which the Chair will lay before the Senate H.R. 8389, to provide Federal assistance for treatment programs for certain drug abusers.

There is a time limitation on each of these measures, there being a 1½ hour limitation on S. 750; an hour limitation on S. 33; a limitation of 1 hour on H.R. 15883, and a 1-hour limitation on H.R. 8389.

There is a time limitation of 30 minutes on amendments in the first degree in the case of each of these bills. The yeas and nays, moreover, have been ordered on each of the four bills. At least one of the enumerated measures is somewhat controversial.

On the disposition of the four bills just stated, the Senate will proceed to the consideration of a protocol amending the single Convention on Narcotic Drugs, 1961, Executive J, 92d Congress, second session. This will be a yea-and-nay vote.

At no later than 3:30 p.m. on Monday, the Senate will proceed to the consideration of the land use bill, S. 632, with a time limitation thereon of 1 hour on the bill and 30 minutes on any amendment in the first degree. Yea-and-nay votes will occur.

On Tuesday the Senate will complete its consideration of the highway bill, and there will be yea-and-nay votes thereon. There is a time agreement on the bill and on amendments thereto.

EXPRESSION OF APPRECIATION

Mr. President, I do not believe I have forgotten anything. A whip notice will be gotten to Members on my side of the aisle forthwith.

I express appreciation to the pages, to the aides of the Senate, all the people at the desk, to my colleagues and our friends of the fourth estate for their patience.

ADJOURNMENT UNTIL 9 A.M., MONDAY, SEPTEMBER 18, 1972

Mr. ROBERT C. BYRD. Mr. President, if there be no further business to come before the Senate, I move that the Senate stand in adjournment until 9 a.m. on Monday next.

The motion was agreed to; and at 5:25 p.m. the Senate adjourned until Monday, September 18, 1972, at 9 a.m.

NOMINATIONS

Executive nominations received by the Senate September 15 (legislative day of September 12) 1972:

U.S. POSTAL SERVICE

Frederick Russell Kappel, of New York, to be a Governor of the U.S. Postal Service for the remainder of the term expiring December 8, 1974, vice Theodore W. Braun, resigned.

Robert Earl Holding, of Wyoming, to be a Governor of the U.S. Postal Service for the remainder of the term expiring December 8, 1973, vice Frederick Russell Kappel.

CONFIRMATIONS

Executive nominations confirmed by the Senate September 15 (legislative day of September 12) 1972:

UNITED NATIONS REPRESENTATIVES

The following-named persons to be Representatives of the United States of America to the 27th session of the General Assembly of the United Nations:

George Bush, of Texas.
Christopher H. Phillips, of New York.
Jewel Lafontant, of Illinois.

The following-named persons to be Alternate Representatives of the United States of America to the 27th Session of the General Assembly of the United Nations:

W. Tapley Bennett, Jr., of Georgia.
Julia Rivera de Vincenti, of Puerto Rico.
Gordon H. Scherer, of Ohio.
Bernard Zagorin, of Virginia.
Robert Carroll Tyson, of New York.

EXTENSIONS OF REMARKS

THE CASE FOR TAX REFORM

HON. JAMES ABOUREZK

OF SOUTH DAKOTA

IN THE HOUSE OF REPRESENTATIVES

Thursday, September 14, 1972

Mr. ABOUREZK. Mr. Speaker, the topic of tax reform has generated a great deal of discussion. I have recently come across an item which makes a very interesting case for reform and I would like to share it with you:

THE CASE FOR TAX REFORM

It has been widely assumed that the extensive and highly complex Tax Reform Act of 1969 accomplished the fundamental reform which our federal tax system has for many years been recognized to require. Analysis of post-1969 data discloses, however, that the 1969 Act proceeded only a very small way down the road to reform; that serious inequities continue to pervade our federal income, estate, and gift tax laws; and that the case for reform remains very strong.

A. WEALTHY INDIVIDUALS WHO PAY NO TAX

Perhaps the single most important event leading to the broad scale public demand for tax reform in 1969—and thereby to the enactment of the 1969 Tax Reform Act—was the disclosure, by then Secretary of the Treasury Joseph Barr, that in 1967 155 Americans realized adjusted gross incomes of over $200,000 without paying federal income tax, and that 21 of these individuals had incomes exceeding $1 million and still paid no federal income tax.

Data for the first year of operation of the 1969 Tax Reform Act indicates the same phenomenon persists despite the 1969 reforms. In response to a Congressional inquiry, the Treasury Department recently stated that, according to its preliminary figures, in 1970 112 individuals had adjusted gross incomes exceeding $200,000 and paid no Federal income tax. Of these persons—"taxpayers" is hardly an appropriate label—3 filed returns showing adjusted gross incomes in excess of $1 million but no liability for tax.

While these statistics provide a dramatic illustration of the departure of the income tax structure from its essential objective—the raising of revenue in accordance with the ability of taxpayers to pay—they represent only the tip of a very large iceberg. In the first place, they include only individuals who file federal income tax returns showing adjusted gross incomes in excess of the $200,000 and $1 million levels. Important tax preferences in the present Internal Revenue Code exclude certain classes of income from the definition of "gross income" altogether. An example is the tax exemption for interest on state and municipal bonds. Because of the exemption, income from this source does not appear in the figures on "adjusted gross income." Indeed, taxpayers whose income stems entirely from this source need not even file federal income tax returns; and they do not appear in the statistics noted above. A well-known case is the Michigan widow whose entire fortune was invested in municipal bonds and who for a number of years realized annual income in excess of $5 million without incurring any federal income tax liability.

More important than the tax preferences excluding income items from "gross income" are those which result in reduction of a taxpayer's "adjusted gross income" by means of special deductions. Intangible drilling and development costs of oil and gas exploration are in this category. So are the deductions permitted by the percentage depletion allowance. Here also are found the deductions for real estate depreciation, which provide a major tax shelter. Because deductions of these kinds reduce taxpayers' adjusted gross income—the figure upon which the Treasury's statistics are based—they can prevent the statistics from including many individuals who in fact have large real incomes but pay no tax.

As a result of these deficiencies, the Treasury statistics for 1970 undoubtedly considerably understate the total number of such individuals. More important, because the statistics reflect only the number of individuals who pay no federal income tax whatever, they provide no measure of a much more serious and widespread problem—the payment, by high income individuals, of amounts of federal income tax which constitute a very small proportion of their incomes. For an understanding of the character and extent of this latter problem, we must look to a different class of data.

B. EFFECTIVE RATES OF INDIVIDUAL INCOME TAX

One gains a more accurate and comprehensive understanding of the impact of the various tax preferences now incorporated in the individual income tax from an examination of the actual effective rates of tax paid by various classes of taxpayers.

The statutory rate schedule for the individual income tax has a sharply progressive structure. The tax rates rise from 14 percent to 70 percent. For married taxpayers filing joint returns, the 14 percent bracket applies only to the first $1,000 of taxable income; the 70 percent bracket applies to all taxable income in excess of $200,000.

Data on the rates of tax which taxpayers really pay manifests a marked departure from the statutory rates. Statistics published by the Treasury Department in 1969 indicate that, at 1969 income levels, 28.2 percent of the tax returns showing "amended taxable income" between $500,000 and $1 million paid tax at effective rates of no more than 25 percent.[1] 58.2 percent of the tax-

[1] Tax Reform Studies and Proposals, U.S. Treasury Department, Joint Publication of the Committee on Ways and Means of the U.S. House of Representatives and Committee on Finance of the U.S. Senate, February 5, 1969 (Part 1), page 80. "Amended taxable income: is taxable income revised (a) by certain deduction changes and (b) to include excluded capital gains, tax-exempt interest, and the excess of percentage depletion over cost depletion.

payers in this income range paid tax at effective rates of no more than 30 percent.

Comparable data is not yet available for the first year after the Tax Reform Act of 1969 became effective. However, analysis of the data in light of the specific reforms contained in the 1969 Act suggests that post-1969 statistics would not show substantial deviations from the figures set forth above.

A study recently completed by Joseph Pechman and Benjamin Okner of Brookings affords additional evidence for the conclusion that the upper ranges of the individual income tax system possess very little real progressivity.

Computing the federal income tax paid under existing law by all classes of individuals as a percentage of so-called "expanded adjusted gross income," the study finds effective tax rates rising from .5 percent (for the first $3,000 of income) to 29.5 percent (for expanded AGI from $100,000 to $500,000), 30.4 percent (for expanded AGI of $500,000 to $1 million), and 32.1 percent (for expanded AGI of $1 million and over).[2] This data is based upon projections of 1972 income levels and computations of tax under the law as amended both by the Tax Reform Act of 1969 and by the Revenue Act of 1971. Here again, then, one finds clear evidence that the 1969 Act did little to improve the progressivity of the upper ranges of the individual income tax. To put the matter somewhat differently, the fundamental goal of the income tax system—to correlate taxes paid with ability to pay—remains unrealized despite the 1969 Act.

C. IMPACT OF 1969 ACT ON ILLUSTRATIVE CASES

The Treasury Tax Reform Studies and Proposals, published in early 1969 and providing much of the background material for the 1969 Tax Reform Act, described 11 specific cases of high income individual taxpayers who were making use of the preferential provisions of the Internal Revenue Code to pay little or no federal income tax. The minor effect of the 1969 Act can be seen by comparing the results of the post-1969 law in these cases with that of the pre-1969 law.[3]

One of the Treasury cases concerned a taxpayer with income of $935,781, consisting largely of capital gains, dividends, and interest. Under the pre-1969 law this individual paid tax at an effective rate of 14.7 percent. Under the post-1969 law he would pay tax at 17.5 percent—bringing him to an effective tax rate of 0.5 percent less than the rate applicable to persons with income of from $20,000-$50,000 in 1966.

A second Treasury case concerned an individual with income of $1,284,718, composed almost entirely of capital gains. Under the pre-1969 law, his effective rate of tax was 0.03 percent. Under the law applicable to 1971, his effective tax rate would be 8.5 percent—hardly a dramatic increase if one bears in mind that persons having income of less than $5,000 in 1966 paid tax at an average effective rate of 7.4 percent.[4]

A third case described in the Treasury Studies concerned a taxpayer with $1,469,179 of income from oil and gas, $673,390 of long-term capital gains, and $118,393 of dividends, interest, and miscellaneous income. Under the pre-1969 law, he paid no federal income tax. Under the post-1969 law, his effective tax rate on his $2,260,962 total income would be 6.7 percent. That rate is less than half of the 14 percent rate which applies to the first $1,000 of the average working man's taxable income.

One should note that, if anything, these illustrations understate the tax avoidance possibilities which remain in the post-1969 income tax law. The computations here assume continuation of the same investment patterns which the taxpayers had chosen under pre-1969 law. The 1969 Act made some of the tax preferences outlined here less advantageous, but it left a number of other tax preferences untouched; it opened several new loopholes; and the Revenue Act of 1971 opened still others. Presumably, sophisticated upper-bracket investors will shift their investment patterns to take advantage of these new possibilities—and thereby avoid or reduce the effect which the computations above suggest for the 1969 Act.

Two hypothetical examples are useful to make clear the tax avoidance possibilities which remain in the law after the 1969 Act.

X has $1 million of tax-exempt interest, $200,000 of dividend income, $100,000 of deductible charitable contributions (including $60,000 of appreciation in donated property), and other personal deductions, including interest, of $100,000. Under the present Internal Revenue Code—including the 1969 amendments—X will pay no federal income tax or minimum tax on his total income of $1,260,000.[5]

Y is a married taxpayer with $300,000 of long-term capital gains, $100,000 of dividends, $50,000 of salary, $50,000 of tax-exempt interest, $200,000 of income from oil and gas production, $100,000 of percentage depletion in excess of cost, $250,000 of intangible drilling and development costs, $100,000 of real estate losses attributable to accelerated depreciation, $25,000 of deductible charitable contributions (including $10,000 of untaxed appreciation), and $25,000 of other personal deductions. Under the present income law, Y will have no taxable income. He will pay a minimum tax of $32,000, making his effective federal income tax rate 4.5 percent on total real income of $710,000.

D. THE MARKET FOR TAX SHELTERS

A difference class of evidence further demonstrates the subsisting need for reform of the income tax system. An active and vigorous market in tax shelters—devices by which high income individuals shield their incomes from tax—continues despite the 1969 Act. Corporate executives, doctors, lawyers, other high income individuals, and their tax and financial advisers are bombarded by a steady stream of sales literature advertising tax shelter arrangements. The advertisements are attractively packaged, with colorful illustrations and glossy paper; and their tax advice is, unfortunately, largely sound.

One such brochure, addressed to "Mr. and Mrs. Fortunate Participant" and prefaced with the observation that its information will be of interest only to persons in the 50 percent or higher tax brackets, tells the reader that he may "convert a portion of [his] tax burden into an investment which will provide potential income and the creation of a capital asset." It proceeds to describe, in clinical detail, how high income individuals can utilize cattle feeding, oil and gas, cattle breeding, and real estate investments to avoid tax.

A second pamphlet urges investors to "Put tax dollars to work for *you*" by investing in an oil and gas drilling program.[6] It explains:

"Individuals in high tax brackets can utilize the Drilling Fund to shelter part of their income from taxes, starting in the year of investment and continuing as long as oil and gas income is received. Much of their investment in the program is made with dollars that would otherwise be paid in taxes to state and Federal governments. Higher income tax brackets enable Limited Partners to enjoy greater tax savings than would be possible in lower tax brackets. . . ."

An advertisement for a tape cassette entitled "The Big, New Tax Benefits of the Revenue Act of 1971" helpfully addresses itself to such topics as "The better-than-ever '7% investment credit' that actually lets you pay less than the price-tag on new and used equipment"; "The revolutionary, new 'Class Life' depreciation system that pumps extra-$$$ back into your business"; "How to cope with the new law crackdown on family income splitting strategies"; and "How to create a 'Domestic International Sales Corporation' (DISC) and cash in on this new tax-shelter for export profits."[7] A summary explains:

"With this quick-listening cassette you'll cut straight to the core of great new tax benefits. You'll see how you can profit from brand-new tax credits and shelters . . . get the most out of increased deductions and exemptions . . . make powerful, new tax moves to put yourself $$$ ahead in 1972."

An advertisement for a program on "Tax Sheltered Investments," to be held in New York, San Francisco, and Houston in March and April of this year, explains that the program's objective is "to explore and evaluate the numerous investment opportunities which offer the investor reduced or deferred tax liabilities under current Internal Revenue Service regulations." Noting that "Tax sheltered investments are by definition complicated," the brochure points out that a special "faculty of tax, legal, accounting, investing, and operating management experts will work with you to clarify the possibilities for profitable participation in this field."

The examples could be multiplied almost without limit. The lesson is clear: brokers and dealers in tax shelters are thoroughly aware of the tax avoidance devices which remain available after the 1969 Act, and they are doing all they can to bring that information to the attention of high income taxpayers.

E. THE CORPORATE INCOME TAX

The departure of our income tax system from the measurement of taxes according to ability to pay is not confined to the individual income tax. It extends also to the corporate income tax.

The 1969 Tax Reform Studies and Proposals contained statistics, based on 1965 data, comparing the effective tax rates of various industries.[8]

[2] See "Why Are Income Tax Rates So High?" by Joseph A. Pechman and Benjamin A. Okner, Brookings Institution, Statement prepared for Hearings of Joint Economic Committee on the Economics of Federal Subsidy Programs, January 14, 1972, Table 1, page 13. "Expanded AGI" includes certain items of income (such as imputed rent on owner-occupied dwellings) which would not be included in income under the tax reform program outlined in Part III of the present paper. If these items were excluded from "expanded AGI," the effective tax rates for law and middle income individuals would be substantially increased, but the effective rates for high income individuals would remain at approximately the same levels.

[3] We have prepared a memorandum explaining the details of the application of the post-1969 law to these cases. Because of the length of the present paper, we have not appended it. However, it is available for use if and when necessary.

[4] For 1972 and subsequent years, this taxpayer's effective rate would be elevated slightly, to 12.6 percent.

[5] This example and the following one include untaxed appreciation on property donated to charity as an item of income.

[6] Emphasis is that of the original.

[7] Emphasis is that of original.

[8] For purposes of this computation, corporate net income was determined after disallowance of excess percentage depletion, the tax-exemption for state and municipal bond interest, excess bad debt deductions, excess depreciation on buildings, excess exploration and development costs, intangible drilling and development costs, the Western Hemisphere Trade Corporation deduction, and the special treatment of capital gains.

In comparison with the average effective tax rate of 43.3 percent paid by manufacturing industries generally, the petroleum industry paid 21.1 percent, other extractive mineral industries paid 24.3 percent, the lumber industry paid 29.5 percent, commercial banks paid 24.4 percent, mutual savings banks paid 5.3 percent, and savings and loan associations paid 14.4 percent.

Although the Tax Reform Act lowered the percentage depletion deduction from 27.5 percent to 22 percent and restricted certain other corporate tax preferences, it did nothing to the exploration and development deduction, the deduction for intangible drilling and development expenditures, tax-exempt interest, capital gains treatment for timber, and the Western Hemisphere Trade Corporation deduction. Furthermore, the investment credit was re-enacted in 1971; the 1969 Act reforms for accelerated depreciation on residential rental property were quite minor; and the phase-out of excess bad debt deductions for banks does not really begin until 1976 and lasts until 1988. Accordingly, while the industry effective rate percentages described above may have increased slightly for the petroleum industry, the effective rates for 1972 should reflect approximately the same industry-to-industry variances which were present before the 1969 Act.

ESTATE AND GIFT TAXES

Like the income tax, the federal estate and gift tax system badly needs reform. The Tax Reform Act of 1969 did not deal with the estate and gift tax laws. Indeed, those laws have not been comprehensively reviewed for 30 years. They include broad avenues for the avoidance of tax in the transfer of wealth. By reason of such devices, estates of many millions of dollars can in some cases be conveyed from one generation to the next entirely without the payment of estate or gift tax. In other cases, very large aggregations of wealth are transferred at effective tax rates which are a fraction of those applicable to much smaller estates.

SUBSIDY IS NOT A FOUR-LETTER WORD

HON. BILL ALEXANDER

OF ARKANSAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, September 14, 1972

Mr. ALEXANDER. Mr. Speaker, subsidies are a part of our everyday life, so much so that we often do not realize they exist. College educations, the Postal Service—which allows us to receive our periodicals and newspapers at lower costs—and certain aspects of the transportation industry are just a few of the Government subsidized activities which we encounter daily. We take these services for granted and seldom criticize them, at least for their subsidizing. Yet if anyone mentions the word subsidy in connection with "farm," the connotation immediately changes and in the minds of too many people, this seven-letter word becomes a four-letter one.

In response to a recent editorial in the Washington Post, one of my constituents and friends, Chauncey Denton, chairman of the National Cotton Council's Producer Steering Committee wrote this letter to the editor which I want to share with you here:

AUGUST 18, 1972.

The EDITOR,
The Washington Post,
Washington, D.C.

DEAR SIR: With reference to your editorial of August 11, "Farm Subsidies: Another Harvest for the Rich", I am reminded that with variations of facial expressions and the tone of one's voice, a spoken word can convey many different meanings. In a like manner your editorial writer has used the written word to cast a shadow on the integrity or any larger farmer who was forced because of economic reasons to decrease the size of his farming operation after the application of a limitation of price support payments in the Agricultural Act of 1970.

A predominantly urban Congress still recognizes the need for farm product price support to the American farmer, who has to buy in a "protected" market inside these United States and yet must sell at world market prices. And for political and emotional reasons a payment limitation was added to "get at" the larger farms. Since the proceeds of cotton from the open market are less than the American cost of production, what choice did the larger operator have but to lease out that portion of his farm on which he could not produce for a profit? We have on hand this day the smallest supply of cotton that we have had in two decades! The U.S. consumer should be glad that the larger farms did lease out many cotton acres; otherwise cotton might have entered the luxury class in availability.

Your writer proposes a further reduction in the payment ceiling. The taxpayer will save tax money only at the expense of reduced production and reduced supplies. The death of a cotton industry could be the result. Is this what your writer really wants?

I continue to be perplexed by the focus of the press on farm subsidies while accepting without prejudice a gamut of other subsidies in our society. We have had tariffs almost since our founding to protect industry; and subsidy-like programs have helped develop U.S. banks, housing groups, colleges, airlines, merchant fleets, etc. Our written news media participate in a postal subsidy in the distribution of their newspapers and magazines through the mail. And yet no one proposes to limit you to a certain amount of mailed newspapers or magazines, and no one proposes (for instance) to limit General Motors or Ford to the number of vehicles on which they will get tariff protection.

I am not trying to be critical of tariffs and other subsidies, as they have helped the development of many of our industries. And trade unions have helped the lot of the working man. But the farmer—of all major—economic groups—is without a broadly effective means of advancing his objectives in the arena of supply and demand. The farmer has no means of organizing effectively to regulate prices and production, as industries, labor, and the professions do. So he has to depend on government sponsored farm programs, the two basic goals of which are fair income for farmers and a balanced abundance for consumers. There is no contradiction between the two; both goals must be simultaneously achieved. A farm policy which sought one and not the other would be unrealistic. A farm policy which achieved one and not the other would be a failure. And I believe it can be demonstrated to you that you cannot successfully maintain a farm program if you deny admittance of your larger farms by an arbitrary payment limitation.

The complexity of this farm problem defies adequate treatment in a letter. There is an old expression that "Depressions are farm bred and farm fed". We need to meet this problem with wisdom and understanding.

Very truly yours,

C. L. DENTON, Jr.

A 13-YEAR-OLD EXPERIENCES AGNES FLOOD DISASTER

HON. GOODLOE E. BYRON

OF MARYLAND

IN THE HOUSE OF REPRESENTATIVES

Thursday, September 14, 1972

Mr. BYRON. Mr. Speaker, last June, the east coast suffered one of its worst flood disasters in history. Among the many areas experiencing severe damage in the Sixth Congressional District of Maryland was the town of Keymar in Carroll County. I thought you might be interested in reading a personal account of the experiences of 13-year-old Henry Deturler of Carbondale, Ill., who was visiting with relatives in Keymar at the time:

THE FLOOD

I was visiting with my grandparents at Keymar, Maryland from the 15th to the 30th of June.

On June 21, 1972, we couldn't play outside because it was pouring rain. Before we went to bed, Jamie placed an orange garden cart on the sidewalk in front of the cellar. He did this so we could see how much rain had fallen the next day.

A few minutes after 4:00 a.m. I was awakened by voices downstairs. I laid around for awhile wondering whether the creek had flooded. I was becoming so curious that when the doorbell rang a few minutes later I lost no time rushing downstairs and answering it. It was Mr. Deal who had come to tell Granddad that his car had to be moved.

As soon as he left, I turned on the porch light and I saw that the creek had risen to not less than two feet under the porch floor boards. The water was rushing at a tremendous speed through the meadow in front of the house.

When Jamie and I were both dressed we went out on the brick porch and looked down the stairs into the cellar. The electricity was still working although we expected it to fail any moment. Grandma's kiln was floating as were a number of other things.

It was still dark and raining when a neighbor in a yellow raincoat came and offered to take us in. Grandma declined so we went back to our watching. We were not allowed to go back on the porch though, because of the danger that it might be washed away. Grandma cooked up some oatmeal and all of us listened to the 6:00 a.m. news on the radio.

The water was slowly rising. We could see it on the steps beside the porch and on the wooden ones in the cellar. Beside the porch it was lapping the last step and in the cellar it had four more to go.

It was getting light and we could see the trees and logs floating past the porch. One could see the garage roof and a bit of the poles jutting out of the water. Logs and firewood and pieces of shed were piling up against its wooden poles.

Grandma was worried about whether to leave or not, so when our neighbors offered again to take us in, she accepted.

In the morning it was still raining, but nearly as hard. After eating breakfast we went out and looked around. We looked first at the garage. It had about a foot or two of rock washed out of it and deposited against the cement barrier. One of the poles that support the roof was laying in the middle of the garage. Several others were leaning precariously to the left. The rushing water had piled about a ton of wood against three or four of the poles at one corner of the garage.

Next we looked at the old bridge. The flood waters had washed away most of the weeds that covered the asphalt. They had also carved out a section of the bridge and where our garden tool shed once stood were three layers of asphalt. One of the many tool sheds that went astray was smashed against some of the trees on the bridge. When it was pulled down Mr. Wolfe the owner of it found a lot of his tools in between its boards.

There used to be a tool shed beside the garden. It was painted red and had windows and a floor. In it were two sets of snow tires, a gasoline tiller, two bicycles and a lot of garden tools. The flood washed the whole thing away down the creek. I can also say that I will probably never again lay my eyes on the orange garden cart that Jamie put out to see how much rain would fall that night.

CONGRESSMAN MINSHALL TO TAKE "TRAVELING OFFICE" TO 23D DISTRICT

HON. WILLIAM E. MINSHALL

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

Thursday, September 14, 1972

Mr. MINSHALL. Mr. Speaker, it is my privilege and honor to represent the citizens of the 23d Congressional District of Ohio in the U.S. House of Representatives.

As the Representative of this outstanding district, I make every effort not only to keep well informed on the thinking of the people through personal contact, but also attempt to be of the greatest possible service to those who have problems involving Federal agencies. To help accomplish this, I maintain a year-round congressional office at 2951 New Federal Office Building in downtown Cleveland.

Throughout my nine terms in Congress I have made every effort to keep the people informed about the national scene. My newsletter, Washington Report, periodically summarizes major legislative activities of Congress and other issues facing the Nation. I also gain great insight into the viewpoints of those I serve through the Minshall opinion poll which, like the newsletter, is sent to every household in the district.

During my service in Washington, I have considered it of primary importance to be present at the Capitol whenever the Congress is in session in order to fulfill my heavy committee workload and to vote on important legislation. Because of intensive daily schedules on Capitol Hill and, with Congress in almost continuous session, I have not been able to return to Cleveland as often as I would like.

My Appropriations Committee assignments are particularly time-consuming. In addition to holding the demanding responsibility of top-ranking member of the Defense Subcommittee, I also serve on the important Transportation Subcommittee. These two assignments require many hours of work on an almost year-round basis as the national problems involved become increasingly complex.

Because so much of my time must be spent in Washington, I began the practice when I first came to Congress of setting aside a period during the year when I could tour the various communities in the district with a traveling office. This proved tremendously effective in getting together with those I represent. Unfortunately, congressional adjournment periods have been so brief in recent years that it has not always been possible to schedule these meetings at a mutually convenient time.

This year, however, I plan to take the traveling office to the district on October 19, 20, and 23, to meet personally throughout the area with everyone who wants to talk with me about issues of national concern, problems involving the Federal Government, or to meet those who would just like to get better acquainted.

I would like to emphasize that these are not group meetings—no speeches, no politics. These are individual conferences for constituents who want to privately discuss their views and problems with me.

No appointments are necessary and I not only welcome but urge citizens to meet with me on the date and at the scheduled location most convenient to them. All residents of the 23d District are cordially invited to attend.

I am very grateful for the fine cooperation of the city officials who are making meeting places available as an aid in rendering this public service.

Following is the traveling office schedule, listing times, and locations of the meetings:

COMMUNITIES, LOCATION, DATE, AND TIME (P.M.)

Parma, Parma Heights, Parma Memorial Hall, 6617 Ridge Road. Thursday, Oct. 19th. 2 to 4:30.

Westlake, Fairview Park, Olmstead Township, North Olmstead, Bay Village, Westlake City Hall, Dover Center Road and Hilliard Blvd. Thursday, Oct. 19th. 6:30 to 9.

Lakewood, Rocky River, all of Cleveland Ward 1; Precincts A, D, E, G, H, P, Q, S, T, W in Ward 4; Precincts A, B, F, G, L, M, N, O, W, X, Y, in Ward 7. Lakewood City Hall, 12650 Detroit Avenue. Friday, Oct. 20th. 2 to 4:30.

Strongsville, Middleburgh Heights, North Royalton, Berea, Olmstead Falls. Strongsville City Hall, 18688 Royalton. Friday, Oct. 20th. 6:30 to 9.

Brecksville, Broadview Heights, Brooklyn Heights, Independence, Seven Mills, Brecksville City Hall, 9069 Brecksville. Monday, Oct. 23rd. 2 to 4:30.

Bedford, Walton Hills, Valley View. Bedford City Hall, 65 Columbus St. Monday, Oct. 23rd. 6:30 to 9.

MAN'S INHUMANITY TO MAN--HOW LONG?

HON. WILLIAM J. SCHERLE

OF IOWA

IN THE HOUSE OF REPRESENTATIVES

Thursday, September 14, 1972

Mr. SCHERLE. Mr. Speaker, a child asks: "Where is daddy?" A mother asks: "How is my son?" A wife asks: "Is my husband alive or dead?"

Communist North Vietnam is sadistically practicing spiritual and mental genocide on over 1,757 American prisoners of war and their families.

How long?

TAX REFORM PROPOSALS

HON. JAMES ABOUREZK

OF SOUTH DAKOTA

IN THE HOUSE OF REPRESENTATIVES

Thursday, September 14, 1972

Mr. ABOUREZK. Mr. Speaker, previously I inserted an article entitled, "The Case for Tax Reform." Today I would like to look at a continuation of the article which makes some specific suggestions for reform.

The article follows:

II. REFORM PROPOSALS

The following proposals to plug tax loopholes have been made by Senators Church, Eagleton, Harris, Hart, Hughes, Humphrey, Kennedy, McGovern, Metcalf, Mondale, Muskie, Nelson and Tunney. They are included in the Nelson Tax Reform Bill which was introduced March 21, 1972.

1. INTEREST ON STATE AND MUNICIPAL BONDS

a. *Issue*—Unlike any other form of interest—including interest on obligations of the federal government—interest on state and municipal bonds is exempt from all federal income tax. The exemption is defended as a means of helping state and local governments raise revenue at low cost because the exemption of the interest on such bonds results in their being marketable at substantially lower interest rates than comparable grades of taxable federal and corporate bonds.

However, the saving in interest costs to state and local governments is only about 70% of the revenue loss to the federal government, with 30% of the funds going to high income individuals who invest in tax exempt bonds. Because the tax advantage of the exemption is greatest for those with the highest incomes—and because low and moderate income taxpayers do not have the funds available for investment in such bonds—the exemption benefits upper-income taxpayers almost exclusively.

b. *Proposal.* States and municipalities would be given the option of issuing taxable bonds. To those that do, the federal government would pay a subsidy equal to 50% of the interest rate of the taxable bonds. With the interest subsidy fixed at 50%, states and municipalities would likely move entirely to the issuance of taxable bonds.

c. *Revenue.* The proposal would have little overall revenue effect for the federal government, the subsidy to state and local governments being perhaps somewhat in excess of the revenue realized by taxing the bond interest; but the proposal would generate an additional $690 million for state and local governments annually.

2. INTANGIBLE DRILLING AND DEVELOPMENT COSTS

a. *Issue*—Most of the costs incurred in drilling oil and gas may be deducted in full in the year incurred. In contrast, the cost of constructing buildings and other capital assets must be capitalized and can be recovered only through depreciation over what may be extended periods of years.

Using the combination of percentage depletion and intangible drilling and development deductions, an investor in oil and gas can avoid federal income tax indefinitely. The investor first spends enough on drilling and development to offset his current income. When the wells reach production, the income from them is partially offset by percentage depletion, and the remaining portion can be offset by additional expenditures for intangibles.

b. *Proposal*—Require the capitalization of intangible drilling and development costs, and adopt a recapture provision, similar to that now provided for machinery, operative when oil properties are sold.

c. *Revenue*—$325 million.

3. ASSET DEPRECIATION RANGE SYSTEM

a. *Issue*—The ADR system which the Revenue Act of 1971 adopted for business plant and equipment permits businesses to compute their depreciation allowances by reference to general industry averages—entirely without regard to the actual useful lives of their own assets.

Second, ADR allows businesses to enlarge their depreciation deductions further by employing depreciation periods 20% shorter than the industry averages which, under prior law, were used as guidelines—and the prior guidelines were themselves quite liberal.

Third, ADR increases depreciation deductions still further by requiring future guideline lives to be determined by calculating overall industry replacement experience and then utilizing the figure representing the experience of businesses at the 30th—not the 50th—percentile.

The overall effect of ADR is to grant a major tax windfall to businesses which utilize depreciable assets with no significant benefit to the general economy.

b. *Proposal*—Repeal of the ADR system.

c. *Revenue*—$2.4 billion.

4. TAX TREATMENT OF REAL ESTATE

a. *Issue*—The present highly favorable tax rules for investors in real estate (such as apartment buildings) have made investments in such property one of the most broadly used tax shelter devices. Although depreciation in general is a means of recovering the capital costs of an asset as it is consumed in use, accelerated depreciation on real estate results in most of the property's cost being recovered in the early years of its life, while it is still in productive use and, in many instances, while it is increasing in value.

Furthermore, depreciation is computed on the full cost of the property, not the owner's equity interest. The result is that, with a large mortgage loan, accelerated depreciation permits the owner to recover not only his own cost but also the lender's—and to do so much faster than he is obligated to repay the lender.

In addition to the depreciation advantage, investment in real estate allows the deduction of interest and taxes incurred during the construction of a building. These provisions allow the current deduction of items that are essentially capital in nature as a tax shelter for income from other sources during a period when no income is being produced from the building.

b. *Proposal*—(1) Depreciation on all buildings should be limited to the straight line method; (2) Interest and taxes incurred during the construction phase of a building should be required to be capitalized; (3) The useful lives for buildings should be shortened.

As a corollary, a full recapture provision should be applied to the sale of buildings.

The federal government should accompany these tax reforms with direct assistance to stimulate the necessary investment in residential property.

c. *Revenue*.—The revenue yield of the tax reforms would be balanced by the cost of the direct programs proposed.

5. DOMESTIC INTERNATIONAL SALES CORPORATION

a. *Issue*—The DISC provision enacted last year permits the indefinite deferral of taxation of 50 percent of the income of a corporation engaged in selling goods for export, regardless of whether the export sales represents an increase over prior years' sales. In fact, the tax deferral is the rough equivalent of a tax exemption because tax is not payable as long as the DISC complies with certain requirements and the untaxed profits can be used in the business of the parent-supplier by means of loans from the DISC. The stated purpose of the provision is to encourage expansion of U.S. exports; but there is no factual evidence that the provision will expand exports, and the view of most economists is that it will not.

b. *Proposal*—Repeal of the DISC provisions.

c. *Revenue*—$170 million

6. INCOME OF CONTROLLED FOREIGN CORPORATIONS

a. *Issue*—By operating abroad through subsidiaries, U.S. corporations are able to obtain deferral of U.S. taxation of income which is retained in low-tax countries. In certain situations, Subpart F of the Internal Revenue Code taxes the undistributed profits of the foreign subsidiary to the U.S. shareholders; but this tax can be avoided by having the foreign subsidiary making certain minimum distributions to its U.S. shareholders. Consequently under present law U.S. businesses operating abroad through controlled foreign subsidiaries enjoy a major tax advantage which is unavailable to businesses operating only within the United States.

b. *Proposal*—Eliminate the tax deferral available to United States shareholders of controlled foreign corporations by extending the present provisions which tax U.S. shareholders on thier pro-rata share of certain classes of earnings of such corporations to encompass the full yearly profits of those entities.

c. *Revenue*.—$615 million.

7. DEDUCTION FOR STATE GASOLINE TAXES

a. *Issue*—Although the federal gasoline tax has not been deductible in computing federal income tax liability for many years, the comparable state gasoline taxes are deductible. Yet, like the federal tax, the state gasoline taxes are essentially user charges to finance streets and highways. Their deductibility for federal income tax purposes has the effect of shifting part of highway costs from the highway user to the general taxpayer. Elimination of the deduction would place that cost upon the persons who ought to bear it.

b. *Proposal*—Repeal of the present deduction for state gasoline taxes.

c. *Revenue*—$700 million

8. INTEGRATION OF ESTATE AND GIFT TAXES

a. *Issue*—Under present law, estates and gifts are taxed separately so that an individual may transfer portions of his wealth by gift during his lifetime, pay whatever gift taxes are due, and then have his remaining estate taxed without regard to the fact that a portion of his wealth has been transferred. The effect is to divide the individual's wealth and tax each part on a separate rate schedule with separate exemptions. Moreover, gift tax rates are lower than estate tax rates, and the gift tax itself is excluded from the estate. These features create substantial tax savings, particularly to the very wealthy, and the potential for savings through lifetime giving increases as the donor's wealth increases.

b. Proposal—The establishment of a unified gift and estate tax, making lifetime gifts and transfers at death subject to tax under one rate schedule with one exemption, which could be utilized during life or at death.

9. GENERATION-SKIPPING

a. Issue—The very wealthy are in a position to give property either outright or in trusts to distant heirs—grandchildren and beyond—so that the family's wealth is taxed only once every several generations, rather than once each generation as is more commonly the case for less affluent descendents. These arrangements substantially lessen the impact of estate taxes on the very wealthy and take a good deal of progressivity out of the system.

b. *Proposal*—A special tax imposed on generation-skipping transfers. In general terms, the tax would be levied in situations where property is transferred so as to avoid tax in one or more generations.

The following additional proposals were made by Senator Muskie in January, 1972, but were not included in the Nelson bill. Several received considerable attention during the primary campaign in the speeches of Governor Wallace and Senator McGovern.

10. INVESTMENT TAX CREDIT

a. *Issue*—Reenacted last year, the investment tax credit gives corporations and individuals investing in machinery and equipment a credit against their federal income tax of 7% of the cost of the machinery or equipment. While the investment credit has proved under certain economic conditions to be an effective tool for stimulating investment and economic growth, current studies show that it has failed to help the 1972 economy.

The Vanik study shows that the top 100 U.S. corporations, which have benefited most from the tax credit, actually provided fewer jobs as they expanded. In 1969, the sales for the top 100 manufacturing firms was $28.4 billion; in 1971 sales amounted to $31.2 billion—an increase of 12.5% in sales. But in these three years employment in the top 100 corporations dropped by 5.2%, or 500,000 workers. The last 100 companies on the Fortune list of 500—that is, companies 401 through 500—increased sales by 16% but also increased employment by 1.4%. In other words, those who benefited most from the tax credit contributed least to the revitalization of the economy.

b. *Proposal*—Repeal of the investment tax credit.

c. *Revenue*—$3.6 billion.

11. CAPITAL GAINS

a. *Issue*—Under present law, individuals who realize long-term capital gains are allowed a deduction of 50 percent of the total gains. Except for the minimum tax—a special 10 percent tax applicable in certain circumstances—the other half is tax-exempt.

Furthermore, a special maximum limitation of 25 percent is placed upon the tax rate applicable to the first $50,000 of a taxpayer's capital gains. Because the alternative tax applies only where it produces a lower tax than the 50 percent capital gains deduction, the alternative tax is advantageous only for taxpayers whose tax bracket is above 50 percent—only, that is, taxpayers in the very highest brackets.

The capital gains preferences permit taxpayers who have sufficient wealth to invest in capital assets to bear far less tax, for a given amount of income, than individuals whose economic circumstances prevent the accumulation of wealth and compel the realization of income in the form of wages, salaries, and the like.

b. *Proposal*—(1) Repeal of the provision permitting the first $50,000 of capital gains to be taxed at no more than 25 percent. (2) Requirement that individuals include 55 percent of capital gains in income in the first year and 60 percent of capital gains in income thereafter, rather than 50 percent as permitted under present law.

12. PERCENTAGE DEPLETION FOR MINERAL RESOURCES

a. *Issue*—For a whole range of minerals, the producer may deduct a flat percentage of the gross income from the sale of the minerals. In the case of oil and gas, for example, the percentage depletion allowances is 22 percent. This deduction is unique in the tax law because it does not require the taxpayer to expand or invest any funds. Every other business deduction provided by the Internal Revenue Code is limited either by the amount a taxpayer spends currently—as in the case of the deduction for ordinary business expenses—or the amount which the taxpayer previously invested—as in the case of the depreciation allowance for investment in a building or machinery.

b. *Proposal*—Uniform reduction of existing percentage depletion rates by 20 percent.

c. *Revenue*—$200 million.

13. CAPITAL GAINS TREATMENT FOR TIMBER

a. *Issue*—Growers of timber receive capital gains treatment from the sale of timber provided they retain an "economic interest" in the timber (requiring, generally, an arrangement under which the purchaser is allowed to cut a specific amount of timber from the property). In addition, businesses which grow timber for use in the manufacture of products, such as paper or furniture, can treat the cutting of the timber as a sale to themselves at the fair market value of the timber, thereby obtaining a stepped-up basis in the ultimate finished product at the favorable capital gain rates. In contrast, persons engaged in most other businesses are taxed at ordinary income rates on the sale of their products regardless of whether they retain an economic interest in the property producing the product—and they are taxed at ordinary rates on the full amount by which the sales proceeds exceed the cost of the goods sold.

b. *Proposal*—Repeal of both of the above provisions extending capital gains treatment to timber.

c. *Revenue*—$130 million.

14. GAINS AT DEATH

a. *Issue*—The existing income tax structure fails to tax unrealized gains in assets held by a decedent at his death while at the same time allowing a step-up in basis so that on a subsequent sale this portion of the gain is not taxable. Very large amounts of capital gains thus escape federal income taxation altogether under present law. For 1966, the figure was approximately $11 billion.

b. *Proposal*—A tax should be imposed on the appreciation in assets transferred at death, or by gift, with certain exemptions and exclusions. The tax could be made effective only as to appreciation occurring after the date of enactment. Further, by permitting every taxpayer a minimum basis for all his assets, the effect of the tax could be limited to decedents with assets having substantial aggregate value. The proposal would close the massive loophole in present law by which large amounts of appreciation in the value of investments escape income tax entirely.