[JOINT COMMITTEE PRINT]

LEGISLATIVE RECOMMENDATIONS OF THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL WITHIN THE TAX WRITING JURISDICTION OF THE COMMITTEE ON FINANCE

SCHEDULED FOR A HEARING

BEFORE THE

SENATE COMMITTEE ON FINANCE

ON FEBRUARY 8, 1984

PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on February 8, 1984, on the proposals of the President's Private Sector Survey on Cost Control (the "Survey"). The hearing will focus on those Survey recommendations within the Finance Committee's jurisdiction.

This pamphlet, prepared by the staff of the Joint Committee on Taxation, provides a summary of the legislative recommendations made by the Survey relating to the revenue laws. The pamphlet does not cover recommendations relating to administrative changes. Similarly, recommendations that have been enacted since the Survey was drafted are not described.

The first part of the pamphlet provides a brief summary background on the Survey and its study. The second part is a summary of the legislative recommendations affecting the revenue laws, including substantive revenue changes, administration of the tax laws, Pension Benefit Guaranty Corporation (PBGC) provisions, and Railroad Retirement revenue provisions. Each recommendation discussed in this pamphlet includes background, prior Congressional action (if any) on the topic, and a statement concerning the impact (cost analysis) of the recommendation. The impact discussion is derived generally from the respective Survey report materials.

I. BACKGROUND ON THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

On June 30, 1982, the President signed an Executive Order which established the President's Private Sector Survey on Cost Control (the "Survey"). An executive committee was named that consisted of 161 volunteers from major private sector business enterprises. Under their leadership, 2,000 additional volunteers from the private sector looked at all aspects of Federal Government activity and prepared 47 reports containing detailed analyses and recommendations. The value of their services plus donated material and equipment is estimated by the executive branch as more than $75 million, and over $3.3 million was donated in cash.

A broad range of private sector activities was represented on the executive committee. A summary classification of the affiliations of the executive committee is:

62 maufacturing and transportation
46 banking, finance and insurance
12 retail operations and other consumer services
7 accounting and law firms
34 all others.

The manufacturing group included producers of heavy durable goods made for other producers as well as manufacturers of consumer products and transportation equipment as well as precision scientific instruments. The other groups include several firms whose activities were not known to the staff and several nonbusiness private activities, such as, education, labor and foundations.

When the President established the Survey, he asked participants to:

(1) identify opportunities for increased efficiency and reduced costs that could be achieved by executive or legislative action;

(2) determine areas in which managerial accountability could be enhanced and administrative controls improved;

(3) suggest short-term and long-term managerial operating improvements;

(4) specify areas in which further study could be justified by potential savings; and

(5) provide information and data relating to governmental expenditures, indebtedness, and personnel management.

Thirty-six task forces were named, twenty-two of which were assigned to study specific departments and agencies. The other fourteen studied functions cutting across government, such as personnel, data processing and procurement.

In each task force report, there is reported an estimate of cost savings, and revenue or cash acceleration opportunities. Because there was some degree of overlapping in the assigned areas of the task forces, the Survey plans to net out the duplications in the preparation of its Final Summary Report of the President. The es-

timated savings are presented in three-year projections that were based on the first-, second-, and third-year in which partial or full implementation would occur, rather than in terms of specific fiscal years. The savings estimates also include estimates of 10-percent inflation in the second and third years of a projection. Therefore, it would be mistaken to expect the net sum of all first year savings to occur in the same fiscal year. Furthermore, estimated savings or revenue opportunities are described as being of a "planning" quality and not of a "budget" quality. That is, the estimates describe the order of magnitude of savings, including their indirect effects. They do not attempt to state an impact on budget receipts or expenditures with respect to particular years or to use the same assumption as would the Office of Management and Budget or the Congressional Budget Office. Therefore, readers of the task force reports have been advised to avoid drawing conclusions or making dollar projections based on the estimates contained in the reports.

The three-year projections of cost savings and revenues include an estimated interest savings of 10 percent annually when revenue and cost acceleration were involved. Inflation also was assumed to continue at an annual 10-percent rate of increase. The Survey has stated that these rates reflected generally prevailing rates at the time the task force reports were prepared, generally the second half of 1982 and the first half of 1983, but the rates may be adjusted, as necessary, in the Final Summary Report to the President.

Several terms have been used throughout the reports with consistent meanings. They are summarized in the following discussion.

Cost savings include both *cost reduction* and *cost avoidance*. *Cost reduction* refers to reduction of budget expenditures in continuing programs. *Cost avoidance* also applies to continuing programs but refers to avoiding some anticipated costs that could be incurred in the future when expenditures would be budgeted.

Revenues include *revenue enhancement* and *revenue acceleration*. *Revenue enhancement* refers to "increased receipt of existing or new revenues," which generally are ongoing (i.e., permanent provisions). *Revenue acceleration* describes the one-time receipts from activities such as the sale of a fixed asset.

Cash acceleration includes improvement of the cash flow, generally through the acceleration of cash inflows and/or deceleration of cash outflows of continuing programs. Some cash acceleration might be simply a one-time event.

II. LEGISLATIVE RECOMMENDATION AFFECTING THE TAX LAWS

A. Substantive Revenue Changes

1. Tax status of credit unions

Recommendation

"The tax exemption enjoyed by credit unions should be reevaluated by Congress because of the many changes made from their original limited charter." (Task Force on Boards/Commissions—Banking, Recommendation 23–1.)

Background

Under present law, credit unions are exempt from Federal income tax regardless of whether their income is distributed as dividends (sec. 501(c)(14)). Dividends (interest on deposits) paid are includible in the income of the credit union members.

Originally, credit unions were exempted from tax along with savings and loan associations because both credit unions and savings and loan associations operated on a "mutual" basis (i.e., on behalf of and for the benefit of their members), and not as separate profit-seeking entities. In addition, credit unions were generally small, unsophisticated financial institutions, operated by volunteers.

Today, however, there are many large credit unions and credit unions offer services to depositors that are not always distinguishable from those offered by banks and savings and loan associations. Other types of mutual financial institutions, which compete with credit unions, are subject to tax on income not paid out to member-depositors as dividends. Furthermore, the general financial stability of credit unions has been improved in recent years by the advent of central credit unions and the U.S. Central Credit Union, the creation by Congress in 1970 of an insurance fund (NCUSIF), and the creation by Congress in 1978 of a central liquidity fund (CLF). It can be argued that credit unions are in many respects similar to other financial institutions that are not tax-exempt and, thus, that the exemption for credit unions is no longer appropriate.

Prior Congressional Action

The Senate Committee on Finance held a hearing on the Taxation of Banks and Thrift Institutions on March 11, 1983.

Impact

The Survey estimated that the taxation of credit unions would increase revenue by $115 million in 1983, $126 million in 1984, and $138 million in 1985—a total revenue increase of $379 million over the 3-year period.

2. Taxation of the Federal Home Loan Mortgage Corporation

Recommendation

"Congress should amend 12 U.S.C. 1452(a), the Federal Home Loan Act of 1970, to remove the tax exemption." (Task Force on Boards/Commissions—Banking, Recommendation 34–1.)

Background

Under present law, the Federal Home Loan Mortgage Corporation (FHLMC) is exempt from Federal income tax (12 U.S.C. 1452(a)), and has been exempt since FHLMC was established in 1970. FHLMC is also exempt from State and local taxes (except property tax).

Effectively, FHLMC acts as a mortgage company. To the extent that FHLMC is able to maintain a strong financial position and to expand its services, it can be argued that FHLMC should not be treated differently than other mortgage companies that are not exempt from Federal income tax. It may be appropriate, however, to provide transitional rules if the exemption is repealed.

Prior Congressional Action

Proposed legislation in the 97th Congress (H.R. 4787 and H.R. 6442) would have reorganized and recapitalized FHLMC. Under these bills, the exemption from tax for FHLMC would have been repealed.

Impact

The Survey estimated that revenues would increase by $16.4 million in the first year, $18.0 million in the second year, and $19.8 million in the third year after enactment of a bill to repeal the FHLMC tax exemption.

3. Tax status of Farm Credit System

Recommendation

"Congress should be requested to amend the Farm Credit Act of 1971, sections 1.21 and 2.8, to make Federal Land Banks (FLBs), Federal Land Bank Associations (FLBAs), and Federal Intermediate Credit Banks (FICBs) subject to taxation." (Task Force on Boards/Commissions—Banking Recommendation 38–1.)

Background

Under present law, certain entities of the Farm Credit System are exempt from Federal income tax. The Federal Land Banks and Federal Land Bank Associations are exempt from all taxation under section 1.21 of the Farm Credit Act of 1971, as amended. Up to 50 percent of Federal Land Banks earnings and 10 percent of Federal Land Bank Associations earnings are required to be retained permanently and not made available to stockholders. Section 2.8 of the same Act exempts the Federal Intermediate Credit Banks from tax, except that in years that the Governor of the Farm Credit Administration holds the stock of any Federal Intermediate Credit Bank, it may be subject to a franchise tax on earnings.

The Production Credit Associations are taxed primarily as corporations (a few as cooperatives). The Banks for Cooperatives are subject to tax, but certain patronage dividends are not taken into account by a cooperative organization in determining its taxable income. Thus, such organizations may avoid the tax to the extent they distribute earnings to patrons.

Originally, the Farm Credit System was established to provide a dependable source of credit available nationwide at reasonable rates under all economic circumstances. Farm Credit System entities were exempt from tax because, by their organizational structure and the limitations imposed by statute on their operations, they were essentially similar to other Government-sponsored enterprises.

The Survey concluded that as the Farm Credit System share of total farm debt, especially real estate loans, continues to increase (from 16.5 percent in 1965 to 32.5 percent by 1980), the subsidy implied by the exemption increases. Further, it argued that the statutory requirements for Federal Land Banks and Federal Land Bank Associations to retain earnings widens their competitive advantage over commercial banks and other lenders and that, to the extent the exemption provides a competitive advantage to entities under the Farm Credit System, the exemption from tax no longer serves a public purpose.

Impact

The Survey estimated that the taxation of Federal Land Banks, Federal Land Bank Associations, and Federal Intermediate Credit Banks would increase revenues by $195.8 million in year 1, $215.4 million in year 2, $236.9 million in year 3—a total revenue increase of $648.1 million over a 3-year period.

4. Tax-exempt bonds for private hospitals

Recommendation

"The Administration should propose legislation requiring that tax-exempt hospital bonds be 'general obligation' issues of the governmental unit issuing them rather than revenue bonds," (Health and Human Services—Health Care Financing Administration Task Force, Recommendation 5–3).

Background

State and local bonds include bonds which the State or local government is obligated to repay from general revenues ("general obligation" bonds) and bonds which are repaid from or secured by revenues from specific projects (revenue bonds).

Under present law, interest on State and local government obligations is generally exempt from Federal income tax. Under this rule, State and local governments generally may issue tax-exempt bonds to finance public projects or services or to provide financing for tax-exempt religious, charitable, scientific, or educational organizations. When a State or local government issues bonds to be used in a trade or business by a nonexempt person, and repayment of the bonds is derived from or secured by money or property used in a trade or business, the bonds are tax-exempt only if they satisfy the requirements applicable to industrial development bonds (IDBs).

Because private non-profit hospitals qualify as tax-exempt charitable organizations, interest on State or local bonds used to benefit such hospitals is tax-exempt whether the bonds are structured as general obligation or revenue bonds. Most hospital bonds are currently structured as revenue bonds.

The Survey recommends limitations on tax-exempt financing as part of a program to reduce excess hospital capacity in the United States.

Prior Congressional Action

The House Committee on Ways and Means has reported (H.R. 4170, H.R. Rep. No. 98–432), and the Finance Committee is considering, legislation imposing restrictions on tax-exempt bonds used for private activities. However, the proposals under consideration generally would not restrict the availability of tax-exempt hospital revenue bonds.

Impact

The Survey estimated that this proposal would result in $662 million of increased revenues over a 3-year period.

5. Taxation of Federal subsidy payments

Recommendation

"PPSS suggests that a form, similar to a W-2 Form issued to wage-earners, be issued by each Federal department or agency providing a subsidy to a specific beneficiary, with a copy going to the IRS. . . . A cut-off point should be established below which subsidy payments would not be taxed—with everything above the cut-off point included in total income and taxable as any other income would be at the individual or corporations given tax bracket." (Management Office Report on Federally Subsidized Programs, Recommendation 1-1).

Background

Generally, a variety of laws provide complete or partial tax exemption for an array of Federal payments including social security benefits, welfare payments, veterans benefits, disability benefits, and educational assistance payments. In addition, many programs provide benefits to individuals in the form of low-interest or guaranteed loans.

The Survey recommends imposition of an unspecified consolidated cap on the tax-free receipt of means-tested subsidies from the Federal government.

Prior Congressional Action

In the Social Security Amendments of 1983, the Congress provided for taxation of a portion of the social security and railroad retirement benefits of individuals whose adjusted gross income, plus one-half their benefits, exceeds $25,000 ($32,000 on a joint return). The proceeds from the taxation of benefits, as estimated by the Treasury, are transferred to the appropriate trust funds.

Impact

The Survey did not make a revenue estimate of its proposal. In addition, the Survey expressed the view that while adequate information does not exist, cost savings of $59 billion over three years could be achieved through improved targeting of means-tested benefits.

6. HUD-financed rental housing

Recommendation

"Amend the IRS code so that:

1. Cash-based accounting is the only allowable method where HUD financing or insurance is involved;

2. Depreciation benefits clearly cease upon HUD's initiating foreclosure proceedings; and

3. Upon completion of foreclosure, any recapture is retroactive to the date the foreclosure action was filed.

HUD should continue its present program of advising the IRS of its foreclosure activity." (HUD Task Force, Recommendation 4–6).

Background

Under present law, there are significant tax-advantages associated with investment in rental housing including, depreciation and interest deductions. When property is taken in foreclosure, the tax Code considers the property to have been sold and requires a recapture of excess depreciation deductions.

The Survey task force concluded that investors resist HUD disclosures because they wish to continue accruing deductions for interest and taxes and to avoid depreciation recapture as long as possible. In addition, delays may arise from a desire to secure alternative tax shelters before recognizing ordinary income through recapture.

Impact

The Survey estimated that recommended changes would increase revenue collections by $4–$5 million per year.

7. Inland waterways user fees

Recommendations

"The Administration should propose . . . legislation to obtain full cost recovery phased in over a five-year period for COE and TVA expenditures for the operation and maintenance as well as the construction on the nation's inland waterways system." (Report on User Charges, Recommendation 20–1.)

"The COE and TVA should be assigned the principal task of implementing the law using existing information and data collection systems, including IRS." (Report on User Charges, Recommendation 20–2.)

Background

The inland waterways basically are comprised of all U.S. waterways (other than the intercoastal waterways and the Great Lakes waterways) which are part of the navigable rivers, lakes, and canals of the United States.

The U.S. Army Corps of Engineers has primary responsibility for the operation, maintenance, and improvement of the inland waterways system. The Corps of Engineers has developed this system by using locks and dam structures, dredging, and other methods to control the flow of existing rivers in a navigable waterway network.

Prior to 1978, there were no waterway user charges on commercial cargo traffic on the inland waterways system.

Prior Congressional Action

The Inland Waterways Revenue Act of 1978 (P.L. 95-502) imposed a Federal retailers excise tax on diesel and other liquid fuels used by commercial cargo vessels on 26 designated inland or intracoastal waterways of the United States. These waterways include the Mississippi River upstream from Baton Rouge, the Mississippi's tributaries, and the Gulf and Atlantic Intracoastal Waterways. The tax does not apply to fuel used by deep-draft ocean-going vessels, recreational vessels, or noncargo vessels such as passenger vessels and fishing boats.

The present tax rate is 8 cents per gallon. On October 1, 1985, the rate is scheduled to increase to 10 cents per gallon.

Revenues from the inland waterways fuel excise tax are transferred periodically to the Inland Waterways Trust Fund. Amounts in the Trust Fund are available, as provided by authorization and appropriation acts, for making construction and rehabilitation expenditures for navigation on the specified waterways the commercial use of which is subject to the fuel excise tax.

Impact

The Survey estimated that its inland waterway proposals would recover receipts (net of implementation costs) of $91.3 million in the first year of the five-year phase-in period, $196.1 million in the second year, and $313.3 million in the third year.

B. Administration of the Tax Laws

1. FICA tax deposits by State and local governments

Recommendation

"It is recommended that SSA, with corroborating studies from IRS, sponsor legislation through the Office of Management and Budget (OMB) to require State and local governments to remit FICA payments with the same frequency as private industry. Furthermore, it is recommended that Congress pass such legislation or remove the statutory requirement now imposed for making such changes." (Report on Financial Asset Management, Recommendation 2–1).

Background

In general, employers that have $500 or more of undeposited FICA and withholding taxes at the end of any month must deposit those taxes within 15 days after the end of that month. However, employers that have $3,000 or more of undeposited taxes at the end of any eighth-monthly period must deposit those taxes within 3 days after the close of the eighth-monthly period.

Prior Congressional Action

Under the Social Security Amendment of 1983, State and local governments must deposit withheld social security taxes on a bi-weekly basis rather than on a monthly basis as under prior law.

Impact

The Survey estimated a one-time acceleration of revenues of $1.25 billion and interest cost savings of $413.7 million over three years.

2. Electronic funds transfers for alcohol and tobacco excise tax payments

Recommendation

"It is recommended that Treasury urge Congress to rescind H.R. 4121 so that collections of alcohol and tobacco excise taxes can be received more efficiently through EFT (Electronic Funds Transfer)." (Report on Financial Asset Management, Recommendation 3–3).

Background

Present law requires returns of alcohol and tobacco excise taxes on a semimonthly basis. The returns are due a specified number of days after the conclusion of the relevant semimonthly period (30 days for distilled spirits, 15 days for beer and wine, and 25 days for tobacco taxes). If a bond is posted with the Treasury, payment of the taxes may be deferred until the due date of the return.

Regulations proposed by the Treasury Department, Bureau of Alcohol, Tobacco and Firearms in January, 1981, would have required electronic funds transfers of alcohol and tobacco taxes by taxpayers paying $5 million or more of tax in the previous year. However, Congress, starting in 1981, has prohibited the expenditure of funds to change the method of collection of alcohol and tobacco taxes.

In addition to electronic transfers, the Survey recommends that the existing deferral periods for payment of alcohol and tobacco taxes be repealed.

The Survey found that the majority of alcohol and tobacco excise taxes are collected from fewer than 1,000 distillers and importers of alcohol and fewer than 200 cigarette manufacturers.

Prior Congressional Action

Congress has prohibited implementation of electronic funds transfers for alcohol and tobacco taxes.

Impact

The Survey estimated that these proposals would result in a one-time increase in budget receipts of $911 million over a 3-year period, plus an additional $88.1 million in annual interest savings.

3. Tax Court backlog

Recommendation

"Propose legislation to establish a decentralized appellate tax board, consisting of about 75 administrative law judges resident in appropriate cities around the nation." (Treasury Task Force, Recommendation 3-1).

Background

In 1979, the Tax Court received 17,295 cases, resolved 13,098 cases, and ended the year with an inventory of 27,910 cases. In 1982, the receipts rose to 31,119 cases while dispositions were increased to 23,926 cases and the backlog of pending cases grew to 53,440. Thus, although the number of dispositions has almost doubled in five years, so has the backlog of pending Tax Court cases. At the same time, examination coverage has declined from 2.24 percent of all income, estate, and gift tax returns in 1979 to 1.63 percent in 1982.

Present law permits taxpayers to elect to have a case involving $5,000 or less to have the case tried under a small case proceeding the results of which cannot be appealed. These proceedings generally are less formal and more expeditious than regular Tax Court trials.

The Survey's recommendation would create a mandatory small tax case proceeding for cases of $10,000 or less. Under this process, a taxpayer's case would have to be decided by an administrative law judge before it could be appealed to the Tax Court. Thus, the Tax Court's jurisdiction would be effectively narrowed to hearing cases involving more than $10,000 (approximately 30 percent of its current case load) and appeals of decisions by administrative law judges.

Prior Congressional Action

The Congress has taken several steps in recent years to reduce the Tax Court's backlog. In 1980, the number of judges on the Tax Court was increased (effective on February 1, 1981) from 16 to 19. In 1981 and 1982, the interest rate on underpayments and overpayments was increased substantially to discourage unwarranted delays in settling cases. In addition, penalties for valuation overstatements, substantial understatements, frivolous returns, and tax shelter promotions were adopted to reduce the growth in new cases. Finally, the penalties for negligence, fraud, and frivolous Tax Court proceedings were strengthened.

An increase in the current $5,000 limitation on the small tax case procedure has been reported by both the Senate Committee on

Finance (S. 2062, S. Rep. No. 98-300) and the House Committee on Ways and Means (H.R. 4170, H.R. Rep. No. 98-432).

Impact

The Survey estimated net cost and interest savings of $645 million over three years. These savings would be attributable to interest expense saved through an acceleration of revenue collections. The estimate does not take into account the downward effect on revenues in later years that results from acceleration of collections to the earlier years.

4. Collections offsets

Recommendations

"Legislation authorizing IRS to offset nontax debts from Federal tax refunds should be considered and introduced with a strong effort to have it enacted. As GAO and OMB have cautioned, the recommended necessary safeguards to protect debtors against arbitrary offset actions can and must be instituted." (Report on Financial Asset Management, Recommendation 27–1a).

"PPSSCC recommends that the necessary legislation be passed to allow the use of offset on tax refunds and that such a program be phased in as quickly as possible." (Report on Finance Management in the Federal Government, Recommendation 4–5).

Background

Under present law, the Secretary may credit the amount of any overpayment of tax in one year (including any interest thereon) against any liability in respect of an internal revenue tax for the same taxpayer for another year. Overpayments of income taxes can be credited against any taxes due from the taxpayer, including stamp, excise or employment tax, and any interest, additional amount, addition to the tax or assessable penalty. When a debt to the United States has been reduced to judgement, or when a taxpayer is in bankruptcy, the IRS may offset the taxpayer's refund by the amount of the debt. There is, however, no clear authority to administratively offset refunds prior to when the taxpayer's obligation has not been adjudicated.

Beginning with tax returns filed in 1982, tax refunds due taxpayers who are delinquent in making child and spousal support payments must be applied against past-due support obligations if (1) the person designated to receive the support is receiving Aid to Families with Dependent Children from a State welfare agency and the State has received that person's assignment of the support obligation; (2) the State has made a reasonable effort to collect the support; (3) the amount of past-due support is at least $150; (4) the support has been delinquent for at least 3 months; and (5) none of the past-due support has been received by the IRS through the State agency's notification to the Department of Health and Human Services.

Impact

The Survey estimated that use of refunds to offset nontax debts would, over 3 years, increase collections by $1.9 billion and reduce interest costs by $.4 billion, for a total deficit reduction of $2.3 billion over a 3-year period.

5. Private credit bureaus and collection agencies

Recommendations

"The Government should utilize the services of credit bureaus to report information on delinquent debtors." (Report on Financial Asset Management, Recommendation 28–1).

"The Government should utilize the services of private sector collection agencies, with the ultimate authority for overseeing the effective collection of bad debts remaining with each Government agency. These services should be used only after all other means of collection have been exhausted." (Report on Financial Asset Management, Recommendation 28–2).

"Amend the Tax Reform Act of 1976 to permit disclosure of (a) wage data maintained by SSA and (b) the IRS/IRP file on Unearned Income." (Low Income Standards and Benefits Task Force, Recommendation 4–2).

Background

Because the IRS has more information about more people than any other Federal or State agency, other agencies needing information about U.S. citizens tend to seek it from the IRS. Before the enactment of the Tax Reform Act of 1976, disclosure of tax returns and tax information, and any rules of confidentiality, was largely a matter of executive and administrative practice.

In general, now, returns and return information are confidential and are not subject to disclosure to Federal or State agencies or employees except as specifically provided in Code section 6103. For these purposes, a "return" means any tax return, information return, declaration of estimated tax, or claim for refund (including any amendment, supplement, supporting schedule or attachment) filed under the Code on behalf of or with respect to any person. "Return information" means (1) the taxpayer's identity; (2) the nature, source or amount of income, payments, receipts, deductions, net worth, tax liability, deficiencies and the like; (3) data received or prepared by the IRS regarding a return, deficiency, penalty, interest, offense and the like; (4) information regarding actual or possible investigation of a return; and (5) any part of an IRS written determination or background file document not open to public inspection.

The persons to whom returns and return information may be disclosed (with certain restrictions on how the information may be used), generally, are: (1) a designee of the taxpayer; (2) State tax officials; (3) persons having a material interest; (4) Congressional tax-writing committees; (5) the White House and Federal agencies; (6) the Treasury Department and Justice Department in civil and criminal tax cases; (7) Federal agencies in nontax criminal cases;

(8) the General Accounting Office; and (9) certain agencies for nontax administration. Agencies that may obtain tax return information include, the Social Security Administration and Railroad Retirement Board, the Department of Labor and Pension Benefit Guarantee Corporation, Federal, State and Local Child Support enforcement agencies, the Department of Agriculture and the State Food Stamp agencies.

Under present law, disclosure of tax return information to private credit bureaus and collection agencies would not be allowed.

Prior Congressional Action

The Tax Reform Act of 1976 (P.L. 94-455) contained a comprehensive amendment of the law regarding confidentiality and disclosure of returns and return information, effective January 1, 1977.

Impact

The Survey estimated that disclosure of taxpayer information to and use of private collection agencies would, over 3 years, increase revenues through reduced delinquent debt by $1.5 billion and reduce interest costs by $.3 billion, for a total deficit reduction of $1.8 billion over 3 years.

Also, the Survey estimated that more effective use of tax return information would reduce overpayment in benefit programs (i.e., food stamp, supplemental security income, sec. 8 Housing, and Medicaid) by $4.1 billion resulting in a Federal savings share of $3.1 billion.

6. Delinquent tax collections

Recommendation

"Request legislation to require banks to accept levies by mail—this recommendation would reduce the time that the RO (Revenue Officer) spends serving bank levies." (Treasury Task Force, Recommendation 1-4.)

Background

If any person liable to pay any tax neglects or refuses to pay the tax within 10 days after notice and demand, the district director to whom the assessment is charged may proceed to collect the tax by levy. The district director may levy on any property, or rights to property, whether real or personal, tangible or intangible, belonging to the taxpayer.

Levy may be made by serving a notice of levy on any person in possession of, or obligated with respect to, property or rights to property subject to levy, including receivables, bank accounts, evidences of debt, securities and salaries, wages, commissions, or other compensation.

A notice of levy may be served by mailing the notice to the person subject to service. In such a case the date and time the notice is delivered to the person to be served is the date and time the levy is made. If notice is sent by certified mail, return-receipt-requested, the date of delivery on the receipt is treated as the date the levy is made. Apparently, the obligation on the part of the person served to accept the notice of levy by mail is not settled under present law.

Impact

The Survey estimated that improved collection techniques, of which mandatory acceptance of service by mail by banks is one part, would increase revenues over three years, because of accelerated revenue receipts and reduced interest costs, by $300 million.

C. The Pension Benefit Guarantee Corporation (PBGC)

1. Single-employer plan premium increase

Recommendations

"We believe that a conservative posture is appropriate for PBGC at this point and that the preponderance of evidence supports its position on the question of the level of premiums currently necessary. Accordingly, we recommend that the $6 premium be authorized and implemented by Congress at the earliest possible time." (Task Force on Boards/Commissions—Banking, Recommendation 1-1.)

"We recommend that the $6 premium be given a three-year life and that PBGC be required to submit to Congress a plan for implementation of a risk-related premium or reasonable alternative within that period." (Task Force on Boards/Commissions—Banking, Recommendation 1-2.)

Background

The annual, per-employee premium for insurance of benefits under a single-employer defined benefit pension plan was initially set by ERISA at $1.00 in 1974. In 1978, the premium was raised to $2.60. PBGC has determined that a $6.00 premium is required and GAO has concurred with this finding.

Prior Congressional Action

Pending legislation (S. 1227 and H.R. 3930) would increase the premium to $6.00 and would make structural changes in the insurance program designed to prevent abuse. S. 1227 was referred to the Senate Committee on Finance and to the Senate Committee on Labor and Human Resources. H.R. 3930 was referred to the House Committee on Ways and Means and to the House Committee on Education and Labor (the Subcommittee on Labor-Management Relations has forwarded the bill to the full Committee on Education and Labor).

Impact

The proposed premium increase is estimated by the Survey to increase aggregate single-employer insurance premiums by approximately $100 million annually.

2. Risk-related premium

Recommendation

"The PBGC should develop an improved premium structure that is more equitable for the premium payers so that incentives are provided to plan sponsors to achieve and maintain adequate funding levels." (Task Force on Boards/Commissions—Banking, Recommendation 5–1.)

Background

PBGC is required to establish separate uniform premium rates for single-employer and multiemployer defined benefit pension plans. Under present law, PBGC has limited authority to set a risk-related premium rate.

Prior Congressional Action

The PBGC has not requested, nor has Congress otherwise considered, a risk-related premium rate.

Impact

The recommendation proposes that a risk-related premium rate be structured in a manner that collects premium income equivalent to the per capita premium rate and, thus, the recommendation would not generate a revenue increase. The recommendation is estimated to result, however, in the ultimate improvement of the equity and merits of the mandatory insurance system.

3. Special assessments for underfunded programs

Recommendation

"The PBGC should consider special assessments to sponsors who underfund their own vested benefit programs and thereby jeopardize the entire benefit insurance system." (Task Force on Boards/Commissions—Banking, Recommendation 5–2).

Background

PBGC is required under present law to establish separate uniform premium rates for single-employer and multiemployer defined benefit pension plans. Under present law, PBGC has limited authority to set a risk-related premium rate. The corporation does not have the authority to impose special premium assessments on substantially underfunded plans or to exempt fully funded plans from premium increases.

Prior Congressional Action

The PBGC has not requested, nor has Congress otherwise considered, a premium rate structure that would impose special assessments on underfunded plans.

Impact

The Survey estimated that implementation of the proposal could result in revenue increases of at least $3.2 billion over three years.

4. Premium for transferred risks

Recommendation

"Congress should pass S. 1541 as quickly as practical. We recommend the Administration's active support and the combination of this issue with the $6.00 premium bill for passage as soon as possible." (Task Force on Boards/Commissions—Banking, Recommendation 2–1.)

Background

The PBGC and premium payers are concerned that present law does not prevent employers from inappropriately transferring pension liabilities to the PBGC. GAO has recommended that the Congress consider further abuse controls.

Prior Congressional Action

Pending legislation (S. 1227 and H.R. 3930) would increase the premium to $6.00 and would make structural changes in the insurance program designed to prevent abuse. The bills would impose liability (for a limited period) on a plan sponsor that transfers pension liability to a financially weak employer and would make liquidation of the employer the insurable event.

S. 1227 was referred to the Senate Committee on Finance and to the Senate Committee on Labor and Human Resources. H.R. 3930 was referred to the House Committee on Ways and Means and to the House Committee on Education and Labor (the Subcommittee on Labor-Management Relations has forwarded the bill to the full Committee on Education and Labor).

Impact

The Survey estimated that recommendation with respect to abuse control would save between $6 and $7 million annually but indicates that the true impact cannot be determined. In addition, the Survey estimated that the recommendation with respect to the insurable event would save annual administrative costs of $2.6 million.

D. Railroad Retirement Provisions

1. Privatization of Railroad Retirement System

Recommendations

"All railroad workers and retirees should be brought into the social security system. The administration of the social security equivalent portion of railroad retirement should be turned over to SSA." (Task Force on Boards/Commissions—Banking, Recommendation 10–1).

"The industry pension portion of railroad retirement should be turned into a private multi-employer pension plan (hereafter referred to as the Railroad Retirement Pension Fund)." (Task Force on Boards/Commissions—Banking, Recommendation 10–2).

"The Federal Government should provide financial security for the private pension fund without Federal subsidies or undue financial strain on the industry by enacting a payroll tax on railroads equal to the collectively bargained pension contributions, a tax which would be 100 percent offset by contributions to the railroad pension fund; and by exempting the present level of benefits from ERISA requirements (although benefit increases should be subject to ERISA funding requirements)." (Task Force on Boards/Commissions—Banking, Recommendation 10–3).

"The Railroad Unemployment and Sickness Insurance program should be administered by the new, private multi-employer pension plan created by [Recommendation 10–2] above." (Task Force on Boards/Commissions—Banking, Recommendation 10–4).

"The Federal Government should provide financial security for the Railroad Unemployment and Sickness Insurance program by enacting a payroll tax on railroads equal to the collectively bargained unemployment and sickness insurance contributions, a tax which would be 100 percent offset by contributions to the RUSI fund." (Task Force on Boards/Commissions—Banking, Recommendation 10–5).

"The tax-free status of the industry pension benefits should be changed. The benefits should be taxed on the same basis as all over private pension systems." (Task Force on Boards/Commissions—Banking, Recommendation 10–6).

Background

The railroad retirement system is established under Federal law to provide retirement benefits to employees of the railroad industry. The system is funded by special taxes on rail employees and employers. Similarly, unemployment benefits are provided to rail employees through a specially funded system administered by the Railroad Retirement Board. Rail employment is not covered by or

taxed under either social security or the regular State systems of unemployment insurance.

There are two basic railroad retirement benefits and two additional types of benefits for which some retirees are eligible. The basic "Tier I" benefit is designed to provide retirees the equivalent of social security benefits. The "Tier II" benefit is the equivalent of industry pension benefits for railroad workers. In addition, a modest supplemental annuity benefit is available to career railroad employees who retire with at least 25 years service; and a so-called "windfall" or dual benefit is available to workers who earned both railroad retirement benefits under railroad employment and social security benefits under non-railroad employment.

A similar set of proposals was included in the Administration's budget for fiscal year 1983.

Prior Congressional Action

The substance of the sixth recommendation was included in the Railroad Retirement Solvency Act (P.L. 98–76), effective in 1984.

Impact

The Survey expects that privatization would reduce the probability of increased subsidies, which it expects could reach $100 million per year. It also expects administrative savings of about $56 million per year and program-related savings totaling between $350 and $400 million.

2. Railroad unemployment and sickness insurance financing

Recommendation

"An experience rating system of taxes should be developed to provide a more equitable application of the system within the industry and to provide incentives to reduce the overall system cost." (Task Force on Boards/Commissions—Banking, Recommendation 13–2).

Background

Benefits under the Railroad Unemployment and Sickness Insurance System are financed with a flat tax which does not vary with the experience of each employer. Under the regular State unemployment insurance programs, financing generally is experience rated.

The Administration proposes, in its fiscal year 1985 Budget, to extend regular Federal and State unemployment insurance coverage to rail employees. This would have the effect of financing the benefits of railroad employees under the experience-rated State systems and making various changes in unemployment benefits.

Prior Congressional Action

P.L. 98-76 establishes a Railroad Unemployment Compensation Committee to review all aspects of the railroad unemployment program and to report to Congress by April 1, 1984.

Impact

No deficit reduction estimate is provided for this recommendation.