FOR IMMEDIATE RELEASE
WEDNESDAY, JULY 15, 1981

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DOLE PREDICTS PROMPT AND ENTHUSIASTIC SENATE SUPPORT OF TAX BILL

WASHINGTON -- Senate Finance Committee Chairman Bob Dole (R-Kan.) today opened floor consideration of the Economic Recovery Tax Act of 1981, the Administration's tax bill. Following is the complete text of Senator Dole's opening statement:

Today, the Senate begins consideration of House Joint Resolution 266, as amended by the Finance Committee. This legislation, the Economic Recovery Tax Act of 1981, reflects, in large part, the compromise tax program of the Reagan Administration, as it was announced in early June. The bill, as reported by the Finance Committee, also contains several other provisions which the Committee deemed important to the development of an equitable and stable tax policy, but which were not included in the Administration program. For the most part, these additional provisions were adopted by the Committee with the agreement of the Administration, or at least without opposition from the Treasury Department. This legislation has the enthusiastic support of the President--I believe it deserves and will get the enthusiastic support of the Senate.

Culmination Of An Extended Process

Senate consideration of this legislation is a major step in a process of revising our tax policy that began well over a year ago. To understand the significance of the legislation before us, I believe it would be helpful to review briefly the history of this process. When Congress passed the Tax Reduction Act of 1978, it believed that it had provided significant tax relief for the American people. It did not. The unprecedented double-digit inflation of the last few years more than wiped out the 1978 tax cut. It has aggravated existing distortions in the taxation of corporate income, savings income, and investment income that had resulted from previous inflation. By the time Congress began to consider the so-called Windfall Profit Tax in 1979, it was clear that the 1978 tax cut had failed to restrain the growing tax burden. Despite that fact, Congress legislated a major tax increase by approving the Windfall Profit Tax.

In early 1980 the impact of this growing tax burden on the American economy became all too clear. In the first quarter of 1980, the Gross National Product dropped at a 9 percent annual rate, while unemployment neared 8 percent. Despite this economic decline, the inflation rate ramained around 13 percent in 1980.

In June of 1980, candidate Reagan proposed immediate congressional action of a 10-percent individual tax cut and the 10-5-3 system of accelerated depreciation for business plant and equipment. The Reagan proposal was made in recognition of the urgency of our economic ills and the key role of tax policy. In response to the Reagan initiative, in August the Finance Committee reported H.R. 5829, the Tax Reduction Act of 1980. That bill would have provided tax rate reductions in every income bracket, an accelerated and simplified capital cost recovery system for tax purposes, and other provisions to increase productivity, investment, and the rate of savings. Many of these provisions are incorporated, in some cases with modifications, in the legislation we now have before us.

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H.R. 5829 was never enacted because of opposition from the Carter Administration and the then-Senate leadership. Now President Reagan has asked us to continue the process begun with H.R. 5829 and help him fulfill his campaign promise of across-the-board rate reductions for all individuals and accelerated cost recovery for business plant and equipment. The bill before us provides for both. It also includes an offset to the marriage tax penalty, incentives for retirement savings, and a number of other provisions that will help restore equity to the tax system and get our economy moving again.

A New Direction for Tax Policy

We need a tax policy that favors work, savings, productivity, and investment. That is what Secretary of the Treasury Regan has stressed to the members of the Finance Committee; that is what the President believes; and that is what the members of the Finance Committee have attempted to provide by reporting this bill. We believe this legislation will remove disincentives to rational economic decision-making that have been induced by inflation and by a past tendency to think short-term when it comes to tax policy. The Economic Recovery Tax Act of 1981 will bring stability to tax policy with its multiyear approach. The bill will encourage long-term economic growth by freeing the private sector from excessive taxation and the distortions of inflation. Overall, this bill is designed to reduce tax considerations as a factor in economic decisions, not to use the tax code as a tool for structuring those decisions. That is a major shift in tax policy, and a much-needed shift.

In a very real sense this bill continues the change in direction for tax policy that was begun with the capital gains tax reduction in 1978. We have learned that higher tax rates can often mean lower revenues, and that there is a point at which high tax rates do more harm to the economy than the Government can remedy by spending the revenues generated by the tax system. The key to understanding this legislation is the fact that the American people are convinced that we have passed the point where higher taxes are productive, either for individuals or for the Nation. For that reason this bill stabilizes the tax burden and begins to reduce the trend toward higher rates of tax on all forms of income. We should not forget that this is the largest tax bill in history because of the automatic tax increases that we have allowed to become built into our tax laws. As the Administration has reminded us, a 22-percent tax reduction is needed over the next 3 years just to keep taxpayers even with the effects of inflation on tax rates. Those who prefer a smaller tax cut, or one limited to 1 or 2 years, ought to be prepared to justify their preference in light of the tax increases that Americans will face if the commitment to 3 years of rate reductions is not met.

A Clean Tax Bill

I hope that Members will heed the wishes of President Reagan and help us keep this a relatively clean bill. In its present form the bill contains many provisions that Members have sought to enact over the past several years, and on which there is a consensus on the need for action. There are many additional proposals that merit consideration, and they will receive consideration in future tax bills. As far as this Senator is concerned, there will be a second tax bill. I have asked Members to suggest the provisions they would like to see included in such a bill, and we will do our best to expedite action on those tax changes on which we can reach agreement.

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Amendment to House-Passed Bill

The House of Representatives is entrusted by the Constitution with the responsibility of originating revenue bills. For that reason, the Committee has reported this legislation as an amendment in the form of a substitute to a House-passed debt limit bill. The House has consistently treated debt limit bills as revenue bills, and the Senate has often attached different revenue provisions to House-passed revenue bills. We all hope and expect that the House will complete action on the tax bill in time for final action before the recess. But given the time pressures involved, there is no reason for the Senate to wait on the House before acting on the tax bill. We have no desire to usurp the prerogative of the House, but there is certainly no harm in reminding the House leadership of the urgency with which the American people view the need for tax reduction.

Summary of H.J.Res. 266

Let me summarize the principal provisions of the Finance Committee Bill.

Individual Income Tax Reductions

The centerpiece of the bill is a multistage, across-the-board cut in individual income tax rates. This implements, with a few minor changes, President Reagan's "5-10-10" tax cut proposal. These tax cuts will encourage people to work more and save more--to redirect their efforts toward productive activity and away from tax avoidance. By allowing people to keep a larger percentage of their earnings, individual income tax cuts are an essential element in any program to reduce the role of the Federal Government in the economy.

Specifically, the bill reduces taxes by approximately 1 percent in 1981, 10 percent in 1982, 19 percent in 1983 and 23 percent in 1984. These reductions in tax liability will be matched by reductions in taxes withheld from workers' paychecks of 5 percent on October 1, 1981, a further 10 percent on July 1, 1982, and a final 10 percent on July 1, 1983.

From the standpoint of supply-side economics, the most important tax rates are the highest ones because it is the top tax brackets which create the most distortions of economic decisions. An entire tax shelter industry has developed to assist high-income people avoid the existing 70-percent tax bracket, and it has been doing a booming business as inflation has pushed more and more taxpayers into higher brackets.

In order to achieve the supply-side benefits of the bill as quickly as possible, the bill drops the highest tax bracket from 70 percent to 50 percent in 1982. This will establish a maximum rate of 20 percent on long-term capital gains, which will encourage more people to make more investment in a broader range of areas. It will also allow people to sell appreciated property rather than to hold it to defer or avoid tax. The bill sets a 20-percent top rate on long-term gains for sales after June 10, 1981, so as not to encourage people to delay transactions until next year.

The third major individual tax cut in the bill is a new tax deduction for two-earner married couples designed to reduce the so-called "marriage penalty." One of the least justifiable aspects of the present tax system is that two people often pay more tax after they get married than they would have paid if they had remained single and simply lived together. It is hard for people to understand why the tax system should discourage marriage. Marriage tax penalties discredit the tax system as an equitable way to raise revenues.

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The bill, therefore, phases in a reduction for two-earner married couples of 10 percent of the first $30,000 of earnings of whichever spouse has the lesser amount of earnings. This new deduction, along with the across-the-board rate cuts, will reduce the marriage tax penalty by at least 50 percent for most taxpayers subject to marriage tax penalties.

Depreciation Reform

The bill completely restructures the present system of depreciation. Current law is unnecessarily complex and does not provide adequate cost recovery in a period of inflation. Additional investment by businesses in new plant and equipment is essential if the economy is to grow rapidly, and we can no longer afford a tax system that discourages such investment.

The committee bill replaces the existing system with the Accelerated Cost Recovery System, ACRS for short. ACRS was recommended by President Reagan and has widespread support among both small and large businesses. I am confident it will be a major stimulus to business investment in the years ahead.

Under ACRS, equipment and other tangible property will be written off over either 3,5,10, or 15 years. Most property will be in the 5-year class. Between 1981 and 1984, taxpayers will use an accelerated method based on the 150-percent declining balance method for equipment and other personal property. In 1985 and 1986, there will be further accelerations, and starting in 1986 the accelerated method will be based on the 200-percent declining balance method. The investment credit will be 6 percent for the 3-year class and 10 percent for all other eligible property. Businesses will also be allowed to expense--that is write off immediately--up to $10,000 of investment.

Structures will be written off over 15 years. Taxpayers may use an accelerated method based on the 200-percent declining balance method or may elect the straight-line method. For commercial and industrial property, when a taxpayer who has used the accelerated method sells his property, his gain will be trated as ordinary income to the extent of all depreciation previously allowable. However, to provide an incentive to build more rental housing, the bill allows capital gains treatment on the sale of residential real estate to the extent that capital recovery does not exceed the deduction allowable under the straight-line method. For nonresidential property, there will also be capital gains treatment for any taxpayer who elects the straight-line method.

The bill gives taxpayers a number of elections to use less accelerated depreciation in order to give them more flexibility. These options answer the legitimate concerns which taxpayers have expressed on this issue. The bill also considerably liberalized the rules under which leases are recognized as such for tax purposes.

Other Business Incentives

The committee bill includes two other significant tax incentives for business--a 25-percent tax credit for incremental research and development wage expenditures and a graduated credit for rehabilitation of structures. The rehabilitation credit is particularly important for older industrial areas. The R. & D. credit will be a major incentive for less capital intensive firms in high-technology industries in which the United States has traditionally held a dominant position.

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The bill also provides a major tax reduction for Americans working abroad. This is intended to remove a major impediment to U.S. exports. Under the bill, there will be an exclusion for the first $50,000 of income earned abroad plus half of the second $50,000 plus excess housing costs.

Estate and Gift Taxes

The committee bill provides major relief from the estate and gift taxes. With the rapid growth in land and house prices in recent years, the existing exemption from the estate and gift taxes has become obsolete. These taxes have a very severe impact on farmers and small businessmen, an impact that is unrelated to the original purpose of these taxes, which was to tax large concentrations of wealth.

To relieve this burden, the bill raises the level at which the estate and gift taxes begin from $175,000 to $600,000 over a 5-year period. It eliminates transfer tax entirely on gifts and bequests between spouses. Also, it raises the exemption from the gift tax for any individual in any year from $3,000 to $10,000. The bill also makes some technical amendments to the provisions for current use valuation for farms and small businesses.

Savings Incentives

For the economic recovery program to work, it is necessary for people to save more of their income. Greater saving is needed to finance the additional investment that will result from depreciation reform. Furthermore, to the extent that people are able to provide for their own needs, there is less pressure for government programs to satisfy those needs. The marginal income tax rate cuts will be a significant stimulant to saving, but we also need tax measures specifically targeted toward encouraging saving.

The bill increases the limit on deductible contributions to individual retirement accounts (popularly known as IRAs) from $1,500 to $2,000. When a nonearning spouse is a beneficiary, the limit goes from $1,750 to $2,250. The annual limit on deductible contributions that a self-employed person may make to his retirement plan (popularly known as a Keough or H.R. 10 plan) is raised from $7,500 to $15,000.

In addition, the bill extends eligibility for IRAs to people who are active participants in an employer-sponsored pension plan. Currently, even one dollar of participation in a employer-sponsored plan disqualifies a taxpayer from eligibility for IRAs, and the bill corrects this inequity. The limit for these active participants will be $1,500 for a regular IRA and $1,625 when a non-earning spouse is a beneficiary.

The bill restructures and makes permanent the tax credit for employee stock ownership plans (or ESOPs). The current extra investment credit for ESOP contributions will be replaced by a credit equal to one percent of wages. This payroll-based credit will be a much fairer way of structuring the tax credit for ESOPs.

Finally, the committee bill replaces the $200 interest and dividend exclusion for 1982 with a $1,000 exclusion for interest on certain kinds of saving certificates issued by financial institutions. The committee's proposal has come under criticism recently from editorial writers and some groups who feel they would be hurt by it. Some of these criticisms are justified, but few of the critics, so far, have offered a feasible program to save the savings and loan associations, who are in desperate trouble as a result of high interest rates.

Windfall Profit Tax

The committee bill contains two provisions to relieve the burden of the windfall profit tax. There is a permanent tax credit for royalty owners equal to the first $2,500 of windfall profit tax. This will eliminate, or greatly reduce, the tax for hundreds of thousands of small royalty owners, who should not have to bear the burden of a tax aimed at the wealthy.

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Second, the bill phases in a reduction of the tax rate on newly discovered oil from 30 percent to 15 percent. This is a major step in a redirection of our energy policies toward encouraging more production. Most observers believe that a tax cut on new oil is the fairest and most economically beneficial way to cut the windfall profit tax.

Small Business

The most dynamic sector of the economy is small business, which provides a large share of the new jobs and new ideas. The committee bill will provide major benefits to small businessmen through its depreciation reform, individual rate cuts and estate and gift tax relief. But the committee felt that some targeted measures were also needed, and the bill contains a number of such provisions. These include tax incentives for stock options, removal of the $100,000 cap on the investment credit for used property, an increase in the $150,000 cap on the credit against the accumulated earnings tax, and an increase in the maximum number of shareholders in a Subchapter S corporation. These are all small, sometimes technical, changes, but they are all of substantial benefit to small businessmen.

Commodity Tax Straddles

Finally, the committee bill sharply curtails the use of commodity straddles to defer taxes and to convert ordinary income and short-term capital gains into long-term capital gains. Use of these devices has grown rapidly in recent years; they are "tax loopholes" by any reasonable standard. One of the principal purposes of this bill is to divert investment away from tax shelters toward productive activities, and that requires legislation on commodity straddles.

Any legislation to cut back tax abuses must balance the desire to eliminate these real abuses against the desire to make sure that legitimate businessmen and investors are not hampered by unfair rules. The committee bill achieves this balance. A number of special rules -- available to no other taxpayers -- are provided to help legitimate businessmen who deal in commodities and commodity futures contracts. Obviously, they would prefer to pay little or no tax on substantial incomes, but that is unacceptable. The committee bill protects the legitimate concerns of the people in the industry, while eliminating the tax abuses of straddles.

Indexing Amendment

I would also note that the Finance Committee will offer an amendment agreed to in committee that would keep individual tax rates stable despite the effects of inflation on the progressive rate structure. This tax indexing amendment will enable us to preserve the positive effects of the proposed rate reductions by ensuring that inflation will not continue to push people into higher brackets. We all hope and expect that the economic recovery program will have a dramatic impact on inflation; but curing inflation takes time. Even under the Administration's economic projections, inflation would continue to have a significant impact on tax rates in this decade. The committee amendment would help make sure that the tax burden is controlled by Congress, not by the inflation rate. This is a concept that the President has often endorsed.

Overall Revenue Impact

The committee bill involves very large tax cuts. That follows from our decision to implement a multiyear program that will establish a stable economic environment for the rest of the decade. Specifically, the tax cuts will be $37 billion in fiscal year 1982, $93 billion in 1983, and $150 billion in 1984. These are large numbers.

However, we must keep in mind that inflation has raised income taxes by substantial amounts in recent years, and that a large payroll tax increase took effect in January. Together, these tax increases will amount to $41 billion in fiscal year 1982, $64 billion in 1983, and $95 billion in 1984. Thus, much of the tax cut will merely offset inflation and social security tax increases. Furthermore, the spending cuts in the reconciliation bill, and the additional spending cuts to be enacted next year, will finance a sizable part of the tax cut. Lastly, the tax cuts will expand the tax base by encouraging more work, savings, investment, and productivity, a factor not taken into account in these revenue estimates.

For these reasons, I do not believe that this tax bill is too large. It is a responsible approach to the nation's economic problems. What would be irresponsible would be to continue along the old path of ever higher taxes, even slower growth, ever more inflation.

I hope we will now proceed to act swiftly to enact this legislation, which has already been too long delayed. It is time to conclude debate on the economic recovery program and put that program into operation.