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SUMMARY OF TESTIMONY OF WITNESSES REGARDING TAX CUT PROPOSALS

AT

PUBLIC HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

JULY 23–31, 1980

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BY THE STAFF OF THE

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INTRODUCTION

This pamphlet provides a summary of testimony of the witnesses appearing before the Senate Finance Committee's tax cut hearings on July 23–31, 1980.

The summaries of the witnesses' statements are organized according to the date of testimony before the Committee. The Administration (Secretary of the Treasury) testified on July 23. Invited witnesses (economists and former government officials) testified on July 24–25 and 28. Members of Congress, industry, trade associations, and the general public followed on July 29–31.

SUMMARY OF TESTIMONY

A. Administration (July 13)

Hon. G. William Miller, Secretary of the Treasury (*July 23*)

Emphasizes that the Administration believes that the Congress should not legislate tax reduction prior to the November election. Indicates that properly targeted tax cuts directed at strengthening economic productivity may be desirable in 1981. Stresses that tax reduction proposals need to be considered in light of their potential impact on inflationary trends and credit markets as well as on the budget. Maintains that acting later on tax cut proposals will give additional time to better assess the economic situation and decisions on spending as well as to better plan the tax and economic measures needed for the economy over the coming decade.

States that there are four major objectives for U.S. economic policy: (1) improve the economy's productive capacity to provide a base for stronger growth in real incomes; (2) return to longer-run price stability and sustain a high employment level; (3) enhance the U.S. international competitive position; and (4) reduce the vulnerability to external economic stocks, such as energy.

Regarding possible individual reductions, indicates that, at the appropriate time, consideration should be given to reducing the impact of "bracket creep," reviewing the marriage tax penalty, and the Bradley-Gephardt proposal for a tax credit for a portion of social security taxes. Regarding possible business tax reduction, indicates that depreciation policy needs to be reviewed. Maintains that the "10–5–3" proposal, however, is not the proper approach because of uneven benefits among types of assets and industries as well as the cost of the proposal in future years. Believes that there still should be a connection between depreciation deductions and useful lives for assets.

B. Invited Witnesses

(July 24, 25 and 28)

July 24

Allan Greenspan, Townsend & Greenspan, Inc., and former Chairman of the Council of Economic Advisers (July 24)

Expresses concern about the estimated $86 billion increase in revenue expected for fiscal 1981. Endorses the Roth-Kemp tax reduction for individuals, accompanied by the 10–5–3 depreciation proposal for business to reduce the impact of this tax increase. Maintains that the fiscal 1985 budget could balance with these cuts. Favors indexing and sees Roth-Kemp as a good substitute. Also, would like to reduce the top marginal rate to 50 percent.

Walter Heller, University of Minnesota, and former Chairman of the Council of Economic Advisers (July 24)

Stresses the need for an immediate tax cut. Believes it is too late for an anti-recessionary cut, but indicates that the recovery can be helped with little risk of increasing inflation. Expresses concern about the stringent fiscal policy at the expense of increased unemployment and foregone output. Disagrees, however, with Allan Greenspan that the 1985 budget will balance after the Roth-Kemp and 10–5–3 cuts. Estimates that it will be at least $60 billion in deficit in 1983 if that package is adopted.

Proposes the following tax cut package for 1981:

(1) Roll back the 1981 social security tax increase ($16 billion). (Favors the Bradley-Gephardt credit as a second best solution if the rollback cannot be achieved).

(2) $5–$10 billion for a depreciation reduction; opposes 10–5–3.

(3) $5 billion for real wage insurance.

Predicts that without real wage insurance the Government will have no choice but mandatory price controls when the economy heats up again.

Leon Keyserling, former Chairman of the Council of Economic Advisers (July 24)

Opposes business cuts in excess of one-sixth of the total tax reduction, and urges sizeable individual tax (income or payroll) reductions. Maintains that individual tax cuts would boost sales which would stimulate investment. Believes a reduction of $45 to $65 billion is required to return U.S. output to an acceptable level. Argues that such a fiscal stimulus is needed now, and asserts that it would not be inflationary.

Dale W. Jorgenson and Alan J. Auerbauch, Harvard University (July 24)

Under their proposed First Year Capital Recovery System, the present value of economic depreciation of an asset would be allowed as a deduction in the same year that the asset is acquired. From data on prices of used assets, assets would be grouped into approximately 30 classes. The first-year capital recovery allowance per one dollar of investment would be the same for all assets in a given class.

Indicate that whereas under current law structures bear higher effective tax rates than equipment and inflation increases the tax rate against all assets, under the first-year system all assets would bear the same effective tax rate and that rate would not be affected by inflation. Maintain that simplification would result because depreciation allowances are based on current transactions in capital assets and because of classification. Assert that the first-year system also would be better than the "10–5–3" system. Under the 10–5–3 system, effective tax rates on all assets would be reduced, but, as under current law, the effective rates would be different for different types of assets and would be sensitive to the inflation rate. State that for modest rates of inflation, the effective tax rate would be less than zero for certain types of equipment under 10–5–3. Propose to phase in the system 20 percent each year for five years.

Claim that computer simulations indicate that the first-year system would stimulate investment, employment and economic growth, with a small inflationary effect.

Propose that the investment tax credit be repealed as part of the revision.

Michael K. Evans, Evans Economics, Inc. (July 24)

If structured to promote savings and investment, maintains that a tax cut can both stimulate economic growth and reduce the inflation rate.

Indicates that tax changes which will have these effects include:

(1) Replacement cost accounting in computing depreciation, of $5 billion in the first year, rising to $30 billion (as preferable to 10–5–3, which would treat structures too generously and whose phasein would retard investment);

(2) Reduction in the maximum corporate rate to 40 percent, amounting to $11 billion (as preferable to increases in the investment tax credit);

(3) Indexing basis for capital gains;

(4) Tax-free investments in venture capital for 5 years; and

(5) Increasing the dividends and interest exclusion to $1,500 per person (amounting to $8 billion).

Believes that the top marginal income tax rate should be reduced from 70 percent to 50 percent, and that such a reduction would be revenue producing. Additional reductions in individual rates would be dependent on government spending not rising in constant dollars.

Suggests that consideration of a tax cut bill be deferred until after the election.

Further, advises against income tax credits to offset social security tax increases, as having little stimulative effect upon capital formation.

Charls E. Walker, Charls E. Walker Associates, and former Deputy Secretary of the Treasury (July 24)

Believes that a tax cut should be enacted immediately to help offset the effects of the recession. Also, feels that Federal outlays should become a smaller fraction of the gross national product.

Recommends that the tax cut consist of the 10–5–3 depreciation plan, a 10-percent reduction in rates on individuals, to be followed by two further 10-percent reductions in rates on individuals in the next four years. Proposes that government spending be reduced to 22 percent of GNP in fiscal year 1982 and to 19 percent of GNP by fiscal year 1985.

Opposes the Jorgenson-Auerbach depreciation proposal because it does not increase depreciation deductions, but rather shifts those deductions to the first year. Supports a refundable investment tax credit, but would not favor an increase in the investment credit. Opposes any reduction in the social security taxes. Objects to indexing. Comments that a capital gains rollover provision would stimulate capital formation.

July 25

Hon. Arthur F. Burns, former Chairman, Federal Reserve Board, and Hon. Henry H. Fowler, former Secretary of the Treasury, on behalf of the Committee to Fight Inflation (July 25)

Testimony presented by Arthur Burns and Henry Fowler reflected the views of the recently established Committee to Fight Inflation.[1]

From a program recently outlined by the Committee to Fight Inflation, Burns and Fowler emphasized the following policy proposals:

(1) Revision of the budget process requiring "a balanced budget unless a deficit is authorized by something more than a simple majority—say, two-thirds—of each house of Congress."

(2) Reductions in business taxes in each of the next five to seven years—small reductions in the first two years, but substantial reductions in later years. (Recommendations were not made on the specific composition of business cuts but proposals likely to get support from the committee include reducing corporate tax rates, liberalizing depreciation allowances and increasing investment tax credits.)

(3) Eventual reduction in the capital gains tax to supplement business tax cuts (such as an increase in the exclusion to 70 percent).

The members of the newly formed committee believe a program such as this would not increase the budget deficit this year or next and would avoid increasing inflationary pressures. They feel it would induce expansion of capital investment, thereby improving the nation's productivity and exerting downward pressure on prices in the long-run.

Both Burns and Fowler feel that there is not sufficient time to structure a proper tax reduction policy before the November election. Both believe Congress should begin work on a program which concentrates on the long-run goals of containing inflationary pressures, and avoid

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[1] This committee is composed of thirteen former government officials and Congressmen. Arthur Burns, former Chairman of the Board of Governors of the Federal Reserve System, serves as chairman of the committee; Henry Fowler, former Secretary of the Treasury, is vice chairman.

any tax policy aimed at short-run countercyclical objectives that would be directed at stimulating demand and consumption.

Dr. Burns believes that although a number of sacrifices are imposed by a recession, it does serve to moderate inflationary pressures and force business to eliminate waste and concentrate on improving productivity. Furthermore, he maintains that the private economy will tend to generate its own forces of recovery, which are reinforced by stabilizers built into the economy. He feels these processes should be allowed to lead the way to economic recovery. In addition, he feels since attempts at short-run fine-tuning by government have rarely worked as expected, Congress should focus on the nation's long-run needs and avoid using the tax system for short-run countercyclical objectives.

Herbert Stein, University of Virginia, and former Chairman, Council of Economic Advisers (*July 25*)

Opposes any tax cut this year or until Congress can assure that any revenue reduction will be consistent with sound budgetary and economic policy. Emphasizes that national defense spending needs will rise, and that there needs to be sufficient revenues to finance such spending increases.

Cautions against any tax cut justified solely on anti-recessionary grounds, as the effects of such a tax cut would likely come after recovery has begun and would lessen the fight against inflation. Sees no evidence that cutting taxes would raise revenues as some claim. Indicates that inflation has distorted the tax system by raising the cost of replacing capital above the depreciation recognized for tax purposes and by advancing individual tax brackets. Instead of an overall net tax reduction, however, suggests consideration of revising the income tax structure to correct such inflation distortions and replacements and replacing any lost income tax revenues with a gasoline tax increase (of at least 50 cents a gallon), which could also be used to finance necessary increased defense spending.

Otto Eckstein, President, Data Resources, Inc. (*July 25*)

Believes that a tax cut is needed due to the economic recession and to encourage the economic recovery. Asserts that a tax cut will not be inflationary, but will set the course for added capital investment and productivity needed to improve the overall economic performance.

Indicates that a tax cut for 1981 should be about $30 billion, evenly divided between individual and business. The business portion should consist of depreciation revision (but not quite as generous as 10–5–3 for buildings) and/or additional investment tax credits. For individuals, prefers concentrating personal income tax cuts to middle-income persons, as the business tax reductions will benefit higher bracket individuals. One possibility would be to provide a credit for social security taxes or a revised rate structure. If a tax cut cannot be enacted on a 50–50 split between business and individuals this year, suggests waiting until next year to try to accomplish it.

Martin Feldstein, Harvard University (*July 25*)

Suggests that any tax cut, whether enacted this year or next year, should avoid a large initial revenue loss. Proposes enactment of a programmed, phased-in tax cut package to encourage savings and investment, with primary budget effects in future years. For example, indicates that a phased-in increase in the exclusion for interest and dividends to 60 percent would have an immediate effect on incentives to save for the future. Similarly, believes that phasing in reductions in the corporate tax rates (such as from 46 percent to 36 percent by 1985), or indexing of depreciation, could have a large beneficial impact on capital investment. Asserts that indexed depreciation would be a greater stimulus to investment than 10–5–3. Maintains that inflation-induced income tax increases can be used to reduce income taxes without adverse impact on the budget. Suggests an automatic annual bracket rate adjustment to keep inflation from raising the relative tax burden. Recommends against a tax cut solely for countercyclical reasons, as the effect of such cuts would come too late.

July 28

Hon. Paul A. Volcker, Chairman, Federal Reserve Board (*July 28*)

Believes that consideration of tax reductions should be postponed until late 1980 or early 1981. Indicates that at those later dates the degree of economic recovery and the need for fiscal stimulus will be clearer and more will be known about the level of government spending projected for fiscal 1981 and 1982. Argues against attempting a quick fiscal fix with temporary tax adjustments. Maintains that the Government needs to continue financial discipline of monetary and credit aggregates in order to encourage price stability over time.

Comments that the risks in any tax cut are larger deficits and potentially higher interest rates, credit tightness, and a higher inflation rate. Yet, states that tax reduction may soon be needed to lessen the growth-inhibiting effects of Federal fiscal drag on the economy and capital investment.

Lawrence R. Klein, University of Pennsylvania, and Wharton Econometric Forecasting Associates (*July 28*)

Indicates that a tax cut, to be ecective in 1981, is desirable. Believes that a cut of $20 billion to $30 billion would enhance an otherwise slow recovery and would not be inflationary, because of considerable unemployment and unused capacity.

Of the five tax cut proposals which were simulated on the Wharton Econometric Model, the preferred proposal is the one which would forestall 1981 social security tax increases, raise personal exemptions, and reduce ADR guideline lives by 20 percent. Forecasts that such a proposal would stimulate growth and employment, slightly slow down inflation, and increase the Federal deficit. Judged in the same manner, the proposal which would lower corporate and individual rates is least preferred. The proposal which would index individual and corporate rates is not recommended, as indexation would tend to make the economy more sensitive to inflationary shocks.

Wendell Wilkie Gunn, Economist, Pepsico (*July 28*)

Emphasizes that a tax cut should be enacted immediately. Believes that it should consist of the 10–5–3 depreciation plan and a 10-percent reduction in rates on individuals (Roth-Kemp). Argues that such a tax cut proposal would increase the supply of goods and services through increased investment by increasing the return on investment and reducing the tax burden on work.

C. Members of Congress and Other Witnesses

(July 29–31)

July 29

Hon. Jacob Javits, U.S. Senator, New York (July 29)

Believes that a tax reduction for individuals and business is needed now because of the economic situation. Favors enactment of the first year of the Roth-Kemp individual tax cut proposal, and then see what the situation is later. Supports tax reduction proposals targeted to encourage capital investment and productivity (such as capital cost recovery), savings, and research and development.

Hon. Jack Kemp, Member of Congress, New York (July 29)

Advocates a 30-percent reduction in personal income tax rates over three years in order to reduce the impact of projected inflation-induced tax increases. Also, proposes indexing of the income tax after the third year. Argues that reduction in marginal tax rates will encourage individual productivity and result in added tax revenues through induced economic growth and increased employment. Opposes proposed tax credit or rebate of part of social security payroll tax as not economically effective.

Recommends adoption of capital cost recovery (10–5–3). Further, proposes limiting Federal spending to 18 percent of GNP by the fourth year.

Edward I. O'Brien, President, Securities Industry Association (July 29)

Favors a tax cut to encourage investment and to soften the impact of payroll tax increases. Indicates that tax changes most effective in encouraging investment would combine accelerated depreciation with further cuts in capital gains taxes (by increasing the exclusion from 60 percent to 70 percent) and/or a reduction in the maximum tax on investment income (by reducing the maximum rate of tax to 50 percent).

Maintains that the 1978 reduction in capital gains tax rates stimulated productive investment. Indicates that U.S. taxation of investment in stocks is higher than in other industrialized countries.

Arthur Levitt, Jr., Chairman, American Stock Exchange, and on behalf of the American Business Conference (July 29)

Urges enactment of a tax cut this year of approximately $25 to $30 billion that would liberalize and simplify the depreciation laws, encourage savings and investment particularly in small companies, and compensate individuals for the impact of inflation. Believes that such a tax cut is necessary to reverse the long-term deterioration in the economy's productive capacity. Specifically, favors the following:

(1) Capital gains—reduction in the top individual rate to 21 percent by increasing the exclusion from 60 percent to 70 percent, and reduction in the corporate rate to 21 percent.

(2) Investment income—reduction in the maximum rate on investment income from 70 percent to 50 percent.

(3) Revision of the depreciation laws to provide faster and simpler depreciation.

(4) Reduction in tax rates to compensate individuals for bracket creep.

(5) Allowance of a credit for individuals who invest in new stock or debentures of small businesses (similar to S. 655).

(6) Allowance of a tax-free rollover to an individual on gain from the sale or exchange of small business stock if the proceeds from the sale are reinvested in other small business stock (similar to S. 653).

David Silver, President, Investment Company Institute (July 29)

Recommends expansion of the present individual retirement account (IRA) system by—

(1) Removing the present prohibition against the use of IRAs by persons who are active participants in a qualified employer plan;

(2) Increasing the limit on tax deductible contributions to $2,000;

(3) Permitting nondeductible contribution to IRAs up to $10,000 a year with a lifetime ceiling of $100,000; and

(4) Permitting withdrawals from IRAs without the present 10-percent penalty tax for the purchase of a first home or to pay for the higher education or vocational training of children.

Also, favors permitting participants in employer plans to make contributions to their employer plan instead of to an IRA. Prefers the increase in the amount of deductible contributions to an IRA instead of a credit for contributions to an IRA.

William S. Cashel, Jr., Vice Chairman of the Board and Chief Financial Officer, American Telephone and Telegraph Company (July 29)

Supports employee stock ownership plans. Endorses the provisions of S. 1240, which would (1) make tax credit employee stock ownership plans permanent; (2) allow an alternative tax credit based on employee's compensation for contributions to tax credit employee stock ownership plans; and (3) provide tax deferral on a lump sum distribution of employer securities from an ESOP in an amount up to $5,000.

Believes that these provisions of S. 1240 would make tax credit employee stock ownership plans more attractive and encourage their adoption and expansion.

Edward A. Brennan, President, Sears Roebuck and Company (July 29)

Supports a tax credit based on annual employee compensation for contributions to a tax credit employee stock ownership plan. Believes it would encourage retailers and other labor-intensive businesses to establish tax credit employee stock ownership plans.

Maintains that for many businesses the dollar incentive per employee provided by present law is too small to justify the administrative costs of establishing a tax credit employee stock ownership plan.

Robert L. Strickland, Chairman of the Board, Lowe's Companies, Inc. (July 29)

Supports a tax cut effective January 1, 1981, to provide relief from "tax-flation" for individuals and faster depreciation for business.

Supports Senator Talmadge's bill and Senator Long's bill on employee stock ownership plans. Believes that these bills will cause increased jobs and keep American industry competitive.

Ronald L. Ludwig, Chairman, Legal Advisory Committee, The ESOP Association of America (July 29)

Makes specific recommendations with respect to legislative changes in the law governing ESOPs, such as (1) making permanent the tax credit available for contributions to tax credit employee stock ownership plans, (2) allowing a tax credit based on employee's compensation for contributions to tax credit employee stock ownership plans, (3) allowing a corporate deduction for dividends on stock held by an ESOP which are passed through to employees, (4) allowing tax-free rollover of the proceeds from the sale of stock to an ESOP into other allowing a tax deduction for making the matching contribution for donations of stock to an ESOP by a shareholder, (6) eliminating the 84-month rule in the case of a sale of a subsidiary or division, (7) allowing a tax deduction for making the macthing contribution for employees, allow for the purchase of nonvoting common stock from a shareholder by a leveraged ESOP, (8) excluding contributions applied to interest payments on an ESOP loan from the present deduction and allocation limits, and (9) deleting Code section 401(a)(22), which requires a limited pass-through of voting rights to ESOP participants.

George W. McKinney, Jr., American Bankers Association (July 29)

Believes that any tax cut should be matched by a reduction in expenditures sufficient to prevent an increase in the Federal deficit. Maintains that the reduction should be designed to encourage savings, investment, technological advances, and innovative activity rather than consumption; and that the cut should be permanent. Asserts that the tax cut should be implemented as soon as possible, and before 1981.

Specifically favors accelerated depreciation, increased investment credits, reduction in corporate rates, elimination of the double taxation of corporate dividends, and dividend reinvestment plans. Also, favors extension of IRAs to all savers and allowing deferred taxation of interest income until maturity.

James M. Cirona, Member, Board of Directors, U.S. League of Savings Associations (July 29)

Favors tax cuts that stimulate savings and capital formation. Maintains that increased savings are necessary to avoid disintermediation that occurs when inflation rates increase. Recommends making permnent the \$200/\$400 exclusion for interest and dividends. Believes that the IRA program should be strengthened by—

(1) Permitting all individuals to participate in IRAs even if they are covered by an existing qualified pension plan or, in the

alternative, allow participants in pension plans a tax deduction for contributions to those plans;

(2) Allowing full coverage to nonworking spouses;

(3) Increasing the contribution limits; and

(4) Allowing a one-time privilege to withdraw IRA funds prior to age 59½ without penalty subject to reasonable limits.

Supports a tax-deferred rollover for reinvested interest on savings accounts. Proposes reversal of IRS regulations requiring recomputation of the bad debt deduction of savings and loan associations in the case of a net operating loss carryback. Favors broadening the types of eligible investments and lowering the percentage of eligible assets that a savings and loan association must have to obtain the maximum bad debt deduction.

John C. Fuchs, Jr., Finance Chairman, National Savings and Loan League (July 29)

Urges a reduction in the growth of Federal spending, a reduction in the tax burden facing both individuals and businesses, and creation of incentives for savings and investment. Proposes revising the IRA program by increasing the amount of tax deductible contributions, elimination of current eligibility requirements which exclude those persons participating in a qualified retirement plan, and increases in the amount of, and expanding the eligibility for, spousal IRA accounts. Favors increasing the exclusion for interest and dividends from $200/$400 to at least $500/$1,000.

Recommends the following tax changes that would aid the savings and loan industry—

(1) Replacement of the current bad debt deduction by a credit allowable on mortgage interest to be allowable to all financial institutions;

(2) Elimination of the bad debt deduction as a preference item subject to the minimum tax;

(3) Reversal of IRS regulations requiring recomputation of the bad debt deduction of savings and loan associations in the case of a net operating loss carryback;

(4) Extension of the full investment tax credit to savings and loan associations; and

(5) Reversal of IRS consolidated return regulations requiring a pro rata portion of the losses of members of the consolidated group to be used in determining the bad debt deduction of the savings and loan association member.

Charles A. Pearce, Chairman, Committee on Federal Legislation, National Association of Mutual Savings Banks (July 29)

Urges enactment of tax incentives for individual savings. Proposes broadening of the IRA program by—

(1) Increasing the amount of tax deductible contributions to $2,000 or a higher figure;

(2) Expansion of coverage to taxpayers not now eligible for IRAs; and

(3) Broadening the range of savings purposes in addition to retirement.

Recommends making permanent the $200/$400 exclusion for interest and dividends. Favors allowing tax deferral of interest on all savings accounts until a stated maturity date (such as 5 years or upon retirement, if earlier), with exemptions or capital gains treatment if the savings are used for specified purposes (such as the down payment on a home or for educational expenses).

Committee for Capital Formation Through Dividend Reinvestment, Herbert B. Cohn and Robert R. Nathan (*July 29*)

Herbert B. Cohn testimony.—Indicates that the Committee (representing 49 companies) supports a "carefully formulated and targeted" tax cut of $20–30 billion to take effect January 1, 1981, primarily to encourage capital formation, savings and investment, and increased productivity. Recommends adoption of proposal (S. 1543) to defer current taxation of dividends reinvested (subject to annual dollar cap) under qualified plans in new issue common stock. Argues that dividend reinvestment proposal would encourage savings and investment, reduce inflationary pressures by encouraging capital formation and restraining consumption, and generate new common stock capital for businesses which are dependent for the major part of their capital needs on external financing.

Robert R. Nathan testimony.—Recommends tax reduction of about $30 billion in calendar 1981, with approximately one-half designed to stimulate productivity and remainder as tax relief for individuals. Suggests (1) delaying of the scheduled January 1, 1981 (and perhaps 1982) increases in social security payroll taxes, and transferring a portion of the costs of hospital insurance and indexed benefit increases to general revenues, if necessary; (2) encouraging State and local governments to reduce sales and selective excise taxes by providing a general revenue sharing incentive without changing total revenue sharing outlays; and (3) providing income tax rate relief in a manner compatible with inducing restraint or moderation in prices and in labor-management wage (including fringe) settlements. Believes that while accelerated depreciation changes would help improve productivity, tax cut legislation should also include dividend reinvestment proposals (S. 1543) to assist businesses receiving limited assistance from depreciation changes.

Margaret Cox Sullivan, President, Stockholders of America, Inc. (*July 29*)

Supports "10–5–3" capital cost recovery (S. 1435, H.R. 4646), deferral of current taxation of dividends reinvested (subject to annual dollar cap) under qualified plans in new issue common stock (S. 1543), lower capital gain tax rates (S. 2923), and 10-percent across-the-board reduction of individual income tax rates effective in 1981.

Herbert M. Dwight, Jr., American Electronics Association (*July 29*)

Supports enactment in 1980 of tax reduction legislation to be effective in 1981. Recommends that the legislation include provisions for reinstatement of favorable tax treatment for "restricted stock options" (S. 2239), tax credits for increased research and development expenditures (S. 2906) and for contributions to universities for research (S. 2355), lower capital gain tax rates (S. 2923), and "10–5–3" capital cost recovery (H.R. 4646).

John Nesheim, Semiconductor Industry Association (July 29)

Supports "properly designed tax cut," including provisions for (1) tax credits for increased research and development expenditures (S. 2906) and for contributions to universities for research (S. 2355); (2) depreciation changes as reflected in "10–5–3" and other proposals (but modified to provide greater benefits for short-lived equipment); and (3) reduced capital gain tax rates (S. 2923).

July 30

Hon. Harrison A. Williams, U.S. Senator, New Jersey (July 30)

Indicates general support for a tax cut—a tax cut which would serve the two goals of speeding the economy's economic recovery and at the same time improving U.S. productivity through investment.

Believes that such a tax cut should be structured along the following lines:

(1) The tax cut should be fully effective in 1981 since phasing-in the tax reductions may cause the postponement of some investment decisions;

(2) Provide a reasonable split between individual and business tax reductions;

(3) Advance the goal of tax simplification;

(4) Allow individual business judgment to have greater influence in the investment decision and at the same time reduce the role of the tax code in this decision; and

(5) Specifically include the rental housing industry.

Faults the Capital Cost Recovery Act (or 10–5–3), which does not include provisions for the rental housing industry. Argues that such tax reducing provisions are desirable to infuse new economic activity into an eroding industry—an erosion evidenced by falling vacancy rates and falling unsubsidized rental housing starts.

Proposes S. 2969, the Real Estate Construction and Rehabilitation Tax Incentives Act of 1980. States that this bill was formulated to replace the "10" part of 10–5–3 for structures. Major provisions of the bill include:

(1) Straight-line, 20-year depreciation for all new construction, except low-income assisted housing which would be written off in 15 years;

(2) An experimental 10-percent investment tax credit for rental housing which would be taken in lieu of depreciation;

(3) Elimination of the ceiling on individual interest deductions and extending interest and taxes paid deductions to realty development;

(4) Provide favorable tax treatment for landlords that convert rental units to condominiums, *if* this conversion is worked out with a representative tenants organization;

(5) Extension of rehabilitation expense deductions to all rental housing—not just low-income housing; and

(6) Special provisions directed toward historic properties, housing bonds, and the removal of architectural barriers.

Lane Kirkland, President, American Federation of Labor & Congress of Industrial Organizations (AFL–CIO) (July 30)

States that a tax cut is inappropriate at the present time. Instead, believes that the emphasis should be placed on job creation.

Faults the Reagan-Roth-Kemp tax cut proposal on distributional grounds. Argues that taxes should be levied on the basis of ability to pay, and not on the basis of productivity considerations. Asserts that productivity and investment will not respond to changes in the tax code. Maintains that the best method for improving productivity is by rapidly moving the economy toward full employment. To accomplish this, suggests the following:

(1) an expansionary monetary policy;

(2) public service employment using the government as "employer of last resort";

(3) selective international trade restrictions in the steel and auto industries;

(4) establishment of a tri-partite (labor, government, business) board which would direct national industrial policy; and

(5) using the pool of pension funds for "directed" investment—investment which would improve selected areas in the economy's infrastructure.

Although opposing the general tax-cut mood, expresses support for the Bradley-Gephardt social security tax credit proposal.

Theodore F. Brophy, The Business Roundtable (July 30)

Believes that Congress should promptly enact a tax reduction of approximately $30 billion, effective January 1, 1981, and that the cornerstone of the program should be the 10–5–3 depreciation proposal. Asserts that at least half of the tax cut program should be designed to encourage capital formation and savings and investment, and that any individual tax cuts should not be directed toward encouraging consumption. States that current tax depreciation rules act as a deterrent to business investment.

Richard W. Rahn, Vice President and Chief Economist, United States Chamber of Commerce (July 30)

Recommends that Congress promptly pass a $25 to $35 billion tax reduction, at least one-half of which should promote capital formation. Specific recommendations are: (1) adoption of the capital cost recovery (10–5–3) proposals; (2) reduction of corporate tax rates by at least 2 percentage points; (3) revision of tax rules relating to Americans working overseas to bring them into line with similar rules in other countries; (4) lowering of the maximum rate of tax on individuals from 70 percent to 50 percent; (5) reduction in the tax on capital gains of individuals by increasing the capital gains exclusion to 70 percent; and (6) provision of more favorable treatment of retirement savings (deductible individual contributions to qualified plans, increased Keogh and IRA limits, etc.), other tax deferred savings accounts, and dividend reinvestment plans.

Indicates that Congress should also consider elimination of the marriage tax penalty and provide across-the-board reductions in individual income tax rates, coupled with substantial spending cuts. Maintains that general revenues should not be used to finance social security. States that the Chamber does not support reductions in, or offsets to, social security taxes without a thorough evaluation of their impact on the entire social security system.

Thomas J. McHugh, Chairman, Taxation Committee, National Association of Manufacturers (July 30)

Supports enactment of a tax reduction package in 1980 which would be effective January 1, 1981, rather than waiting until 1981 to act. States that the package should concentrate on reducing the Federal tax burden on savings and investment for individuals and businesses and should not stimulate general consumption or provide selective financial aid. Believes that the centerpiece of the package should be the capital cost recovery proposal (10–5–3).

Jack Carlson, Executive Vice President and Chief Economist, National Association of Realtors (July 30)

Proposes allowing 15-year straight-line depreciation on all structures, allowing phase-in of five-year depreciation of equipment, allowing expensing of construction period interest and taxes, repealing the $10,000 limitation on the deductibility of investment interest, excluding $500 ($1,000 on joint return) of interest and dividend income, and adjusting individual rates for next year's inflation.

Herman Smith, First Vice President, National Association of Home Builders (July 30)

Believes that tax relief should be accompanied by restraint on the growth of Federal spending.

Makes the following recommendations: a tax exemption for interest on savings deposits in financial institutions to make mortgage loans; tax-exempt Housing Savings Accounts; permitting tax-exempt bonds to be issued by State housing finance agencies; a 5-percent tax credit (maximum $4,000) for the purchase of a newly constructed home; 20-year straight-line depreciation for rental housing (15-year for low-income housing); current deduction of construction period interest and taxes; full deductibility of investment interest; permanent extension of the rapid amortization provision for low-income housing, historic preservation and removal of barriers for the handicapped; capital gain treatment on apartment units sold to tenants; and no withholding on interest, dividends or independent contractors.

Al Aronsohn, Tax Counsel, National Realty Committee (July 30)

Favors retaining the present recapture rules for real estate together with shorter and fixed lives for depreciation of all real property.

William Langelier, Chairman, Coalition for Low- and Moderate-Income Housing (July 30)

Recommends 15-year straight-line depreciation for all new low-income housing (as in S. 2969) and expensing of construction period interest and taxes. Does not favor the 10-year provision of 10–5–3.

Myles H. Tanenbaum, International Council of Shopping Centers (July 30)

Proposes shorter and fixed depreciation period for real estate with no change in the recapture rules, current deductibility of construction period interest and taxes, full deductibility of investment interest, and current deductions for business expenses prior to realization of income.

Gardner McBride, Executive Vice President, Building Owners and Managers Association International (*July 30*)

Recommends 20-year straight-line depreciation for all real estate with no change in the recapture provisions, current deduction of construction period interest and taxes, allowing full deductibility of investment interest for real estate, and allowing current deductibility of expenses in the selection or creation of a rental income property.

Marshall McDonald, Chairman of the Board, Edison Electric Institute (*July 30*)

Favors tax changes designed to (1) provide new sources of investment capital, (2) accelerate capital recovery, and (3) lower individual tax rates.

To provide new sources of investment capital, recommends the following tax proposals: (1) allow tax deferred dividend reinvestment plans; and (2) with respect to the investment credit—(a) make the TRASOP credit permanent, (b) increase either or both the ITC or TRASOP credit rate, (c) maintain present normalization requirements, and (3) provide special tax treatment for anticipated costs relating to spent nuclear fuel and plant decommissioning.

Regarding encouraging capital recovery, proposes increasing depreciation rates either by adopting 10–5–3 or by increasing ADR ranges to 35 or 40 percent. Also, suggests (1) computing the investment and TRASOP credits prior to the capital recovery allowance, (2) allowing utilities to base tax depreciation on regulatory lives and rates if normalization accounting is not permitted, and (3) modifying "construction expenditure" allowances.

Further, favors widening individual tax brackets and lowering the rates.

John J. Curtis, Chairman of the Taxation Committee, American Gas Association (*July 30*)

States that a tax rate reduction would not benefit regulated gas utilities.

Recommends (1) increasing the ADR ranges to 35 percent or adopting a form of 10–5–3 modified to reflect the normalization restrictions of present law; (2) excluding dividends from income, or allowing tax deferral for dividend reinvestment plans; (3) a current tax deduction for certain energy-related start-up expenditures.

With respect to the investment tax credit, proposes (1) increasing the credit from 10 to 12 percent, (2) allowing the credit to offset 100 percent of tax liability, and (3) making it refundable.

William H. Dempsey, President, Association of American Railroads (*July 30*).

Regarding depreciation reform: indicates that the objective should be depreciation of assets over shorter periods than present useful lives; the taxpayer should be allowed to determine the amount deducted each year; and recommends 10–5–3 proposal or Congressman Ullman's Tax Restructuring Act proposal.

Proposes an additional energy investment credit up to 10 percent to be made available for railroad transportation equipment, i.e., rolling stock, that carries coal; the credit could be based on the percentage of coal carried during the previous year. Also, favors a refundable investment credit.

Paul R. Ignatius, President and Chief Executive Officer, Air Transport Association

Supports S. 1435, which proposes the 10–5–3 Capital Cost Recovery System. Believes that it would provide a much needed effective capital cost recovery system.

Maintains that capital cost recovery must be supplemented with a refundable investment credit for earned but unused investment credits, as proposed in S. 2157.

Roger Burbage, American Trucking Associations (July 30)

Urges an ordinary deduction of the value of operating rights which became valueless when trucking deregulation was enacted.

Donald V. Seibert, on behalf of the American Retail Federation and the National Retail Merchants Association (July 30)

Believes that a tax cut of about $25 billion, effective January 1, 1981, should be enacted in 1980 to offset loss of individual and business purchasing power due to inflation and higher tax rates.

Suggests that individual income tax cuts include incentives for individual savings, including extension of TRASOPS, and should offset social security tax increases.

States that business tax cuts should include a major increase in capital cost recovery allowances for all businesses.

David W. Godfrey, Chairman, National Mass Retailing Institute (July 30)

Urges enactment of the capital cost recovery system (10–5–3). Indicates that retail trades would benefit most from a 10-year writeoff for commercial real estate, e.g., retail outlets and warehouses.

Walter Flowers, on behalf of the National Council on Synthetic Fuels Production (July 30)

Recommends adoption of 10–5–3 and its "payment" rule. Proposes extending the energy investment credit's expiration date from December 31, 1982 to 1990.

Also, favors:

(1) redefining shale oil equipment to include equipment for some upgrading processes (S. 2783);

(2) allowing the energy credit for equipment (a) to use petroleum coke or pitch as a primary fuel, or as new material to produce methanol, a "substitute" feedstock, or a synthetic fuel, (b) not in the "conversion stream," e.g., oxygen or hydrogen plants, equipment to recover by-products, to treat or recover water, catalysts or other reactants used in a process, equipment to store and transfer by-products or end-products after they have been produced or recovered, structures to support and house qualifying equipment, and equipment to transmit process heat to on-stream equipment or to generate and transmit electricity to the on-stream equipment, (c) of certain integrated facilities; and

(3) allowing gasohol tax treatment for coal-derived alcohol. Further, suggests a current tax deduction for certain energy-related start-up expenditures, and a 10-percent investment tax credit for research and experimental costs.

July 31

Hon. Richard S. Schweiker, U.S. Senator, Pennsylvania (*July 31*)

Supports S. 2983, the Venture and Capital Revitalization Act, which would increase the long-term capital gains exclusion from 60 to 75 percent. Believes that such a tax reduction would encourage investment in venture capital and result in improved productivity. Maintains that the 1978 Act reduction in the capital gains tax rate brought new funds to the venture capital market, a critical source of funds for small high-technology firms. Indicates that Japan and West Germany do not tax individual capital gains.

Hon. Richard Gephardt, Member of Congress, Missouri (*July 31*)

Supports adoption of a 2-year refundable tax credit of 10 percent of social security taxes on employers, employees, and the self-employed to offset the schedule 1981 and 1982 social security tax increase. Suggests an amendment to provide that the credit would be reflected in withholding beginning as soon as the credit becomes effective. Indicates that the calendar 1981 revenue reduction would be $16.9 billion, with a fiscal year 1981 reduction of $10.3 billion. States that the 2-year credit will give Congress the needed time to carefully review the entire social security financing and benefit system to provide long-range reform.

Peter O. Evenson, on behalf of the Associated General Contractors (*July 31*)

Supports the capital cost recovery system (10–5–3).

Maintains that relief is needed from the present taxation of income earned abroad under Code sections 911 and 913, in order to restore the international competitive position of U.S. construction contractors.

Norma Pace, Senior Vice President and Chief Economist, American Paper Institute, and on behalf of the National Forest Products Association (*July 31*)

Believes that taxes and spending must be reduced together. Proposed tax cut program includes:

(1) faster capital recovery, phased in over a 5-year period (10–5–3 would meet the industry's needs);

(2) phased-in reductions in individual and corporate income tax rates;

(3) liberalized tax treatment of capital gains and tax reductions as incentives to smaller and new business;

(4) a temporary tax cut in the proposed increase in the social security payroll tax and wage base.

William J. DeLancey, Chairman, American Iron and Steel Institute (*July 31*)

Urges adoption of the 10–5–3 capital cost recovery system, to replace the present so-called useful life method of depreciation.

Advocates a refundable investment tax credit.

William C. Penick, Managing Director—Tax Policy, Arthur Andersen & Co. (*July 31*)

Indicates that the impact of inflation on taxes and capital should be of primary concern in considering tax reductions. Maintains that without legislation taxes will increase because of individual "bracket creep". Also, asserts that by taxing inflated business profits, industry is having its capital reduced.

Believes that tax reduction should be enacted this year that would adopt a simplified cost recovery system. Comments that if major depreciation reform is deferred until 1981, capital investment programs also will be deferred.

Hugh H. Smith, American Express Co., on behalf of the Ad Hoc Service Group (*July 31*)

Endorses the Bradley-Gephardt social security tax credit proposal. Indicates that it would reduce the cost of labor and would have a significant, favorable impact on both unemployment and on inflation, and that it would benefit workers and businesses in all sectors of the economy. Further, maintains that it would preserve the integrity of the social security system while providing additional time for Congress to focus on longer-term social security program issues.

James Davidson, Chairman, National Taxpayers Union (*July 31*)

Indicates that tax cuts under consideration will probably only partially offset tax increases and that Federal spending has continued to increase.

Urges immediate adoption of indexation of personal income tax rates. Supports further reduction of the capital gains tax rate, revision of depreciation allowances, reduction of taxes on savings, and removal of the marriage tax penalty. Also, proposes a constitutionally-mandated limit on Federal spending.

States that ideally the best depreciation system would be present value replacement cost depreciation. Indicates that the Jorgenson-Auerbauch first year capital cost recovery system would have beneficial effects by reducing the distortions of inflation by allowing deduction of the full present value of depreciation in one year. Believes this proposal would avoid the distortions of 10–5–3.

Lewis K. Uhler, President, and William H. Shaker, Executive Vice President, National Tax Limitation Committee (*July 31*)

Indicate that without specific legislation Federal taxes will increase substantially. Urge immediate tax reduction to help offset the otherwise tax increases. Also, propose a constitutional limit on Federal spending.

Richard V. Minck, Executive Vice President, American Council of Life Insurance (*July 31*)

Opposes a tax cut at the persent time, even with a delayed effective date. Also, opposes proposals to finance social security with general revenues either directly or by a tax credit approach.

When a tax cut becomes appropriate at some future date, strongly supports enactment of a deduction for retirement savings by employees covered by pension plans. Argues that any such deduction should be subject to the present law limits for IRA contributions and should not be conditioned on new, complicated rules and limitations.

Richard B. Taylor, Member, Board of Directors, Association of Private Pension and Welfare Plans, Inc. (*July 31*)

Supports deduction for employee retirement savings as part of any tax cut legislation. Places particular stress on employee deduction for contributions, whether voluntary or mandatory, to qualified plans. Indicates that the deduction would aid both vesting and portability of pensions.

Argues that any legislation in this area should be simple and equitable.

Jerry L. Oppenheimer, on behalf of the ERISA Industry Committee (*ERIC*) (*July 31*)

Supports deduction for employee retirement savings as part of any tax cut legislation. Asserts that any such legislation should be simple, not impose new discrimination tests, and apply uniform limits whether or not individuals are covered by pension plans.

States that such legislation would encourage capital formation, relieve pressures on social security, and be less inflationary than other types of tax reductions.

Ronald Bean, President, Council of Pollution Control Financing Agencies (*July 31*)

Recommends that tax-exempt industrial development bonds (IDBs) be allowed to be used to finance facilities for the disposal of hazardous wastes.

Also, proposes that tax-exempt IDBs be allowed to be used to finance facilities which "prevent" air or water pollution (e.g., washing facilities used to remove sulfur from coal, or absorber systems used to remove sulfur from crude oil).

Argues that provisions of present law (Code sec. 103(b)(4)(D) and (E)), allowing use of IDBs for solid waste disposal facilities, and air and water pollution control facilities, have been narrowly and improperly construed by the IRS in a manner which prohibits IDB financing for the type facilities described above. As a result, urges legislation to ensure the availability of such financing.

Robert M. Gants, Executive Vice President, U.S. & Overseas Tax Fairness Committee, Inc. (*July 31*)

U.S. taxation of Americans working abroad.—Views the taxation of Americans working abroad as first and foremost a trade issue and believes the present U.S. tax rules in this area are a major barrier to U.S. exports. Argues that U.S. taxation of foreign earned income operates as a "tariff" on the export of U.S. goods and services, making U.S. exports less competitive than exports of other industrial nations which do not tax their nationals who work overseas. Asserts that there is a direct causal link between the presence of Americans overseas and U.S. exports and that U.S. tax incentive is necessary to encourage Americans to go overseas. Recommends generally that Americans working overseas be put on the same tax footing as citizens of other industrial nations (presumably by exempting foreign earned income from U.S. tax).

William Barth, on behalf of the Small Business Legislative Council (July 31)

Makes the following recommendations:

(1) Broadening the brackets for corporate taxes with the 46 percent rate beginning at $500,000;

(2) Depreciation acceleration and simplification, favored because the ADR system is not used by small businesses because of its complexity;

(3) Deferral of taxes on gains realized from the sale of a closely-held small business and of stock of a small business provided the funds are reinvested in another small business;

(4) Creation of small business participating debentures (SBPDs), to encourage investments in small businesses by permitting investors to participate in the profits and receive capital gains treatment on the dividends;

(5) Broadening the investment tax credit to eliminate the $100,000 limit on the cost of used equipment, as small businesses are proportionately more dependent upon used capital equipment;

(6) Replacing the current targeted jobs tax credit with a general jobs tax credit without regard to the status of the employee; and

(7) Revising the estate tax treatment for family-owned firms so that upon the death of the owner, mergers or dissolutions will not result.

Arthur D. Little, President, National Association of Small Business Investment Companies (July 31)

Urges adoption of the following:

(1) Enacting capital formation proposals, the most important of which is a system of simplified and accelerated depreciation such as "10–5–3";

(2) Deferral of taxes on gains realized on the sale of stock of a small business provided the funds are reinvested in another qualifying small business (as in S. 653), thus stimulating the flow of venture capital to small firms;

(3) Reduction in capital gains tax rates for individuals and corporations from 28 percent to 21 percent (as in S. 2923), in order to stimulate needed investment;

(4) Creation of small business participating debentures (SBPDs), which would encourage investment in small businesses by permitting investors to participate in their profits and receive capital gain treatment on the dividends received (as in S. 2981);

(5) Allowing the investment tax credit for investments made in small ventures (as in S. 487), to increase the flow of funds to small businesses (However, a lower priority is assigned to this proposal because this may promote less successful enterprises);

(6) Restoration of restricted stock options (as in S. 2239), in order to provide sufficient incentives to management of small businesses;

(7) Permitting Small Business Investment Companies (SBICs) to own Subchapter S stock, so that the venture capital industry would be strengthened; and

(8) Changing Subchapter M of the Code to enable all SBICs to qualify for pass-through tax treatment under section 851.

James D. "Mike" McKevitt, Director of Federal Legislation, National Federation of Independent Businesses (July 31)

Recommends the following:

(1) Reforming Social Security, as the highest priority, because of the labor-intensive nature of small businesses and the disproportionate effect of increases in FICA experienced by these firms. Because long-term reform is not possible this year, H.R. 7046, which would provide a two-year respite, is advocated.

(2) Reforming depreciation, as embodied in the Capital Cost Recovery Act (CCRA), because the ADR system is not used by small businesses as a result of its complexity.

(3) Allowing the cash method of accounting to be available to small businesses, thus permitting the expensing of inventories when paid. This would allow small businesses to compete more equitably with larger firms who are able to efficiently use more complex methods of accounting.

(4) Broadening the brackets for corporate taxes, with the 46-percent rate beginning at $500,000.

(5) Deferral of taxes on gains realized on the sale of small business stock provided the funds are reinvested in another qualifying small business, thus stimulating the flow of venture capital to small firms.

(6) Broadening the investment tax credit to increase the $100,000 limit on used property to $200,000, thus benefiting small businesses, which purchase proportionately more used capital equipment.

(7) Allowing non-corporate businesses to establish a deferral account of $25,000 as an incentive to purchase capital assets. This would be particularly beneficial to the smallest businesses, most of which are noncorporate.

Norman R. Sherlock, Executive Vice President, American Bus Association (July 31)

Suggests the following:

(1) Reforming depreciation to encompass acceleration and simplification, useful to the bus industry because of the complexity of existing systems. This would increase the firms' cash flow and consequently, investment in new equipment.

(2) Offsetting the scheduled increases in social security tax with a credit against income tax.

(3) Instituting new small business tax incentives, including broadening the corporate tax brackets, allowing a deferral of taxes on gains realized on the sale of small business stock, and enacting a new jobs credit.

(4) Eliminating the requirement that the 10-percent energy property ITC be available only to buses that are additions to an operator's fleet. This has had the unintended effect of reducing the availability of used buses, principally to the smaller operators, because buses have not been released to the used bus market until full credit is assured.

(5) Increasing the investment credit limit on qualified used property from $100,000 to $200,000, so that more used equipment will be purchased.

(6) Changing the leasing requirements of the energy property investment credit in order to assist the smaller, undercapitalized bus operators to acquire equipment.

(7) Modifying the procedures for the refund of the 4-cents-per-gallon excise tax on fuel by making it an exemption in order not to constrict the cash flow of smaller operators.

Bruce Hahn, Manager of Government Affairs, National Tooling and Machining Association (July 31)

Makes the following proposals:

(1) Simplify the "10–5–3" phase-in method so that small businesses can take advantage of it;

(2) Allow depreciation of 15 years for buildings and 4 years for all other property, which would concentrate investments in areas where there is the greatest opportunity for increases in productivity and employment;

(3) Expand the investment tax credit limit on used property from $100,000 to $200,000, in order to adjust for inflation since the original limit was enacted;

(4) Broaden the corporate tax brackets, with the 46-percent rate beginning at $500,000;

(5) Deferral of taxes on gains realized on the sale of small business stock, provided the funds are reinvested in another qualifying small business;

(6) Creating small business capital debentures, which would encourage investments in small businesses;

(7) Implementation of a more comprehensive jobs tax credit, as the current targeted jobs credit is little used at present; and

(8) Easing transfer of businesses to heirs by changing estate laws that now foster the dissolution of small businesses because of the taxes required to be paid upon the death of the owner.

Philip Rano, President, National Association of Metal Finishers (July 31)

Recommends granting special consideration for investments in pollution control facilities for the metal finishing industry, including a 2-year depreciation on all water pollution abatement equipment and the full 10-percent investment tax credit. Claims that this would offset the effect of EPA water pretreatment rules, estimated to result in the closing of 20 percent of metal finishing firms.

Sidney Lieberstein, Vice President, Machinery Dealers National Association (July 31)

Urges expansion of the investment tax credit by removing the $100,000 limit on qualified used property in order to assist small businesses, many of which cannot afford to purchase new machinery. Asserts that this would result in more competitive small businesses, stimulation of capital investment, expansion of capacity and productivity, and equal opportunity for growth of all businesses. Also, favors creating a simplified and accelerated capital cost recovery system (such as in S. 110, H.R. 4646, S. 1435, and H.R. 5096).

J. Stephen Putnam, on behalf of the National Association of Securities Dealers (July 31)

Supports S. 1967, which would allow securities dealers who are making a market for the securities of small businesses to defer up to $1 million of gain on the purchase and sale of those securities. The gain would be deferred for up to 10 years; at the end of 10 years the deferred gain would be taken into income.

Argues that S. 1967 would improve the ability of small businesses to raise capital by providing an incentive to broker dealers who make a market in the securities of such small businesses.

Max H. Karl, Chairman of the Board, MGIC Investment Corporation, (July 31)

Supports S. 2560, which would provide an exclusion for interest received on deposits in banks, savings and loan associations, credit unions, and similar institutions where such deposits are used for residential mortgage lending purposes.

Claims that S. 2560 would increase personal savings, increase the availability of mortgage money, reduce interest rates on mortgage loans, and reduce unemployment in the construction industry.

W. C. Smith, Franklin Towne Realty, Inc., Pittsburgh, Pa. (July 31)

Supports S. 2560. Argues that S. 2560 would reduce unemployment, reduce inflation in housing costs, and increase Federal tax revenues.

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