 1977).

H.R. 8309 (title II)—Waterways Fuel Tax (October 21, 1977).

Proposed Amendments to the Meat Import Quota Act (February 27, 1978).

Taxation of Americans Working Abroad (May 8, 1978).

Employee Stock Ownership Plans and General Stock Ownership Trusts (July 19 and 20, 1978).

Roper Opinion Poll (July 27, 1978).

H.R. 13511—Revenue Act of 1978 (August 17, 21-25, September 6, 1978).

NOMINATIONS

W. Michael Blumenthal (January 12, 1977).

Joseph A. Califano (January 13, 1977).

Laurence N. Woodworth (January 13, 1977).

Hale Champion (March 8-10, 23, 1977).

Thomas D. Morris (March 8-10, 1977).

Arabella Martinez (March 8-10, 1977).

Robert S. Strauss (March 23, 1977).

Richard D. Warden (March 23, 1977).

Henry Jacob Aaron (March 23, 1977).

Eileen Shanahan (March 23, 1977).

Bette B. Anderson (March 23, 1977).

Anthony Solomon (March 23, 1977).

C. Fred Bergsten (March 23, 1977).

Gene E. Godley (March 23, 1977).

Robert H. Mundheim (July 26, 1977).

Azie Taylor Morton (July 26, 1977).

Charles F. C. Ruff (July 26, 1977).

Blandina Cardenas (July 26, 1977).

Alonzo Lowry McDonald, Jr. (August 2, 1977).

William R. Alberger (October 14, 1977).

Herbert L. Chabot (March 16, 1978).

Donald Lubick (April 19, 1978).

Stanford G. Ross (September 25, 1978).

Paula Stern (September 25, 1978).

LIST OF HEARINGS HELD BY SUBCOMMITTEES OF THE  
COMMITTEE ON FINANCE

SUBCOMMITTEE ON HEALTH

S. 1470—Medicare and Medicaid Administration and Reimbursement Reform Act (June 7, 8, 9, and 10, 1977).

H.R. 2504, S. 708; S. 1877.—Expanding Medicare Coverage in Rural Health Clinics (July 21, 1977).

Comptroller General's Report on Establishment of Health Care Financing Administration in HEW (July 21, 1977).

Health Care Problems in Rural and Small Communities—Macon County-Atlanta, Ga. (Aug. 16 and 18, 1977).

H.R. 3—Confidentiality of Medical Records (Sept. 15, 1977).

Hospital Cost Containment and End Stage Renal Disease Program (Oct. 12, 13, and 21, 1977).

Rural Health Care Delivery (Jan. 28, 1978).

Health Care Costs (Feb. 13, 1978).

Findings of the Senate Permanent Subcommittee on Investigations on Health Maintenance Organizations (May 18, 1978).

S. 1392, H.R. 9434—Child Health Assessment Act and Increased Medicaid Funding for Puerto Rico (Aug. 14, 1978).

Proposals to Expand Coverage of Mental Health Under Medicare and Medicaid (Aug. 18, 1978).

#### SUBCOMMITTEE ON INTERNATIONAL TRADE

H.R. 6370—Authorization of Appropriations for the U.S. International Trade Commission for Fiscal Year 1978 (Apr. 21, 1977).

Continuing Most-Favored-Nation Tariff Treatment of Imports from Romania—1977. (June 27, 1977).

Problems in International Agricultural Trade (July 13, 1977).

Various Tariff Bills—H.R. 422, H.R. 1550, H.R. 1904, H.R. 2849, H.R. 2850, H.R. 2882, H.R. 3093, H.R. 3259, H.R. 3373, H.R. 3387, H.R. 3790, H.R. 3946, H.R. 4018, H.R. 4654, H.R. 5037, H.R. 5052, H.R. 5146, H.R. 5176, H.R. 5263, H.R. 5285, H.R. 5289, H.R. 5322, H.R. 5858, S. 594, S. 1302, and S. 1519 (July 14, 1977).

United States-Japanese Trade Relations and the Status of the Multilateral Trade Negotiations (Feb. 1, 1978).

H.R. 8149—Customs Procedural Reform Act of 1977 (Feb. 2, 1978).

H.R. 5643—Convention on Cultural Property Implementation Act (Feb. 8, 1978).

S. Con. Res. 66—Resolution Disapproving of Import Relief to the Domestic Industrial Fastener Industry (Apr. 4, 1978).

Fiscal Year 1979 Authorization of Appropriations for the U.S. International Trade Commission (Apr. 21, 1978).

S. Con. Res. 76—Most-Favored-Nation Treatment for Hungary (May 9, 1978).

Continuing the President's Authority To Waive the Trade Act Freedom of Emigration Provisions (July 12, 1978).

S. Res. 483—Resolution To Disapprove Waiver of Countervailing Duties on Fish From Canada (July 13, 1978).

H.R. 5044, H.R. 5265, H.R. 5551, H.R. 7108, H.R. 8755, H.R. 9628, H.R. 9911, H.R. 10161, H.R. 10625, H.R. 11409, H.R. 12165, H.R. 12739; S. 2847, S. 2985, S. 3171, S. 3246, S. 3326, S. 3329.—Miscellaneous Tariff Bills (July 31, 1978).

S. 2920—Prohibiting Reduction of Duties in Trade Negotiations on Textiles (Aug. 15, 1978).

H.R. 11711, S. 939, S. 1658, S. 3500—Trade Adjustment Assistance Amendments (Oct. 2, 1978).

## SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

Incentives for Economic Growth (May 16, 17, and June 14, 15, 1977).

S.1471—Increased Tax Credits for Contributions to Candidates for the U.S. Senate (May 19, 1977).

S. 1538—Tax Aspects of the Black Lung Benefits Reform Act of 1977 (June 17, 1977).

Certain Estate and Gift Tax Problems Arising From the Tax Reform Act of 1976 (July 25, 1977).

S. 1514—Private Foundation Leasing of Business Assets (July 25, 1977).

\$775 Billion Debt Limit (Sept. 22, 1977).

S. 690—Jefferson County Mental Health Center (Oct. 14, 1977).

S. 1717—Certain Tax Provisions Relating to Distilled Spirits (Oct. 14, 1977).

H.R. 6715, S. 1954, S. 2227, S. 2228—Technical Corrections Act of 1977 (Including Carryover Basis Provisions) (Oct. 26, 27, 28 and 31, 1977).

S. 96, S. 311, S. 834, S. 954, S. 1570, S. 1781, S. 2142—Tuition Tax Relief Bills (Jan. 18–20, 1978).

S. 2388—Employer Education Assistance Programs (Jan. 20, 1978), Foreign Indebtedness (Jan. 23, 1978).

Public Debt and the Budget (Jan. 30, and Feb. 6, 1978).

S. 2554—Adjustment of Zero Bracket Amount for Residents of Certain States (Mar. 1, 1978).

Extension of the Temporary Limit on the Public Debt (Mar. 14, 1978).

H.R. 7320—Miscellaneous Timing Requirements of the Revenue Laws (Mar. 17, 1978).

S. 2738—Indexation of Certain Provisions of the Tax Laws (Apr. 24, 1978).

S. 2872, H.R. 810, H.R. 1337, H.R. 1920, H.R. 2028, H.R. 2852, H.R. 2984 H.R. 3050, H.R. 5103, H.R.6635, H.R. 8535, H.R. 8811—Miscellaneous Tax Bills I (June 19, 1978).

S. 2428, S. 2608, S. 3065—Capital Gains Bills (June 28 and 29, 1978).

Debt Limit (July 11, 1978).

S. 1860, H.R. 8333—Individual and Business Tax Reduction Proposals (July 14, 1978).

S. 869, S. 1674, S. 2128, S. 2393, S. 2462, S. 2628, S. 2825, S. 3007, S. 3037, S. 3080, S. 3125, S. 3301—Miscellaneous Tax Bills II (July 24, 1978).

S. 2266—Bankruptcy Reform Act of 1978 (Aug. 4, 1978).

H.R. 810, H.R. 4030, H.R. 5099, S. 1611, S. 2771, S. 3049, S. 3176, S. 3345—Miscellaneous Tax Bills III (Aug. 28, 1978).

Collection of Debt Owed Federal Government (Dec. 18, 1978).

## SUBCOMMITTEE ON SOCIAL SECURITY

Social Security Financing Proposals (June 13, 16, 23, 24, and July 15, 1977).

Social Security Financing (Apr. 5 and 6, 1978).

## SUBCOMMITTEE ON ENERGY AND FOUNDATIONS

Recycling Energy Tax Revenues (June 6 and 27, 1977).  
 Incentives for Developing New Energy Sources (June 20 and 21, 1977).

SUBCOMMITTEE ON PRIVATE PENSION PLANS AND EMPLOYEE  
FRINGE BENEFITS

S. 285, S. 901—Pension Simplification and Investment Rules (Joint hearing with Senate Select Committee on Small Business) (May 10, 11, 24, and 25, and June 28, and July 18, 1977).

S. 2019, S. 2125, H. Con. Res. 369—Pension Benefit Guaranty Corporation—Amendments Affecting Single-Employer and Multiemployer Defined Benefit Plans (Oct. 14, 1977).

New York City Pension Plan Investments (Mar. 7 and 8, 1978).

S. 1578—Reporting requirements for State and local government Pension Plans and Tax Treatment of Deferred Amounts Under Non-qualified Deferred Compensation Plans (Mar. 15, 1978).

Pension Plan Bookkeeping Methods (June 14, 1978).

S. 3140, S. 3193—Pension Simplification Bills (June 27, 1978).

S. 250, S. 901, S. 1383, S. 1745, S. 2992, S. 3017, S. 3193—ERISA Improvements Act of 1978 (Aug. 15, 16, and 17, 1978).

SUBCOMMITTEE ON UNEMPLOYMENT COMPENSATION, REVENUE  
SHARING, AND ECONOMIC PROBLEMS

S. 2975—Supplemental Fiscal Assistance Proposals Contained in the President's National Urban Policy Recommendations (May 3, 1978).

SUBCOMMITTEE ON ADMINISTRATION OF THE INTERNAL  
REVENUE CODE

Simplifying Income Tax Returns (Mar. 28, 1978).  
 Proposed Reorganization of 12 Smallest IRS Districts (May 10, 1978).

Jobs Tax Credit (July 18 and 26, 1978).

## SUBCOMMITTEE ON TOURISM AND SUGAR

S. 2990—Sugar Stabilization Act of 1978 (May 11, 1978).

## SUBCOMMITTEE ON PUBLIC ASSISTANCE

President's Statement on Principles of Welfare Reform (May 5 and 12, 1977).

H.R. 7200—Public Assistance Amendments of 1977 (July 12, 18, 19, and 20, 1977).

S. 2084, S. 2777, H.R. 10711, H.R. 10950—Welfare Reform Proposals (Feb. 7 and 9, April 17, 18, 25, and 26, May 1, 2, and 4, 1978).  
 Social Services Proposals (Aug. 18, 1978).

S. 3470—Welfare Block Grant/Fiscal Relief Proposal (Sept. 12, 1978).

H.R. 10848, H.R. 12972—Supplemental Security Income Disability Program (Sept. 26, 1978).

Welfare Research and Experimentation (Nov. 15, 16, and 17, 1978).