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COMMITTEE ON FINANCE

UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

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SUMMARY: IMPACT OF CONGRESSIONAL BUDGET ACT ON FINANCE COMMITTEE

The Congressional Budget Act of 1974 (titles I–IX of Public Law 93–344), provides the mechanisms and procedures for Congress to establish its own annual Federal budget and to consider spending, revenue, and debt limit legislation in the context of that budget. The provisions of the Act have a number of effects on the consideration of legislation handled by the Committee on Finance.

The major provisions affecting the Finance Committee are the following:

1. Beginning October 1, 1976, the fiscal year will begin October 1 instead of July 1.

2. By March 15 of each year, the Finance Committee must submit a report to the Budget Committee estimating the effect that Finance Committee legislation will have on expenditures, revenues, and the debt limit during the next fiscal year, and presenting the Committee's views and estimates with respect to revenues and the debt limit. (Last year's report appears in Appendix A of this pamphlet.)

3. Certain kinds of legislation have to be handled before specific dates. Revenue and debt limit legislation for the upcoming fiscal year, and legislation increasing expenditures in such areas as social security and welfare, cannot be considered by the Senate before May 15. However, procedures are provided for waiving these restrictions, ordinarily by obtaining Budget Committee approval of a resolution permitting immediate Senate consideration.

4. If the Finance Committee reports legislation affecting welfare, medicaid, social services, and other non-trust-fund entitlement programs, and it exceeds the amount budgeted in the most recent concurrent budget resolution, the legislation is to be referred to the Appropriations Committee for 15 days.

5. In September of each year, the Congress debates and adopts a concurrent resolution setting appropriate spending, revenue, and debt limit levels for the coming fiscal year. The resolution can direct the Finance Committee to report legislation raising taxes or cutting back on spending programs within the Committee's jurisdiction.

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 (PUBLIC LAW 93-344)

1. Overall View

OUTLINE OF CONGRESSIONAL BUDGET PROCESS UNDER PUBLIC LAW 93-344

On April 15 of each year, the Budget Committees of the House and Senate report to their respective Houses a concurrent resolution which is, in effect, a Congressional budget document setting forth appropriate levels for spending, revenues and public debt for the coming fiscal year. The spending levels are broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee are subject to debate and amendment. When agreed to by House and Senate (by May 15), the resolution represents Congressional judgment of the appropriate fiscal situation for the coming year, although the amounts set forth in it are not otherwise binding.

After the May 15 adoption of the concurrent resolution, action on spending and revenue bills proceeds through early September. In the first half of September, a second concurrent resolution on the budget is considered by the Congress, which revises or reaffirms the earlier resolution and which can direct the appropriate Committees to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, Committees directed to do so are to report the legislation called for by the resolution, and this legislation is then debated by Congress as part of a "reconciliation bill." Public Law 93-344 calls for action on this reconciliation bill to be completed by September 25, 5 days before the start of the new Federal fiscal year which will run from October 1 to September 30.

WAIVER OF RULES REGARDING BUDGET PROCEDURE

All the rules applicable to Senate procedures under the Congressional Budget Act can be suspended by a majority vote of the Senate. In addition, the Act includes a special waiver procedure in connection with the provisions requiring that authorization bills not be acted on after May 15 and that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before May 15. If a

Committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for waiver of the rule. This resolution would be referred to the Budget Committee which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is approved by the Budget Committee (or after 10 days in any case), the resolution of waiver would be voted upon by the Senate, and, if it is approved, the Senate could proceed to consider the legislation.

2. Impact of Public Law 93-344 on Finance Committee

LEGISLATION WHICH RESULTS IN ADDITIONAL FEDERAL SPENDING

Annual report to Budget Committee.—Each year, prior to the consideration of the first concurrent resolution on the budget, each Committee is required to make a report to the Budget Committee estimating the amount of additional Federal spending during the coming fiscal year which will result from legislation under the Committee's jurisdiction. This report is due no later than March 15.

Report after adoption of concurrent budget resolution.—After a budget resolution has been approved by Congress, the Committee is required, after consultation with the appropriate counterpart committees in the House of Representatives, to issue a report subdividing any new budget authority within its jurisdiction contained in the budget resolution among programs. This requirement applies mainly to the Appropriations Committees but would have some applicability to the Committee on Finance to the extent that the budget resolution provides for new budget authority in areas such as social security and unemployment insurance which derive their budget authority from legislation under this Committee's jurisdiction rather than from annual appropriation acts.

Limitation on consideration of spending bills.—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare or medicaid) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the Senate prior to the May 15 adoption of the first concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the Senate to suspend this rule. The Act also requires that action on legislation of this type be completed by the seventh day after Labor Day. In addition, entitlement legislation reported after January 1 of any year may not have an effective date prior to October 1 of that year.

Deadline for reporting authorizing legislation.—Legislation which authorizes appropriations (but does not necessarily require them) has to be reported by May 15 preceding the fiscal year for which the appropriations are authorized. (The Act includes a procedure under which this deadline may be waived by Senate resolution; the rule may also be suspended by a majority vote of the Senate.) The Committee on Finance has jurisdiction over some programs which fall in this category, such as grants to States for child welfare services and for maternal and child health. However, if such authorizations are included in entitlement or trust fund bills (which may not be reported prior to May 15) this provision does not apply.

Impact of concurrent budget resolutions on legislation.—The first concurrent resolution, which is to be passed about May 15, sets targets for spending in various areas, but is not mandatory. A second concurrent resolution, however, is to be passed in mid-September, and this resolution not only sets appropriate spending levels but may direct the Committees having jurisdiction over spending legislation to report measures to rescind previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Finance, this may include a requirement that the Committee report legislation to defer or reduce benefits under entitlement programs including both trust fund programs (such as unemployment insurance or social security) and non-trust-fund programs (such as welfare, social services or medicaid).

After the beginning of a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution passed just before the beginning of that year to be exceeded. In the case of the Committee on Finance, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new concurrent resolution could, however, be passed to authorize such additional spending, or the rule could be suspended by a majority vote of the Senate.)

Appropriations Committee review of entitlement bills.—Legislation in such areas as supplemental security income, welfare, social services, or medicaid creates an entitlement to payments on the part of individuals or State or local Governments even though these programs are funded through appropriation acts. The Congressional Budget Act requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the first budget resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such amendment is approved by the Senate, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues. It would also not apply to legislation amending the general revenue sharing program to the extent that such legislation included an exemption from that requirement.

Report on spending legislation.—The Congressional Budget Act requires the Committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent concurrent budget resolution and showing the extent to which the legislation provides financial aid to States and localities. In addition, the report is required, to the extent practicable, to provide a projection for five fiscal years of the spending which will result from the legislation.

LEGISLATION RELATING TO REVENUES AND DEBT LIMIT

Annual report to the Budget Committee.—The March 15 annual report to the Budget Committee which is described above would, in the case of the Finance Committee, also have to present views and estimates of the Committee with regard to revenues and the debt limit.

No revenue legislation prior to May 15.—Under the new law, debt limit or revenue legislation for the upcoming fiscal year would not be in order for consideration by the Senate (or House) prior to the adoption of the first concurrent resolution on the budget (about May 15). This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the Senate.)

Impact of budget resolution.—As with spending measures, the first concurrent resolution adopted in mid-May would set targets with respect to revenue and debt limit legislation, and the second concurrent resolution in September could direct the Committee on Finance to report legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determined to be appropriate. Such legislation would have to be reported in time to be included in the reconciliation bill which would be acted upon before the October 1 start of the fiscal year.

Required report on tax expenditures.—The Congressional Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the Committee report accompanying legislation to provide new or increased tax expenditures include information as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to the extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years.

CHARTS AND DESCRIPTION

Chart 1

March 15 Report to Budget Committee

- Views and estimates of Finance Committee on:
  - Expenditures
  - Revenues
  - Tax expenditures
  - Public debt

- Relating both to existing law and proposals to change existing law

Chart 1

March 15 Report to Budget Committee

Under the Congressional Budget Act of 1974, the Committee on the Budget is required by April 15 of each year to report to the Senate a concurrent resolution on the budget which is, in effect, a proposed Congressional budget document setting forth appropriate levels of Federal expenditure and revenue, surplus or deficit, and related matters. To assist the Budget Committee in making the judgments necessary to develop such a Congressional budget, the Act also mandates that each Committee send to the Budget Committee its views and estimates on those aspects of the budget which fall within its jurisdiction. This report is due by March 15 of each year.

In the case of the Committee on Finance, the March 15 report to the Budget Committee must cover the expenditure programs under Finance Committee jurisdiction which are listed on chart 3, Federal revenues, tax expenditures, and the public debt. With respect to each of these matters, the Committee is required to provide its views and estimates as to the levels anticipated under existing law or under any changes to existing law which the Committee expects. The period to be covered by the report to the Budget Committee includes the three month transition quarter (July, August, September, 1976) as well as fiscal year 1977 (October 1976 to September 1977).

The text of that part of the Congressional Budget Act which deals with the March 15 report to the Budget Committee is reprinted at the end of this pamphlet as Appendix B.

Chart 2

Economic Assumptions
(dollars in billions)

	1975	1976		1977	
	Actual	Pres. budget	Staff	Pres. budget	Staff
GNP	$1,499	$1,684	$1,685	$1,890	$1,880
Increase over 1975 in the inflation rate	--	6.2%	6.5%	13.0%	14.3%
Personal income	$1,246	$1,386	$1,385	$1,538	$1,540
Wages, salaries	802	892	891	1,001	896
Corporate profits	118	156	155	181	185
Unemployment rate	8.5%	7.7%	7.7%	6.9%	7.3%

Chart 2

Economic Assumptions

The March 15 report to the Budget Committee which is required by the Congressional Budget Act of 1974 represents the Finance Committee's views as to revenues, expenditures and other budgetary matters for the coming fiscal year both under existing law and under any anticipated changes. The level of these items, however, is affected not only by legislation but also by various economic factors about which there can reasonably be differences of opinion. These differences can reflect divergent viewpoints as to how the economy will operate and also divergent viewpoints as to the type of legislation which may be enacted to affect the operations of the economy. Different programs are particularly sensitive to different aspects of the economy. For example, expenditures under social security are sensitive to the consumer price index since that program includes an automatic cost-of-living increase provision. The unemployment insurance program does not incorporate such a provision but is, of course, particularly sensitive to the unemployment rate. Revenues, similarly, are heavily affected by personal income and by corporate profits and, in the case of payroll tax revenues, by wages and salaries.

This chart presents a selection of the most significant economic indicators as estimated in the President's budget and as estimated by the staff of the Joint Committee on Internal Revenue Taxation.

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Chart 3

Major Expenditure Programs under Finance Committee Jurisdiction

- Social security cash benefits
- Supplemental security income for the aged, blind, and disabled
- Welfare programs for families:
  - Aid to families with dependent children
  - Work incentive program
  - Child support
- Social services
- Unemployment compensation
- Health programs:
  - Medicare
  - Medicaid
  - Maternal and child health
- Revenue sharing
- Sugar Act
- Interest on the public debt

Chart 3

Major Expenditure Programs Under Finance Committee Jurisdiction

This chart lists the major programs involving an expenditure of Federal funds which come within the legislative jurisdiction of the Committee on Finance. Each of these programs is covered in more detail in the following charts. Interest on the public debt is included as an expenditure program since it does constitute a significant part of the Federal expenditures budget even though the level of expenditure in this category is not subject to legislative control by the Committee in the same sense as expenditures under the other programs listed.

Chart 4

Social Security Cash Benefits: Existing Law
(dollars in billions)

	President's budget	Staff
F.Y. 1976		
Income	$70.8	$70.9
Outgo	73.8	73.8
Decrease	-3.0	-2.9
End-of-year assets	45.2	45.2
July to Sept. 1976		
Income	18.9	18.8
Outgo	19.9	20.0
Decrease	-1.1	-1.1
End-of-period assets	44.1	44.1
F.Y. 1977		
Income	81.3	80.7
Outgo	84.9	85.2
Decrease	-3.6	-4.5
End-of-year assets	40.5	39.6

Chart 4

Social Security Cash Benefits: Existing Law

The President's budget estimates that the outflow in benefits and related expenditures from the old-age, survivors, and disability insurance trust funds will be $73.8 billion in fiscal 1976 rising to $84.9 billion in 1977. These estimates reflect projected benefit increases, under the automatic cost-of-living provisions, of 6.7 percent effective with the July 1976 checks and 5.9 percent effective with the July 1977 checks.

Expenditures under social security are highly sensitive to inflation since benefits are automatically increased as the Consumer Price Index rises. Thus under the staff alternative economic assumptions (shown on chart 2), rising price levels would generate benefit increases of 6.8 percent in June 1976 and 6.8 percent in June 1977 (compared with 6.7 percent in 1976 and 5.9 percent in 1977 under the President's budget assumptions). As a result, under the staff assumptions, outgo from the trust funds would be higher than is indicated in the President's budget by $0.1 billion in the transition quarter and by $0.3 billion in fiscal 1977.

The staff economic assumptions on page 2 also project slower wage growth, particularly in 1977, than the President's budget. In the transition quarter, the staff assumptions would produce income to the trust funds $0.1 billion lower than that produced under the President's budget assumptions. In fiscal year 1977 the staff assumptions would produce income $0.6 billion lower than would be received if the assumptions in the President's budget prove correct. Thus the trust fund deficit for fiscal 1977 would be $0.9 billion greater under the alternative assumptions.

Chart 5

Social Security Cash Benefit Trust Funds

(dollars in billions)	FY1977	FY1978	FY1979	FY1980	FY1981
Income					
Present law	$81.3	$90.4	$100.9	$111.5	$121.9
President's proposal	84.8	96.0	107.7	119.7	131.6
Outgo					
Present law	84.9	94.4	104.0	114.1	124.0
President's proposal	84.1	92.9	102.2	111.9	121.4
Increase or decrease					
Present law	-3.6	-4.1	-3.2	-2.6	-2.0
President's proposal	+0.7	+3.1	+5.5	+7.7	+10.2
Start-of-year assets as a percent of outgo					
Present law	52%	43%	35%	29%	25%
President's proposal	52%	48%	47%	48%	50%

Chart 5

Social Security Cash Benefit Trust Funds

FISCAL YEARS 1977–81

Present law.—For each of the next 5 fiscal years, the combined cash benefit trust funds (old-age and survivors insurance trust fund and disability insurance trust fund) are projected to show a deficit. While the amount of the deficit declines after 1978, the relative position of the fund balances (measured against outgo) worsens throughout the period. At the start of fiscal year 1977, trust fund assets cover more than 50 percent of anticipated outgo for the year. By the start of 1981, assets are down to 25 percent of outgo for the year.

The chart does not show separately the situation in the disability insurance trust fund, which is now projected to become exhausted during 1980. Legislation would be required to shift funds from the old-age and survivors fund to cover that shortfall in the disability fund.

President's budget.—The President's budget proposes to deal with the short term decline in the social security cash benefits trust funds by raising the combined tax rate by 0.6 percent effective January 1, 1977, and by eliminating certain types of benefits (see charts 7 and 8). Under these proposals, the cash benefit funds would show a surplus each year and start of year assets over the next 5 years would remain at about 50 percent of outgo for the coming year.

Chart 6

Social Security Administration Cash Benefit Programs – Federal Funds (dollars in billions)

	FY1976	July to Sept. 1976	FY1977
Present law:			
Federal fund payment to trust funds	$0.5	-	$0.7
Supplemental security income (SSI)	5.2	$1.4	5.9
Proposed legislation:			
Require States to pass along Federal SSI increases	...	*	0.2
Provide special SSI housing allowance	...	...	0.6
Extend SSI to Puerto Rico, Guam, Virgin I.	...	...	0.1

* less than $0.05 billion

Chart 6

Social Security Administration Cash Benefit Programs—Federal Funds

Present law.—The social security programs of old-age, survivors, and disability insurance are supported almost entirely by payroll deductions applicable to employers, employees, and self-employed persons. Certain transitional provisions enacted in 1966, however, provide relatively small benefits to persons over age 72 who did not have the opportunity to become insured for regular benefits. The cost of these benefits is reimbursed to the trust fund from general revenues. Similarly, a general fund payment is made into the trust funds to cover the cost of certain additional credits granted to military personnel. These payments will amount to $515 million in fiscal year 1976 and to $717 million in fiscal 1977.

Since January 1974, the Social Security Administration has been responsible for administering a basic income support program for needy aged, blind, and disabled persons called Supplemental Security Income (SSI). This program is funded entirely from general funds. Its costs are estimated at $5.235 billion in fiscal year 1976, $1.406 billion in the transition quarter, and $5.910 billion in fiscal year 1977.

Proposed legislation.—In 1975, the Subcommittee on Public Assistance of the Ways and Means Committee approved a number of SSI amendments which, if enacted, would increase the cost of the program. One amendment would require States having State benefits supplementing the Federal SSI payments to pass through any increases in SSI by raising the level of State supplementation. This would increase State costs but, because it amends a savings clause in the law, would also have an impact on Federal expenditures. If made effective for the increases in benefits which will take place in July 1976, this provision would require additional Federal funding of $0.2 billion in fiscal year 1977.

Another provision in the subcommittee bill would add a special adjustment to SSI benefits of people having housing costs in excess of ⅓ of their income. The estimated cost of this proposal (if effective January 1977) would be $0.6 billion in fiscal 1977. The full year cost would be $0.8 billion.

A third provision in the bill extends the SSI program (with some limitations) to Guam, Puerto Rico, and the Virgin Islands. If effective January 1977, this provision would have a fiscal year 1977 cost of $0.1 billion and a full year cost of $0.2 billion. (A current Federal court case seeks to accomplish this objective by judicial mandate. If successful, this suit could increase costs by $0.4 billion on a full-year basis.)

Chart 7

Social Security Cash Benefit Programs: Income Under Proposed Legislation

(dollars in billions)

	FY 1977
President's Budget:	
Increase tax rate 0.6%	+$3.5
Other Proposals:	
Increase taxable wages to $24,000	+2.3
Set self-employment tax rate at 1½ times employee rate	+0.2
Provide general revenue contribution	+3.5

Chart 7

Social Security Cash Benefit Programs: Income Under Proposed Legislation

President's budget.—Under current law the social security cash benefit trust funds are expected to show deficits in each of the next several years with the disability insurance fund becoming exhausted sometime in 1980. To partially deal with this short-run financing problem the President's budget proposes legislation to increase the combined payroll tax rate by 0.6 percent starting in 1977 and the self-employed tax rate by 0.9 percent also starting in 1977. This change would increase revenues to the funds by $3.5 billion in fiscal year 1977. By 1981 the additional revenue would be $9.7 billion for the year.

Other proposals.—Under current law, only the first $15,300 of an individual's earnings from employment or self-employment in a year is subject to social security tax. This amount will increase, under automatic provisions of law, to $16,500 in 1977. As an alternative to a tax rate increase, this taxable base could be raised. If it were increased to $24,000 effective with 1977 it would result in increased income of $2.3 billion in fiscal 1977.

When self-employed individuals were first covered under the social security program in 1950 the rate of self-employment tax was set at 1.5 times the tax rate applicable to employees (or 75 percent of the combined employer-employee tax). Subsequently legislation was enacted limiting the maximum self-employment social security tax for cash benefits to no more than 7 percent, the current rate. If the President's proposal for increasing all social security tax rates (including an increase in the self-employment rate to slightly more than the original limit of 1.5 times the employee rate) is not adopted, consideration might be given to restoring the self-employment rate to the original relationship to employee rates. This would raise the self-employment tax rate for cash benefits to 7.43 percent effective for taxable year 1976 (tax returns filed in 1977). For fiscal 1977, this would increase social security income by $0.2 billion.

Another alternative means for providing added funding to the social security program would be legislation appropriating general revenues into the trust funds. If, for example, the additional funding provided for under the President's proposal were determined to be appropriate, provision could be made for transferring to the trust funds from general revenues an amount equal to 0.6 percent of social security tax collections in addition to the amounts actually collected. Another approach to general revenue funding which could be considered would be to transfer some of the payroll tax funding now applicable to hospital insurance to the cash benefits funds while subsidizing the hospital insurance system from general revenues.

Chart 8

Social Security Cash Benefit Programs: Proposed Legislation (dollars in billions)

	FY 1977	First Full Year
President's Budget:		
Bar certain retroactive payments	-$0.4	-$0.4
Apply earnings limit on annual basis only	-0.2	-0.2
Phase out student benefits	-0.3	-0.3
Modify cost-of-living formula	--	-0.2
Other Proposals:		
Eliminate dependency test for husbands and widowers	+0.3	+0.4
For persons entitled to both social security and civil service:	-0.3	-0.3
Limit dependents' benefits	-0.3	-0.3
Reduce highly weighted benefits	-0.4	-0.6
Reduced benefits at age 60	+1.5	+2.0
Eliminate earnings limit	+1.8	+2.9
Raise earnings limit to $3,600	+0.2	+0.6
Liberalize benefits for blind persons	+0.4	+0.6
Occupational definition of disability for older workers	+0.4	+0.8
3-month retroactivity limit	-0.4	-0.8
Cost-of-living increase for persons with reduced benefits	*	*
End mother's benefits when all children are over 15	-0.3	-0.4
Benefits based on average earnings up to age 65	---	*

* less than $0.05 billion

Chart 8

Social Security Cash Benefit Programs: Proposed Legislation

President's budget.—The President's budget includes a proposal for legislation to end the practice of allowing social security applicants to elect to get benefits for up to a year prior to the date of application if these benefits would be reduced because they are taken before age 65. This proposal, which assumes a September 1, 1976 effective date, would reduce outgo by $390 million in fiscal year 1977. The budget also recommends legislation to eliminate a provision under which an individual who has less than $230 a month in income now gets his full benefit for the month even if his annual income substantially exceeds the $2,760 annual earnings test amount. This proposal, assuming a September 1, 1976 effective date, would reduce outgo in fiscal 1977 by $155 million. A third Administration proposal to reduce outgo would repeal a provision enacted in 1965 which allows children over age 18 and up to age 22 to continue to qualify for dependent's or survivor's benefits under social security if they are full-time students. This would be effective under the proposal in July 1976 and would reduce fiscal 1977 outgo by $283 million. Since it would not apply to children already eligible for child-student benefits as of June 1976, the savings would be more in later years, reaching a level of $1.8 billion by 1981. (An alternative approach which is included in the bill S. 2622 would continue child-student benefits but fund them from general revenues.)

The President's budget also includes a proposal to modify the cost-of-living increase provisions of current law. This proposal is intended to help deal with the long-range financial problems of the program. In the short-range, however, its effect would be a cost increase because of the need for a savings clause to minimize the impact on those retiring in the next few years. The budget contains no added funding for fiscal 1977 on the assumption that the proposal will not be effective until after the end of that year. The first full year cost will depend upon the specifics of the proposal (which has not yet been sent to Congress); however, a reasonable first year cost appears to be in the neighborhood of $0.2 billion.

Other proposals.—The chart also shows the cost impact of a number of other proposals. Except as noted, proposals are assumed to become effective in January 1977.

Social security benefits for wives and widows are payable without proof of dependency on the assumption that most women who do not have a social security benefit of their own were, in fact, dependent upon their husbands. The same assumption is not made by the law in the case of husband's and widower's benefits, for which proof of dependency is required. A Federal district court in New York has held this dependency test for men invalid. If this ruling is upheld and made applicable to the entire country, program costs will be increased by $0.4 billion in the first year.

The impact of such a court decision could be offset by legislation requiring proof of dependency from both men and women although this would significantly complicate program administration. Alternatively, since most beneficiaries of the decision would be men who are also eligible for retirement benefits under State or Federal civil service systems, legislation could be adopted providing certain offsets for persons entitled under both programs. With respect to dependents' benefits, one proposal would reduce dependents' benefits under social security by the amount of any governmental pension also payable to the dependent (in the same way that dependents' social security benefits are now reduced if the dependent is also entitled to his own social security benefit). This proposal would reduce fiscal year 1977 outgo by $0.3 billion if made fully effective as of January 1977.

A related proposal would eliminate some of the windfall which occurs when persons whose main lifetime employment is under State or Federal civil service retirement systems also obtain social security coverage on the basis of minimal earnings in covered employment. Such individuals and their dependents qualify for benefits which return much more than the individual actually paid in in taxes since social security benefits are weighted in order to provide more adequately for those with low earnings levels. Under the proposal, social security benefits would be reduced by one dollar for every two dollars in civil service benefits but not below a point where the basic benefit equals 100 percent of the average monthly wages on which it is based. This proposal would reduce outgo in fiscal 1977 by $0.4 billion; by fiscal 1981 the annual savings would be $1.2 billion.

Another proposal (passed in previous years by the Senate) would allow individuals to begin to get social security benefits at age 60 rather than age 62. This proposal has no long-range impact on program financing since the benefits would be permanently reduced on an actuarial basis. It would, however, increase costs in the short range. The fiscal 1977 cost would be $1.5 billion.

Social security benefits for persons under age 72 are reduced by $1 for every $2 of annual earnings above $2,760 (above $3,000 starting in 1977). If this earnings limit were repealed for persons age 65 and over, the fiscal year 1977 cost would be $1.8 billion. If the 1977 amount exempt from this limitation were raised from $3,000 to $3,600 the fiscal year 1977 cost would be $0.2 billion.

In 1973 (and in prior years) the Senate passed legislation to ease Social Security eligibility requirements for blind persons and to give the blind more favorable computation of benefit amounts. Adoption of such legislation effective January 1977 would increase program costs by $0.4 billion in fiscal 1977 and by $0.6 billion in the first full year.

A proposal made by the 1974 Social Security Advisory Council would ease the disability definition for workers over age 55 by allowing them benefits if they are unable to do their previous type of work rather than any type of work. This proposal would increase outgo by $0.4 billion in fiscal year 1977.

Social security benefits are available for up to 12 months prior to the month in which an individual files a claim for benefits if he was eligible in all of those prior months. If this period of retroactivity were reduced to three months, the cost of the program would be reduced by $0.4 billion in fiscal 1977.

Social security benefits are automatically increased as the cost of living rises by the percentage increase which has taken place in the Consumer Price Index. Through a technicality, persons who retire before age 65 with reduced benefits receive a benefit increase which is slightly more than the CPI percentage increase. Modifying the law to provide only the cost-of-living percentage in such cases would reduce outgo by less than $0.05 billion in fiscal 1977. By fiscal 1981, the reduction in outgo would be $0.3 billion.

Benefits for children of deceased, disabled, or retired workers under social security are provided until the child reaches age 18 or age 22 if he is in school. Benefits are also provided for the mothers of such children until the youngest child reaches age 18 so that the mother can remain home to care for the child. Consideration could be given to amendment of the law to provide that these benefits for the mothers of young children would be available only until the youngest child reaches age 15. Such a change would reduce outgo by $0.3 billion in fiscal 1977. By fiscal 1981, the cost reduction on an annual basis would be $0.6 billion.

In theory, social security benefits are based on an individual's average earnings over his lifetime of employment in work covered by social security. Until 1972, the number of years used to average earnings was three more for men than it was for women, and legislation was enacted to phase out this difference by reducing the number of years over which earnings of men are averaged. Consideration could be given to a proposal which would make the treatment of men and women comparable by increasing the number of years used for women instead of reducing the number of years used by men. Such a proposal, if phased in over a three-year period, would have no savings in fiscal 1977; by fiscal 1981, however, it would reduce outgo by $0.3 billion.

Chart 9

Welfare Programs for Families: Present Law
(dollars in billions)

	FY1976	July to Sept. 1976	FY1977
President's budget:			
Aid to families with dependent children	$6.0	$1.6	$6.3
Work Incentive Program	0.4	0.1	0.3
Changes for Committee consideration:			
Quality control regulations	-	-	+0.2

Chart 9

Welfare Programs For Families: Present Law

The President's budget estimates that the cost of the aid to families with dependent children program and certain other related programs will be $6.0 billion in fiscal year 1976, $1.6 billion in July to September 1976, and $6.3 billion in fiscal year 1977. These figures include the cost of administering family welfare and child support programs as well as AFDC benefit payments (less child support collections). Also included are: State and local training costs ($53 million in fiscal year 1976, $15 million in July to September 1976 and $60 million in fiscal year 1977); child welfare services ($46 million in each fiscal year and $12 million in July to September 1976); research costs ($9 million in each fiscal year and $2 million in July to September 1976); and emergency assistance ($55 million in 1976, $20 million in July to September 1976 and $60 million in 1977). It should be noted that the estimated AFDC cost for fiscal 1977 in the President's budget is based on an assumed reduction of 200,000 in the average monthly number of recipients as compared with fiscal year 1977. In most prior years the number of recipients has increased from year to year.

Closely related to the AFDC program is the new child support enforcement program (title IV-D of the Social Security Act) which is aimed at helping children in securing their rights to obtain support from their parents and to have their paternity ascertained in a fair and efficient manner. The staffing of Federal positions to provide for the planning, development, management and coordination of the child support enforcement programs and activities was not funded until January 1976, almost six months after the effective date of the public law. The AFDC budget estimates reflect the cost of administering the child support program as well as savings resulting from child support collections. (The net Federal share of these administrative costs, $107 million in fiscal 1976, $34 million for July to September 1976, and $151.7 million for fiscal 1977 are included in the AFDC State and local administrative costs. The net Federal share of child support collections, $97 million for fiscal 1976, $34 million for July to September 1976, and $150 million for fiscal 1977 are reflected as a reduction in the AFDC benefit payments.)

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Also closely related to the AFDC program is the work incentive (WIN) program which is aimed at enabling AFDC families to become self-supporting through employment. The President's budget recommends funding for this program at a level of $350 million for fiscal 1976, $80 million for July–September 1976, and $315 million for fiscal 1977.

In its AFDC estimates for fiscal year 1977 the President's budget assumes a savings of $220 million as a result of its quality control program. Under this program, States will lose Federal matching for erroneous AFDC payments to the extent that these payments (as determined by sample surveys) exceed a tolerance level of 3 percent for ineligibility and 5 percent for overpayments. The validity of the HEW action has been challenged in the courts; if HEW loses the case, the budget will have to be increased by $220 million unless legislation is enacted authorizing a reduction in Federal funds as proposed by the Department.

The work incentive program was significantly amended at the end of 1971 by the Committee with a view toward improving its operations. In fiscal year 1975, the 1971 amendments apparently began to take hold to the extent that the requirements of the program for the first time exceeded the amount that could be met under the appropriation. The funding level of this program for fiscal 1976 was increased by $70 million above the amount requested last year in the President's budget.

Chart 10

Welfare Programs for Families: Proposed Legislation

(dollars in billions)

	FY 1976	July to Sept. 1976	FY 1977
President's Budget:			
Modify earned income disregard	---	---	-$0.1
Reduce Federal matching in 7 States	---	---	-0.1
Include stepparent income	---	---	*
Modify Work Incentive Program	---	---	-0.1
Repeal separate authority for training funds	---	---	-0.1
Other Proposals:			
Disregards not applicable to unreported income	---	---	-0.2
Mandatory application for other types of benefits	---	---	-0.1
Coordination with unemployment benefits:			
Require unemployed father to apply for unemployment benefits	---	---	-0.5
Permit concurrent receipt of AFDC and unemployment benefits	---	---	-0.1

*less than $0.05 billion

Chart 10

Welfare Programs for Families: Proposed Legislation

PRESIDENT'S BUDGET

The Administration has announced its intention of submitting legislative proposals which would reduce expenditures under the AFDC program in a number of ways. This chart presents the estimated budgetary impact of these changes. It should be noted that the fiscal year 1977 savings are predicated by the Administration on an effective date of October 1, 1976.

Income disregard.—One Administration proposal would reduce the amount of income that can be disregarded in determining the amount of payments for which an AFDC family is eligible. Current law allows earned income equal to $30 per month plus one-third of earnings above $30 to be disregarded in addition to deducting child care and other work expenses. The proposal would instead disregard a flat $60 per month plus child care expenses and one-third of additional earnings above this level. A proposal somewhat similar to this Administration recommendation has been passed by the Senate on two occasions in the past. The President's budget estimates savings from such legislation of $149 million in fiscal 1977.

Reduced matching.—Under existing law, States have the option of using the matching formula in the AFDC title of the law which is based on the first $32 average monthly payment or of having the entire AFDC expenditures matched according to the same percentage as applied for determining the Federal share of their medicaid expenditures. Seven States (Alabama, Georgia, Mississippi, Missouri, South Carolina, Tennessee, and Texas) presently use the regular AFDC formula rather than the medicaid matching rate. The Administration's proposal would eliminate the regular AFDC formula, thus requiring those 7 States to use the medicaid matching rate. The President's budget estimates that such legislation would reduce Federal payments to these States by $70 million in fiscal 1977.

Stepparent's income.—A third Administration proposal would require a stepparent to assume financial responsibility for all children in the family by requiring the States to consider the income of the stepparent in determining eligibility. The President's budget estimates savings of $37 million in fiscal 1977 from such legislation.

Work incentive program.—Another Administration proposal would make several modifications in the work incentive (WIN) program. All WIN registrants would be required to undertake job search activity with most eligible participants being exposed to the labor market and selected individuals receiving intensive employment services. Work and training activities would no longer be funded through this activity but WIN registrants would be referred to such activities funded under the Comprehensive Employment and Training Act. WIN would continue to provide child care and supportive services but these would be provided for not more than 30 days after job placement. A requirement that one-third of WIN funding be used for public service employment and on-the-job training would be repealed. The President's budget estimates savings of $55 million for this proposal in fiscal 1977. The Committee last year reported legislation (S. 2804) which would require employment search for mandatory registrants. The Committee bill has an estimated cost in fiscal 1977 of $75 million offset by an estimated savings in welfare costs of $150 million.

Social work training.—The Social Security Act provides 75 percent Federal matching for State welfare agency training costs. In the past, States have used this authority to underwrite graduate and undergraduate college programs of social work education. At the end of 1974, Congress enacted legislation specifically authorizing this use of the training cost provision, thus blocking an HEW proposal to disallow matching for institutional training. The Administration has announced that it will propose legislation to combine State and local training activities with other activities under title XX of the Social Security Act into a block grant to States. The President's budget estimates that such legislation would save $60 million in fiscal year 1977.

OTHER PROPOSALS

In addition to the Administration's proposals, a number of other proposals to reduce welfare expenditures could be considered.

Treatment of unreported earnings.—Under existing law the disregard of earnings provided for in legislation enacted in 1967 must be applied even in determining the amount of an overpayment due from an individual who is found to have been concealing those earnings. If the law were amended to eliminate that requirement with respect to unreported earnings, it is estimated that savings in fiscal 1977 would total $159 million.

Requirement to apply for other benefits.—In enacting the supplemental security income program in 1972 the Congress included a specific requirement that applicants for benefits under that program must simultaneously seek any other benefits for which they might be eligible and which would reduce the necessary outlays under that program. If a similar requirement were made applicable to the AFDC program, savings of $60 million in fiscal year 1977 are estimated.

Relationship to unemployment compensation.—Existing law prohibits unemployed fathers from being simultanously entitled to AFDC benefits and unemployment compensation benefits. A recent court ruling holds that the present statute allows men eligible under both programs to take their choice of the most advantageous. If the law were amended to provide that such individuals would be ineligible for AFDC so long as they are eligible for benefits under an unemployment program, Federal AFDC costs would be reduced by $456 million in fiscal 1977. Alternatively, the law could be amended to permit (at State option) simultaneous receipt of AFDC and unemployment compensation. This would reduce Federal AFDC costs by $80 million in fiscal year 1977. These amounts do not represent net Federal budget savings since they would be at least partially offset by increased unemployment benefits.

Chart 11

Social Services
(dollars in billions)

	FY1976	July to Sept. 1976	FY1977
Present Law			
President's budget	$2.3	$0.6	$2.4
Proposed Legislation			
President's budget: convert to block grant	-	-	+0.1
Child care standards	+0.1	+0.1	+0.2

Chart 11

Social Services

Under title XX of the Social Security Act, States providing social services such as child care, family planning, and homemaker services to welfare recipients and other low-income persons are entitled to claim Federal matching grants for such expenditures. For most services $3 in Federal funding under this program is available to match each $1 of non-Federal funding; however, Federal funding is subject to an overall annual limit of $2.5 billion allocated on a population basis. Under present law, States are expected to use $2.3 billion of this funding in fiscal year 1976 and $2.4 billion in fiscal year 1977. The President's budget includes a proposal to eliminate the State matching requirement in this program and to restructure it as a block grant program. Under this approach it is estimated that States would receive the full $2.5 billion.

The social services program under current law includes certain Federal requirements including strict standards with respect to child care provided under the program. In January, the Senate passed the bill H.R. 9803 to provide additional funding under the program in recognition of the added costs attributable to these child care standards. If enacted as passed by the Senate, H.R. 9803 would increase the $2.5 billion social services limit to $2.75 billion annually. It is estimated that this bill would increase the program's costs by a net amount of $99 million in fiscal year 1976, $55 million in the period July to September 1976, and $217 million in fiscal year 1977.

Chart 12

Unemployment Compensation

(dollars in billions)

Present Law: Unemployment trust fund:	FY1976	July to Sept. 1976	FY1977 Pres. budget	FY1977 Staff
Income	$16.6	$3.4	$15.8	$16.6
Outgo	18.3	3.6	16.0	18.6
Net decrease	-1.8	-0.3	-0.2	-2.0
End-of-year assets	5.6	5.3	5.1	3.3

	FY1976	July to Sept. 1976	FY1977
Federal funds:			
Advances to trust funds	$8.5	$1.1	$5.7
Trade adjustment assistance	0.1	*	0.1
Proposed legislation:			
Trust fund income:			
• Increase taxable wages to $6,000 Jan. 1977; increase tax rate 0.15% Jan. 1977 (President's budget)	...	...	+2.1
• Increase taxable wages to $8,000 Jan. 1977; increase tax rate 0.2% Jan. 1976 (Ways and Means bill)	+0.2	+0.1	+3.5
• Same but with effective dates delayed one year	...	...	+0.5
Trust fund outgo:			
• Broaden coverage	...	...	+0.3

* less than $0.05 billion

Chart 12

Unemployment Compensation

The unemployment insurance trust fund covers regular State unemployment insurance benefits (paid for through taxes collected by States but deposited into the Federal trust fund) the extended benefits program, which provides an additional 13 weeks of benefits which are 50 percent federally funded, and the emergency unemployment compensation program, which (depending on State insured unemployment rates) can provide up to 26 further weeks of benefits with 100 percent Federal funding.[1] Federal funds in the trust fund come partially from the Federal share of the unemployment payroll tax and partially from repayable general revenue advances to cover any inadequacies in the payroll tax. The unemployment trust fund also covers State and Federal administrative costs.

The President's budget estimates that the outgo from the trust fund will amount to $18.3 billion in fiscal 1976 and will decline to $16.0 billion in fiscal 1977. Income is estimated to be $16.6 billion in fiscal 1976 and $15.8 billion in fiscal 1977. These estimates assume that the unemployment rate will decline from 7.7 percent in calendar 1976 to 6.9 percent in calendar 1977. Under the staff alternative assumptions, the unemployment rate would decrease only to 7.3 percent in 1977. This would result in $2.6 billion in additional benefits in fiscal 1977. Of this amount, $1.8 billion would come from a further reduction in the assets of the trust fund and $0.8 billion would come from additional general fund advances to the trust fund (bringing the total of general fund advances to $6.5 billion for fiscal 1977).

The President's budget recommends an increase in the taxable wage base for unemployment tax purposes from $4,200 to $6,000 and an 0.15 percent increase in the net Federal tax. This would increase Federal tax revenues by $1 billion and State tax revenues by $1.1 billion in fiscal 1977. The bill H.R. 10210, as reported by the Ways and Means Committee, would increase the base to $8,000 and the net Federal tax rate by 0.2 percent. Under the House bill the rate increase would be effective as of January 1, 1976 and the base increase as of January 1, 1977.

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[1] The unemployment trust fund also includes the railroad unemployment program which is not within the jurisdiction of the Finance Committee. This chart does not include funding data for that program.

The President's budget assumes the termination during fiscal 1977 of the Emergency Unemployment Compensation Act of 1974 as now provided by law and includes no proposal for extending that act. A provision in that act requires a report on matters related to that program by the Secretary of Labor, to be made by January 1, 1977. A number of proposals with respect to unemployment insurance which might be considered in connection with the legislation expected to be sent from the House later this year and which could have significant impact on expenditures do not appear in this chart since the leadtime necessary for implementing them effectively preclude budgetary impact in fiscal year 1977. Such proposals include Federal minimum benefit standards, rules with respect to the treatment of strikers, standards for State account financing, and modifications in the triggering provisions for federally funded benefits.

The President's budget estimates that the trade adjustment assistance program enacted in 1974 will involve costs of $30 million in the transition quarter and $120 million in fiscal year 1977. These amounts are well below the original projected costs of this program; however, as of January 31, 1976 only 57,000 workers had been found eligible for this program. There are, however, currently pending petitions involving over 200,000 additional workers.

Chart 13

Unemployment Trust Fund

(dollars in billions)

	FY1977	FY1978	FY1979	FY1980	FY1981
Present law:					
State and Federal tax receipts	$9.8	$10.7	$10.8	$11.1	$11.8
Outgo	16.0	14.3	12.3	11.2	10.7
Deficit or surplus	-6.2	-3.6	-1.5	-0.1	+1.1
Ways and Means bill:					
State and Federal tax receipts	13.3	14.6	15.4	16.1	17.1
Outgo	16.3	15.1	13.0	11.8	11.3
Deficit or surplus	-3.0	-0.5	+2.4	+4.3	+5.8
Administration proposal:					
State and Federal tax receipts	11.9	13.7	14.8	15.2	16.3
Outgo	16.3	16.1	13.8	12.5	12.0
Deficit or surplus	-4.4	-2.4	+1.0	+2.7	+4.3

(Note: deficits will be met primarily through general fund advances)

Chart 13

Unemployment Trust Fund—Fiscal Years 1977 Through 1981

This chart shows the expected status of the unemployment trust fund under present law for the next five fiscal years. The data in this chart are based on the assumptions in the President's budget under which unemployment rates would decline from 7.7 percent in 1976 to 6.9 percent in 1977, reaching a level of 4.9 percent by calendar year 1981.

Income under the bill reported by the House Committee on Ways and Means last year is based on the effective dates in that bill which provide for a tax rate increase effective January 1976 and a tax base increase effective January 1977. (Chart 12 shows alternative fiscal 1977 estimates assuming later effective dates.)

Outgo under both the Ways and Means bill and the Administration proposal is affected by extensions of coverage and a modification in the extended benefit trigger. The Administration proposal shows somewhat greater outgo for fiscal 1978 and after since the Administration proposal includes a requirement that State benefits be at least equal to 50 percent of the unemployed worker's prior wage level up to a maximum of at least two-thirds of the statewide average weekly wage.

The deficits shown on this chart would have to be met primarily from general revenues since trust fund assets have already been reduced as of the start of fiscal year 1977, to about $5 billion.

Chart 14

Health Programs: Existing Law
(dollars in billions)

President's Budget:	FY 1976	July to Sept. 1976	FY 1977
Medicare trust funds:			
Hospital insurance:			
Income	$13.6	$3.6	$15.7
Outgo	12.5	3.4	15.4
Net increase	+1.1	+0.2	+0.3
Supp. medical insurance:			
Income	4.9	1.4	7.3
Outgo	5.2	1.5	6.5
Net change	-0.3	-0.1	+0.8
Federal fund payment to Medicare trust funds	3.6	0.9	6.0
Medicaid	8.3	2.2	9.3
Maternal and child health	0.3	0.1	0.2
Changes for Committee consideration:			
Maternal and child health	---	--	+0.1

Chart 14

Health Programs: Existing Law

MEDICARE

Benefit and administrative outlays under medicare are estimated for fiscal year 1977 at $21.9 billion. Of this amount, benefit payments account for $21.0 billion. This represents an increase of some 19 percent over the fiscal year 1976 benefit payments. The primary factor accounting for the increase is inflation in medical care costs.

Hospital insurance expenditures generally account for about 70 percent of the medicare benefit payments. In fiscal year 1977, $15.4 billion in benefit outlays are estimated under part A (hospital insurance). Part B, the supplemental medical insurance program, accounts for $6.5 billion.

Income to the trust funds in fiscal year 1977 is estimated at $23.0 billion, an excess over outlays of $1.1 billion. Federal fund payments to the trust funds for fiscal year 1977 are $6.0 billion.

MEDICAID

Total Federal-State medicaid costs for fiscal year 1977 are projected under present law to be $16.6 billion, of which the Federal share is $9.3 billion. Of the Federal amount, $8.9 billion represents payments for benefits, with the remaining $0.4 billion going for administrative costs. This represents a total increase over fiscal year 1976 costs of slightly over 11 percent.

States match Federal expenditures under the medicaid program, with total State expenditures accounting for approximately 45 percent of total program costs. In fiscal year 1977, State medicaid costs are estimated to be $7.3 billion.

MATERNAL AND CHILD HEALTH

The President's budget includes $211 million for the maternal and child health program in fiscal year 1977. Of this amount, $194 million is for formula grants to the States, with the remainder supporting research and training related to maternal and child health. This request represents a 35 percent reduction from the fiscal year 1976 appropriated amount of $322 million (of which $296 million was allocated to formula grants), one of the largest reductions proposed in the health budget.

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The Administration has requested a reduction of $98 million from the fiscal year 1976 budget, in order to reduce the fiscal year 1976 funding level to $224 million. The recission would reduce the amount for formula grants to $205 million.

CHANGES FOR COMMITTEE CONSIDERATION

The cuts in the maternal and child health program proposed by the Administration would result in expenditures below the fiscal year 1976 level. In view of the previous congressional action to increase the MCH appropriation by some $100 million over the budget request, the committee may wish to allow sufficient funds to permit similar action in the 1977 appropriation.

Chart 15

Medicare Trust Funds Under Present Law

(dollars in billions)	FY1977	FY1978	FY1979	FY1980	FY1981
HOSPITAL INSURANCE					
Income	$15.7	$20.0	$23.6	$26.2	$33.2
Outgo	15.4	18.0	20.9	24.1	27.6
Net increase	+0.3	+2.0	+2.7	+2.1	+5.6
End-of-year assets	11.5	13.5	16.2	18.2	23.8
SUPPLEMENTARY MEDICAL INSURANCE					
Income	7.3	7.8	9.0	10.4	11.8
Outgo	6.5	7.5	8.6	9.9	11.3
Net increase	+0.8	+0.3	+0.4	+0.5	+0.5
End-of-year assets	1.8	2.2	2.6	3.0	3.6

Chart 15

Medicare Trust Funds—Under Present Law

This chart shows the status of the two medicare trust funds in each of the next 5 fiscal years. The data in this chart are based on current law and use the economic assumptions in the President's budget. Under these assumptions. prices (which are a major factor in the outgo from the medicare trust funds) are projected to decline to an annual rate of 4 percent by 1981 from the projected 1977 rate of 6 percent.

Chart 16

Health Programs: Proposed Changes

(dollars in billions)

President's Budget:	FY 1976	July to Sept. 1976	FY 1977
Medicare:			
Limitations on reimbursement rates	...		-$0.9
Increase in beneficiary cost-sharing	-$0.3	-$0.2	-1.9
Limitation on beneficiary cost-sharing	*	*	+0.5
(Revised cost estimate)			(1.1 to 1.4)
Medicaid and maternal and child health: replace with block health grant	...	...	...
Other items for Committee consideration:			
Major expansion in Federal health role: start-up costs	...	...	+0.4

* less than $0.05 billion

Chart 16

Health Programs: Proposed Changes

PRESIDENT'S BUDGET

Medicare.—The Administration is submitting two legislative proposals which would on an overall basis reduce medicare outlays. One of the proposals would modify medicare's cost-sharing structure by requiring the beneficiary to pay coinsurance equal to 10 percent of hospital charges above the deductible amount, and an increase in the supplementary medical insurance (part B) deductible—presently $60—to $77 in 1977; thereafter, the deductible would be increased by the same percentage as social security cash benefit increases. A maximum cost-sharing liability of $500 per calendar year under hospital insurance and $250 per calendar year under supplementary medical insurance would also be instituted.

Under the Administration proposals, virtually all users of medicare would find their cost-sharing obligations had increased.

The Administration estimates a reduction in outlays of $315 million in fiscal year 1976 and $2.2 billion in fiscal year 1977. However, a February 9 White House press release stated that in fiscal year 1977 an additional $590 to $890 million in increased outlays would have to be added to the initial estimate of $500 million as a result of "refinements". The new estimates explicitly take account of the costs of removing all day limits on hospital and skilled nursing home benefits.

The second legislative proposal would limit the yearly increases in hospital per diem costs and practitioner's charges recognized as reasonable by the medicare program.

The limits for fiscal year 1977 would be 7 percent and 4 percent respectively; the limits on increases in future years would be set by regulation. Any costs or charges in excess of the limits would not be reimbursed. This proposal is estimated to reduce outlays by $900 million in fiscal 1977.

Medicaid and maternal and child health.—The changes in medicare cost-sharing and reasonable cost calculators described above would have the effect of increasing mediciad costs by an estimated $75 million, since medicaid pays the medicare deductible and coinsurance amounts for aged and disabled persons covered under both programs, and generally follows the medicare reasonable cost formula. Without the enactment of these medicare changes, this cost increase would not occur.

The President proposes to further limit Federal expenditures by consolidating 16 categorical health service and planning programs, including medicaid and maternal and child health, into a $10 billion block grant to the States. An increase of $500 million in the authorization level is proposed for each of the three subsequent years, 1978–80. The block grant funds would be distributed among the States according to a formula based primarily on the size of the State's low-income population with consideration also given to its per capita income and fiscal effort.

OTHER ITEMS FOR COMMITTEE CONSIDERATION

In keeping with the Congressional Budget Act, the Committee should include in its submission to the Budget Committee the potential cost impact of any significant legislation which might be considered and acted upon in the health area. Consideration might be given to placing ceilings on the beneficiary's cost-sharing liability. Consideration might also be given to proposals made by the Administration subsequent to submitting its budget that would remove limits on the days of benefits available in a benefit period under the hospital insurance program. The initial increased cost of these proposals would exceed $1 billion. Similarly, although it seems unlikely that any significant benefits would be paid under any major Federal health financing programs (such as catastrophic health insurance) before fiscal year 1978, the Committee may wish to recommend allocation of funds for planning and startup functions and nominal initial benefit costs related to preparation for an expanded program. The maximum amount of such costs are estimated as not in excess of $400 million.

Chart 17

(dollars in billions)

	FY1976	July to Sept. 1976	FY1977
Revenue Sharing			
Present law extended	$6.3	$1.6	$6.6
Proposed legislation increment:			
President's budget	---	---	(+0.2)
Other proposals	---	---	+1.4
Sugar Act			
Present law	---	---	---
Changes for Committee consideration	---	---	+0.1
Interest on the Public Debt			
President's budget	37.7	10.4	45.0
(Committee estimate depends on decision on deficit and debt limit)			

Chart 17

Revenue Sharing; Sugar Act; Interest on the Public Debt

REVENUE SHARING

The general revenue sharing program provides for outlays in fiscal years 1976 and 1977 of $6.3 billion and $6.55 billion, respectively, with one-third going to State and two-thirds going to local governments. The present program provides for the payment of funds to State and local governments through December 31, 1976. Over the 5-year authorized life of the program, $30.2 billion of Federal funds will have been distributed. (This chart assumes continuation of the present program, including the effect of an annual $150 million increment.) The Administration has proposed that the general revenue sharing program be extended through 1982. The proposed legislation would continue the authorization and appropriation of specific annual amounts; increasing $150 million annually to $7.2 billion for 1982. The total cost for the 5-year and 9-month proposed extension would be approximately $40 billion. An alternative proposal which has been put forward (S. 11) would make this a permanent program and would fix the annual entitlement for State and local governments at seven-tenths of 1 percent of Federal adjusted gross income. This would result in an outlay of an addition $1.4 billion for fiscal year 1977 above an extension of present law.

SUGAR ACT

The Sugar Act expired on December 31, 1974. In fiscal year 1975, the last fiscal year the program was in effect, $86 million was appropriated to cover Sugar Act program payments for the 1974 crop year. If the Committee expects to act on the sugar program this year, an estimate of the necessary appropriation should be included in the Committee's budget recommendation.

INTEREST ON THE PUBLIC DEBT

Budget outlays for interest on public debt are estimated in the President's budget to rise from $37.7 billion in fiscal year 1976 to a level of $45.0 billion in fiscal year 1977. These projected increases result from the financing of budget deficits for each of these years. When the Committee has completed its decisions on revenues, expenditures, and the budget deficit, the appropriate interest figures can be calculated.

Chart 18

Revenues: Present Law

(dollars in billions)

	FY 1976		July to Sept. 1976		FY 1977	
	Pres. budget	Staff	Pres. budget	Staff	Pres. budget	Staff
Individual income tax	$129.6	$129.4	$44.6	$44.3	$175.9	$172.8
Corporation income tax	40.1	40.2	9.2	9.2	55.6	56.1
Social insurance taxes	92.6	92.6	25.2	25.1	107.6	106.8
Excise taxes	16.9	16.8	4.4	4.4	17.8	17.7
Estate and gift taxes	5.1	5.2	1.4	1.5	5.8	5.9
Customs duties	3.8	3.8	1.0	1.0	4.3	4.3
Other revenues	6.6	6.6	1.5	1.5	6.8	6.8
TOTAL:						
Pres. budget	294.7		87.3		373.8	
Staff		294.6		87.0		370.4

Chart 18

Revenues: Present Law

Federal revenues are in large part composed of receipts from income and payroll taxes. The President's budget estimates that in fiscal year 1977, these revenues are projected to yield a total of $373.8 billion under present law.

Income taxes paid by individuals are estimated to amount to $175.9 billion. Revenues from this source, which account for the largest single source of Federal revenues, will amount to 47.1 percent of total Federal revenues.

Income taxes paid by corporations are estimated at $55.6 billion.

Social insurance taxes and contributions, composed of social security and other payroll taxes, unemployment insurance taxes and deposits, Federal employee retirement contributions, and premium payments for supplementary medical insurance are expected to total $107.6 billion. Receipts from these sources will account for approximately 28.8 percent of total Federal revenues.

Excise taxes imposed on selected commodities, services, and activities are expected to provide $17.8 billion during fiscal year 1977.

Estate and gift taxes imposed on the value of property held at death and inter vivos transfers of property are projected to produce $5.8 billion.

Customs duties, levied on imports are anticipated to raise $4.3 billion.

Other taxes and miscellaneous receipts are expected to total $6.8 billion.

The columns showing revenues under the staff projections correspond to the economic assumptions of the staff of the Joint Committee on Internal Revenue Taxation, shown in Chart 2.

Chart 19

Revenue Estimates: Proposed Changes

- Expiring tax reduction provisions
- Additional general tax reductions
- Tax revision proposals
- Energy tax proposals

Chart 19

Revenue Estimates: Proposed Changes

The charts which follow group the various tax proposals under these headings: expiring tax reduction provisions and additional general tax reductions (chart 20), other tax revision proposals (charts 21 through 24), and energy tax proposals (chart 25).

The revenue estimates with respect to the various proposals for change discussed subsequently are static in the sense that they do not take into account any potential offsetting increases in revenues that result from events subsequent to enactment of a particular proposal. Despite the utility of recognizing this potential for offsetting revenues, the Budget Committees for their purposes need the estimates without this effect. (They make their own overall estimates of the effect of the budget on the economy.) In addition, there is the difficulty of estimating the income effect of the various proposals as well as the fact that most of this effect will occur after the fiscal year 1977. For ease of reference, Appendix D contains a summary of the revenue effect (on a static basis) of past tax legislation enacted by the Congress.

Chart 20

Expiring Tax Reduction Provisions

(dollars in billions)

	July to Sept. 1976	FY 1977
Individual taxes:		
Standard deduction increase	-$0.7	-$1.3
Taxable income credit ($35 or 2% of taxable income)	-1.7	-3.1
Earned income credit	---	-0.7
Business taxes:		
Lower rate and larger exemption for small business	-0.3	-1.7
Continuation of 10% investment tax credit	---	-1.3
Sundry expired provisions	*	*

Additional General Tax Reductions

	July to Sept. 1976	FY 1977
Individual taxes:		
Administration proposals:	(-4.6)	(-22.3)
Flat dollar standard deduction	-0.7	-4.5
Personal exemption increase to $1,000	-2.4	-10.8
Reduction in rates	-1.6	-7.0
Indexing: standard deductions, personal exemptions, tax rates	-1.0	-5.1
Basing taxation on family unit	-0.9	-4.8
Taxing all adults separately	-0.3	-1.8
20% standard deduction up to $5,000, plus deductions for charity, mortgage interest	-1.3	-11.3
Business taxes:		
Administration proposals:	(-0.6)	(-5.0)
Reduce corporate rate to 46%	-0.4	-2.0
Make small business cuts permanent	-0.3	-1.7
Make 10% investment credit permanent	---	-1.3
Increase in graduation for corporations combined with top rate of 46%	-0.6	-3.0
Series of reductions for small business	-0.1	-1.5

* less than $0.05 billion

Chart 20

Expiring General Tax Reductions; Additional General Tax Reductions

Expiring General Tax Reductions

INDIVIDUAL TAXES

The Tax Reduction Act of 1975 (Public Law 94-12) included four individual income tax reductions that applied only to calendar year 1975. These were an increase in the standard deduction, a tax credit of $30 for each taxpayer or dependent, a refundable earned income credit, and a tax credit for home purchases. The aggregate tax reductions for individuals resulting from these provisions (other than the tax credit for home purchases) were continued for the 6-month period ending June 30, 1976 by the Revenue Adjustment Act of 1975 (Public Law 94-164).

Technically, the continuation for 6 months of the 1975 individual income tax reductions described above was accomplished in the Revenue Adjustment Act of 1975 by continuing the increase in the standard deduction and the earned income credit and by a tax credit equal to the greater of 2 percent of the taxpayer's taxable income to $9,000 (up to a maximum credit of $180) or $35 for the taxpayer and each dependent. Continuation of this level of individual income tax reductions through calendar year 1977 would reduce receipts for the transitional quarter by $3.2 billion and for fiscal year 1977 by $9.3 billion.

The Administration has proposed that this level of individual income tax reductions be extended and enlarged by an additional $12.6 billion on an annual basis or by $6 billion for the balance of calendar year 1976. The specific changes recommended by the Administration are summarized subsequently under "Additional General Tax Reductions."

BUSINESS TAXES

The Tax Reduction Act of 1975 also reduced corporate income taxes both by decreasing for 1975 the rate at which the first $50,000 of corporate income was taxed and by increasing for 2 years the investment tax credit.

Prior to the Tax Reduction Act of 1975, corporate income was subject to a 22-percent normal tax and a 26-percent surtax (for a total tax rate of 48 percent). However, the first $25,000 of corporate income

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was exempt from the surtax so that the first $25,000 of corporate income was taxed at a 22-percent rate and the income in excess of $25,000 was taxed at a rate of 48 percent. In the Tax Reduction Act of 1975, the first $25,000 of corporate income for 1975 was taxed at a 20-percent rate, the second $25,000 of corporate income was taxed at a 22-percent rate, and corporate income in excess of $50,000 was taxed at a 48-percent rate. The Revenue Adjustment Act of 1975 continued these rate reductions for a 6-month period ending June 30, 1976. Continuing these reductions would reduce receipts for the transitional quarter by $0.3 billion and for fiscal year 1977 by $1.7 billion.

The Administration has proposed that the reduction in the corporate tax rate be continued, but that it be enlarged. The specific changes recommended by the Administration are summarized subsequently under "Additional General Tax Reductions." Other rate reductions proposed to stimulate capital formation and to benefit small business were also discussed at that point.

The Tax Reduction Act of 1975 also increased the rate of the investment tax credit from 7 percent to 10 percent (from 4 percent to 10 percent in the case of utilities) for a period of approximately 2 years ending December 31, 1976. A corporate taxpayer may elect an 11-percent credit during this period if an amount equal to 1 percent of the qualified investment is contributed to an employee stock ownership plan. Also, in the case of public utilities, the limitation on the amount of tax liability that can be offset by the investment tax credit was increased from 50 percent to 100 percent for 1975 and 1976. Thereafter this limitation is to be gradually reduced back to the 50-percent level over the period 1977–81. In addition, the limitation on qualified investment in used property was increased by the Tax Reduction Act of 1975 from $50,000 to $100,000 until January 1, 1977.

Continuation of the 10-percent credit, which the Administration has proposed, and the $100,000 used property limitation would reduce revenues for fiscal year 1977 by $1.3 billion.

OFFSETTING EXPENDITURE REDUCTIONS

As noted above, the Revenue Adjustment Act of 1975 extended the 1975 individual income tax reductions and the corporate tax rate reductions for 6 months to June 30, 1976. Section 1A of that act (reproduced in Appendix E) contained language with respect to offsetting further extensions of these tax reductions, or additional general tax reductions, by reducing the level of expenditures that otherwise would be made by an equivalent amount, if economic conditions warrant doing so.

Should the Committee determine that it would be appropriate to take this provision into account in its report under the Congressional

Budget Act, it may wish to consider the following options. First, the Committee could advise the Budget Committee whether or not, in the opinion of the Finance Committee, economic conditions either warrant or do not warrant offsetting continuation and/or enlargement of the general tax reductions by equivalent reductions in expenditures. Second, the Committee could simply recommend that the Budget Committee determine whether economic conditions warrant such an offsetting expenditure reduction.

SUNDRY EXPIRED PROVISIONS

Certain sundry provisions of the Internal Revenue Code due to expire as of January 1, 1976, were considered by the Committee in late 1975 and it was agreed that these provisions should be extended for 1 year without substantive change so as to permit a more careful analysis of the provisions in the context of general tax revision. The provisions involved were 5 year amortization for pollution control facilities, railroad rolling stock, and rehabilitation housing (coal mine safety equipment was not extended); special rules for moving expenses of military personnel; forgiveness of certain student loans; extension of the period for amendments to certain charitable trusts; and depreciation recapture rules on Government-assisted housing projects.

Additional General Tax Reductions

INDIVIDUAL TAXES

As noted previously, the Administration has recommended that the expiring amount of individual income tax reductions be extended beyond June 30, 1976, and that this extension be accompanied by additional general tax reductions. Specifically, the Administration has proposed both an interim plan to cover the last 6 months of 1976 so as to minimize the numbe'' of changes in withholding tax tables and a permanent plan to be effective as of January 1, 1977.

The Administration's interim plan includes an increase in the personal exemption (for 1976 only) to $875; an increase in the low-income allowance (for 1976 only) to $1,750 for single returns and $2,300 for joint returns; an increase in the maximum standard deduction (for 1976 only) to $2,100 for single returns and $2,650 for joint returns; and a change in the rate structures (for 1976 only) to achieve an average between present law and the Administration's plan. The Administration's permanent plan includes an increase in the personal exemption from $750 to $1,000, a single standard deduction ($2,500 for married couples filing jointly and $1,800 for single taxpayers) in lieu of the existing low income allowance and percentage standard deduction, and a reduction in individual income tax brackets applicable to the first $10,000 of taxable income. Enactment of the Administration's proposals for continued and increased general tax reductions for individuals would reduce revenues for fiscal year 1977 by $22.3 billion, of which $13.0 billion is attributable to tax reductions in excess of a simple extension of the expiring individual tax reductions.

Other proposals have been made which have the purpose of both reducing individual taxes and either simplifying the tax structure or making it more equitable.

One group of proposals involves "indexing" either or all of the following provisions to changes in the Consumer Price Index: standard deduction, personal exemption, and tax rates. It is estimated that indexing the standard deduction contained in permanent law, indexing the personal exemption, and indexing the tax rates would reduce revenues in fiscal 1977 by $5.1 billion.

Other proposals involve increasing the standard deduction substantially as a technique to achieve a greater degree of simplification for many taxpayers. It would be possible, for example, to combine a substantial increase in the low income allowance ($1,700 for single persons and $2,100 for joint returns) and the percentage standard deduction (20 percent with a maximum of $5,000 in joint returns and allowing a separate deduction for home mortgage interest and charitable contributions) with a provision indexing the standard deduction limitations to the cost-of-living index. Using permanent law as a base, the cost of such a proposal would be $11.3 billion in fiscal year 1977.

Other proposals involve seeking to change the impact of marital status on taxes. One such proposal, which would equalize the tax treatment of single persons with married couples, would apply the tax rates applicable to married persons filing joint returns to heads of households and to single persons. This would involve a revenue loss in fiscal year 1977 of $4.8 billion. Another proposal would take the converse approach by taxing each return as that of a single taxpayer. It is estimated that this would result in a revenue loss of $1.8 billion in the fiscal year 1977.

BUSINESS TAXES

The Administration has proposed a series of business tax reductions. The Administration's proposal calls for continuing the prior reductions in the rates of tax on the first $50,000 of corporate income with a maximum tax rate of 47 percent for 1976. Commencing in 1977, the maximum tax rate would be 46 percent. The Administration also proposed making permanent the existing temporary 10 percent investment tax credit. Other proposals of the Administration are discussed subsequently under "Capital Formation".

Other tax changes include a proposal for a partially graduated corporate tax rate. One such proposal would provide a schedule of combined normal and surtax rates in the first year of 18 percent on the first $50,000 of taxable income, 45 percent on taxable income between $50,000 and $100,000, 46 percent on income between $100,000 and $500,000, 47 percent on income between $500,000 and $1 million, and 48 percent over $1 million. In addition, the proposal would reduce both of the tax brackets over $500,000 by one percentage point in 1978 and a further one percentage point in 1980. The surtax exemption would increase in four steps to $100,000 in 1979. It is estimated that such a proposal would reduce corporate revenues in fiscal year 1977 by $3.0 billion.

Another proposal which the Committee may want to consider is S. 1119, introduced by a number of members of the Small Business Committee. This bill makes a series of changes favorable to small business which include: (1) increasing the first year allowance for depreciation from $10,000 to $15,000 (from $20,000 to $30,000 in the case of joint returns), (2) removing the requirement that property eligible for first year allowance must have a useful life of 6 years or more, (3) removing the $50,000 or $100,000 limitation on used property eligible for the investment credit, (4) providing a $5,000 exemption from corporate tax for all corporate taxpayers, (5) increasing the corporate surtax exemption from $25,000 (at the moment $50,000) to $100,000, (6) increasing the minimum accumulated earnings credit from $100,000 to $150,000, (7) providing for the deduction of organizational expenses by partnerships ratably over a 5-year period, (8) permitting small business corporations to file for adjustment of overpayment of estimated income tax on or before the 15th day of the third month after the close of the year, (9) providing a graduated investment credit of 12 percent on qualified investment up to $20,000, 10 percent on additional qualifying investment up to $50,000, and 8 percent on qualifying investment over $50,000. (However, the investment credit would be limited to the lesser of $1 million or the tax liability on the first $25,000 plus 50 percent of the tax liability over $25,000.) The estimated revenue effect of this bill is $1.5 billion in the fiscal year 1977.

Chart 21

Other Tax Revision Proposals - 1

(dollars in billions)

Tax shelters and minimum tax	FY1977	Full Effect
Limitation on artificial losses	+$0.4	+$0.4
Other tax shelter amendments in House bill	+0.1	+0.4
House bill additive minimum tax	+1.1	+1.5
Minimum tax as alternative to regular income tax	+1.1	+1.6
Other tax revision proposals primarily affecting individuals		
House bill increases:		
Sick pay exclusion	+0.3	+0.4
Business use of homes	+0.2	+0.3
House bill decreases:		
Credit for child care expenses	-0.3	-0.5
Retirement income credit	-0.3	-0.3
Other proposals:		
Index retirement income credit	-0.3	-0.3
Senate child care provision	-1.0	-1.5
Extra exemption for disabled	-0.5	-0.8
Tax credit for higher education	-2.1	-2.6
Deduction for savings for higher education	-1.6	-1.9
Deduction for elementary and secondary education costs	-2.1	-2.6
Repeal deduction for State gasoline taxes	+0.5	+0.9
Forgiveness of certain student loans	*	*

*less than $0.05 billion

Chart 21

Other Tax Revision Proposals—1

TAX SHELTERS AND MINIMUM TAX

Present law seeks to prevent individuals with large economic incomes from paying little or no income tax through the imposition of a 10-percent minimum tax on selected items of tax preference. This tax, which is imposed on individuals and corporations, applies in addition to any regular income tax to which the taxpayer is subject except the taxpayer receives a $30,000 exemption and a deduction for the amount of the regular income tax to which the taxpayer is subject. The House tax revision bill (H.R. 10612) both makes changes directly aimed at so-called "tax shelters" and in the minimum tax on tax preferences.

The House tax revision bill includes a so-called "*Limitation on Artificial Losses*" (*LAL*). The basic purpose of LAL, which was first proposed by the Administration in 1973 and is still supported by the Administration, is to prevent the use of artificial deductions (i.e., those that do not accurately reflect current expenses) to shelter other unrelated income from tax. Essentially, this is accomplished by precluding the deduction of such artificial losses for tax purposes except to the extent that those losses are offset in the current or in subsequent years by related income (i.e., income from either the same activity that produced the loss or from a similar activity). Subject to somewhat different technical rules and effective dates, the House tax revision bill applies LAL to real estate, limited farming operations (not including livestock operations), oil and gas drilling for production (but not exploration), sports franchises, and movies. Enactment of the LAL provisions of the House tax revision bill would increase revenues for fiscal year 1977 by $401 million.

The House tax revision bill also contains *other specific tax shelter provisions*. These include recapture rules for real estate and oil and gas; limiting loss deductions to the amount a taxpayer has "at risk" in the case of livestock, certain crops, movies, and oil and gas wells; requiring corporate farms to use accrual accounting procedures; limiting the deduction of interest (including prepaid interest); and restricting the use of partnerships for tax shelter operations. Enactment of these provisions of the House tax revision bill would increase revenues for fiscal year 1977 by $98 million.

The House bill also modifies the existing *minimum tax on tax preferences* (described above) by increasing the rate of tax to 15 percent, lowering the exemption, eliminating the existing deduction for regular income taxes, and adding two new items of tax preference. The new items of tax preference are (1) itemized deductions in excess of 70 percent (but not more than 100 percent) of adjusted gross income, and (2) intangible drilling costs on oil and gas wells, other than exploratory wells, in excess of those that could have been deducted had the taxpayer elected to capitalize the intangible costs and deduct them over the life of the well or 10 years. Enactment of the minimum tax provisions of the House tax revision bill would increase revenues for fiscal year 1977 by $1.1 billion.

As a substitute for the current minimum tax on tax preferences, which is imposed in addition to the regular income tax, the Administration in 1973 proposed an alternate, rather than additional, minimum tax known as "*Minimum Taxable Income*" (*MTI*). Under this proposal, an individual would compute his income tax both under the regular method and under MTI and then pay the greater amount. Essentially, MTI would require the taxpayer to increase his adjusted gross income by selected items of tax preference and then to reduce the resulting figure by his personal exemptions plus $10,000. The minitax rates are then applied to determine the individual's minimum tax. As modified by the Administration (principally to make MTI neutral as to the charitable contribution deduction), enactment of MTI would increase revenues for fiscal year 1977 by $1.1 billion when compared to existing law.

Interest has been expressed in the concept of an *Alternative Minimum Tax* as a substitute for both LAL, as passed by the House, and for the present minimum tax on tax preferences. Such a tax base could include taxable income plus specified items of preference. The base could include many of the items taxed under the House bill under the LAL provision. A separate tax rate schedule could be applied to this income with the same rate schedule as present law but the applicable rates would be half the regular rates. The taxpayer would pay this tax (in lieu of his regular tax) if it results in a higher tax liability. It is expected that such a tax would increase revenues by $1.1 billion.

Other Tax Revision Proposals Primarily Affecting Individuals

HOUSE BILL INCREASES

The House bill contains a series of provisions which primarily affect individuals. Some of these provisions would result in tax increases. The *sick pay exclusion* under current law and the *special treatment of military disability payments* for future members of the armed services would be substantially revised. The present sick pay exclusion would be simplified to provide a maximum annual exclusion of $5,200 ($100 per week) for taxpayers under age 65 who are permanently and totally disabled. It would no longer be available for temporary sickness. The revised sick pay exclusion would also be reduced on a dollar-for-dollar basis by the taxpayer's income (including disability income) in excess of $15,000. The changes in the tax treatment of military disability payments would only apply to payments made to members of the armed services who enlist after September 24, 1975. Veterans' Administration disability payments would continue to be excluded from gross income. Future members of the armed services would still be allowed to exclude military disability retirement payments from their gross income if the payments were related to "combat injuries". It is estimated that these changes will result in an increase in revenues for fiscal year 1977 of $331 million. When fully effective, the provision would increase revenues by $450 million.

The deduction for expenses attributable to the *business use of a home* would be substantially limited. Under the House proposal, this deduction would be permitted only where a home is used exclusively on a regular basis as the taxpayer's principal place of business or a place of business used for patients, clients, or customers in meeting or dealing with the taxpayer in the normal course of business. In the case of an employee's business use of a home, such use must be for the convenience of the employer. The deductions attributable to the rental of *vacation homes* would also be restricted. If a vacation home were to be used by a taxpayer for personal purposes for more than 2 weeks or 5 percent of the time the property is actually rented, the deductions attributable to this property would be limited. It is estimated that these provisions will result in an increase in revenues of $186 million for fiscal year 1977 and will reach $313 million annually when fully effective. Other provisions of the House bill increasing revenues include a limitation on deductions allowable for the expenses of taxpayers attending *conventions outside the United States*, its possessions, and the Trust Territory of the Pacific. These deductions would be allowed for not more than two foreign conventions per year. If less than one-half of the total days of a foreign trip are devoted to business-related activities, no deduction would be allowed for that portion of transportation expenses. It is estimated that this provision will result in an increase in revenues of less than $5 million per year.

HOUSE BILL DECREASES

The House bill also contains a number of provisions which provide for tax decreases. In lieu of the present itemized deduction for *household and dependent care expenses*, the House would provide for a tax credit equal to 20 percent of the employment-related expenses incurred for the care of a child under age 15 or an incapacitated adult. The amount of employment-related expenses which may be taken into account would be limited to $2,000 for one dependent and $4,000 for two or more dependents. The credit would be extended to married couples where the husband or wife or both work part time. The credit would also be available to married couples where one spouse is a full-time student and the other spouse works. The credit would also be extended to a divorced or separated parent who has custody of the child even though the parent may not be entitled to a dependency exemption for the child. Finally, payments for services rendered by certain individuals who may be related to the taxpayer would be eligible for the credit if the related individual is not a resident of the same household as the taxpayer and if the related individual is not a dependent of the taxpayer or his spouse. It is estimated that this provision will reduce Federal revenues by $330 million for fiscal year 1977, and by $483 million when fully effective.

The present *retirement income credit* would be restructured and converted to a tax credit for the elderly, available to all taxpayers age 65 or over regardless of whether they have retirement income or earned income. The maximum amount on which the credit would be computed would be increased to $2,500 for single persons age 65 or over, and to $3,750 for married couples filing joint returns where both spouses are age 65 or over. (Under present law the maximum amount on which a credit is computed in the case of single persons is $1,524; for a married couple, $2,286 in the case of one "retirement income" recipient and $3,048 in the case of two retirement income recipients.) This revised credit would be phased out by $1 for each $2 of adjusted gross income above $7,500 for single persons and $10,000 for married couples. It is estimated that this provision would result in a reduction in revenues of approximately $340 million annually.

Other provisions of the House bill reducing revenues include changing the deduction for *alimony payments* to a deduction from gross income in arriving at adjusted gross income. This revision would permit taxpayers who elect the standard deduction as well as those who itemize their deductions, to benefit from this deduction. It is estimated that this change will result in a reduction of revenues of $41 million for fiscal year 1977 and $59 million when fully effective. The deduction for *moving expenses* would also be modified. The maximum deduction for premove house-hunting and temporary living expenses at the new job location would be increased from $1,000 to $1,500. The maximum deduction for qualified expenses incurred in connection with the sale, purchase, or lease of a residence would be increased from $2,500 to

$3,000. The mileage limitation which presently requires a taxpayer's new principal place of employment to be at least 50 miles farther from his former residence than his former principal place of employment would be reduced to 35 miles. Also, the requirement that members of the Armed Forces include in income any moving expenses for which they are provided as in-kind services by the Department of Defense or the Department of Transportation would be eliminated for required moves incident to permanent changes of station.

Members of the Armed Forces would be exempted from the mileage limitation and from the "39-week rule" requiring taxpayers to be full-time employees in their new location for at least three-quarters of the following year, i.e., 39 weeks during the next 12-month period. This proposed change would result in an estimated reduction in revenues of $43 million for fiscal year 1977 and $62 million when fully effective.

In addition to the changes contained in the House-passed bill, several major changes have been proposed in the Senate. One such proposal would *increase* the maximum amount on which the *retirement income credit* is computed annually for inflation. This maximum amount would be increased in accordance with increases in the Consumer Price Index. This provision would result in a reduction in Federal revenues for fiscal year 1977 of $275 million.

The deduction for *child care expenses* could be converted from an itemized deduction to a deduction from gross income in arriving at adjusted gross income. This would permit taxpayers who elect the standard deduction as well as those who itemize their deductions to deduct child care expenses. The Senate approved such a change as an amendment to the Tax Reduction Act of 1975. This change would reduce Federal revenues by $1 billion for fiscal year 1977.

As an amendment to the Revenue Act of 1971, the Senate added a provision allowing an *additional personal exemption for disabled persons*. A number of bills have subsequently been introduced to provide such tax relief. Adoption of this provision would reduce Federal revenues by $522 million for fiscal year 1977.

The Senate approved, as part of the Revenue Act of 1971, a provision to allow a *tax credit for the expenses of higher education* (including business, technical, or vocational education). Numerous bills and amendments have been introduced since that time to provide this kind of tax relief. It is estimated that a tax credit for this purpose would reduce Federal revenues by approximately $2.1 billion for fiscal year 1977.

There is a proposal for a tax credit of 20 percent of the amounts deposited in an educational *savings plan for postsecondary education* for himself or a dependent. The credit would not apply to deposits in excess of $250 in an eligible account in any year or for a taxpayer or dependent who currently would be enrolled in an eligible postsecondary education institution. It has been estimated that this provision will reduce revenues by $1.55 billion in fiscal year 1977 and $1.89 billion when fully effective.

Legislation has been introduced in the Senate to authorize a deduction for the costs incurred in providing a dependent with *elementary and secondary school training*. The cost of such a provision is estimated to be $2.1 billion for fiscal year 1977.

The present *deduction for State gasoline taxes*, which is available to persons who itemize deductions, could be repealed. The elimination of this provision would increase Federal revenues for fiscal year 1977 by approximately $538 million.

If *student loans are forgiven* when the student, after graduation, performs some specified conditions (such as taking a teaching job in the State where the school is located) this forgiveness is presently treated as taxable income. The forgiveness of the loan in such cases could be excluded from taxable income. The effect on revenues in the fiscal year 1977 it is estimated would be $10 million.

Chart 22

Other Tax Revision Proposals-2

(dollars in billions)

	FY1977	Full Effect
Tax treatment of foreign income		
House bill:		
·Reduction in DISC	+$0.4	+$0.6
·Other provisions	+0.1	+0.1
Other proposals:		
Taxation of foreign source shipping income	+0.1	+0.1
Elimination of tax deferral	+0.4	+0.4
Runaway plant provision	*	*
Repeal DISC	+1.6	+1.7
Exclude investments by foreigners from U.S. tax	-0.1	-0.1
Capital formation		
Administration proposals:		
·Deduction for stock purchases	-0.3	-0.7
·Mortgage tax credit	-0.3	-0.9
·Tax incentives for utilities	-0.8	-0.8
·Integration of individual and corporate taxes	---	-13.3
Employee stock ownership amend'ts	-0.2	-0.3
Net operating loss carryback	-1.6	-0.4
Refundable investment tax credit	-0.2	-0.5
Limited deduction for interest on savings	-2.0	-2.4
Exclusion of reinvested dividends	-3.5	-5.1
Deduction for dividends on preferred stock	-0.1	-0.6
Eliminate 20% depreciation variance (ADR)	+0.8	+2.5

*less than $0.05 billion

Chart 22

Other Tax Revision Proposals—2

Tax Treatment of Foreign Income

The taxation of U.S. companies operating abroad and U.S. citizens residing abroad would be changed in several ways under the House bill. Several of the changes proposed would result in tax increases. The major increases would occur with respect to the areas described below.

HOUSE BILL

Domestic International Sales Corporation (DISC) treatment would be eliminated for products sold for use as military equipment and for agricultural products not in surplus in the United States. In addition, DISC benefits would be available only for increases in exports over a base period. The base period method of computation would be required for taxable years beginning after December 31, 1975. Such a base period computation would involve a moving base period. From 1976 through 1980, the base period would be taxable years 1972, 1973, 1974. Beginning in 1981, the base period would move 1 year forward each year. Companies whose total DISC benefits are less than $100,000 per year would not be subject to the new base period method of computation and would be permitted to calculate their DISC benefits as under present law. It is estimated that this provision will result in an increase in revenues for fiscal year 1977 of $391 million and $551 million when this change is fully effective.

The $20,000 exclusion (or in certain instances $25,000) for *income earned abroad by U.S. citizens* living or residing abroad would under the House bill be phased out over a 4-year period by lowering the exclusion by $5,000 (or $6,250) each year. Where the full exclusion is not available, a deduction of up to $1,200 would be provided for elementary and secondary school expenses of dependents of U.S.-taxpayers employed outside the United States. Also, an exclusion from gross income would be provided for amounts paid for municipal-type services furnished in a foreign country by an employer on a nondiscriminatory basis. Present law would also be modified to permit a foreign tax credit to be claimed by individuals who use the standard deduction. This provision would result in an increase of Federal revenues of $8 million for fiscal year 1977 and $48 million when fully effective.

Another change in the House bill would repeal the "per country" limitation on the *foreign tax credit* for taxable years ending after December 31, 1975. Thus, taxpayers would be required to compute the limitation of the amount of foreign tax which can be used to reduce U.S. tax under the overall limitation. The effect of this provision is to require losses from any foreign country first to reduce income from other foreign countries in calculating the foreign tax credit limitation. This will reduce the amount of foreign taxes which can be used as a credit against U.S. tax. It is estimated that this change will increase revenues by approximately $5 million for fiscal year 1977, which will increase to $45 million when fully effective.

Dividends received by U.S. shareholders from *less-developed country corporations* would be required to be "grossed-up" by the amount of taxes paid to less developed countries for the purpose of computing the foreign tax credit and related foreign source taxable income. Under existing law, which does not provide for a "gross-up" in the case of less developed countries, a U.S. corporation can receive dividends from a foreign subsidiary and where the rate of foreign tax is one-half the U.S. rate (or 24 percent) and in such a case the maximum tax on such dividend income would be 42.2 percent as opposed to the maximum U.S. statutory rate of 48 percent. It is estimated that this provision will increase revenues by $8 million for fiscal year 1977, and by $55 million when fully effective.

The provision in present law which permits a 14 percentage point lower tax rate for *Western Hemisphere Trade Corporations* would be phased out over a 5-year period. Elimination of the special lower tax rate for Western Hemisphere trade corporations would increase Federal revenues by $15 million for fiscal year 1977, and by $50 million when fully effective.

OTHER PROPOSALS

Presently, most countries do not tax domestic shipping and through reciprocal exemptions do not tax shipping of most other nations. In addition, questions have arisen as to whether income derived on the high seas is income from any particular country. Consideration is being given by some to attributing one-half the *shipping income* to the exporting country and one-half to the importing country and taxing that portion of the income in each country. A proposal of this type would raise revenue of $140 million in the fiscal year 1977 and approximately the same amount thereafter.

The income of foreign corporations controlled by U.S. corporations or citizens is generally not subject to U.S. tax until that income is repatriated. This is commonly known as *tax deferral.* There already are exceptions to this general aspect of the tax laws that have been adopted to avoid certain abuses in tax haven countries. These excep-

tions were expanded in the Tax Reduction Act of 1975. If the general treatment of controlled foreign corporations were changed so that the income of a controlled foreign corporation were required to be taken into account currently for the purposes of U.S. taxation, it is estimated that corporate liabilities would be increased by approximately $420 million for fiscal year 1977 and $365 million annually thereafter.

The Administration has proposed a *runaway plant provision* denying tax deferral treatment in the case of income earned by foreign subsidiaries of U.S. companies in foreign countries where a foreign country has made a concession from its general tax rate for that particular type of income. In addition, the Administration proposed denying tax deferral to foreign subsidiaries of U.S. corporations where a large portion of the income produced by the company is attributable to products shipped to the United States. It is estimated that these two provisions would raise $29 million in fiscal year 1977 and somewhat lesser amounts thereafter.

It has been proposed that the provision which permits *Domestic International Sales Corporations* to defer the reporting of certain income be repealed. Total elimination of the DISC provisions would result in an increase in revenues for fiscal year 1977 of $1.6 billion.

It has been proposed that the present 30 percent withholding tax on dividends and interest received on *investments made within the United States by foreign persons* be repealed. The exemption for interest and dividends would not apply to direct investments by foreigners, i.e., those corporate investments in which foreigners control more than 50 percent of the U.S. corporation, but would apply only in the case of foreign recipients of interest and dividends with stockholdings of 10 percent or more. It is estimated that this provision would reduce Federal revenues by approximately $55 million for fiscal year 1977, and $145 million when fully effective.

Capital Formation

ADMINISTRATION PROPOSALS

The Administration has proposed an *incentive for broader stock ownership plans.* These plans would permit deferral of tax for funds invested in stock purchase plans established by employers or directly by individuals. A limit would be imposed on the maximum annual contribution, and this maximum would be phased out at higher income levels. Funds invested through this medium would have to remain invested for at least 7 years and would be subject to tax at the time of withdrawal. It is estimated that adoption of this provision would reduce Federal revenues by approximately $300 million for fiscal year 1977, rising to $671 million by 1981.

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It has been proposed in connection with the Financial Institutions Act that a new *mortgage investment tax credit be provided.* This credit would be equal to a percentage of the interest income received on residential mortgages. The tax credit would range from 1.5 percent to 3.8 percent, depending on the fraction of the institution's assets held in the form of residential mortgages. Individuals holding residential mortgages would be eligible for the credit at the 1.5 percent rate. Under this proposal the current tax provisions permitting financial institutions to maintain excess bad debt reserves would be phased out. It is estimated that the combined effect of these proposals would be to reduce Federal revenues by $264 million in fiscal year 1977 and this reduction can be expected to reach $913 million by 1981.

To promote construction of electric utility facilities the Administration has proposed *tax relief for electric utilities.* A permanent increase in the investment tax credit from 10 percent to 12 percent and the allowance of a current investment tax credit on progress payments made during the course of construction of these facilities would be provided. Also, the 5-year amortization provision for pollution control facilities would be extended. Utilities would be permitted to elect to begin depreciation of accumulated construction progress expenditures during the construction period. Finally, shareholders would be permitted to defer the tax on dividends paid by utilities where they elect to have those dividends reinvested in additional common stock rather than receiving those dividends in cash currently. It is estimated that these changes would reduce corporate income tax receipts by $773 million during fiscal year 1977.

Integration of the corporate and individual income taxes is designed to eliminate (in whole or in part) "double taxation." Taxation of all corporate-source income at the shareholders' tax rate is referred to as complete integration, and elimination of the double tax only on dividend income is referred to as partial integration. Partial integration can be achieved by either a dividend deduction at the corporate level, or by treating the corporate tax as a withholding of the tax payable on the dividend income by the individual shareholder. Complete integration treats the entire corporate income as received by the individual and the corporate tax as a withholding of the tax due by the individual. Tentative revenue estimates show that full integration would reduce revenues by $18 billion and partial integration by $13 billion.

Firms establishing permanent ESOP's would get an extra two percentage points of investment credit (i.e., a 12-percent investment credit instead of a 10-percent credit). At the end of the second year (after the plan is established) the employer would put one percentage point of the extra investment credit into the ESOP (plus interest). The second extra one percentage point of the investment credit, plus interest, would be put into the plan at the end of the third year. The employer would contribute an additional amount of his own funds equal to one percentage point of the investment credit plus interest to the ESOP at the end of the fourth year and again at the end of the fifth year. These contributions representing the employer's own funds, would be tax deductible.

The ESOP would have to be permanent and consist of the employer's common stock with voting and dividend rights at least as favorable as the employer's other common stock. The investments could start with convertible debentures or convertible preferred stock but must be converted to common stock when released from the lender's lien. All employees would be covered except when a union's membership votes to reject the plan.

These changes would reduce Federal revenues by $178 million in fiscal 1977 and by $256 million when the full effect of these changes are realized.

The Senate Finance Committee included in the Tax Reduction Act of 1975 (H.R. 2166) a provision which generally would have allowed business taxpayers, both individuals and corporations, to elect to convert carryover periods to which they are entitled under the *net operating loss provisions* in present law into carryback periods. For example, a taxpayer now subject to the general rule could have elected to use an 8-year carryback period (3-year carryback under present law and an additional 5-year carryback under the new provision) with no carryover period. This election was to be applicable to net operating losses for taxable years ending after January 1, 1970. The revenue loss is estimated at $1.6 billion for fiscal year 1977 and $400 million thereafter.

A *refundable investment credit* has been recommended for business firms that may lose unused credits at the end of the carryforward period. This problem occurs where the size of the investment credit has been too high relative to the company's taxable income to be used up within the statutory period. Enactment of this proposal would reduce revenues by $150 million in fiscal year 1977 and by $500 million annually in the future.

A proposal for the *deduction of interest on savings* has been put forward to encourage individuals to increase their savings. It would allow a taxpayer to deduct from gross income up to $1,000 (for joint returns—$500 for singles) of interest and dividends earned on personal savings deposits. For this proposal, the savings deposits may be in a commercial bank or mutual savings bank, a savings (or building) and loan association or a credit union insured by a Federal or State insurance corporation. The revenue loss under this proposal would be $2 billion in fiscal year 1977.

Another type of incentive which has been put forward is a limited exclusion for dividends reinvested in common stock. Under this proposal an individual could exclude dividends equal up to 25 percent of taxable income where such dividends were reinvested. Assuming a 50% utilization of this provision, Federal revenues would be reduced by $1.9 billion for fiscal year 1977 and by $2.9 billion when the provision is fully effective. Assuming a 90% utilization, the revenue loss would be $3.5 billion in fiscal year 1977 and $5.1 billion when the pension is fully effective.

A deduction for dividends paid on preferred stock by corporations has also been proposed. This provision would reduce Federal revenues by $103 million for fiscal year 1977 and $590 million when fully effective.

Under the *Asset Depreciation Range* (*ADR*), a taxpayer may select a useful life for depreciation purposes that is as much as 20 percent shorter than the guideline lives for a class of assets. A proposal has been made to repeal the provision that permits an election to shorten the guideline lives by 20 percent. This proposal would increase revenues by $800 million in fiscal year 1977 and by $2.5 billion a year when fully effective.

Chart 23

Other Tax Revision Proposals - 3

(dollars in billions)

Capital gains and losses	FY 1977	Full Effect
House bill:		
· Increase in holding period	+$0.1	+$0.4
· Increase in capital loss offset against ordinary income	-0.2	-0.3
Capital loss carryback for individuals	*	*
Sliding scale tax rate	-1.5 to -2.0	-1.5 to -2.0
Elimination of capital gains for coal, iron ore and timber	+0.3	+0.4
Exclusion of reinvested capital gains	-0.6	-0.8
Exempt organizations		
House bill:		
· Tax-free rollover to IRA on plan terminations	-0.1	-0.1
· Use of an IRA where limited plans are provided	-0.4	-0.5
Establishment of IRA for spouse	-0.1	-0.2
Decrease in foundation payout requirement	---	---
Reduction in foundation tax to 2%	*	*
Filer Commission recommendations	-6.3	-9.4

* less than $0.05 billion

Chart 23

Other Tax Revision Proposals—3

CAPITAL GAINS AND LOSSES

Two major changes regarding the taxation of capital gains and losses have been included in the House bill.

The *holding period for long-term capital gains and losses* would be increased from 6 months, under present law, to 1 year. The increase would be phased in over a 3-year period by increasing the 6-month holding period to 8 months for taxable years beginning in 1976, to 10 months for taxable years beginning in 1977, and to 1 year for taxable years beginning after 1977. It is estimated that this provision will increase revenues by $137 million for fiscal year 1977 and by $407 million when fully effective.

The amount of ordinary income against which a *capital loss* may be deducted would be increased from $1,000 to $2,000 for taxable years beginning in 1976 to $3,000 for taxable years beginning in 1977 and to $4,000 for taxable years beginning after 1977. It is estimated that this provision will result in a decrease in revenues of $154 million for fiscal year 1977, and $339 million when fully effective.

OTHER PROPOSALS

In addition to these changes in the taxation of capital gains and losses, a number of other proposals have been advanced.

Individuals with capital losses of $30,000 or more in any taxable year could be provided an option of electing a 3-year *carryback of capital losses* against capital gains (but not against ordinary income). Individuals who utilize the carryback option would have to recompute their regular tax for the prior years to which the losses are carried back. It is estimated that this provision would result in a decrease revenues of $30 million for fiscal year 1977.

In the case of capital assets held for extended periods of time (i.e., more than 5 years) it has been proposed that the amount of capital gains tax imposed be reduced according to a *sliding scale*. This would be accomplished by increasing the amount of capital gain excluded, from 50 percent under present law, up to a maximum of 80 percent, by increasing the amount of gain excluded at the rate of 2 percent per year. In addition, it has been proposed that instead of increasing the amount of gain excluded from taxable income, another method for reducing capital gains tax on assets held for long periods of time would be to increase annually the adjusted basis of capital assets to account for increases in value based on inflation. It is estimated that Federal revenues would be reduced by $1.5–$2.0 billion for fiscal year 1977 where the amount of gain that is excluded is gradually increased to 80 percent.

Under present law capital gains treatment is provided for royalties received from the sale of coal and iron ore. In addition, capital gains treatment is provided with respect to the sale of certain timber. It is estimated that the repeal of the *capital gains treatment for royalties on coal and iron ore* and repeal of capital gains treatment in the case of certain sales of *timber* would increase Federal revenues by $324 million for fiscal year 1977 and by $415 million by 1981.

A limited exclusion for *reinvested capital gains* has also been proposed. Under present law, taxpayers who realize capital gains generally pay tax with respect to such gains in the year of realization. It has been proposed that the first $1,000 of realized net capital gains ($2,000 in the case of joint returns) be excluded from income in the year of realization, but only if and to the extent an equivalent amount is invested in stock or securities of a domestic corporation within the same taxable year. Any gain deferred would be taken into account in computing the tax basis of the stock or securities purchased by the taxpayer. Assuming a 50% utilization of this provision, revenues would be reduced by $351 million in fiscal year 1977; assuming a 90% utilization, revenues would be reduced by $632 million in fiscal year 1977.

EXEMPT ORGANIZATIONS

The House bill includes a provision to correct an oversight in the Employee Retirement Income Security Act of 1974. This change permits individual employees to receive lump sum contributions paid within one taxable year on account of the termination of a pension, etc. plan or the complete discontinuance of contributions under the plan, and to reinvest those funds in an Individual Retirement Account. This treatment is commonly referred to as a tax-free rollover of such funds. It is estimated that enactment of this provision would reduce Federal revenues by $52 million for fiscal year 1977.

The House bill provides that employees who are active participants in qualified pension, profit-sharing, stock bonus, or annuity plans, etc. are to be allowed a deduction for their contributions to what are referred to as "limited employee retirement accounts" (LERA's). The deduction allowed in this case is limited to the lesser of $1,500 or 15 percent of compensation reduced by "qualifying employer contributions" under any qualified plans or 403(b) annuity contracts covering such employees. A number of additional rules and limitations would be applicable to these special plans. It is estimated that this provision will result in a decrease in revenues of $361 million for fiscal year 1977.

Legislation has been proposed to permit a person to establish and contribute to an *individual retirement account (IRA) for his spouse*. Under present law, employees not covered by a qualified pension plan may establish an IRA and take a tax deduction of 15 percent of earned income (up to $1,500 per year) for contributions to the IRA. Married women performing household work but not otherwise employed may not set up an IRA for their retirement. Permitting a worker to establish an IRA for his or her spouse would decrease revenues by $127 million in fiscal year 1977.

Legislation has been proposed to reduce the distribution requirements now imposed upon grant-making *private foundations*. Under present law, private foundations are generally required to distribute annually for charitable purposes an amount equal to the greater of their actual income or a specified percentage of the value of their investment assets. The specified percentage was originally set at 6 percent and the Treasury was given the authority to vary that percentage from year to year in accordance with changes in money rates and investment yields. Enactment of legislation to reduce the specified percentage to 5 percent and eliminate the authority of the Treasury to vary the specified percentage is supported by the Administration and would not reduce revenues.

Legislation has also been proposed to reduce the rate of tax on private foundation investment income from 4 percent to 2 percent. Enactment of such legislation would reduce revenues by $35 million in fiscal year 1977.

The Report of the Commission on Private Philanthropy and Public Needs (the so-called "*Filer Commission*") contains a series of recommended changes in the tax laws applicable to the deduction for charitable contributions and to exempt organizations. Two of these recommendations would have a substantial revenue impact if enacted. The first of these two recommendations would permit taxpayers who utilize the standard deduction to deduct charitable contributions as an additional itemized deduction (revenue loss $2.9 billion). The second recommendation would permit families with less than $15,000 in income to deduct an amount equal to 200 percent of their charitable contributions and would permit families with income between $15,000 and $30,000 to deduct an amount equal to 150 percent of their charitable contributions (revenue loss $6.6 billion).

Chart 24

Other Tax Revision Proposals - 4

(dollars in billions)

Estate and gift taxes	FY 1977	Full Effect
Increase exemption to $100,000	-$1.0	-$1.5
$200,000	-2.2	-3.4
Administration proposal to defer tax for farms and small businesses	*	*
Valuing property on basis of use	*	*
Integrate estate and gift taxes	-0.1	+0.1
Tax generation-skipping trusts	+0.1	+0.3
Increase marital deduction	-0.4	-0.6
Tax capital gains at death	*	+1.0
Carryover basis at death	+0.6	+0.6
Excise taxes		
Repeal tax on trucks, truck parts	-0.7	-0.7
Increase tax on alcoholic beverages	+1.5	+2.0
Increase tax on cigarettes	+1.4	+1.5
Miscellaneous tax revision proposals		
Tax treatment of distributions by bank holding companies	*	-0.1
Subsidized taxable option for State and municipal bonds	-0.1	-0.3
Increasing allowable industrial revenue bond level to $10 million	-0.1	-0.2
Revision of treatment of certain disaster payments	-0.1	*
Employment tax credit	-0.4	-2.0
Special rules for depressed areas	-0.3	-1.0

* less than $0.05 billion

Chart 24

Other Tax Revision Proposals—4

ESTATE AND GIFT TAXES

The House tax revision bill would make no changes in the Federal estate and gift tax provisions of existing law. However, numerous revisions have been proposed, including those summarized below.

A number of proposals to *increase the present $60,000 exemption* have been introduced.

Fiscal year 1977 reduction in Federal revenues

Increasing $60,000 exemption to:	*Billions*
$100,000	$1.0
$150,000	$1.7
$200,000	$2.2

Others have suggested that any liberalization from the taxpayer's standpoint be provided in the form of a *tax credit* rather than an increase in the exemption. For example, a tax credit of $27,000 would cost approximately the same revenue as increasing the present $60,000 exemption to $100,000 (namely, $1 billion). A tax credit of $37,500 would involve approximately the same revenue as increasing the present $60,000 exemption to $200,000 (namely $2.2 billion).

The Administration has proposed to ease the burden of estate and gift taxes on *farms and other small businesses*. It is estimated that this provision, which is expected to expand the number of estates eligible for the deferred payment of estate taxes will result in a reduction in receipts of approximately $3 million for fiscal year 1977 and $16 million by 1981.

Another change in the Federal estate tax laws which has been suggested is to alter the *method of valuing property* included in the gross estate of the decedent. Under this proposal land and similar property would be included in the gross estate at its value based on current use, which is generally lower than the fair market value of such property. It is estimated that this provision would reduce estate tax revenues by $20 million.

Another proposal which has been recommended by the Treasury Department in the past and also by the American Law Institute would provide for the *integration of the estate and gift taxes.* At the present time, there is a $30,000 exemption under the gift tax (in addition to the $3,000 exclusion per donee) which is wholly separate and apart from the $60,000 exemption under the estate tax. Moreover, the gift tax rate structure is completely independent of the estate tax rate structure although not independent of subsequent gifts. In other words, to the extent of prior gifts an additional gift is subject to tax in a higher rate bracket. The proposals to integrate the estate and gift taxes could provide a single exemption (perhaps $90,000) which could be used either for gift or estate purposes or a combination of the two. Similarly, there would be a single cumulative rate structure for the two taxes with gifts previously made affecting not only the bracket at which the subsequent estate is taxed as well. It has been estimated that an integrated system of the type referred to above would result in a revenue loss of $59 million in fiscal year 1977 and a gain of $149 million when fully effective.

At the present time, *generation skipping trusts* make it possible to avoid the imposition of an estate tax by leaving a life estate or interest in a property to a son but providing that the property will go in fee simple to the grandson upon the death of the son. Various other methods have also been used to avoid the imposition of the one or more estate taxes in the case of property going through a trust or through a life estate. Some have recommended that the estate tax laws be modified to impose an estate tax at the time of the termination of the life estate or life interest in the same manner as if it were a part of the estate of such individual. It is estimated that such a system, if adopted, would result in a revenue gain of $118 million in the fiscal year 1977 and $251 million when fully implemented.

Under present law a deduction is provided for an estate where property passes to a surviving spouse. This deduction is equal to a maximum of 50 percent of the adjusted gross estate. It has been proposed that the *marital deduction* be increased to $100,000 plus 50 percent of the adjusted gross estate. It is estimated that this provision would result in a reduction in estate tax revenues of $400 million in fiscal year 1977.

It has also been suggested that no Federal estate tax be imposed where the property of one spouse is transferred on death to a surviving spouse. This proposal would be implemented by providing a marital deduction equal to 100 percent of the adjusted gross estate. It is estimated that this provision would reduce estate tax revenues by $700 million in fiscal year 1977.

Under existing law, individuals may hold assets which have appreciated or depreciated in value over time at their death. As those assets are passed to an heir or other beneficiary, the new holder of those assets assumes as his basis for those assets the market value of the property as of the date the estate is valued for Federal estate tax purposes. Thus under present law no gain or loss is taken into account as income during the last year of the decedent's life. It has been proposed that the gains which have accrued during the decedent's lifetime should be taxed at the time of his death. While the imposition of a *capital gains tax like the one in present law at death* would likely contain a series of transitional rules, the full effect of such change, although reached gradually, would ultimately increase Federal estate tax revenues by $1.0 billion.

Under another proposal an individual who inherits property from a decedent would take the same basis (or "carry over" the basis) in that property as that of the decedent. As indicated above, under present law the basis which is taken by the person inheriting property is the value of the property as of the date the estate is valued. Under this proposed change, estate tax revenues would be increased by $600 million in fiscal year 1977.

EXCISE TAXES

During consideration of H.R. 2166, the Tax Reduction Act of 1975 and H.R. 6860, the Energy Conservation and Conversion Act, the Finance Committee agreed to repeal the Federal excise taxes on trucks, buses, and truck parts. Repeal of the *excise tax on trucks and buses*, etc. would reduce receipts for the highway trust fund by $741 million for fiscal year 1977.

During consideration of the Tax Reduction Act of 1975, an amendment was offered which would have increased the *excise taxes on distilled spirits, beer, and wines.* It is estimated that these proposed changes would increase excise tax receipts by approximately $1.5 billion for fiscal year 1977.

Under another proposal the manufacturers *excise tax on cigarettes* would be increased by $2.50 per thousand. This would increase excise tax receipts by approximately $1.35 billion in fiscal year 1977.

MISCELLANEOUS TAX REVISION PROPOSALS

In 1974, in connection with its consideration of a major bill, the Ways and Means Committee agreed to a provision dealing with the income tax treatment of divestitures of either bank or nonbank assets by *bank holding companies* required under the Bank Holding Company Act Amendments of 1970. Under this proposed change, three alternative methods were proposed in order to provide tax relief to individuals and corporations making such divestitures. These methods included the distribution of stock of the bank or nonbank corporation to shareholders of the bank holding company on a tax-free basis. In addition, a "roll-over" was proposed. This would allow the tax on gain from the sale pursuant to a required divestiture to be deferred if the proceeds of sale were reinvested in qualified replacement property. The third method provided was an installment payment provision for taxes due on bank holding company divestitures. Under this alternative the tax on the gain realized from such sales would be paid in equal annual installments over a period beginning in the year after the disposition and ending no later than 1985. It is estimated that these provisions would reduce Federal revenues by $20 million for fiscal year 1977 and $100 million by 1981.

In order to expand the opportunities available to State and local governments for financing capital projects, a proposal for an *optional taxable bond with a Federal subsidy* for higher interests costs has been advanced. The subsidy level varies between 30 and 50 percent in the several proposals; in the Kennedy-Reuss bill, the proposed subsidy level is 40 percent. Issue of this type of bond would be at the option of the local government, and the tax-exempt bond privilege would remain intact. With a 40-percent subsidy the net revenue loss would be $116 million in fiscal year 1977 and $335 million after 5 years.

Several proposals have been made to raise the limit on *small issues of industrial development bonds* from $1 million under present law to $10 million. The revenue loss is estimated at $50 million in fiscal year 1977 and $240 million after a several year interval for adjustment of plans to the new level.

In the tax revision bill passed by the House, adjustments were adopted in the provisions affecting *payments for crop destruction and disasters.* When the taxpayer has received payments under the Agriculture and Consumer Protection Act, he would be allowed to choose whether to include the payments in income in the year the payment is received or in the year income from the crops normally would have been received. In addition, where a taxpayer has received compensation for a loss that is the result of a disaster in 1972, in an area designated by the President as a disaster relief area, the tax on the first $5,000 of compensation is not to exceed the tax that would have been paid if a $5,000 deduction had not been claimed. The revenue loss under these provisions would be $57 million in fiscal year 1977.

A number of proposals have been put forward as *tax incentives for the employment of additional workers* in the private sector. Under one such proposal (S. 2382) a tax credit equal to 14.9 percent of covered annual wages (i.e., the 11.7 percent of wages paid as social security—

medicare taxes and 3.2 percent of wages paid as unemployment compensation taxes) would be provided to employers with respect to a maximum of seven new positions added annually and filled by unemployed persons or new entrants into the job market. It is estimated that this proposal would reduce Federal revenues by $387 million in fiscal year 1977 and $1.96 billion after 5 years. Another measure which has been introduced (S. 2629) would provide for a 10 percent tax credit up to a maximum of $800 per qualifying employee. The number of employees qualifying for the $800 credit would be limited to the lesser of the number of unemployed workers and new entrants into the labor force hired during the year, or the net increase in the firm's employees in excess of the firm's average employment over its base period employment. In addition, the dollar value of the tax credit could not exceed that company's investment in new plant and equipment. It is estimated that this provision would reduce Federal revenues by approximately $320 million in fiscal year 1977.

To stimulate additional *jobs in areas of particularly high unemployment* (7 percent or more), the President has proposed tax incentives to encourage construction of new facilities and/or expansion of old facilities in such areas. These incentives would include a full investment tax credit, and very rapid amortization (one half the normal useful life for buildings and five years on all capital equipment). These provisions would be limited to projects started between January 20, 1976, and January 20, 1977, and which were completed within 36 months. These incentives would reduce Federal revenues by $286 million in fiscal year 1977 and by $1.0 billion in fiscal year 1981.

Chart 25

Energy Tax Proposals
(dollars in billions)

	FY1977	Full Effect
Energy conservation measures		
Home insulation tax credit	-$0.3	-$0.3
Business insulation tax credit	-0.1	-0.2
Paper recycling tax credit	*	*
Repeal excise tax on radial tires	-0.1	-0.1
Tax on business use of oil and gas	+0.2	+1.9
Energy supply measures		
Tax credit for home solar energy	*	*
Tax credit for business solar and geothermal energy	*	*
Investment credit for synthetic fuel development	*	*
Geothermal energy exploration incentives	*	*
Oil and gas exploration incentives	-0.8	-1.2
12% investment credit for fuel source development	*	-0.1
Other energy measures		
12% investment credit for certain railroad equipment and facilities	-0.1	-0.1

*less than $0.05 billion

Chart 25

Energy Tax Proposals

ENERGY CONSERVATION MEASURES

The estimates for energy conservation measures shown are derived from provisions tentatively approved by, or under consideration by, the Finance Committee in its deliberations on the Energy Conservation and Conversion Act (H.R. 6860). The estimates assure an enactment date of July 1, 1976, an immediate effective date for excise taxes, and a January 1 effective date for tax credits.

The home insulation tax credit would provide a refundable tax credit of 30 percent of the first $750 of expenditures for insulation of a principal residence (maximum credit of $225). The revenue loss would be $320 million in fiscal year 1977.

The investment tax credit of 10 percent for insulation installed in new and existing business and industrial structures would reduce revenues by $143 million in fiscal year 1977.

During its markup sessions on the energy tax bill (H.R. 6860) last July, the Committee approved a tax credit of 10 percent on the price paid by a recycler on the purchase price of wastepaper to be recycled. This provision would reduce revenues by $35 million in fiscal year 1977 and $45 million when fully effective.

A repeal of the 10¢ per pound excise tax on radial tires and the 5¢ per pound excise tax on tread rubber used to recap or retread all tires would reduce revenues by $92 million in fiscal year 1977.

The business use tax would place an excise tax on business use of oil and natural gas with certain exceptions. In fiscal year 1977, the tax would produce $158 million in Federal revenues.

For homeowners, the Finance Committee tentatively agreed to a refundable tax credit for the home installation of geothermal and solar energy equipment of 40 percent on the first $1,000 of expenditures and 25 percent of the next $6,400 (maximum credit of $2,000). The revenue loss in fiscal year 1977 is estimated to be less than $5 million.

For businesses, an investment tax credit of 20 percent was agreed to for the purchase of geothermal and solar energy use equipment. The revenue loss in fiscal year 1977 is estimated to be less than $5 million.

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The geothermal energy exploration revenue loss estimates assumes enactment of tax incentives like those found in S. 2608 (introduced by Senator Fannin). The bill would allow current expensing of geothermal intangible drilling costs and a percentage deduction from gross geothermal energy income. The fiscal year 1977 revenue loss would be less than $5 million.

A provision tentatively approved by the Committee would provide a 12-percent investment tax credit for underground coal mining equipment, coal conversion equipment, waste recycling equipment, and facilities necessary to permit the use of geothermal heat energy or waste as fuel. If this provision were enacted, there would be a revenue loss of $44 million in its first year of effect. Similar tax incentives for synthetic fuel production investment would be provided by a bill introduced by Senator Hansen (S. 2109).

Oil and natural gas exploration incentives have been proposed. One proposal would allow a 10-percent investment credit on intangible drilling costs plus allowances for geological and geophysical expenses, lease acquisition costs, secondary and tertiary recovery, and well workovers. Enactment would produce a revenue loss of $750 million in the first year of effect.

The final energy revenue estimate assumes enactment of an investment tax credit of 12 percent (with an additional 1 percent for matching contributions to employee stockownership plans) for railroad rolling stock and track improvements. This provision, tentatively approved by the Committee, would produce a revenue loss of $61 million in fiscal year 1977.

Chart 26

Tax Expenditures: Present Law

(dollars in billions)

	FY1976	July to Sept. 1976	FY1977
Personal investment	$24.2	$6.1	$25.6
Business investment	14.3	3.6	14.5
Income security	19.1	4.8	20.5
Revenue sharing and general purpose fiscal assistance	10.9	2.7	11.5
Health	5.7	1.4	6.3
Commerce and transportation	7.1	1.8	6.1
Natural resources, environment and energy	2.8	0.7	3.2
Other tax expenditures	12.8	3.2	13.5

Chart 26

Tax Expenditures: Present Law

The concept of tax expenditures was developed in order to compare the Federal Government's total contribution to various activities, through direct expenditures and indirectly through deductions, deferrals, and credits in the tax structure. With this information, consideration of the budget will ultimately involve examination of both direct and tax expenditures as alternate means of providing incentives.

The chart presents a summary of tax expenditures by budget functional category and estimates of their revenue effects. The table containing the estimates presented by the Administration as a special analysis in the 1977 budget is reproduced in Appendix C.

The administration's analysis omits four provisions which the staff believes should be included. These four items, and their revenue estimates are:

[In millions of dollars]

	Fiscal year 1976	Transition quarter	Fiscal year 1977
Asset depreciation range	1,590	450	1,805
Deferred income of controlled foreign corporations	525	100	365
Taxation of capital gains at death	6,720	1,820	7,280
Cooperatives—Deduction for noncash dividends	410	100	455

The definition of a tax expenditure is imprecise. The objective generally, however, is to include as tax expenditures those tax provisions that are not ordinary deductions taken for the purpose of determining net income of a business, whether incorporated or not. Deductions for individuals that are not business-related then clearly should be treated as tax expenditures. The imprecision that exists with respect to dovetailing concept and practice has generated substantial controversy. Because of the difficulty of achieving precision, the staff approach is to be as comprehensive as is reasonable when deciding what is to be included. The staff also believes that the term tax expenditure and a listing of a provision carry no implication of approval or disapproval, or judgment about the effectiveness of any one provision. A listing simply reflects present law and, therefore, present public policy.

If the various tax expenditure figures in the three columns were added, they would total $97.0 billion in fiscal year 1976, $24.3 billion in the July–September 1976 quarter, and $101.1 billion in fiscal year 1977. However, the separate items, even in functional categories, should not be added in strict logic because the revenue estimates are made with the assumption that no other changes would be made by the taxpayer if the one item would be repealed. Many taxpayers have the choice of using other tax expenditures, if they are interested in tax shelters. For some, repeal of a provision could foreclose that source of economic income, and they might permanently suffer a significantly reduced income. For all taxpayers loss of opportunity to use a tax expenditure will affect their tax liabilities through forcing changes to different tax brackets in a progressive scale or shifts to the standard deduction.

Chart 27

Debt Limit
(dollars in billions)

	Pres. Budget	Com. Estimate
Debt subject to limit June 30, 1976	$624	
Plus:		
Federal funds deficit for July to Sept. 1976	+15	
Off-budget agency spending financed by Treasury and other financing	+4	
Equals debt subject to limit September 30, 1976	643	
Plus:		
Federal funds deficit for FY 1977	+55	
Off-budget agency spending financed by Treasury and other financing	+12	
Equals debt subject to limit September 30, 1977	710	

Chart 27

Debt Limit

The limit on the public debt is $595 billion through March 15, 1976. The Ways and Means Committee has reported an increase in the limit to $627 billion through June 30, 1976. While this limit is higher than the level approved for this fiscal year in the second concurrent resolution on the budget (which provided for a $622.6 billion debt limit), the difference provides just enough margin for the Treasury Department to meet Federal financial requirements through the mid-June debt peak. The debt normally declines in the second half of June because of substantial tax receipts after June 15.

The Administration has estimated that an additional $19 billion increase in the debt limit will be necessary for the transitional quarter, through September 30, 1976. This estimate includes the assumption that the proposal for permanent tax reduction—approximately $10 billion more on an annual basis than the annual rate of tax decrease in the Revenue Adjustment Act for the first half of this year—would go into effect on July 1, 1976.

For fiscal year 1977 the Administration assumes that the debt limit would reach $710 billion on September 30, 1977. Underlying these estimates are the legislative proposals which the President submitted to Congress, or indicated he will submit, in the budget for fiscal year 1977. In addition, the fiscal year 1977 needs include issue of debt by the Federal Financing Bank under the debt limit on behalf of various agency programs and several agencies whose activities are not included within budget totals. The Administration estimates are also based on the effect of its budget proposals on economic activities and other assumptions which the Administration has made about the nature and rate of the economic recovery in 1977.

The Administration has recommended legislation to broaden the Treasury Department's flexibility in managing the debt, but these proposals are not expected to affect the size of the debt limit.

66-407—76——8

APPENDIX A

Committee on Finance 1975 Report to the Budget Committee

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., March 15, 1975.

Hon. EDMUND S. MUSKIE,
Chairman, Budget Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal budget which fall within its jurisdiction, as is required by section 301(c) of the Congressional Budget Act of 1974.

Economic assumptions.—In recognition of the fact that many of the components which go to make up the budget totals are highly susceptible to relatively slight changes in economic conditions, the Committee reviewed the economic assumptions underlying the estimates in the President's budget which are presented on page 41 of the President's budget. The alternative set of economic assumptions upon which the estimates in this letter are based are shown in Table 1.

While the Finance Committee has preferred to use the alternative economic assumptions in Table 1 to those used by the President in preparing his budget, we recognize that there are still other alternatives which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, some adjustment should be made in some of the revenue and outlay estimates.

TABLE 1.—ECONOMIC ASSUMPTIONS: CALENDAR YEARS 1975–76

[Dollars in billions]

		1975		1976	
	1974 actual	President's budget	Committee on Finance	President's budget	Committee on Finance
Gross national product	$1,397	$1,498	$1,510	$1,686	$1,690
CPI increase over 1974 (percent)		11.2	11.6	20.0	20.8
Personal income	$1,150	$1,232	$1,262	$1,365	$1,402
Wages, salaries	$751	$792	$803	$884	$893
Corporate profits	$141	$115	$118	$145	$149
Unemployment rate (percent)	5.6	8.1	8.3	7.9	8.0

Expenditure programs.—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures approaching one-half of the entire Federal budget. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include medicare, medicaid, and maternal and child health, as well as national health insurance proposals. Other programs within the Committee's jurisdiction which involve expenditure of Federal funds include social services, revenue sharing, and payments under the Sugar Act. Interest on the public debt, which will account for some $33 billion in Federal outlays during the current fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed each of the expenditure programs within its jurisdiction and estimates that the amounts shown in Table 2 should be allowed in the concurrent budget resolution for programs within the jurisdiction of this Committee.

The Finance Committee estimates involve outlays for fiscal year 1976 which are $10.3 billion higher than the outlays estimated in the President's budget excluding the outlays which are related to the President's energy proposals. Some of this difference relates to the alternative economic assumptions employed by the Committee, and (as shown in Table 2) $2.7 billion represents an allowance for new legislation not included in the President's budget. But the major element of difference reflects the Committee's opinion that much of the legislation assumed by the President's budget will not be enacted or will not be enacted in sufficient time to have the fiscal impact shown in the budget.

TABLE 2.—BUDGET AUTHORITY AND OUTLAYS FOR PROGRAMS UNDER FINANCE COMMITTEE JURISDICTION

[Dollars in billions]

Functional category	1975		1976		July–September 1976	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
350 Agriculture (no legislation)	$0.1	$0.1		([1])		
500 Education, manpower, and social services (no legislation)	2.7	2.8	$3.1	$3.1	$1.0	$1.0
550 Health	24.0	21.4	26.6	24.4	6.4	6.8
(New legislation)	(+.3)	(+.3)	(+1.9)	(+1.9)	([1])	([1])
600 Income security	85.3	86.8	91.7	101.7	23.8	27.0
(New legislation)			(—.1)	(—.4)	([1])	(—.2)
850 Revenue sharing and general purpose fiscal assistance (no legislation)	6.2	6.2	6.4	6.3	1.7	1.7
900 Interest	32.9	32.9	35.7	35.7	9.7	9.7
(New legislation)			(+1.2)	(+1.2)	(+.4)	(+.4)
Total:						
Present law	151.2	150.2	163.5	171.3	42.5	46.1
(New legislation)	(+.3)	(+.3)	(+3.0)	(+2.7)	(+.4)	(+.2)

[1] Less than $50,000,000.

Revenues.—Virtually all revenues of the Federal Government fall within the jurisdiction of the Committee on Finance. The different types of revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. In estimating Federal revenues for the period covered by this letter, the Committee estimated that the tax reduction legislation now under consideration would result in revenue changes of at least the magnitude shown in Table 3. These estimates reflect the decisions of the Committee with respect to the Tax Reduction Act of 1975 (H.R. 2166) as ordered reported on March 14, 1975. The Committee does not feel. however, that any reasonable estimate is possible at this time of the likely effects of further revenue legislation to be considered later this year. Accordingly, the Committee's estimates do not reflect either increases or decreases under subsequent revenue legislation.

TABLE 3.—FINANCE COMMITTEE REVENUE ESTIMATES

[Dollars in billions]

	1975	1976	July-September 1976
Present law	$283.7	$302.4	$79.3
Allowance for legislation	−12.2	−18.2	−5.0
Present law and legislation	271.5	284.2	74.3

Public debt limit.—The permanent debt limit under existing law is $400 billion. Under Public Law 94–3. there is in effect an additional temporary debt limit of $131 billion which expires June 30, 1975. In estimating the amount by which this combined limit of $531 billion will have to be increased to cover the additional budget deficits for fiscal year 1976 and the July-September 1976 quarter, the Committee has taken into account its expenditure estimates for programs under Finance Committee jurisdiction and its revenue estimates discussed above. The impact of Public Law 94–4 on food stamp program outlays is also taken into account in the Committee's debt limit estimates. In other respects, the Committee accepts the President's budget as the basis for its computation of debt limit requirements. The Budget Committee may, therefore, find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the President's budget for programs not within the jurisdiction of the Committee on Finance.

TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES

[Dollars in billions]

	Present law	Allowance for legislation	Present law and legislation
Debt subject to limit, June 30, 1975	$531		$531
Plus deficit for 1976	49	+20	69
Off-budget agency spending financed by Treasury	10		10
Debt subject to limit, June 30, 1976	590		610
Adjustment for mid-June peak	(598)		(618)
Plus deficit for July–September 1976	9	+7	16
Off-budget agency spending financed by Treasury	3		3
Debt subject to limit, Sept. 30, 1976	602		629

Tax expenditures.—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provides a special credit, a preferential rate of tax, or a deferral of tax liability." In the Committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the Committee feels that the only way in which it can comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated. In doing so, however, the Committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee accepts at face value the tax expenditure listing included in Special Analysis F of the President's Budget. However, the Committee notes that certain additional items are considered by some persons to be tax expenditures and should therefore be added to the list shown in the President's Budget. These additional items are shown in Table 5 below.

TABLE 5.—ADDITIONAL TAX EXPENDITURE ITEMS

[Dollars in millions]

	Fiscal year— 1975	1976	July–September 1976
Asset depreciation range	$1,410	$1,590	$400
Income deferral of foreign corporations	620	620	155
Maximum tax on earned income	350	385	105
Taxation of capital gains at death	2,210	2,280	600

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

With every good wish, I am

Sincerely,

RUSSELL B. LONG, *Chairman.*

APPENDIX B

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

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TITLE III—CONGRESSIONAL BUDGET PROCESS

Timetable

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
November 10	President submits current services budget.
15th day after Congress meets.	President submits his budget.
March 15	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 15	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15	Congress completes action on second required concurrent resolution on the budget.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

Adoption of First Concurrent Resolution

SEC. 301. (a) ACTION TO BE COMPLETED BY MAY 15.—On or before May 15 of each year, the Congress shall complete action on the first concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth—

(1) the appropriate level of total budget outlays and of total new budget authority;

(2) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intragovernmental transactions, based on allocations of the appropriate level of total budget outlays and of total new budget authority;

(3) the amount, if any, of the surplus or the deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;

(4) the recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(5) the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased by bills and resolutions to be reported by the appropriate committees; and

(6) such other matters relating to the budget as may be appropriate to carry out the purposes of this Act.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The first concurrent resolution on the budget may also require—

(1) a procedure under which all or certain bills and resolutions providing new budget authority or providing new spending authority described in section 401(c)(2)(C) for such fiscal year shall not be enrolled until the concurrent resolution required to be reported under section 310(a) has been agreed to, and, if a reconciliation bill or reconciliation resolution, or both, are required to be reported under section 310(c), until Congress has completed action on that bill or resolution, or both; and

(2) any other procedure which is considered appropriate to carry out the purposes of this Act.

Not later than the close of the Ninety-fifth Congress, the Committee on the Budget of each House shall report to its House on the implementation of procedures described in this subsection.

(c) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before March 15 of each year, each standing committee of the House of Representatives shall submit to the Committee on the Budget of the House, each standing committee of the Senate shall submit to the Committee on the Budget of the Senate, and the Joint Economic Committee and Joint Committee on Internal Revenue Taxation shall submit to the Committees on the Budget of both Houses—

(1) its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within the respective jurisdiction or functions of such committee or joint committee; and

(2) except in the case of such joint committees, the estimate of the total amounts of new budget authority, and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within the jurisdiction of such committee which such committee intends to be effective during the fiscal year beginning on October 1 of such year.

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APPENDIX C

Tax Expenditures by Function

(Excerpt From the Special Analyses of the Budget of the United States, pages 125–127)

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Table F-1. TAX EXPENDITURE ESTIMATES BY FUNCTION*

(in millions of dollars)

Description	Corporations			Individuals		
	1975	1976	1977	1975	1976	1977
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel	-----	-----	-----	650	650	650
Exclusion of military disability pensions	-----	-----	-----	70	80	90
International affairs:						
Exclusion of income earned abroad by U.S. citizens	-----	-----	-----	130	145	160
Exclusion of gross-up on dividends of LDC corporations	55	55	55	-----	-----	-----
Deferral of income of domestic international sales corporations (DISC)	1,130	1,360	1,560	-----	-----	-----
Special rate for Western Hemisphere trade corporations	50	50	50	-----	-----	-----
Agriculture:						
Expensing of certain capital outlays	135	105	115	475	355	360
Capital gain treatment of certain income	30	30	40	455	490	565
Natural resources, environment and energy:						
Exclusion of interest on State and local government pollution control bonds	75	110	170	35	50	75
Expensing of exploration and development costs	500	650	840	120	155	195
Excess of percentage over cost depletion	2,010	1,080	1,020	465	500	575
Pollution control: 5-year amortization	30	20	15	-----	-----	-----
Capital gain treatment of royalties on coal and iron ore	10	15	20	40	45	50
Capital gain treatment of certain timber income	145	155	165	60	60	65
Commerce and transportation:						
Exemption of credit unions	115	125	135	-----	-----	-----
Corporate surtax exemption	3,345	5,020	4,180	-----	-----	-----
Deferral of tax on shipping companies	70	105	130	-----	-----	-----
Railroad rolling stock: 5-year amortization	55	30	10	-----	-----	-----
Financial institutions: excess bad debt reserves	880	815	570	-----	-----	-----
Deductibility of nonbusiness State gasoline taxes	-----	-----	-----	820	575	600
Community and regional development:						
Housing rehabilitation: 5-year amortization	40	35	25	65	55	40
Education, training, employment, and social services:						
Exclusion of scholarships and fellowships	-----	-----	-----	200	210	220
Parental personal exemptions for student age 19 and over	-----	-----	-----	670	690	715
Deductibility of contributions to educational institutions	205	215	280	440	450	500
Deductibility of child and dependent care expenses	-----	-----	-----	295	330	420
Child care facilities: 5-year amortization	5	5	5	-----	-----	-----
Credit for employing AFDC recipients and public assistance recipients under work incentive program	10	10	10	-----	-----	-----
Health:						
Exclusion of employer contributions to medical insurance premiums and medical care	-----	-----	-----	3,275	3,665	4,225
Deductibility of medical expenses	-----	-----	-----	2,315	2,020	2,095

See footnote at end of table.

Table F-1. TAX EXPENDITURE ESTIMATES BY FUNCTION*—Continued

(in millions of dollars)

Description	Corporations 1975	Corporations 1976	Corporations 1977	Individuals 1975	Individuals 1976	Individuals 1977
Income security:						
Exclusion of social security benefits:						
Disability insurance benefits	.....	.....	.....	275	315	370
OASI benefits for aged	.....	.....	.....	2,740	3,045	3,525
Benefits for dependents and survivors	.....	.....	.....	450	495	565
Exclusion of railroad retirement system benefits	.....	.....	.....	170	185	200
Exclusion of unemployment insurance benefits	.....	.....	.....	2,300	3,505	2,855
Exclusion of workmen's compensation benefits	.....	.....	.....	505	555	640
Exclusion of public assistance benefits	.....	.....	.....	105	115	130
Exclusion of special benefits for disabled coal miners	.....	.....	.....	50	50	50
Exclusion of sick pay	.....	.....	.....	315	330	350
Net exclusion of pension contributions and earnings:						
Employer plans	.....	.....	.....	5,225	5,745	6,475
Plans for self-employed and others	.....	.....	.....	390	770	965
Exclusion of other employee benefits:						
Premiums on group term life insurance	.....	.....	.....	740	805	895
Premiums on accident and accidental death insurance	.....	.....	.....	50	55	60
Income of trusts to finance supplementary unemployment benefits	.....	.....	.....	5	5	5
Meals and lodging	.....	.....	.....	265	285	305
Exclusion of capital gain on home sales if over 65	.....	.....	.....	40	45	50
Excess of percentage standard deduction over low income allowance	.....	.....	.....	1,385	1,465	1,560
Additional exemption for the blind	.....	.....	.....	20	20	25
Additional exemption for over 65	.....	.....	.....	1,100	1,155	1,220
Retirement income credit	.....	.....	.....	130	120	110
Earned income credit	.....	.....	.....	.....	290	140
Veterans benefits and services:						
Exclusion of veterans disability compensation	.....	.....	.....	540	590	595
Exclusion of veterans pensions	.....	.....	.....	25	30	30
Exclusion of GI bill benefits	.....	.....	.....	255	330	280
General government: Credits and deductions for political contributions	.....	.....	.....	40	40	65
Revenue sharing and general purpose fiscal assistance:						
Exclusion of interest on general purpose State and local debt	2,675	2,890	3,150	1,130	1,280	1,390
Exclusion of income earned in U.S. possessions	245	240	285	.....	.....	.....
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)	.....	.....	.....	8,490	6,505	6,680
Interest: Deferral of interest on savings bonds	.....	.....	.....	525	605	685

See footnote at end of table.

Table F-1. TAX EXPENDITURE ESTIMATES BY FUNCTION*—Continued

(in millions of dollars)

Description	Corporations 1975	Corporations 1976	Corporations 1977	Individuals 1975	Individuals 1976	Individuals 1977
Business investment:						
Exclusion of interest on State and local industrial development bonds	120	150	195	55	75	90
Excess first-year depreciation	175	145	165	100	80	85
Depreciation on rental housing in excess of straight line	115	120	125	405	430	455
Depreciation on buildings (other than rental housing) in excess of straight line	220	275	290	220	215	215
Expensing of research and development expenditures	635	660	695	.....	.....	.....
Expensing of construction period interest and taxes	985	1,020	1,065	525	545	570
Capital gain: corporate (other than farming and timber)	695	760	900	.....	.....	.....
Investment credit	4,860	6,850	6,550	950	1,410	1,445
Personal investment:						
Dividend exclusion	.....	.....	.....	315	335	350
Capital gain: individual (other than farming and timber)	.....	.....	.....	5,090	5,455	6,225
Exclusion of interest on life insurance savings	.....	.....	.....	1,545	1,695	1,855
Deferral of capital gain on home sales	.....	.....	.....	805	845	890
Deductibility of mortgage interest on owner-occupied homes	.....	.....	.....	5,405	4,545	4,710
Deductibility of property taxes on owner-occupied homes	.....	.....	.....	4,510	3,690	3,825
Deductibility of casualty losses	.....	.....	.....	280	300	330
Credit for purchase of new home	.....	.....	.....	.....	625	100
Other tax expenditures:						
Deductibility of charitable contributions (other than education)	385	395	525	4,385	3,820	3,955
Deductibility of interest on consumer credit	.....	.....	.....	1,185	1,040	1,075
Maximum tax on earned income	.....	.....	.....	160	175	190

* All estimates are based on the tax code as of Dec. 31, 1975, with the exception that the provisions of the Revenue Adjustment Act of 1975 regarding the standard deduction for individual income taxpayers are treated as if they were permanent.

APPENDIX D

Revenue Impact of Prior Tax Reform Bills

Revenue Impact of Prior Tax Reform Bills

Historically, when the Senate passes a revenue bill it loses more revenue than the House bill. Usually the Senate cuts down on the tax increase provisions in House bills while adding to the tax reduction provisions, as shown below.

[In billions of dollars]

	House	Senate	Difference
1964 Revenue Act (calendar year 1965 liabilities):			
Revenue raising provisions	1.1	0.7	−0.4
Revenue reducing provisions (other than across-the-board rate reductions)	−0.5	−0.8	−0.3
1969 Tax Reform Act (calendar year 1970 liability):			
Revenue raising provisions (other than across-the-board surtax extension)	4.2	2.6	−1.6
Revenue reducing provisions	−1.9	−4.0	−2.1
1971 Revenue Act (calendar year 1972 liability):			
Revenue reducing provisions	−7.8	−13.4	−5.6
1975 Tax Reduction Act (calendar year 1975 liability):			
Revenue reducing provisions	−19.8	−34.3	−14.5
Revenue raising provisions	2.2	3.7	+1.5
Net effect, 1975 act	−17.6	−30.6	−13.0
Total, all four bills			−23.0

APPENDIX E.

Excerpt From Public Law 94-164—The Revenue Adjustment Act of 1975—Approved December 23, 1975

Excerpt From Public Law 94-164—The Revenue Adjustment Act of 1975—Approved December 23, 1975

* * * * * * *

SEC. 1A. DECLARATION OF POLICY.

(a) Congress is determined to continue the tax reduction for the first 6 months of 1976 in order to assure continued economic recovery.

(b) Congress is also determined to continue to control spending levels in order to reduce the national deficit.

(c) Congress reaffirms its commitments to the procedures established by the Congressional Budget and Impoundment Control Act of 1974 under which it has already established a binding spending ceiling for the fiscal year 1976.

(d) If the Congress adopts a continuation of the tax reduction provided by this Act beyond June 30, 1976, and if economic conditions warrant doing so, Congress shall provide, through the procedures in the Budget Act, for reductions in the level of spending in the fiscal year 1977 below what would otherwise occur, equal to any additional reduction in taxes (from the 1974 tax rate levels) provided for the fiscal year 1977: *Provided, however*, That nothing shall preclude the right of the Congress to pass a budget resolution containing a higher or lower expenditure figure if the Congress concludes that this is warranted by economic conditions or unforeseen circumstances.

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