

[JOINT COMMITTEE PRINT]

DESCRIPTION OF TAX BILLS
(S. 1035, S. 1595, and S. 1745)

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE

ON OCTOBER 30, 1981

—

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION



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INTRODUCTION

The bills described in this pamphlet have been scheduled for a public hearing on October 30, 1981, by the Senate Finance Subcommittee on Taxation and Debt Management.

There are three bills scheduled for the hearing: S. 1035 (relating to income tax checkoff for contributions to the arts), S. 1595 (relating to income tax check off for the United States Olympic Committee), and S. 1745 (relating to exemption from divestiture requirements for the El Pomar Foundation).

The first part of the pamphlet is a summary of the bills. This is followed by a more detailed description of the bills, including present law, issues, explanation of provisions, effective dates, and estimated revenue effects.

I. SUMMARY

1. S. 1035—Senator Mathias

Income Tax Checkoff for Contributions to the Arts

Under present law, individuals (other than nonresident aliens) may designate by checkoff on their income tax return that \$1 of their income tax liability for the year is to be paid over to the Presidential Election Campaign Fund. The bill would provide a checkoff on income tax returns under which taxpayers could designate that any portion of a tax refund for the year or any cash contribution forwarded by the taxpayer with the return be paid to the National Endowment for the Humanities and the National Endowment for the Arts for distribution to State art agencies and State voluntary councils.

Unlike the Presidential Election Campaign Fund checkoff, where the contribution to the Fund is paid from the individual's income taxes, the bill's checkoff system would permit a voluntary contribution which would be in addition to any income taxes paid by the taxpayer.

2. S. 1595—Senators Inouye and Stevens

United States Olympic Development Fund Checkoff Act of 1981

Under present law, individuals (other than nonresident aliens) may designate by checkoff on their income tax return that \$1 of their income tax liability for the year is to be paid over to the Presidential Election Campaign Fund. The bill would establish the United States Olympic Development Fund and provide a checkoff on income tax returns under which taxpayers could designate that either \$1 of any tax refund for the year or \$1 of cash contribution forwarded by the taxpayer with the return be paid into the Fund for use by the United States Olympic Committee to promote amateur athletics in the United States.

Unlike the Presidential Election Campaign Fund checkoff, where the contribution to the Fund is paid from the individual's income taxes, the bill's checkoff system would permit a voluntary contribution which would be in addition to any income taxes paid by the taxpayer.

3. S. 1745—Senators Armstrong and Hart

Exemption from Divestiture Requirements of Excess Business Holdings Provision for the El Pomar Foundation

The bill would exempt the El Pomar Foundation of Colorado Springs, Colorado, from the divestiture requirements of the excess business holdings provision imposed on private foundations by the Tax Reform Act of 1969.

II. DESCRIPTION OF BILLS

1. S. 1035—Senator Mathias

Income Tax Checkoff for Contributions to the Arts

Present law

Under present law (sec. 6096), individuals (other than ^{non}resident aliens) may designate by checkoff on their income tax return that \$1 of their income tax liability for the year is to be paid over to the Presidential Election Campaign Fund. In the case of a joint return, each spouse may designate \$1 to be paid to the Fund.

Present law provides no means by which a taxpayer, when filing a return, may include a cash contribution in addition to any tax due and designate on the return that the contribution is to be applied toward a particular government program. Similarly, present law does not enable a taxpayer to designate on a return that a refund due the taxpayer is instead to be applied toward a particular government program.

Contributions made to the Federal Government or to a State or local government exclusively for public purposes or to certain charitable organizations are allowed as a deduction to the taxpayer under the rules for charitable contributions and gifts (sec. 170).

Issues

The issue is whether taxpayers should be able to make contributions for the advancement of the arts or humanities through a checkoff on the taxpayer's Federal income tax return. A related issue is what effect will such a checkoff have on the administrative burdens of the Internal Revenue Service and upon the complexity of tax returns.

Explanation of the bill

Taxpayer contributions

Under the bill, any taxpayer (an individual, corporation, etc.) who files an income tax return could elect to have any portion of a refund due the taxpayer paid instead to the National Endowment for the Arts, the National Endowment for the Humanities, or both Endowments equally. In addition, a taxpayer could forward with an income tax return a cash contribution to be paid to either Endowment or to both Endowments equally.

Under the bill, a refund contributed to an Endowment pursuant to a taxpayer's designation on a return would be treated as an amount refunded to the taxpayer on the date prescribed for filing the return (or the date the return is actually filed, if later).

The bill requires that all income tax return forms fully inform taxpayers of the opportunity to make a contribution to the Endowments and the purposes for which the contribution will be used. Space is

to be made available on the first page of each form for taxpayers to designate their contributions.

Unlike the Presidential Election Campaign Fund checkoff, where the contribution to the Fund is paid from the individual's income taxes, the bill's checkoff system would permit a voluntary contribution which would be in addition to any income taxes paid by the taxpayer. Amounts contributed to the Endowments would be treated as donations from private persons and not Federal assistance and would not reduce the amount of Federal assistance to which the Endowments are otherwise entitled.

Transfers to Endowments and State agencies

Under the bill, taxpayer contributions are to be transferred at least quarterly to the National Endowment for the Arts and the National Endowment for the Humanities. The National Endowment for the Arts is to transfer all contributions received by it to State art agencies, and the National Endowment for the Humanities is to transfer its contributions to State voluntary councils. The Endowments are to establish criteria for determining the amount transferred to each State agency or council. No taxpayer contributions could be provided for a project unless the State (from any source) matches at least 50 percent of the amount to be provided from contributions. Also, the total amount provided from taxpayer contributions could not exceed 30 percent of the cost of any project for which an admission or other charge is made to the public.

Taxpayer contributions could not be used by the Endowments or by State agencies or councils to pay administrative expenses. In addition, taxpayer contributions could not be used for grants to an institution's endowment fund or otherwise be held for investment.

Effective date

The provisions of the bill would apply with respect to taxable years beginning after December 31, 1981.

Revenue effect

It is estimated that this bill would have no direct effect on budget receipts. However, enactment of the bill would impose additional administrative burdens on the Internal Revenue Service which could increase budget outlays or reduce budget receipts through lower audit activity, or both.

2. S. 1595—Senators Inouye and Stevens

United States Olympic Development Fund Checkoff Act of 1981

Present law

Under present law (sec. 6096), individuals (other than nonresident aliens) may designate by checkoff on their income tax return that \$1 of their income tax liability for the year is to be paid over to the Presidential Election Campaign Fund. In the case of a joint return, each spouse may designate \$1 to be paid to the Fund.

Present law provides no means by which a taxpayer, when filing a return, may include a cash contribution in addition to any tax due and designate on the return that the contribution is to be applied toward a particular government program. Similarly, present law does not enable a taxpayer to designate on a return that any refund due the taxpayer is instead to be applied toward a particular government program.

Contributions made to the Federal Government for exclusively public purposes or to certain charitable organizations are allowed as a deduction to the taxpayer under the rules for charitable contributions and gifts (sec. 170).

Issues

The issue is whether a checkoff system should be established under which taxpayers could designate on their income tax returns that either \$1 of any refund due the taxpayer or \$1 of cash contribution included with the return is to be made available to the United States Olympic Committee to promote the expansion and improvement of amateur athletics in the United States. A related issue is what effect will such a checkoff have on the administrative burdens of the Internal Revenue Service and upon the complexity of tax returns

Explanation of the bill

Taxpayer contributions

The bill would establish the United States Olympic Development Fund and provide a system for taxpayers to make contributions to the Fund by making an election on income tax returns. Any taxpayer (an individual, corporation, etc.) who files an income tax return could make an election on the first page of the return to (1) have \$1 of any overpayment of tax for the year, which would otherwise be refunded to the taxpayer, paid instead to the United States Olympic Development Fund, or (2) have \$1 of cash contribution forwarded by the taxpayer with the income tax return paid to the Fund. In the case of a joint return, each spouse could designate that \$1 be available to the Fund under the election.

Unlike the Presidential Election Campaign Fund checkoff, where the contribution to the Fund is paid from the individual's income

taxes, the bill's checkoff system would permit a voluntary contribution which would be in addition to any income taxes paid by the taxpayer.

Under the bill, a \$1 refund contributed to the Fund pursuant to the taxpayer's designation on a return would be treated as an amount refunded to the taxpayer on the date prescribed for filing the return (or the date the return is actually filed, if later).

Transfers to the Fund

The bill would establish the United States Olympic Development Fund as a special fund in the Treasury of the United States. Appropriations would be made to the Fund equal to the amount designated during the fiscal year as being available under the checkoff system. Under the bill, the amounts appropriated would be transferred monthly to the Fund and would be paid each fiscal year to the United States Olympic Committee by the Secretary of the Treasury. The Olympic Committee would be able to use the funds to carry out a program for the expansion and improvement of amateur athletics in the United States to encourage all Americans (including women, minorities, the aged and the handicapped) to participate in athletic endeavors. The funds would remain available to the Olympic Committee without fiscal year limitation.

The United States Olympic Committee would be required to submit a report each year (within 120 days after the end of the fiscal year) to the President's Council on Physical Fitness and Sports with respect to the expenditure of funds made available from the Olympic Development Fund. The President's Council would then be required (within 120 days after receipt of the Olympic Committee's report) to submit a report each year to Congress evaluating the effectiveness of the expenditure of these funds. The Council's report would also include any recommendations regarding such expenditures or with respect to the Fund.

Effective date

The provisions of the bill would apply to taxable years ending after the date of enactment.

Revenue effect

It is estimated that this bill would have no direct effect on budget receipts. However, enactment of the bill would impose additional administrative burdens on the Internal Revenue Service which could increase budget outlays or reduce budget receipts through lower audit activity, or both.

3. S. 1745—Senators Armstrong and Hart

Exemption From Divestiture Requirements of Excess Business Holdings Provision for the El Pomar Foundation

Present law

The Tax Reform Act of 1969 imposed an excise tax upon the excess business holdings of a private foundation (sec. 4943). Generally, under the excess business holdings provisions, the combined ownership of a business by a private foundation and all disqualified persons cannot exceed 20 percent of the voting stock of the business (35 percent if other persons have effective control of the business).

The 1969 Act provided that if a private foundation and disqualified persons together had holdings on May 26, 1969 in excess of the permitted amounts under the general rules, then those holdings could be retained if they consisted of not more than 50 percent of the business. If the combined holdings exceeded 50 percent of the business on that date, then over a transitional period the combined holdings have to be reduced to 50 percent (ultimately to 35 percent if the disqualified persons hold, in the aggregate, no more than 2 percent of the business; if they hold more than 2 percent, then the combined holdings may continue to be as much as 50 percent, of which the foundation itself may hold no more than 25 percent).

Issue

The issue is whether the El Pomar Foundation, of Colorado Springs, Colorado, should be exempt from the divestiture rule of the excess business holdings requirements of the Tax Reform Act of 1969.

Explanation of the bill

The bill would provide that the divestiture requirements of the excess business holding provisions (sec. 4943) would not apply to a private foundation which meets the following conditions: (1) the foundation owned (directly or through a holding company) 100 percent of the voting stock in an incorporated business enterprise on May 26, 1969; (2) the stock in the business enterprise was acquired by gift, devise, or bequest before December 31, 1966; (3) neither the donor nor any of the members of his family was a foundation manager on or after December 31, 1956; (4) the enterprise operates the same business on May 26, 1969, and all times thereafter as it did on the date of the last gift, devise, or bequest by any donor of any stock in the business enterprise; and (5) the foundation does not acquire on or after May 26, 1969, any business enterprise that would constitute excess business holdings.

It is understood that the intended beneficiary of the bill is the El Pomar Foundation of Colorado Springs, Colorado. However, any private foundation that meets the requirements of the bill would qualify for exemption from the divestiture rules.

Effective date

The provisions of the bill would be effective on the date of enactment.

Revenue effect

It is estimated that this bill would have no effect on budget receipts during the next five fiscal years, assuming that the divestiture does not take place during this period. After divestiture, the budget receipts would be affected, but it is impossible to estimate in what way they would be affected and when the impact on budget receipts would occur.