



NEWS from U.S. Senator Bob Dole

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DOLE OFFERS TAX EQUALIZATION AMENDMENT (TEA)

WASHINGTON -- Sen. Bob Dole (R-Kan.), along with Sens. Robert Griffin (R-Mich.), Gary Hart (D-Colo.) and Edward Brooke (R-Mass.), today offered the Tax Equalization Amendment (TEA), a tax indexing measure, to the Senate tax bill on the floor of the Senate.

The amendment is designed to insulate taxpayers from the impact of inflation through automatic yearly adjustments of personal income tax rates for the next four years. The Griffin-Hart-Dole-Brooke amendment would:

1. Adjust the personal income rates, the personal exemption and the zero bracket amount (standard deduction) upward in proportion to increases in the cost of living during the previous year, as measured by the Consumer Price Index, beginning with the taxable year 1980.
2. Provide for indexing to remain in effect through the taxable year ending Dec. 31, 1983 (a four-year period), at which point Congress will have the opportunity to review and determine whether to continue it -- a "sunset" provision.
3. Authorize a study to be conducted by the Council on Wage and Price Stability to focus on the impact of the indexation system on the GNP, employment, federal revenues, inflation, savings, and other pertinent economic and social issues. The council would be required to report its findings to Congress by Jan. 1, 1983, in order to allow sufficient time for thorough review.

Following is the floor statement of Sen. Dole:

Mr. President, the number one problem in our tax system is inflation. During periods of inflation, the net effect of the current tax system is to push low and middle income taxpayers into higher tax brackets, without any corresponding increase in the real purchasing power.

TAX EQUALIZATION AMENDMENT

Mr. President, the amendment pending before the Senate is a positive step to relieve a problem which haunts every American taxpayer. It is significant to note that the Tax Equalization Amendment (TEA) has drawn such wide bipartisan support. The Tax Equalization Amendment introduced by the Senator from Kansas, the Senator from Michigan (Mr. Griffin), the Senator from Colorado (Mr. Hart), and the Senator from Massachusetts (Mr. Brooke) is designed to eliminate the effects of inflation on our tax system. The Tax Equalization Amendment has been co-sponsored by the Senator from Idaho (Mr. McClure), the Senator from California (Mr. Hayakawa), the Senator from Missouri (Mr. Danforth), the Senator from New Mexico (Mr. Schmitt), the Senator from Alaska (Mr. Stevens), the Senator from Texas (Mr. Tower), the Senator from New Mexico (Mr. Domenici), the Senator from Minnesota (Mr. Anderson), the Senator from New Hampshire (Mr. McIntyre), the Senator from Indiana (Mr. Lugar), and the Senator from Illinois (Mr. Percy).

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DOUBLE DIGIT INFLATION

Mr. President, it is certainly no secret that we are in the midst of an inflation crisis. During the last two quarters, the inflation rate in this country has been at double digit levels. Yesterday, the Administration announced that the Wholesale Price Index increased at .9%, which means we can expect more inflation in future months. The inflation rate for 1978 will be substantially higher than that over the previous year. In fact, the inflation rate under the Carter Administration is almost twice as high as it was in the last year of the Ford Administration.

TAXFLATION

Mr. President, taxflation is a cruel tax. As an individual earns more money to keep up with the continuing rise in the cost of living, he is pushed into a higher tax bracket. Although he receives an increase in his gross income, there is actually a decrease in his real purchasing power because he must pay a greater percentage of his income in federal taxes. Let me give you an example of how tax inflation works. A taxpayer who earns \$15,000 in 1978 will have to earn \$16,200 in 1979 just to maintain his purchasing power with our 8% inflation rate. However, the taxpayer's real tax liability will be increased \$260. An individual earning \$30,000 will have to increase his income up to \$32,400 just to stay even with inflation, but his tax bill will rise by \$850. Taxflation is easy to understand and the Senator from Kansas believes it is easy to stop.

FINANCE COMMITTEE AMENDMENT

During the mark-up on the Revenue Act of 1978, I introduced a program to make periodic inflation adjustments in our tax system. My proposal, which is similar to the amendment pending today, called for an inflation adjustment for two years, effective 1980, to the personal exemption, the tax brackets, and the zero bracket amount. Unfortunately, the proposal was narrowly defeated.

INDEXING

Mr. President, periodic inflation adjustments to the tax system--indexing--would help neutralize the tax impact of inflation by maintaining the effective rate of taxation for any given income level at the rate originally legislated. The bill reported by the Finance Committee does not adequately protect taxpayers against future tax increases caused by inflation.

UNLEGISLATED TAX HIKE

Mr. President, taxflation is an automatic, unlegislated and unsigned tax hike that cheats the American worker. Government revenues increase at a greater rate than inflation. A report by the Joint Committee on Taxation estimated that a 10% inflation rate will increase government revenues by 12.5%. Other economists have said that the windfall profit for the government is even greater. Doctor Emil Sunley of the Department of Treasury has stated that tax receipts increase by 1½ times as fast as the rate of inflation. According to the Congressional Budget Office, tax inflation will take as much as \$45 billion in 1983 from the American taxpayer. We must put a stop to the effects of tax inflation. I believe that the appropriate vehicle is to adopt the amendment providing for an annual tax inflation adjustment.

INDEXING IS FAIR

Mr. President, there is no tax reform that is more important to the American taxpayer than the Tax Equalization Amendment. Periodic inflation adjustment is fair. It is equitable. It is simple. It is an idea whose time has come.

TREASURY OPPOSITION

The Treasury Department told the Finance Committee in a hearing last April on a proposal which I introduced, S. 2738, the Tax Indexation Act of 1978, that there is no need to index the tax system because Congress periodically reduces taxes. However, I say that the need for indexing has been underlined by Congressional action that has enacted yearly tax cuts for the last three years. Now, we have another major tax bill before us. It is true that Congress has tried to keep tax inflation under control by periodically cutting taxes. However, this system has not worked. Furthermore, periodic reduction is deceiving. When the economy becomes too distorted by inflation and taxes are rising too rapidly, Congress tells the American taxpayer that it is going to reduce his taxes. Congress pats itself on the back and gives itself credit for this "enlightened action". However, the taxpayer is usually in no better condition than if the taxflation were eliminated. The Senator from Kansas does not believe that we are fooling the American taxpayer.

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NOT A TAX CUT

Mr. President, the legislation before the Senate is not a tax cut. This legislation is before the Senate because tax inflation has put an onerous burden on the American taxpayer. In effect, past tax reduction by Congress in the bill before the Senate is nothing more than a repeal of the automatic tax increases caused by inflation.

CONCEPT NOT NEW

Mr. President, the concept of tax indexing is not new. The states of Colorado and Arizona have already adopted indexing to their tax systems. California has adopted indexing in a modified form. Other nations that are burdened with inflation have adopted indexing to eliminate the effects of inflation on their tax systems. Several--Canada, France, West Germany, Brazil and Denmark--have succeeded in indexing their tax systems. Since 1974, for example, Canada has been indexing its personal income tax by adjusting individual tax brackets, credits, and deductions to take account for changes in the cost of living.

Mr. President, there are those in this chamber who would say that indexing the tax system would be the acceptance of inflation. This, of course, is not true. The fact is, the federal government is the benefactor of tax inflation. It is the federal government that receives the yearly windfall bonus of tax inflation. Each year, the government receives billions and billions of dollars in new revenue. I believe that this vested interest should stop.

Mr. President, indexing does not mean that Congress will not have the authority to reform the tax laws or to provide for real tax cuts. Indexing would mean that Congress would have to muster the political courage to raise the money to front new spending programs. Indexing would bring discipline back to the federal budget process.

CONCLUSION

Mr. President, if the Senate fails to adopt this amendment it is telling the American taxpayer that it intends to continue to tax inflation. I believe that this amendment is sensible. In conclusion, I would just tell my colleagues:

Indexing is not complicated.

Indexing would help taxpayers cope with the problems of inflation.

Indexing would eliminate Congressional politicking with federal tax policy.

Indexing would end the Congressional vested interest in the yearly taxflation windfall profits.

Mr. President, the time to adopt tax indexing has come. We must act to help--not hinder--the American taxpayer.

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