

[COMMITTEE PRINT]

SUMMARY OF STATEMENTS SUBMITTED TO  
THE FINANCE COMMITTEE ON TAX  
REVISION AND EXTENSION OF  
TAX REDUCTIONS

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PREPARED FOR THE USE OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE

BY THE STAFF OF THE  
JOINT COMMITTEE ON INTERNAL REVENUE  
TAXATION

AND THE  
CONGRESSIONAL RESEARCH SERVICE



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## INTRODUCTION

The following is a summary of statements submitted for the record to the Finance Committee (received as of April 23, 1976) on the general subject of tax revision and extension of tax reductions. The topics are arranged generally according to the provisions in the House tax reform bill (H.R. 16012), the House energy bill (H.R. 6860), the Administration's proposals on capital formation, estate and gift taxes, social security taxes and the taxable bond option, as well as other topics covered in the statements.

This summary was prepared with the assistance of the Congressional Research Service: Harry G. Gourevitch (Senior Specialist in Taxation and Fiscal Policy), along with Martha Elizabeth Smith, Robert F. DeMeter, and Howard Zaritsky (American Law Division).

### PART I—INCOME TAX PROVISIONS

#### A. Tax Shelters and LAL

##### 1. General

*Leonard Woodcock, President, UAW*

Advocates further reform to prevent tax shelters, including application of the LAL restrictions on a venture-by-venture basis rather than on a consolidated basis.

*Citizens Committee on Tax Reform, Stephen J. Rapp, Chairman*

Urges the committee to limit artificial accounting losses by requiring that accounting losses be taken only against related income.

*Taxation With Representation, Thomas J. Reese, Legislative Director*

States that the keys to fundamental reform in the tax shelter area are: (1) realistic allowances for depreciation and depletion, (2) capitalization of all expenditures for assets lasting more than 1 year, and (3) matching of business-related income and expenses through accrual basis accounting.

*Robert A. Treese, CPA*

Opposes the LAL provisions of H.R. 10612. Believes they would stifle investment in oil exploration and certain other economic activities rather than providing needed incentives for increased investments in such activities.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Considers LAL to be administratively complicated and not necessary if some of the deduction provisions are dealt with directly and if the top tax rates are lowered to below 50 percent.

*Earl Hall, Lewiston, Idaho*

Objects to the LAL provisions as needlessly complex. Believes that if the deduction of artificial losses creates an inequity in the tax system, such deductions should be disallowed to all taxpayers; otherwise they should be retained for all taxpayers.

## **2. Real Estate**

*Building Owners and Managers Association, International*

Opposes application of LAL to real estate.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

With regard to real estate, recommends that the following be deleted: LAL, interest deduction limitations, and full recapture of depreciation on residential property.

*Pizzagalli Construction Company, James Pizzagalli, Vice President and Counsel*

Opposes provisions of H.R. 10612 which would apply LAL to real estate and deny an immediate deduction for prepaid interest, as these changes would raise the cost of capital, discourage investors, and lessen the demand for new construction.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Suggests that interest and taxes during construction be capitalized, since a buyer must capitalize these amounts in the price of the building. Sees no reason why one who constructs the building should be treated differently.

*Landura Corporation, Richard J. Bjelland, President*

Urges that the definition of low income housing in H.R. 10612, for purposes of the five-year deferred application of the LAL provisions to such housing, be amended to include housing under the Farmers Home Administration (FMHA) Rural Rental Housing Program.

## **3. Farming**

*Honorable Hiram L. Fong and Honorable Daniel K. Inouye, U.S. Senators, Hawaii*

Recommend an amendment to the provision of the House bill which requires corporations engaged in farming (except family corporations and Subchapter S corporations) to use an accrual method of accounting with the capitalization of preproductive period expenses. Their proposed amendment would allow corporations engaged in farming which have utilized an "annual accrual method of accounting", without capitalization of preproductive period expenses, to continue to use this method. The amendment would also allow a corporation which has previously used a static inventory accrual method to change to the annual accrual method of accounting with a 10-year spread of the adjustments. Note that this proposed amendment would help the sugar cane and pineapple industries.

*Pineapple Growers Association of Hawaii and Hawaiian Sugar Planters' Association*

Support an amendment described in the statement of Senators Fong and Inouye, which would allow corporations in the sugar cane and

pineapple industries to continue to use an accrual method of accounting without capitalization of preproductive period expenses.

*American Horse Council, Inc.*

Objects to LAL generally (and in particular the definition of a farming syndicate), as well as to mandatory accrual accounting for certain farm corporations. Favors an "at risk" limitation such as that contained in the House bill. Supports full repeal of code section 1251 (relating to farm excess deductions accounts), rather than a termination of further additions to excess deductions accounts (as was done in the House bill).

*Society of American Florists and Ornamental Horticulturists, Perry A. Russ, Director of National Affairs*

Opposes the LAL farming provisions of H.R. 10612, as they discriminate against new investors in farming ventures, discriminate against the corporate form of business organization for farming, and are enormously complex and arbitrary.

If the LAL approach of H.R. 10612 is to be applied to farming, recommends that:

- (1) The amount of unrelated income which can be offset by "accelerated deductions" be increased from \$20,000 to \$50,000;
- (2) The carryback of deductions which have been deferred by the LAL provisions be permitted under certain circumstances;
- (3) The LAL farm rules not apply to any person for whom gross income from farming is a substantial portion (perhaps 50 percent or more) of his gross income; and
- (4) The required use of the accrual method of accounting be eliminated.

*American Farm Bureau Federation, John C. Datt*

Supports the objectives of the farming provisions of H.R. 10612 to curb the use of farming as a tax shelter by taxpayers with large non-farm incomes without penalizing taxpayers who are actual farmers.

Believes that all farmers, including farm corporations, should continue to have the option of filing income tax returns on either a cash or accrual basis.

*National Christmas Tree Association, Inc.*

Opposes the provisions of H.R. 10612 which include Christmas tree growers within the definition of "farm operations" for purposes of the limitations on artificial losses (LAL).

*William F. McFarlane, Clovis, California*

Urges that the accrual method of accounting not be required of a farming corporation if it is eligible for subchapter S status but for the fact that it has a trust as a shareholder.

Recommends in the case of a family corporation where two families are involved, deletion of the requirement that ownership of the corporation's stock by each of the two families must have continued for 10 years prior to enactment of the bill. Believes the cash method of accounting should be available at any time to two families joining in farming operations through a family corporation, as it would be in the case of a partnership, without regard to any ten-year requirement.

#### **4. Oil and Gas**

*Interstate Natural Gas Association of America, Walter E. Rogers, President*

Urges that the limitations on these deductions in H.R. 10612 be eliminated because of the need for a high rate of return in a high-risk operation.

*California Independent Producers and Royalty Association, James H. Woods, Executive Vice President*

Objects to the House bill restrictions on the deductions for intangible drilling and development costs. States that independents will be faced with the difficult and inequitable situation of proving that exploratory wells drilled since January 1, 1976 qualify for the IDC writeoffs. Considers the two-mile rule for exploratory wells to be absurd, as the oil industry classifies exploratory wells as "wells seeking new reserves," regardless of distance from existing production wells.

*Magnatex Corporation, Charles H. Priddy, President*

Opposes LAL for oil and gas. Believes LAL will inhibit needed exploration for oil and gas and fails to take account of the large risks involved in discovering new development of new sources of oil and gas.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

With regard to the limitation on depreciation of movies, asks that the Committee Report make it clear that the transition rule appearing on page 111 of the Ways and Means Committee Report applies regardless of when the interest was acquired.

#### **5. Movies**

*Larry Gordon*

Expresses opposition to the LAL and tax shelter changes proposed in H.R. 10612 regarding the taxation of the motion picture industry.

#### **6. Equipment Leasing**

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Opposes LAL provisions with regard to equipment leasing.

#### **7. Sports Franchises**

*Charles Waldauer, Professor of Economics, Widener College*

Believes that the value of player contracts should be treated not as a depreciable asset, but as part of the franchise rights similar to the treatment of goodwill.

#### **8. Limitations on Interest Expenses**

*American Land Development Association, Gary A. Terry, Executive Vice President*

Opposes the provisions to impose an arbitrary ceiling on the deductibility of nonbusiness.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker,  
Chairman, Federal Tax Committee*

Objects to the \$12,000 limitation on nonbusiness interest deduction. Suggests that interest and taxes be treated the same as interest on business loans. Also, proposes that interest that is disallowed be carried back as well as forward and that this carryback/carryforward treatment be available for personal loans as well as investment loans.

#### **9. Partnerships**

*Greater Philadelphia Chamber of Commerce, John B. Huffaker,  
Chairman, Federal Tax Committee*

Recommends deletion of the partnership provisions of the House bill.

#### **10. Other**

*Geothermal Resources International, Inc., Ronald P. Baldwin,  
President*

Suggests that section 208 of H.R. 10612 be amended to exclude from the at-risk rule the deductibility of geothermal drilling and development costs associated with projects financed under Government-guaranteed geothermal loans.

### **B. Minimum Tax**

*Honorable Mark O. Hatfield, U. S. Senator, Oregon*

Urges consideration of S. 802, as a general tax simplification-reform amendment. Indicates that this bill would eliminate most tax deductions and broaden the tax base. Explains that the proposal would be an alternative to the minimum tax for those up to \$200,000 in income, and mandatory for those above that income level. The tax rate would begin at 10 percent and be graduated upward to 50 percent.

*Honorable Stanley N. Lundine, Member of Congress, New York*

Proposes that all special tax preferences be eliminated and replaced with a simple progressive tax rate (at lower rates than at present). Feels that such a system would be acceptable, would simplify the tax system, would make it more equitable, and would reduce taxes on those with incomes below \$20,000 (while increasing the tax on those with incomes above \$100,000).

*American Council for Capital Formation*

Recommends replacement of the present additional minimum tax (including House-passed amendments) with the alternative minimum taxable income proposal under which a taxpayer pays the higher of the regular tax calculation or the tax under the minimum taxable income.

*Leonard Woodcock, President, UAW*

Maintains that the minimum tax has not been effective in preventing avoidance of tax by many. Indicates that the best way to ensure that everyone group their fair share of tax is to eliminate all tax preferences. Until that is accomplished, recommends that the minimum tax rate be increased, the deduction be reduced, and the deduction for regular taxes be disallowed. Considers the House bill provisions to be a start in the right direction.

*Financial Executives Institute*

Requests repeal of the minimum tax as it affects corporations.

*Southern Methodist University, James H. Zumberge, President*

Opposes subjecting the appreciation in long-term tangible personal property to the 10 percent or other minimum tax.

*United States Catholic Conference, Eugene Krasicky, General Counsel*

Supports minimum tax provision in H.R. 10612.

*Association of Art Museum Directors, Evan H. Turner, President*

Endorses the Treasury Department's Minimum Taxable Income (MTI) concept and the total exclusion from MTI of charitable deductions, as the retention of these deductions is important to the continued existence of museums.

*American Hospital Association*

Urges that whether the MTI concept is adopted or the existing minimum tax is modified, the full deduction for charitable contributions be preserved.

*California Independent Producers and Royalty Association, James H. Woods, Executive Vice President*

Objects to the House bill inclusion of intangible drilling and development deductions as tax preference. Claims that this will have a further detrimental effect on independent drilling.

*American Iron Ore Association*

Recommends repeal of the minimum tax for corporations or; at the least, requests removal of percentage depletion from the list of preference items for corporations. Asserts that the iron ore industry is not a tax shelter for individuals and should not be burdened with that additional tax.

*Citizens Committee on Tax Reform, Stephen J. Rapp, Chairman*

Urges the committee to toughen the minimum tax by eliminating the deduction for taxes paid, decreasing the exemption from \$30,000 to \$5,000, and by raising the rate to 14 percent.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Objects to the reduction in the amount of the exemption of preference income, as well as the increase in the minimum tax rate.

Maintains that it is discriminatory to impose minimum tax on the bad debt deductions of lending institutions.

*Taxation With Representation, Thomas J. Reese, Legislative Director*

Believes that fundamental reform is preferable to the complexity of the minimum tax, but that H.R. 10612 offers a good second best solution.

*Joseph H. Crown, Attorney, New York City*

Argues that the minimum tax is a weak attempt to deal with problems of high income taxpayers who pay little or no tax and that a preferable solution would be to abolish the tax preferences involved. However, believes that if the minimum tax is to remain, the tax preferences should be expanded to include tax-exempt interest from

State and local bonds, itemized deductions in excess of 50 percent of AGI, and intangible drilling costs. Also, feels that the \$30,000 exemption should be reduced or eliminated, that the deduction for regular tax paid should be eliminated, and that a progressive rate should be adopted instead of the present 10-percent flat rate tax.

*Earl Hall, Lewiston, Idaho*

Contends that enactment of the minimum tax provisions of H.R. 10612 would dampen enthusiasm for capital investment. Suggests that enactment of these provisions should be deferred while the problem of capital needs and availability is under study.

*Virgil L. Frantz, Salem, Virginia*

Requests that capital gains from the receipt of patent royalties under section 1235 of the Code be excluded from "items of tax preference"; or in the alternative, that only gains from contracts entered into on or after September 18, 1975, be included as an item of tax preference income.

*China Clay Producers (Industrial Clay and Kaolin Divisions of Yara Engineering Corp., Englehard Minerals and Chemicals Co., Freeport Kaolin Division of Freeport Minerals Co., J. M. Huber Corp. and Thiele Kaolin Co.)*

Recommend repeal of the minimum tax as it applies to corporations.

If repeal is not desirable or practicable, suggest:

- (1) deleting percentage depletion from list of tax preferences;
- (2) requiring payment of greater of regular tax or minimum tax;
- (3) allowing carryforward of minimum tax payments for 7 years, as is allowed for ordinary tax payments in present law minimum tax to be used as offset against tax liability in later years; and
- (4) offsetting tax liability before credits against tax preference income.

*Council of Jewish Federations and Welfare Funds*

Maintains that charitable contributions, including gifts of appreciated property, should not be subject to the minimum tax.

### **C. Individual Income Tax Reductions and Tax Rates**

#### **1. Individual Tax Reductions**

*Honorable Mark O. Hatfield, U.S. Senator, Oregon*

Purposes replacing the personal exemption with a \$250 credit for adults. Maintains that a credit would remove the present tax advantage given to those with higher incomes.

*The National Retired Teacher's Association and the American Association of Retired Persons*

Recommends that the increases in the low-income allowance and the percentage standard deduction (together with the accompanying changes in the tax return filing requirements) be extended at least through the end of 1976, as well as the current credit for personal exemptions. Believes that, in computing the total credit available, the taxpayer should be allowed a credit equal to \$35 times the total number of exemptions which he is entitled to claim under Code section 151, including exemptions for age and blindness.

Proposes that the earned income credit be made permanent and not be limited merely to workers whose household includes a dependent child.

*Leonard Woodcock, President, UAW*

Urges extension of the tax cuts for individuals. In addition, proposes replacing the personal exemption deduction with a *refundable* per person tax credit of \$225 in order to give relief to those not paying Federal income taxes. Contends that a credit would be more equitable. Suggests that this refundable tax credit be substituted for the \$35 per person credit and the earned income credit but would be in addition to the increased standard deduction and low-income allowance. States that all of the tax relief from this proposal would accrue to households under \$20,000 income.

*Chicago Association of Commerce and Industry*

Supports the continuation through December 31, 1976, of the tax reductions due to expire June 30, 1976; but opposes, at this time, any further reductions or extensions.

*United States Catholic Conference, Eugene Krasicky, General Counsel*

Supports section 402 of H.R. 10612 providing that amounts received as refunds attributable to the earned income credit are not to be considered part of an individual's resources for purposes of any income eligibility tests under any federal or federally-assisted benefit or assistance program.

*Citizens Committee on Tax Reform, Stephen J. Rapp, Chairman*

Advocates an increase of the personal exemption to \$900, with an alternative \$225 personal credit. Urges the committee to adopt an automatic future adjustment of the personal exemption, personal credit, standard deduction, and low income allowance to reflect inflation.

## **2. Tax Rates**

*Leonard Woodcock, President, UAW*

Recommends repeal of the maximum tax rate on earned income.

*National Associated Businessmen, Inc., Homer E. Marsh, President*

Proposes periodic adjustments to the individuals' income tax brackets to reflect increases in the consumer price index, with similar adjustments for personal exemptions, the minimum standard deduction, and the \$30 tax credit for each taxpayer, spouse, and dependent.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Favors a maximum tax rate of at most 50 percent on unearned as well as earned income, with one rate scale applying to single marrieds, and heads-of-household. (Also, suggests removal of certain deductions.)

## **D. Revisions of Individual Income Tax Provisions**

### **1. Retirement Income Credit**

*Honorable Hiram L. Fong, U.S. Senator, Hawaii*

Proposes changes in retirement income credit beyond those proposed by H.R. 10612, so that the income subject to the credit would each year

be the same amount as the maximum Social Security retirement benefit allowed for that year.

*Non-Commissioned Officers Association of the U.S.A., C. A. McKinney,  
Director of Legislative Affairs*

Recommends: (1) increasing the retirement income credit to \$2,500 for individuals and \$3,750 for joint returns; (2) raising exempt earnings limitations to \$2,100 for persons aged 62 to 71 and \$1,200 for persons under 62; and (3) authorizing military retirees to credit 6.5 percent of military retired pay against adjusted gross income.

*United States Catholic Conference, Eugene Krasicky, General Counsel*

Supports section 503 of H.R. 10612 revising and simplifying the retirement income credit and renaming it the credit for elderly. However, suggests providing to taxpayers filing as heads-of-households the same maximum base amount of \$10,000 which is allowed to a married couple filing a joint return. Also, urges consideration of an escalating provision to increase the basis for the credit in accordance with the cost-of-living index.

*The National Retired Teacher's Association and the American Association of Retired Persons*

Contends that the retirement income credit should be restructured, updated, simplified and cost-indexed. For purposes of computing the credit, suggests that all adjusted gross income (not just retirement income) up to a maximum \$4,100 in the case of a single individual and up to \$6,150 in the case of a married couple filing jointly should be taken into consideration. Feels that the credit should also continue to be available to individuals under age 65 who receive public retirement pension income subject to the same limitations of the 65 and over group in computing the credit amount. Also, urges that the earned income test for the present retirement income credit be eliminated.

*The Retired Officer's Association, Colonel George F. Hennrikus, Jr.*

Suggests the retirement income credit base should be increased to at least \$4,100 (and preferably to \$5,000 as proposed in H.R. 16580 during the 93rd Congress).

## **2. Sick Pay and Military Disability Payments**

*American Life Insurance Association*

Opposes section 505 of H.R. 10612, which would restrict the sick pay exclusion to individuals retired on long-term disability and phase out the exclusion for all individuals with adjusted gross incomes in excess of specified limits.

Believes simplification of the existing sick pay exclusion can be accomplished by removing the special limitations applicable during the first 30 days of illness or disability.

*Non-Commissioned Officers Association of the U.S.A., C. A. McKinney, Director of Legislative Affairs*

Recommends that the present sick pay exclusion and disability pay exemptions be retained in the law, but that the applicable provisions be amended so that all military disabled retirees have one common "retirement age."

*Disabled American Veterans, Charles L. Huber, National Director of Legislation*

Objects to the proposed partial removal by H.R. 10612 of the present exclusion from tax for disability pensions to Armed Forces retirees for a service-incurred disability.

*National Association for Uniformed Services*

Opposes section 505 of H.R. 10612 which would (1) modify the sick pay exclusion and restrict it to taxpayers under age 65 who are absent from work on account of permanent and total disability, and (2) eliminate the exclusion of military disability payments for all future members of the Armed Services (those joining after September 24, 1975), except for amounts received for combat-related injuries or which are received as or are equal to Veterans' Administration disability compensation.

*Health Insurance Association of America*

Suggests simplifying the sick pay exclusion by making the exclusion fully applicable after the 7th day of absence from work or on the 1st day of hospitalization, whichever occurs first.

Recommends increasing the amount of the sick pay exclusion from the \$100 weekly maximum adopted in 1954 to \$150 or \$200 per week.

*Thomas J. Reese, Legislative Director, Taxation With Representation*

Objects to the continuation of the sick pay exclusion.

*The National Retired Teacher's Association and the American Association of Retired Persons*

Maintains that the sick pay exclusion should continue to be available to an eligible individual until "normal" or mandatory retirement age is reached.

*Charles Waldauer, Professor of Economics, Widener College*

Believes that there is no logical reason for excluding sick pay from taxable income if the pay is fully provided by the employer.

*The Retired Officer's Association, Colonel George F. Hennrikus, Jr.*

Urges elimination of the provisions which repeals the sick pay exclusion under Code section 103(a) for those presently retired for disability and those now on active duty who may be retired for disability. Also, requests that the sick pay exclusion relating to amounts excluded from gross income under wage continuation plans not be reduced on the basis of adjusted gross income.

### **3. Moving Expenses**

*Non-Commissioned Officers Association of the U.S.A., C. A. McKinney, Director of Legislative Affairs*

Recommends that military personnel be permanently exempt from the requirement to report moving expenses and reimbursements on annual tax returns.

*Financial Executives Institute*

Urges that the moving expense deduction provisions be liberalized by increasing the dollar amounts deductible and the period of time when an employee is entitled to temporary living quarters. Recom-

mends reducing the 50-mile rule to 20 miles and providing for the exclusion of reimbursed costs of moving household goods without any mileage test.

*Thomas J. Reese, Legislative Director, Taxation With Representation*  
Opposes the increase in the maximum deduction.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Considers the new deductible limits on moving expenses to be unrealistically low. Urges consideration of setting these limitations at a more realistic amount.

#### **4. Itemized Deductions**

*American Life Insurance Association*

Opposes the Administration's proposal to eliminate the separate deduction of one-half of a taxpayer's health insurance premiums up to \$150 and to make the entire amount of a taxpayer's premiums subject to the 3-percent floor on medical deductions. Believes that simplification of the tax return can be accomplished by eliminating the 50-percent limitation (up to \$150) on deduction of health insurance premiums.

*Health Insurance Association of America*

Objects to the Administration's proposal to eliminate the separate deduction for one-half of a taxpayer's health insurance premiums up to a maximum deduction of \$150. Suggests simplifying the medical expense deduction for health insurance premiums by eliminating the present limitation on the amount deductible for premiums.

*The National Retired Teacher's Association and the American Association of Retired Persons*

Believes that the medical expense deduction should be made a deduction from gross income in computing adjusted gross income, that the one-percent floor with respect to medicine and drugs should be eliminated, and that the three-percent floor should be eliminated in the case of the elderly.

*John A. Bailey, Attorney, Houston, Texas*

Argues that a "radical simplification" of the tax code (including elimination of itemized deductions), as proposed by Treasury Secretary Simon, should be adopted.

*American Accounting Association, James E. Wheeler, Chairman, Committee on Federal Income Taxation*

Recommends restructuring personal deductions to permit all deductions that are related to earning income, including expenses of employees, as deductions from gross income and all personal consumption expenditures as deductions from adjusted gross income through itemized deductions or the percentage standard deduction.

*Council for Financial Aid to Education*

Maintains that the deduction for charitable contributions is not a tax loophole. Urges that no restrictions be placed on such tax deductions because of the need of private philanthropic organizations.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Recommends elimination of certain deductions, such as the interest deduction. Favors changing the deduction for medical expenses and State-local taxes into a credit (with some appropriate maximum), as a more equitable way of treating such expenses.

### **E. Business-Related Individual Income Tax Provisions**

#### **1. Business Use of Home and Vacation Homes**

*American Association of University Professors, Joseph Duffey, General Secretary*

Opposes the enactment of section 601 of H.R. 10612 relating to the deduction for expenses attributable to business use of homes. States that the present deduction permits faculty members of universities to establish a more accurate computation of their taxable income and that the expenses of a home office are directly attributable to the customary duties of faculty members.

*Martin A. Gage, Professor of Accounting, Widener College*

Recommends elimination of the requirement of H.R. 10612 that deductions for home office expenses be limited to the gross income derived from the use of a home office reduced by those deductions which are allowed regardless of whether or not they are business expenses (e.g., interest and taxes).

*Roy Slade, Director, Corcoran Gallery of Art*

Supports the basic purpose of the House bill limitations on deductions for home business expenses. However, expresses concern that it may discriminate against artists whose income is not regular and who use part of their home for business-related purposes. Suggests deletion of the word "exclusively" in the provision.

*S. Richard Fine, Chicago, Illinois*

Objects to section 601 of H.R. 10612 relating to business use of a home and the rental of a vacation home. States that the meaning of the term "rental" in section 601 is unclear in light of the concept of a rental pool which permits an owner whose unit is available for rental but is not rented to share in the rents received by other owners whose units are in fact rented and occupied.

Believes that a final determination of residential use based on 18 days of personal occupancy in section 601(d)(1) is unduly restrictive.

*American Land Development Association, Gary A. Terry, Executive Vice President*

Opposes the restrictions of section 601 of H.R. 10612 on deductibility of legitimate expenses incurred with respect to vacation homes.

*Marriott Corporation*

Requests that the House provision concerning personal use of vacation homes be amended to (1) change the 5 percent or 14-day limitation to 10 percent or 28 days, and (2) exempt mandatory hotel rental pool condominiums where a maximum of 28-day personal use limitation applies.

*Martin A. Gage, Professor of Accounting, Widener College*

Generally agrees with the changes in the rules for deductions for business use of the home. Believes that the deductions should be limited to the excess of the gross income derived from the use of the home over any deductions attributable to such use. However, worries about the case of an employe who is required in his job responsibilities to work at home whose salary is fixed and receives no additional income because of his home work. Suggests that the rules be clarified to make certain that some deduction can be obtained in that case even though no extra gross income may result from the employe's business use of the home.

Suggests that the new rules limiting deductions for rental of vacation homes be removed from new code section 280 and placed in code section 183 (where existing rules on deductions for vacation homes are placed).

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Maintains that deductions that are associated with the production of income should not be disallowed as under section 601 of the bill (dealing with the deduction for expenses attributable to business use of homes). Also, indicates that the House provisions relating to vacation homes are extremely complex and are not justified.

**2. Deductions for Conventions Outside the United States***The British-American Chamber of Commerce, New York*

Objects to the House provision. Believes that the present Code and regulations are adequate to police any abuses. Considers the proposed restriction to be a restraint on free exchange of trade.

*Embassy of Ireland*

Maintains that the proposed change is discriminatory and especially serious for Ireland, as tourism is Ireland's second largest industry and second largest earner of foreign exchange.

*James E. Bates, President, JEB, Inc.*

Urges rejection of the proposed limits in House bill on deduction for attending foreign conventions.

*International Association of Holiday Inns, James L. Schwartz, President*

Opposes the provision in the House bill which would limit the deductibility of expenses incurred in attending conventions in foreign countries.

*The United States-Mexico Chamber of Commerce*

Objects to the provisions of H.R. 10612 to curtail the deduction of expenses incurred in attending conventions held outside the United States.

*American Chamber of Commerce of Mexico*

Opposes the provisions of H.R. 10612 which would limit the deductibility of expenses for attending conventions outside the U.S. Believes that enforcement of existing regulations would be sufficient to curb existing abuses in this area.

*American Bar Association, John P. Bracken, Chairman, House of Delegates*

Disapproves the provisions of section 602 of H.R. 10612, relating to deductions for attending foreign conventions. Believes that if past abuses cannot be adequately treated by regulation under existing law, Congress should carefully draft a provision which would reach documented abuses only, without resulting in added complexity and added administrative burdens.

*Earl Hall, Lewiston, Idaho*

Believes proposed section 602 in H.R. 10612 is very complicated for the relatively small number of taxpayers affected, and that it would require taxpayers to conduct time-consuming research to determine the lowest coach or economy rate of any commercial airline.

## **F. Business Tax Changes and Capital Formation**

### **1. General**

*Honorable Charles H. Percy, U.S. Senator, Illinois*

Recommends that H.R. 10612 be amended to include capital formation incentives, such incentives being needed to assure full employment and an acceptable standard of living for all workers.

*C. Lowell Harriss, Professor of Economics, Columbia University*

Favors changes in the tax system to provide new incentives for private saving and investment.

*Erie County Legislature, Buffalo, New York*

Petitions the Congress to enact H.R. 8053, the Jobs Creation Act of 1975, to permit increased private capital investment in order to stimulate the economy, accelerate productivity, and enable creation and restoration of jobs in private industry.

*Beatrice Chamber of Commerce, Beatrice, Nebraska*

Recommends the enactment of the Jobs Creation Act, H.R. 8053, as an amendment to H.R. 10612.

### **2. Investment Credit**

*Honorable James B. Pearson, U.S. Senator, Kansas*

Proposes enactment of a 13-percent investment tax credit through December 31, 1980, and 10 percent thereafter for investment in designated "balanced growth" areas. Qualified areas would be rural counties and parts of urban counties experiencing unusual population declines. Eligible industries would be those engaged in manufacturing, processing, assembling and distributing personal property.

*Honorable Charles H. Percy, U.S. Senator, Illinois*

Supports S. 2629, which would provide a 10-percent tax credit for additional workers hired by private industry in 1976 and 1977, and would require that the dollar value of the credit for all but the first two workers be used for new investment.

*National Federation of Independent Business, James D. McKevitt, Washington Counsel*

Endorses extension of investment tax credit at 10 percent.

*Financial Executives Institute*

Recommends a permanent 12-percent investment credit.

*American Council for Capital Formation*

Proposes revision of investment tax credit by (a) raising the credit to 12 percent, (b) removing the 50-percent limitation, and (c) providing for a refund of unused investment credits at the expiration of the carryforward period.

*Electronic Industries Association*

Favors a permanent 10-percent or 12-percent investment tax credit.

*Trans Union Corporation, J. W. Van Gorkom, President*

Recommends the adoption of the 1974 Treasury proposal to refund any unused investment credit, although prefers only a one-year waiting period rather than the three years the Treasury recommended. States that the growing leasing business particularly is unable to use the full credit even though leasing rates are based on the assumption it can be fully used.

*Machinery Dealers National Association*

Requests the removal of the \$100,000 limit on used property eligible for the investment credit; or, if this is not done, suggests a 5-year carryforward for used property. Asks that the investment credit be made permanent.

*Western Union Telegraph Company, Richard L. Callahan*

Urges the enactment of legislation eliminating the dual rate investment credit system (i.e., establishing the same investment tax credit for all industries).

*Pizzagalli Construction Company, James Pizzagalli, Vice President and Counsel*

Supports increasing the investment credit to 12 percent.

*J. A. Jones Construction Company, Tom McDine*

Favors increasing the investment credit to a permanent 12-percent level.

Recommends that the investment tax credit be made applicable to new construction equipment purchased by U.S. construction companies in the United States for use outside the United States.

*Chicago Association of Commerce and Industry*

Supports increasing the investment credit to 12 percent for all businesses with no basis reduction, allowance of the credit as an offset against the entire amount of tax liability rather than only 50 percent of tax liability as under current law, and a refund of an unused credit which is about to expire.

*The Association of Media Producers*

Urges that H.R. 10612 be amended so as to include educational films, filmstrips, and videoapes as items eligible for the investment tax credit.

*American Iron Ore Association*

Supports increasing the credit to 12 percent with no basis reduction. Recommends that the investment tax credit be made applicable to

property acquired in the United States for use in foreign iron ore operations owned by United States taxpayers.

*National Associated Businessmen, Inc., Homer E. March, President*

Suggests that the investment credit be permanently increased to 12 percent, with an additional 3 percent allowed for contributions to employee stock ownership plans.

*Leonard Woodcock, President, UAW*

Urges deletion of the extension of the increase in the investment credit from 7 to 10 percent as costing too much in lost revenues. Contends that capital spending will increase as soon as businessmen feel confident that the recovery is solid and durable. Asserts that tax credits do not hasten this process.

*Greater Philadelphia Chamber of Commerce, John B. Huffacker, Chairman, Federal Tax Committee*

Supports the 4-year extension of the 10-percent investment credit, as well as increasing to \$100,000 the limitation on used property provided by the House bill.

### **3. Depreciation and Amortization (Cost Recovery) Allowances**

*Honorable Charles H. Percy, U.S. Senator, Illinois*

Endorses the President's plan for rapid amortization of plants and equipment in high unemployment areas, as it would help to reduce unemployment and preserve industrial stability in those areas.

*National Associated Businessmen, Inc., Homer E. Marsh, President*

Contends that any cost recovery allowance deduction should reflect at the end of each year for each item accumulated depreciation sufficient to replace the item as of that date, and that there should be also full recapture by the Treasury of any excessive cost recovery allowances realized upon the sale, exchange, or involuntary conversion of facilities over the recoverable basis of those facilities.

*Machinery Dealers National Association*

Recommends additional first-year depreciation for small businesses under section 179. Also, proposes an increase in ADR from 20 percent to 40 percent.

*Interstate Natural Gas Association of America, Walter E. Rogers, President*

Proposes a 5-10 year capital cost recovery period or an increase in ADR from 20 percent to 40 percent. Also, requests clarification of the law to permit the deduction of start-up costs of energy facilities.

*American Iron Ore Association*

Recommends replacing the present depreciation system with a flexible capital cost recovery system. In addition, suggests giving taxpayers the option of an immediate deduction for pollution control facilities.

*Electronic Industries Association*

Favors replacement cost depreciation.

*Financial Executives Institute*

Recommends a flexible capital recovery allowance system permitting investments in machinery and equipment to be recovered over as little as 5 years, as well as a substantial reduction in the capital recovery period for industrial buildings, with both starting as costs of new construction are incurred. Also, proposes an immediate writeoff of pollution control expenditures at the taxpayer's election.

*American Council for Capital Formation*

Proposes depreciating assets at a rate which reflects the impact of inflation rather than original cost.

*Leonard Woodcock, President, UAW*

Advocates repeal of ADR.

*Chicago Association of Commerce and Industry*

Supports the adoption of a liberal cost recovery system in place of the present useful life system, or in the alternative that taxpayers be allowed depreciation deductions in a period 40 percent shorter than would be allowed under the guidelines for determining useful life. Urges the enactment of a provision giving taxpayers an election to deduct expenditures for pollution control facilities.

*National Associated Businessmen, Inc., Homer E. Marsh, President*

Recommends the enactment of a form of replacement cost depreciation in order to reflect cost increases due to inflation.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Proposes setting statutory lives for depreciation to remove subjectivity, such as 25 years for apartment buildings. Feels that such shorter lives would remove the need for the various accelerated depreciation methods which complicate depreciation deductions. Also, if capital gains continues, suggests full recapture on all depreciation.

*J. A. Jones Construction Company, Tom McDine*

Supports a shortening of the asset depreciation range and a one-year writeoff of pollution abatement equipment.

*Pizzagalli Construction Co., James Pizzagalli, Vice President*

Favors increasing the ADR to 40 percent.

**4. Corporate Tax Rates and Surtax Exemption***National Associated Businessmen, Inc., Homer E. Marsh, President*

Proposes that the tax rate on the first \$50,000 of corporate income be reduced to 20 percent, that the next \$50,000 be taxed at 22 percent, and that the present 48-percent rate be applicable only to taxable income in excess of \$100,000 (and that these not be temporary changes). Also suggests that these amounts be adjusted at five-year intervals according to changes in the consumer price index.

*National Federation of Independent Business, James D. McKevitt, Washington Counsel*

Recommends permanent enactment—rather than one-year extension—of the 20-percent tax rate on first \$25,000 and 22 percent on next \$25,000 of taxable income, as in the House-passed bill.

*Machinery Dealers National Association*

Proposes an increase in the corporate surtax exemption to \$100,000.

*Louis H. T. Dehmlow, President, Great Lakes Terminal and Transport Corporation*

Urges an increase in the corporate surtax exemption to \$100,000 to foster the growth of small businesses.

*Leonard Woodcock, President, UAW*

Recommends rejection of the extension of the lower corporate tax rates on the first \$50,000 of taxable income.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Suggests a top corporate tax rate of 40 percent.

**5. Corporate Tax Integration***Chicago Association of Commerce and Industry*

Supports elimination of the double taxation of dividends along the lines of the proposal under which the corporation would be allowed a deduction equal to 50% of the dividend, and the shareholders would pick up 50% of the dividend in gross income and be allowed a credit against tax equal to the gross-up.

*C. Lowell Harriss, Professor of Economics, Columbia University*

Supports proposals to end the double tax on distributed corporate earnings in order to facilitate business capital formation.

*National Associated Businessmen, Inc., Homer E. Marsh, President*

Advocates that the double taxation of corporate income resulting from separate taxes on corporate profits and on shareholder dividends be removed, preferably at the corporate level.

*Electronic Industries Association*

Favors elimination of the double taxation of corporate income.

*American Council for Capital Formation*

Supports elimination of double taxation of corporate dividends.

*Financial Executives Institute*

Urges steps toward alleviating double taxation of corporate distributions.

*Stockholders of America, Inc., Margaret Cox Sullivan, President*

Proposes a stockholder dividend tax credit under which the dividend would be grossed up by the amount of the tax paid on it by the corporation and a credit would be claimed for the amount of tax paid.

*Interstate Natural Gas Association of America*

Recommends that integration be achieved by a credit at the shareholder level.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Favors removal of the double tax on dividends.

## 6. Stock Ownership Incentives

*National Venture Capital Association, Richard Henschen, Chairman*

Favors broadened stock ownership plan which would permit an individual to be taxed only at such time that the stock is disposed of and a gain realized.

*Stockholders of America, Inc., Margaret Cox Sullivan, President*

Supports President's broadened stock ownership plan, which would permit a deduction for amounts invested in common stock or mutual funds.

*American Council for Capital Formation*

Recommends tax deferral or tax credit for income invested in common stock. Also, endorses tax deferral for dividend reinvestment plan.

*Eugene M. Lerner, Chairman, Finance Department, Northwestern University*

Urges the committee to enact legislation that treats dividends which are automatically reinvested by shareholders in the corporation as tax-free dividends. Believes that this proposal would improve the effectiveness of the nation's capital market.

*Chicago Association of Commerce and Industry*

Supports amendments which will (1) increase the usefulness of the additional 1% investment tax credit now allowed to a taxpayer who contributes such amount to an Employee Stock Purchase Plan, (2) permit a second-tier subsidiary to acquire stock of its grandparent, and (3) permit a taxpayer to recover its contribution to an Employee Stock Purchase plan if the 1% investment tax credit is later recaptured.

## 7. Oil and Gas and Other Depletable Minerals

*American Iron Ore Association*

Recommends the retention of percentage depletion for iron ore in its present form and at its present 15% rate.

*William C. Lane, Jr., Attorney, on behalf of Aladdin Petroleum Corp., Herbst Oil Co., Denny Klepper Oil Co., Kocolene Oil Corp., Martin Oil Service, Navajo Refining Co., and Power Test Corp.*

Maintains that the exclusion of independent gasoline retailers from the benefits of percentage depletion (under sec. 613A(d)(2)) not only results in an exceptional economic hardship but is at variance with the intent of Congress to preserve percentage depletion for the independent, nonintegrated producer.

*Charles Waldauer, Professor of Economics, Widener College*

Advocates that intangible drilling and development costs be treated as capital outlays subject to depreciation (rather than as current expenses).

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Suggests allowing the current writeoff for intangible drilling costs only after the well is proven unproductive. For productive wells, maintains that the IDC should be capitalized.

#### **8. Net Operating Losses**

*National Venture Capital Association, Richard Henschen, Chairman*

Favors increasing the loss carryforward period to 10 years or more.

*Donald C. Evans, Jr., Attorney, Washington, D.C.*

Proposes adoption, on a prospective basis, of an optional method for treatment of net operating losses, under which the taxpayer could elect a 10-year carryover period in lieu of the 3-year carryback/5-year carryover allowed generally under present law. Suggests that the election for the optional carryover period be allowed separately for each loss year, but once made for any year it should be binding upon the taxpayer.

*Michael Waris, Jr., Attorney, Washington, D.C.*

Recommends that taxpayers with net operating losses incurred from 1970 through 1975 be permitted to convert whatever carryover periods these losses are entitled to under present law into extended carryback periods. Proposes that tax refunds attributable to net operating losses from these six years be limited to a maximum amount of \$5 million per taxpayer, and that amendments to prohibit trafficking in loss carryovers also be enacted.

*The John Swenson Granite Company, Inc., Kurt M. Swenson, Executive Vice President*

Urges adoption of a bill to permit small businesses a 10-year carryback for net operating losses arising from tax years beginning after December 31, 1969. Recommends that the bill be restricted to small business either by limiting the amount of the refund or by using an appropriate definition of a qualifying small business.

#### **9. Mortgage Tax Credit**

*Veterans of Foreign Wars, Thomas C. "Pete" Walker, Commander in Chief*

Suggests that if the committee considers S. 2772 (providing for "Uniform Tax Treatment of Financial Institutions Act"), that bill should be modified so that the the Federal National Mortgage Association will receive the same tax credit that is afforded to other lending institutions. Believes not allowing the credit for that association would put it at a disadvantage versus other financial associations and would specifically hurt veterans, because nearly 50 percent of Veterans Administration guaranteed home loans are purchased by the Federal National Mortgage Association.

#### **10. Utility Tax Proposals**

*Paine, Webber, Jackson & Curtis, Incorporated, A. Jones Yorke, President*

Recommends a permanent increase in the investment tax credit for utilities to 12 percent, the deferral of tax on automatically reinvested

utility dividends, and at the option of the issuer, a tax deduction on dividends on new issues of utility preferred stock.

*Western Union Telegraph Company, Richard L. Callabhan*

Recommends the adoption of a permanent, uniform investment tax credit applicable to all industries, both public utilities (including telegraph companies) and nonpublic utilities alike.

*Monongahela Power Company, Richard S. Weygandt, Vice President*

Supports S. 1957, which would prohibit a State from taxing electricity generated within that State and transmitted to another State for consumption there.

*Kenneth Hollister, First Vice President—Research, Dean Witter & Co., Inc.*

Asks that all utilities (rather than just electric utilities) be included in the Administration's utility tax program. Claims that favoring one type of utility will draw investment away from other utilities.

#### **11. Railroad Tax Proposals**

*Taxation with Representation, Thomas J. Reese, Legislative Director*

Opposes the proposed five-year amortization provisions in H.R. 6860, for railroad yards, signals, and railroad rolling stock. Contends that the benefits would inure to financial institutions and profitable railroads who do not need them, rather than the financially troubled railroads, which do need them. Recommends that these incentive benefits in any event be denied to corporate lessors of yards, signals, etc. Believes that if Congress wants to aid railroads it should do so through direct appropriations.

#### **G. Capital Gains and Losses**

*Honorable Mark O. Hatfield, U.S. Senator, Oregon*

Urges consideration of S. 1142, to increase the exclusion from gross income of capital gains from the sale of a residence by an individual age 65 or older. Suggests raising the amount from \$20,000 to \$35,000 to reflect the general rise in home prices since 1964 when the provision was enacted. Notes that this was previously approved by the House Committee on Ways and Means in 1974.

*Electronic Industries Association*

Favors elimination of the capital gains tax on the sale of depreciable assets.

*The National Retired Teacher's Association and the American Association of Retired Persons*

Feels that the present \$20,000 sales price maximum for the amount of gain on the sale of a residence which an aged individual may exclude from gross income should be increased to not less than \$40,000.

*Leonard Woodcock, President, UAW*

Contends that the capital gains provision discriminates against earned income. Urges action to end the preferential treatment of capital gains income.

*National Venture Capital Association, Richard Henschen, Chairman*

Favors reduction in capital gains by imposing a graduated capital gains tax as contained in S. 443 (introduced by Senator Bentsen).

*American Council for Capital Formation*

Endorses sliding-scale inclusion ratio for long-term capital gains that decreases as the holding period lengthens.

*Stockholders of America, Inc., Margaret Cox Sullivan, President*

Supports deduction of \$5,000 for net capital losses against ordinary income with a 3-year loss carryback. Endorses a sliding-scale exclusion ratio for long-term capital gains, increasing above 50 percent by 2 percent each year of holding until ratio reaches 80 percent exclusion after 15 years.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Recommends adoption of the provision as reported by the Committee on Ways and Means to allow individuals capital loss carrybacks similar to those allowed corporations, but with an amendment that would not make it retroactive to losses prior to 1975. Feels that section 1212 of the Code should be amended to apply to losses of less than \$30,000 in order to avoid restricting the tax benefits to high-bracket taxpayers.

*Chicago Association of Commerce and Industry*

Recommends retention of the current capital gains treatment for assets held between six months and one year, and that there be a graduated reduction in the rate of tax on property held over one year. Supports an increase in the amount of a capital loss which may be deducted against ordinary income.

*Investment Company Institute, Robert L. Augenblick, President*

Supports proposed extension in H.R. 10612 of net capital loss carryover for regulated investment companies from 5 years to 8 years.

*National Associated Businessmen, Inc., Homer E. Marsh, President*

Believes that capital gains should not be subject to tax. Recommends that at least capital gains should be reduced by the amount of increase in the price level that has taken place since the purchase of the individual security or property, or that capital assets should be subject to tax-free rollovers if the sale of the property does not result in a reduction of capital investment.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Favors elimination of special capital gains deduction, but with full offset of capital losses against income if capital gains treated as other income. Believes that income averaging obviates the need for special treatment of capital gains (along with proposal for reducing the top tax rates to below 50 percent).

## H. Export and Foreign Income

### 1. DISC

*Aerospace Industries Association of America, Inc.*

Opposes repeal or modification of the DISC concept (particularly any changes in connection with military exports).

*American Seed Trade Association, Harvey W. Mauth, President*

Recommends that seed and other agriculture exports remain eligible for DISC benefits. Believes that DISC benefits should be increased from 50 to 100 percent and that the incremental base period provisions are unworkable. Asserts that the exclusion of agricultural products from future DISC benefits would trigger a tax on all past DISC deferrals and feels this amounts to a penalty for activity which was officially encouraged.

*Financial Executives Institute*

Urges that the present DISC provisions be continued.

*Leonard Woodcock, President, UAW*

Urges repeal of the DISC provision as an inefficient subsidy benefiting well-established exporting industries. Contends that the House bill would recover only about one-third of currently lost revenues.

*National Fisheries Institute, Inc., Gustave Fritschie, Director of Government Relations*

Views with concern the provisions to exclude certain agricultural products and commodities (including fish) from DISC coverage. Claims that this would have a damaging effect on the domestic fishing industry.

*The American Meat Institute*

Opposes the curtailment of the DISC program proposed by H.R. 10612. Believes that the DISC program, by promoting the export of surplus agricultural commodities, has provided economic benefits to the economy, while alleviating world food shortages, reducing the costs of U.S. government subsidies, and lowering the price of agricultural products to American consumers.

*Taxation With Representation, Thomas J. Reese, Legislative Director*

Asserts that the DISC provisions of the Code should be repealed entirely.

*The Rochester Tax Council, Rochester, New York*

Recommends that the DISC program be continued in substantially its present form or, at most, that it be modified by the incremental approach of H.R. 10612. Believes that any further cutbacks would cause substantial harm to the export position of domestic companies.

*National Independent Meat Packers Association, John Mohay, Executive Vice President*

Opposes all the changes in the DISC program proposed by H.R. 10612.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Recommends that the provisions of the Internal Revenue Code covering DISCs be amended to provide for 100-percent deferral of qualified export income.

*National Cotton Council of America*

Opposes the provision in the House bill eliminating DISC benefits generally for agricultural and horticultural commodities and products. Indicates that the general exclusion in the House bill is not

needed and discriminates against farming because present law allows the President to exclude from DISC eligibility any product he determines to be in short supply.

*Charles Waldauer, Professor of Economics, Widener College*

Proposes that the DISC provisions be repealed as of December 31, 1976.

*Electronics Industries Association, V. J. Adduci, President.*

Urges that the DISC provisions be retained in their present form.

*Leaf Tobacco Exporters Association, Hugh C. Kiger, Executive Vice President*

Opposes the limitations on the DISC program proposed by the House bill.

*XCEL Corporation, Thomas E. Brydon, President*

Believes that the DISC legislation is one of the most effective pieces of trade legislation ever produced by Congress, and that in the case of his company it enables the company to justify a continuation of exports (which have grown considerably). Contends that elimination of DISC would do irreparable harm to export programs for small and medium-sized companies.

*Mid-Continent Supply Co., Fort Worth, Texas*

Urges retention of the DISC provision. Claims that the House provision would unnecessarily restrict the benefits of DISC operations. Suggests that consideration be given to eliminating the present 50-percent limitation on DISC income qualifying for the deferral.

*Robert C. Wahlert, President, Dubuque Packing Company, Dubuque, Iowa*

Opposes repeal of DISC for agricultural products.

## **2. Exclusion of Individual Income Earned Abroad**

*Philip Handler, President, National Academy of Sciences*

Recommends that U.S. citizens employed abroad by private non-profit organizations be allowed the earned income exemption to the same extent that U.S. citizens employed by U.S. charitable organizations.

*Aerospace Industries Association of America, Inc.*

Opposes any elimination or reduction of the exclusion for income earned abroad. Urges the committee to consider increasing the exclusion.

*Financial Executives Institute*

Urges retention of the earned income exclusion, but agrees that the foreign tax credit should be denied as to the portion of the foreign taxes allocable to the excluded income. Alternatively, suggests that deductions be allowed for those expenses which would not have been incurred by taxpayers working in the United States.

*American Council of Voluntary Agencies for Foreign Service, Inc., James J. Norris, Chairman*

Recommends that the maximum exclusion for income earned by employees of charitable institutions serving abroad be retained at \$25,000.

*Pizzagalli Construction Company, James Pizzagalli, Vice President and Counsel*

Opposes any reductions in the current exclusions from gross income for U.S. citizens working abroad, as any such changes would undermine the competitive position of U.S. contractors abroad.

*J. A. Jones Construction Company, Tom McDine*

Objects to any reduction in the current exclusions from gross income for U.S. citizens working abroad, as any such reduction would put U.S. construction companies at a competitive disadvantage in bidding on overseas projects.

*Chicago Association of Commerce and Industry*

Supports continuation of the present exclusion from gross income for U.S. citizens working abroad.

*National Constructors Association, Maurice L. Mosier, Executive Vice President*

Opposes the repeal of section 911 of the Internal Revenue Code relating to the earned income exemption for Americans living and working abroad.

*Electronic Industries Association, V. J. Adduci, President*

Opposes the repeal of the present exclusion for income earned abroad by U.S. citizens because it would put U.S. businesses at a competitive disadvantage. Supports an increase in the \$20,000 (or \$25,000) exclusion limit to a more equitable level.

*United States Catholic Conference, Eugene Krasicky, General Counsel*

Associates with statement of American Council of Voluntary Agencies (of which Catholic Relief Services is a member) with regard to issues arising under section 911.

*Association of American Chambers of Commerce in Latin America, Gordon J. Cloney II, Executive Secretary*

Objects to the repeal of the exclusion from Federal taxation of income earned abroad by the U.S. citizens. Urges that if section 911 is abolished, the foreign tax credit should be allowed for indirect foreign taxes and that deductions be allowed for the incremental cost of maintaining U.S. equivalent living standards while residing abroad.

*Mid-Continent Supply Co., Fort Worth, Texas*

Believes that repeal of the section 911 exclusion for individuals would adversely affect the ability of employers to get workers to go overseas, as well as causing an increase in the cost to the company. Indicates that most countries tax their citizens only on income earned from activities within the country. Feels that some compensating benefit should be given to offset the costs of maintaining a household in the United States and one abroad. Asserts that if the exclusion is repealed, the company will have to replace U.S. citizens abroad with foreign personnel.

*Morrison-Knudsen Company, Inc., Boise, Idaho*

Urges that the \$20,000 per year exclusion from tax for American construction workers employed overseas be retained rather than terminated at the end of 1978, as proposed by H.R. 10612. Main-

tains that if the exclusion for income earned abroad is removed for construction workers, the cost to the construction industry will increase and adversely affect its competitive position.

### **3. Deferral of Corporate Income Earned Abroad**

#### *American Iron Ore Association*

Recommends the restoration of the provisions on the deferral of tax on foreign earnings which were repealed by the Tax Reduction Act of 1975.

#### *Chicago Association of Commerce and Industry*

Opposes proposals to tax currently undistributed earnings of foreign subsidiaries of United States corporations.

#### *Jack N. Behrman, Professor of International Business, University of North Carolina*

Contends that Professor Musgrave's conclusions (Report to the U.S. Senate Subcommittee on Multinational Corporations) that foreign direct investment displaces domestic capital investment and that sales by foreign affiliates displace U.S. exports are based on an incomplete analysis of the problem. Disagrees with Professor Musgrave's view that foreign direct investment has significant distributional effects on U.S. national income which are adverse to labor's share of national income. Recommends that before the tax rules on foreign direct investment are changed, the Government should decide what kind of international economic order it is seeking.

#### *Leonard Woodcock, President, UAW*

Urges repeal of the tax deferral for foreign source income. Asserts that the deferral provision costs American taxpayers half a billion dollars per year. Maintains that deferral allows permanent escape of tax if the earnings are reinvested abroad. Contends that repeal would remove the excuse for the DISC provision.

#### *The Rochester Tax Council, Rochester, New York*

Believes the Subpart F provisions of the Code have gone as far in the direction of eliminating deferral as Congress can go without significantly injuring the competitive position of U.S. investments abroad.

#### *Electronics Industries Association, V. J. Adduci, President*

Opposes current taxation of earnings of foreign subsidiaries of U.S. corporations.

#### *International Business Machines Corporation*

Expresses opposition to current U.S. taxation of unremitted foreign earnings of corporations. Believes that the elimination of deferral would not increase U.S. tax revenues and would impair U.S. businesses operating abroad.

#### *Financial Executives Institute*

Believes that any attempt to tax unrepatriated earnings would make competition by U.S. companies in foreign countries unprofitable and in the long run would damage the U.S. economy.

*Peter L. Briger, Attorney*

Suggests that the present rules dealing with tax haven income under subpart F provisions of the Code be modified so that deferral could be retained provided that the earnings continue to be employed in the active conduct of a business overseas.

**4. Foreign Tax Credit***Sun Oil Company*

Urges the Senate Finance Committee to adopt an amendment to the rules providing for recapture of foreign-oil related losses, if the loss is incurred before January 1, 1979, provided it was incurred pursuant to a binding contract entered into before July 1, 1974.

*Natomas Company*

Supports section 1035 of the House-passed bill which provides a special carryback during a transition period for foreign-oil related tax credits.

*Aerospace Industries Association of America, Inc.*

Recommends that the committee not adopt the foreign loss recapture provision of the House-passed bill.

*Financial Executives Institute*

Objects to the repeal of the per-country limitation and the enactment of a provision providing for the recapture of foreign losses. Also opposes the enactment of the provision which would call for the gross-up of dividends paid from less developed country corporations. Believes further that no legislation is necessary to cope with any manipulations of the foreign tax credit caused by the realization of foreign source capital gains.

*International Business Machines Corporation*

Opposes any major modification of the foreign tax credit. Urges that both the overall and per-country foreign tax credit limitations be retained.

*Leonard Woodcock, President, UAW*

Feels that excess foreign tax credits should be eliminated. Suggests that consideration be given to treating foreign taxes as a deduction rather than as a credit.

*Electronics Industries Association, V. J. Adduci, President*

Favors retention of the foreign tax credit provisions.

*United Merchants and Manufacturers, Inc.*

Argues that the foreign loss recapture rule of section 1032 of the House bill should not apply to that portion of an economic loss which occurred before the effective date of the provision. States that the provision should only apply to losses incurred in taxable years beginning after December 31, 1976, rather than taxable years beginning after December 31, 1975.

*Peter L. Briger and Ernest F. Christian, Jr., Attorneys*

Urge that section 960 of the code be amended to permit a "deemed-paid" foreign tax credit for foreign income taxes paid by a third-tier

controlled foreign corporation with respect to subpart F income, subject to the same percentage of ownership requirements as now contained in section 902.

*J. A. Jones Construction Company, Tom McDine*

Opposes the proposed elimination in H.R. 10612 of the election to compute the foreign tax credit under the per-country limitation.

*American Iron Ore Association*

Contends that the present tax credit system and the deferral of tax on the undistributed income of foreign subsidiaries should be maintained.

*The Rochester Tax Council, Rochester, New York*

Recommends that changes in the foreign tax credit area be limited to the amendments contained in H.R. 10612 to repeal the per-country limitation, to gross-up less developed country corporations' dividends, to recapture foreign losses, and to limit the foreign tax credit available with respect to foreign capital gain income.

#### **5. Withholding on Foreign Investment Income**

*The Chase Manhattan Bank*

Urges that the temporary exemption from the 30-percent withholding tax for bank deposit interest, which is due to expire December 30, 1976, but which H.R. 10612 would make permanent, be enacted as a permanent exemption by June 30, 1976, as otherwise banks will find it hard to sell six months certificates of deposit to foreigners.

Favors repeal of the 30-percent withholding tax on dividends and interest paid to foreign investors or, at least, repeal of the withholding tax on portfolio interest. Estimates that the more limited repeal on portfolio interest would cost only \$15 million annually in lost revenues (rising to \$35 million annually in five years).

*Frost National Bank of San Antonio, Texas, Tom C. Frost, Jr., Chairman of the Board*

Endorses section 1041 of the House bill which exempts from income tax the interest paid on deposits by commercial banks to nonresident aliens not doing business in the United States.

#### **6. Other Foreign Income Items**

*American Life Insurance Association*

Supports the provisions of section 1043 of H.R. 10612, which would facilitate the branch operations of U.S. life insurance companies in Canada and other contiguous countries.

*Dooley and Knutson, Certified Public Accountants*

Believes that the excise tax under section 1491 of the Code should be expanded by H.R. 10612 only to include gifts or contributions to capital, to foreign trusts, foreign corporations, or foreign partnerships, but not legitimate sales to a foreign entity for an installment note or a private annuity.

*Ralph J. Sierra, Jr., CPA, San Juan, Puerto Rico*

Questions the proposed amendment to section 931 of the code which would allow corporations receiving dividends from a related Puerto

Rican corporation to take a dividends-received deduction of 85% to 100%. Believes that a more equitable approach would be to tax these dividends in the normal manner, but to allow a tax credit for reinvestment by the Puerto Rican Corporation or its corporate stockholder in qualified Puerto Rican investments.

*Tidewater Marine Service, Inc., John P. Laborde, Chairman of the Board and President*

Recommends an amendment to the definition of foreign base company shipping income of Code section 954(f) to exclude income derived from the ownership or operation of vessels rendering services in connection with the exploration and exploitation of natural resources in submarine areas provided the services are rendered to unrelated persons.

*Pyramid Ventures, Inc.*

Supports the modifications made in the House-passed bill to the definition of investments in U.S. property. Suggests that the effective date be made retroactive to investments in U.S. properties made after May 21, 1974, the date on which the Ways and Means Committee first announced tentative decisions.

*The Rochester Tax Council, Rochester, New York*

Supports the enactment of legislation to prevent a state from taxing dividends from foreign sources and from taxing the foreign source income of foreign affiliates of multinational corporations doing business within the state.

*Occidental Life of California, O. L. Frost, Jr., Executive Vice President and General Counsel*

Recommends that proposed Code section 819A(h) in section 1043 of H.R. 10612, relating to the tax treatment of contiguous country branches of United States life insurance companies, be amended so that U.S. stock life insurance companies will be able to exclude the ownership of a Canadian subsidiary from their U.S. tax computation in the same manner that U.S. mutual life insurance companies exclude the ownership of their Canadian branch operations.

*Chase Troxell, Attorney, New York City*

Requests that section 1024 of H.R. 10612 be modified to exempt from "foreign base company shipping income" (Code sec. 954(f)) any income derived from the operation or sale of ships which engage, regularly and to a substantial extent, in the coastal trade within a foreign country if the laws of that country prohibit ships owned by U.S. corporations and citizens from engaging in that trade.

*Financial Executives Institute*

Favors the elimination of the advance ruling requirement under section 367 in the case of tax-free exchanges involving a foreign corporation.

*Frank W. Schiff, Vice President and Chief Economist of the Committee for Economic Development*

Supports section 1012 of the House bill which would permit a U.S. citizen married to a nonresident alien to file a joint return. Also urges that section 1012 be made retroactive until 1969.

*Dana Corporation*

Urges retention of the Western Hemisphere Trade Corporation provision. Rather than repealing the WHTC provision, suggests that the WHTC deduction be limited to income derived from the export sale of goods made in the United States.

*Gerald D. Morgan, on behalf of Freda R. Caspersen*

Opposes the enactment of the provisions in the House-passed bill taxing the grantors of foreign trusts. In the alternative, if these provisions are retained, urges that the provisions be made effective as of date of enactment.

*Mid-Continent Supply Co., Fort Worth, Texas*

Objects to the repeal of the Western Hemisphere Trade Corporation provision as a detriment to trade. Also, opposes repeal of the less-developed country exceptions to section 1248 of the Code as a discouragement to investment in such countries.

**I. Miscellaneous Provisions of House Bill (H.R. 10612)****1. Individual Retirement Accounts (IRA's)***American Life Insurance Association*

Supports section 1502 of H.R. 10612, which would permit participants in a qualified retirement plan to make deductible contributions to an individual retirement account to the extent the benefits provided under the qualified retirement plan are less than those available under an IRA. Believes that a still better solution to "thin" qualified plans would be to allow tax deductions for the full amount of employee contributions to qualified plans.

*Non-Commissioned Officers Association of the U.S.A., C. A. McKinney, Director of Legislative Affairs*

Recommends that certain reserve and national guardsmen and certain regular enlisted personnel of the Armed Forces be authorized to establish Individual Retirement Accounts.

*National Association of Mutual Savings Banks, Kenneth Birchby, Chairman, Committee on Taxation*

Supports provisions of H.R. 10612 which would permit, under certain circumstances, employees who are participants in a qualified retirement plan to make deductible contributions to an IRA or a Limited Employee Retirement Account.

*Taxation With Representation, Thomas J. Reese, Legislative Counsel*

Regards IRA's as a highly questionable tax aid for wealthy professionals.

*Reserve Officer's Association, Major General J. Milnor Roberts*

Maintains that the present exclusion of Reservists of the Armed Forces from participation in individual retirement accounts (IRA's) is an oversight that should be rectified immediately through the prompt passage of S. 2006.

*California Savings and Loan League, W. Dean Cannon, Jr., Executive Vice President*

Endorses the concept of supplemental retirement accounts proposed by section 1502 of H.R. 10612, but believes that the use and effect of limited employee retirement accounts should be clarified prior to enactment.

*Douglas L. Johnston, Portland, Oregon*

Considers title XV of H.R. 10612 to be a good start toward needed expansion of individual retirement provisions. Recommends that 403(b) annuity payments be allowed to be invested in savings and loans savings accounts, and as qualifying for the IRA deduction. Also, suggests that individuals be allowed to contribute to an IRA and a qualified plan, and deduct from tax the difference between the employer contribution and the 15-percent limit, whichever is lesser. Further, proposes that government employees under mandatory retirement plans be permitted to defer taxes on IRA contributions.

*Rachel Lisses, Cerritos, California*

Recommends that the IRA provisions of the Code be amended to allow the establishment of an IRA account for any individual who is not otherwise entitled to a pension plan and who chooses to stay at home to care for family members, the deductible amount each year not to exceed 15 percent of \$8,500 (the estimated value of a housewife's "earnings").

*Norman H. Tarber, the Manufacturers' Life Insurance Company, Toronto, Canada*

Supports the provisions of H.R. 10612 which allow participants in qualified plans to establish IRA's.

Endorses S. 2006 and H.R. 11084 which would allow members of reserve components of the armed forces to establish IRA's.

Urges that the Code be amended to make clear that the limit in section 415(c)(1) which prohibits employer contributions to defined contribution pension plans on behalf of any one employee from being in excess of 25 percent of the participant's compensation does not take away the right of a self-employed individual to set aside up to \$750 a year out of earned income as a deductible contribution to any H.R. 10 plan even though this exceeds 15 percent of earned income.

## **2. Accumulation Trusts**

*Southern Methodist University, James H. Zumberge, President*

Urges exempting transfers of appreciated property to short-term charitable trusts (as defined in section 170(f)(2)(B)) from the provisions of section 701 of H.R. 10612 (accumulation trusts), and thus treating them in the same manner as transfers to unitrusts, annuity trusts, annuity trusts and life income pooled fund trusts.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

With regard to the treatment of accumulated income of trusts, maintains that (a) the special 2-year holding period established by the bill

is not appropriate, and (b) the repeal of the refund section could deny a full credit to the beneficiary when there has been a trust-to-trust distribution before the distribution to the individual beneficiary.

### **3. Real Estate Investment Trusts**

*National Association of Real Estate Investment Trusts, Inc., G. N. Buffington, General Counsel*

Urges action on title XVI of H.R. 10612 to remove tax uncertainties with respect to REITs.

### **4. Cooperative Housing Associations**

*Cooperative Services, Inc., Fred Thornthwaite, General Manager*

Recommends that the tax exemption for cooperative housing corporations proposed in section 1301 of H.R. 10612 be dropped and that they be allowed to take depreciation deductions instead.

*National Association of Housing Cooperatives, Roger Willcox, President*

Requests clarification that depreciation can be a deductible item for cooperative housing corporations. Disapproves of allowing individual member stockholders to take depreciation on their stock in the cooperative corporation as a special privilege for a few who use their homes for business purposes—a use which is generally prohibited in all housing cooperatives with Federal or State assistance.

*South Side Cooperative—Condominium Owners Association in Chicago*

Asks that legislation establishing a tax-exempt category for housing cooperatives and condominiums recognize that preservation of housing is the principal “exempt purpose” of such organizations, and that income to funds set aside in reserve be recognized as income related to this “exempt purpose.” Also, recommends that depreciation be allowed against the income of the cooperative.

### **5. Prepublication Expenses**

*Association of American Publishers, Inc., Townsend Hoopes, President*

Urges favorable action on the House provision, with certain technical amendments relating to the cost of goods sold. Notes that the Finance Committee has previously approved the basic provision.

*The Authors League of America, Irwin Karp, Counsel*

Requests amendment of section 1306 of H.R. 10612 to protect professional authors, as well as for publishers, from the requirements of Rev. Rul. 73-395.

*The Lawyers Co-operative Publishing Co., Seymour Fogel, Vice President, Finance*

Proposes that the publishing industry be allowed the full benefits of section 174 of the Code (relating to the current deduction for all “research and experimental expenditures”). Maintains that Treasury regulations and rulings have discriminated against the publishing industry in this regard.

## 6. Credit for Garden Tools

*Earl Hall, Lewiston, Idaho*

Recommends elimination of section 1801 of H.R. 10612, the proposed tax credit for home garden tool expenses, as enactment of the provision is likely to make liars out of half the taxpayers in the country.

## J. Other Income Tax Proposals

### 1. Individual

*Americans United for Separation of Church and State, Ed Doerr, Educational Relations Director*

Opposes S. 2356, which would provide an annual deduction of \$1,000 per student for tuition paid to public and private schools and colleges, as the bill raises serious Constitutional questions, would provide financial aid for the well-to-do, and would be too costly in lost revenues.

*National Association of Laity, Joseph T. Skehan, President*

Objects to S. 2356 (providing tax deductions for school tuition payments as a violation of the Constitution.

*H. Cleveland Hedrick, Jr., Attorney, Washington, D.C.*

Urges the committee to adopt legislation providing that when an employee is taxed at ordinary income rates on unrealized appreciation on employer securities (purchased with employer contributions) and the employee subsequently sells the securities at a loss, the loss is to be treated as an ordinary deductible loss to the extent that the unrealized appreciation was previously recognized as ordinary taxable income.

*The National Retired Teacher's Association and the American Association of Retired Persons*

Recommends that the Treasury Department continue its efforts to develop means by which payors of pensions and annuities can more readily inform the payee of taxable proportion of gross annual payments.

Suggests that older taxpayers with adjusted gross incomes of \$10,000 or less should be exempted from the estimated reporting of unearned income. Finally, to assist older taxpayers who find it necessary to seek outside tax return preparation assistance, proposes a tax credit of up to \$50 for expenses incurred for such assistance be allowed as a substitute for the present deduction under section 212 of the Code.

*The Retired Officer's Association, Colonel George F. Hennrikus, Jr.*

Proposes an exemption from tax of \$5,000 of retirement income for all uniform service retirees who retired prior to 1968. Also, recommends an amendment to continue application of the section 117 exemption to scholarships provided under the Armed Forces Health Professions Scholarship Program.

*American Hospital Association*

Recommends that the Internal Revenue Code be amended to exclude from taxable income the amount of a student loan that is forgiven when the student renders health services in a medically underserved area as designated by the Secretary of Health, Education and Welfare.

## 2. Business

*Honorable James B. Allen, U.S. Senator, Alabama*

Requests consideration of S. 3288, regarding the treatment of certain rental payments made for intangible properties and whether such payments are royalties under Code section 543(c)(1) (as claimed by the IRS) or are compensation for the use of corporate property under Code section 543(c)(6). This involves whether or not a taxpayer is treated as a personal holding company.

*Investment Company Institute, Robert L. Augenblick, President*

Recommends an amendment of the Internal Revenue Code to allow the municipal bond interest exemption to be passed through to shareholders of regulated investment companies.

*American Mutual Insurance Alliance, K. Martin Worthy, Counsel*

Opposes the enactment of S. 2985 and H.R. 12126, or any similar legislation which would permit life insurance companies to join in the filing of consolidated returns with non-life insurance companies.

*American Life Insurance Association, William T. Gibb, Chief Counsel, Federal Taxes and Pensions; Health Insurance Association of America, Paul M. Hawkins, Vice President and Washington Counsel*

Endorse S. 2759, which would amend Section 809(d)(5) of the Internal Revenue Code to clarify member companies' entitlement to the 3 percent of premiums deduction for guaranteed renewable health and accident policies.

*National Association of Life Companies, Atlanta, Georgia*

Supports S. 2759, which would amend Code section 809(d)(5) to clarify the intent of Congress that premiums on guaranteed renewable health and accident insurance policies qualify for the 3 percent of premiums deduction.

*Fortescue W. Hopkins, Daleville, Virginia*

Proposes the enactment of an amendment to Code section 312(m) which would exempt, as of June 30, 1972, an electing small business corporation from the provision that earnings and profits shall not be reduced by the excess of accelerated over straight-line depreciation.

*American Life Insurance Association, William T. Gibb, Chief Counsel, Federal Taxes and Pensions*

Recommends that section 801(g)(1)(B) of the Code be amended to remove the requirement that in order for a life insurance company not to be taxed on income earned in segregated asset account reserves used for funding contracts with certain pension plans, the contracts must provide for the payment of annuities.

*National Association of Independent Insurers*

Expresses opposition to S. 2985 and H.R. 12126, which would permit consolidation of tax returns by life insurance companies, nonlife companies, and noninsurance entities. Claims that such legislation would have potentially disastrous effects on members of their association.

*National Associated Businessmen, Inc., Homer E. Marsh, President*

Proposes that the amount of surplus which a corporation may accumulate without payment of the unreasonable accumulation of earnings tax be raised to \$200,000, and that the rate of that tax should be decreased to 15 percent for the first \$200,000 and to 25 percent for any surplus in excess of \$200,000. Also suggests that the \$200,000 amount be subject to annual or periodic adjustment to reflect increases in the price level.

*American Council of Voluntary Agencies for Foreign Service, Inc., James J. Norris, Chairman*

Supports H.R. 12356, which would amend section 170(e) of the code to restore a limited tax incentive for business contributions of inventory to charitable institutions.

*Business Men's Assurances Company of America*

Urges enactment of the provision in S. 2704 and H.R. 10051, amending section 815 of the Code so that a "phase 3" tax is not imposed on a life insurance company because of an unintentional distribution from its policyholder surplus account, provided the mistake is discovered and corrected prior to the filing of the Company's tax return.

Notes that the House Ways and Means Committee acted favorably on H.R. 10051 in December 1975, and that the Finance Committee has also previously discussed and approved the provision.

*Frederick E. Dauterman, Jr., Columbus, Ohio*

Believes that the deduction for entertainment expenses should be eliminated. Also, suggests allowing only one-half of travel and lodging expenses for conventions generally in recognition of the "vacation" element of convention trips (and with no deduction for food expenses).

## PART II—ADMINISTRATIVE PROVISIONS

### A. Income Tax Return Preparers

*Robert J. Dulsky, President, Tax Corporation of America*

Believes that the IRS probably should not engage in large scale preparation of tax returns, as it would be expensive and divert it from its basic function of collection of taxes. Notes that the GAO report to the Joint Committee on Internal Revenue Taxation (December 8, 1975) states that "commercial preparers, as a group, are not a special problem." Feels that the House provision, as clarified in the Committee Report, is acceptable. Suggests that where more than one return preparer is involved in the preparation of a return, records should be required to be retained and a copy of the return should include the identification number.

*National Society of Public Accountants, Albert R. Van Tieghem, President*

Generally supports the House provision. Indicates that the burden of proof of any alleged negligence should be placed on the IRS, not on the return preparer. Asks that the proposed code section 7407 (a) (4) be deleted. Recommends adoption of the definition of a preparer already established by the IRS in its regulation on disclosure of tax information to provide consistency in terminology.

*Paul H. Chappell, Attorney, Chevy Chase, Maryland*

Favors with certain modifications the provisions contained in H.R. 10612 relating to tax return preparers.

### B. Declaratory Judgments for Tax-Exempt Organizations

*American Hospital Association*

Endorses section 1202 of H.R. 10612, which would provide a declaratory judgment procedure for judicial determination by a Federal district court or the Tax Court of the exempt status of an organization under section 501 (c) (3) of the Code.

*United States Catholic Conference, Eugene Krasicky, General Counsel*

Supports legislation to provide charitable organizations access to the Tax Court and the Federal District Courts for declaratory judgments on tax-exempt status.

**C. Other Items**

*Commission on the Review of the National Policy Toward Gambling,  
Charles H. Morin, Chairman*

Questions whether legislation before the Committee concerning the withholding of taxes on gambling winnings would serve to further any identifiable national interest.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker,  
Chairman, Federal Tax Committee*

Supports a provision to require all Federal agencies to withhold local income tax.

*J. Ashton, New Orleans, Louisiana*

Recommends an overhaul of the Internal Revenue Service to prevent harassment of taxpayers, including making it a separate department under a nonpolitical director in order to remove the IRS from political influence.

### **PART III—ENERGY AND EXCISE TAX PROPOSALS**

#### **A. Motor Vehicles and Tires**

##### **1. Automotive**

*Taxation With Representation, Thomas J. Reese, Legislative Director*

Opposes the tax credit proposed by H.R. 6860, the energy bill, for electric cars as they are already sold as fast as they are produced and no incentive for additional production is needed.

##### **2. Bus and Truck Taxes**

*Honorable Guy Vander Jagt, Member of Congress, Michigan*

Proposes the repeal of the 10-percent Federal excise tax on trucks, buses, trailers, parts and accessories.

*Leonard Woodcock, President, UAW*

Urges repeal of the excise taxes on trucks, buses and trailers, and on truck parts. Maintains that there is no current economic justification for continuation of the tax. Notes that the committee has previously (1975) approved such a repeal.

*Motor and Equipment Manufacturers Association*

Recommends repeal of the 8-percent excise tax on truck and bus parts and accessories. Estimates that the revenue impact on the Highway Trust Fund would be about \$150 million. Suggests, as an alternative, the repeal of the tax on parts for use on off-highway vehicles. Maintains that the tax increases the cost of repairing vehicle equipment and replacing parts when needed, as well as for safety equipment.

*Private Truck Council of America, Inc.*

Favors repeal of the 10-percent excise tax on trucks and the 8-percent tax on truck parts and accessories in order to achieve tax equity, to stimulate the economy and employment, and to reduce inflationary cost increases to purchasers. Maintains that such excise taxes are not really user-related charges.

*Michael E. Strother, Land Improvement Contractors of America*

States that the Federal highway use tax on conservation vehicles and its State counterparts are burdensome to the small land improvement contractor doing soil and water conservation work for farmers and under various government programs.

Supports S. 17, which would exempt from the Federal highway use tax vehicles not for hire which are used exclusively in soil and water conservation work.

### 3. Tire Taxes

*Taxation with Representation, Thomas J. Reese, Legislative Director*

Opposes the proposed repeal in H.R. 6860, the energy bill, of the excise tax on radial tires as an unjustified tax benefit for one segment of the tire industry, and because such exemption from tax would violate the principle of the tax as a highway user charge.

#### B. Tax Credits for Insulation and Solar Energy Equipment

*Taxation with Representation, Thomas J. Reese, Legislative Director*

Opposes the tax credit proposed in H.R. 6860, the energy bill, for insulation of residences. Claims that it would not help those who need it most—the persons who are too poor to pay any income tax. Maintains that it would result in substantial losses of tax revenues. Believes that if direct government intervention is needed, direct appropriations are a more effective means of encouraging home insulation than tax incentives, but that if a tax credit is to be used it should at least be made refundable.

In addition, objects to the proposed tax credit for solar energy equipment. Contends that it will not assist in the development of solar energy technology and yet will result in a loss of tax revenues in future years when solar energy equipment will come into use. Believes that a direct appropriation for solar energy research would make more sense.

*The following submitted statements in support of a tax credit for home insulation as a means of conserving energy:*

*National Remodelers Association, Gerald Hasler, President*  
*Advanced Concepts Insulators, Omaha, Nebraska*<sup>1</sup>  
*M.R.S. Urethane Co., Inc., Masury, Ohio*<sup>1</sup>  
*Martin S. Sons, Donald H. Martin*<sup>1</sup>  
*Young Builders, Inc., Phoenix, Arizona*<sup>1</sup>  
*Rapperswill Corporation, New York, Charles H. Stillman, President*<sup>1</sup>  
*Mastic Corporation, South Bend, Indiana*<sup>1</sup>  
*Mark J. McGrath, Washington, North Carolina*<sup>1</sup>  
*S & R Home Foamers, Miles City, Montana*<sup>1</sup>  
*All Season Insulation, Inc., Glenwood, Iowa*<sup>1</sup>  
*Mono Thermo Insulation, Inc., Great Falls, Montana*<sup>1</sup>  
*Paul C. Ryan, President, Homerite Co., Inc.*<sup>1</sup>  
*Joseph R. Hofe, Hofe's Insulation, Martinsburg, West Virginia*<sup>1</sup>  
*Winston Rice, Rice Contracting Co., Cartersville, Georgia*<sup>1</sup>  
*James M. Smith, President, Atlanta Rapco Insulation Co., Inc.*<sup>1</sup>  
*Dana Chiappinelli, Spray Insulations, Inc.*<sup>1</sup>  
*Joe I. Morrison, Sun Ray Energy Corp.*<sup>1</sup>

<sup>1</sup> Also, request that materials eligible for the tax credit not be limited to those materials having a Federal specification number or ASTM product designation, but that other new materials be eligible that are used under local building codes—such as "U-F" foam.

### **C. Excise Tax on Business Use of Petroleum Products**

*Taxation with Representation, Thomas J. Reese, Legislative Director*

Opposes the proposed excise tax in H.R. 6860, the energy bill, on business use of petroleum and petroleum products because it would needlessly discriminate against the use of petroleum for business as opposed to nonbusiness purposes.

*National LP-Gas Association, Arthur C. Kreutzer, Vice President and General Counsel*

Objects to the special motor fuel tax in Code section 4041 (b) to the extent it applies to the use of propane in motor vehicles, such as industrial lift trucks, which are not highway motor vehicles, as there is no comparable tax on the use of industrial lift trucks powered by electricity or diesel. Recommends that section 4041 (b) be amended to limit the tax on propane to use in a highway motor vehicle.

### **D. Tax Incentives for Energy-Related Investment**

#### **1. Oil & Gas Exploration and Development**

*Standard Oil Co. (Indiana), John E. Kasch, Vice President*

Recommends that Congress allow oil shale lease acquisition costs to be deductible immediately, and that current and future investments in depreciable assets directly associated with development of oil shale resources on such leases also be deductible immediately.

*Addison L. Gardner III, Greenwich, Connecticut*

Objects to the provisions of H.R. 10612 which would restrict the deductibility of intangible drilling and development costs. States that enactment of these provisions would put the small independent oil operator out of business by cutting off investments by high bracket taxpayers.

*Alladdin Petroleum Corp., and others, William C. Lane, Jr., Attorney*

Recommends an amendment to Code section 613A (d) (2) to give an independent gasoline retailer which has totally unrelated crude oil production the benefits of the percentage depletion allowance available to independent crude oil producers.

#### **2. Geothermal and Solar Energy Sources**

*Geothermal Resources International, Inc., Ronald P. Baldwin, President*

Proposes that H.R. 10612 be amended to provide a depletion allowance and a deduction for intangible drilling and development costs in the case of geothermal resources.

*William F. Bates, Vice President, McCulloch Oil Corporation*

Believes that improved exploration techniques have advanced to the point that investors can be attracted to geothermal drilling, but that the development pace is held back by uncertainty as to the tax incentives available under existing law.

*Carel Otte, Vice President, Union Oil Company of California*

Supports S. 2608 (introduced by Senator Fannin), a bill which would allow a deduction of 25% of the gross income from a geothermal steam property, and a deduction for intangible drilling and development costs of geothermal wells.

*Geothermal Resources Council, William M. Dolan, President*

Urges the Committee to favorably report S. 2608, a bill which would provide tax incentives for the geothermal industry.

*Geothermal Kinetics, Paul W. Eggers, President*

Recommends the adoption of S. 2608 which provides a deduction equal to 25 percent of the gross income from geothermal property.

*Magma Power Co.*

Endorses S. 2608 to provide for tax incentives for geothermal energy sources.

### **3. Recycling**

*National Association of Recycling Industries, Inc., Edward L. Merri-  
gan, Counsel*

Submits a proposal which would provide tax credits for purchases of recyclable materials by a manufacturer who would convert them into new materials, saleable products or industrial fuel. One-third of the tax credit for a recyclable material would be available for amounts less than the base period volume. Recyclable waste would include industrial as well as postconsumer waste so long as an arm's length transaction. Proposes the following schedule of credits:

- (1) 11 percent for metals, other than gold, silver, platinum, iron and steel and copper;
- (2) 10 percent for paper and paper products and textile wastes;
- (3) 7½ percent for copper and iron and steel; and
- (4) 5 percent for glass.

*Institute of Scrap Iron and Steel, Inc., Herschel Cutler, Executive  
Director*

Recommends a tax credit of 2½ percent of the value of recyclable ferrous scrap, plus a credit of 5 percent for purchase in excess of those in the 1973-75 base period.

*Joint Government Liaison Committee, Association of Brass and  
Bronze Ingot Manufacturers and the Brass and Bronze Ingot  
Institute, Robert V. Maudlin, Executive Director*

Opposes inclusion in H.R. 6860, the energy bill, of a tax credit for recycling copper base scrap as such a credit would cause severe dislocations in scrap markets and increase the price of scrap.

*Aluminum Recycling Association, Richard M. Cooperman, Executive  
Director*

Opposes tax credits for recycling aluminum scrap as the industry buys scrap and produces recycled aluminum only in response to demand for the product.

**4. Other***Interstate Natural Gas Association of America*

Proposes a permanent 12-percent investment credit in all energy projects.

*Wheelabrator-Frye, Inc., Michael D. Dingman, President*

Agrees with the 5-year amortization provisions for energy use property in H.R. 6860, but suggests that the provision be amended to also permit the 10-percent investment credit.

Recommends a 12-percent tax credit for at least 10 years for solid waste energy systems and clean coal plants.

*National Barrel and Drum Association, Morris Hershson, President*

Urges the committee to adopt a tax incentive or disincentive which would discourage the purchase of non-reusable, or short-lived steel drums.

**E. Other Items****1. General***Taxation With Representation, Thomas J. Reese, Legislative Director*

Objects to H.R. 6860, the energy bill, because its energy conservation measures are of dubious worth and its tax provisions create unjustified new tax expenditures.

**2. Energy Trust Fund***Taxation With Representation, Thomas J. Reese, Legislative Director*

Opposes the energy trust fund proposed by H.R. 6860, the energy bill, as trust funds generally tend to lock Congress and the Government into supporting programs that no longer have high priority.

*Wheelabrator-Frye, Inc., Michael D. Dingman, President*

Disapproves of the Energy Trust Fund provision in H.R. 6860.

## PART IV—ESTATE AND GIFT TAX PROPOSALS

### A. Estate Tax

#### 1. Exemption Level and Tax Rates

*Honorable James B. Pearson, U.S. Senator, Kansas*

Urges the adoption of his bill which would increase the specific estate tax exemption to \$120,000, provide that a spouse's services (as well as monetary contributions) shall be treated as consideration for purposes of determining the value of the decedent's estate, allow a \$130,000 deduction with respect to certain family farms and small business interests passed to a related individual, and authorize automatic increases in the estate tax exemption and family enterprise deduction to reflect rises in the cost of living. The adjustments to these exemptions, which are intended to provide permanent protection against future inflation, would take the form of adjusting the \$120,000 exemption each year by reference to the consumer price index and by annually adjusting the \$130,000 deduction (with respect to certain family farms and small business interests passed to a related individual) by the changes in the gross national product deflator.

*Leonard Woodcock, President, UAW*

Maintains that estate and gift taxes are largely ineffective in taxing wealth. Contends that additional revenue should be obtained by changing the treatment of gains at death and generation-skipping trusts. Indicates that in 1972 there were 93 gross estates of \$1,000,000 or more on which no Federal estate tax was paid.

*American College of Probate Counsel, Committee on Estate and Gift Tax Reform*

Recommends raising the exemption level to \$100,000 and changing it to a credit to minimize the revenue loss.

*Ad Hoc Agricultural Tax Committee, Don Woodward, President, National Association of Wheat Growers*

Favors increasing the \$60,000 estate tax exemption immediately (without a phase in), preferably to \$300,000. In the alternative, suggests that there should be, in addition to the basic \$60,000 exemption, an additional exemption for the first \$200,000 of the value of a family farm.

*Louis H. T. Dehmlow, President, Great Lakes Terminal and Transport Corporation*

Urges an increase in the estate tax exemption to \$200,000 to reflect the effect of inflation since 1942, to remove the impact of the tax on small businesses, and to prevent forced sales of small businesses.

*Interreligious Task Force on U.S. Food Policy, George A. Chauncey, Chairman*

Recommends an increase in the exemption level to reflect inflation since 1942, either to \$200,000 or, preferably, through a credit of at least \$50,000. Indicates that a credit would be the fairest form of granting tax relief and result in less revenue loss as compared to an increase in the exemption. Suggests, also, inclusion of an inflation adjustment in the future.

*Charles M. Farmer, Agricultural Economics, University of Tennessee*

Maintains that the \$60,000 exemption level is grossly unfair today. Indicates that due to rapidly increasing fair market values of land, many more farm estates are being subjected to the estate tax which has forced some to sell in order to pay the tax.

*Chicago Association of Commerce and Industry*

Supports any legislation that would increase the Federal estate and gift tax exemptions to reflect the effect of inflation since the present level of exemptions was established.

*Public Citizen's Tax Reform Research Group, William Pietz and Robert Brandon*

Believe that the estate tax could be more progressive without causing undue hardship. State that the rate of tax on taxable estates above \$50,000 should increase more rapidly than it presently does.

Oppose an increase in the estate tax exemption because roughly 90% of all estates are already protected from tax by the \$60,000 exemption and any increase will only benefit relatively large estates.

*Mrs. Harald Randl, Manitowoc County, Wis.*

Supports the proposed \$200,000 personal estate tax exemption contained in H.R. 1793.

*Citizens Committee on Tax Reform, Stephen J. Rapp, Chairman*

Favors increasing the estate tax exemption to \$200,000.

*Mrs. Jacqueline J. Furber, Wolcott, N.Y.*

Believes that the \$60,000 exemption must be raised to no less than \$200,000 to compensate for inflation.

*National Rural Electric Cooperative Association, Robert D. Partridge, Executive Vice President*

Recommends an increase in the federal estate tax exemption from \$60,000 to \$300,000 or more, and that gift taxes be comparably adjusted.

*National Cotton Council of America, Memphis, Tennessee*

Supports an increase in the estate tax exemption from \$60,000 to \$200,000.

*Laura Lane, Philadelphia, Pennsylvania*

Believes the \$60,000 estate tax exemption is particularly hard on farmers and that it should be increased—such as to \$200,000 (as in S. 1173, introduced by Senator Curtis).

*National Associated Businessman, Inc., Homer E. Marsh, President*

Favors an increase in the exemption from \$60,000 to \$210,000 in order to reflect the effect of inflation.

*National Limestone Institute, Inc., Richard P. Rechter, Chairman*

Recommends an increase in the estate tax exemption to \$400,000, and in the future tying it to the Consumer Price Index. Also, favors lowering the tax rates.

*Committee on Agriculture and Environment, State Legislature of Nebraska, Loran Schmit, Chairman*

Proposes raising the estate tax exemption to \$200,000, as such an increase will aid in preserving the family farm.

*Mrs. Jerome Sickinger, Cato, Wisconsin*

Supports H.R. 1793, which would raise the estate tax exemption to \$200,000.

*National Milk Producers Federation, Patrick B. Healy, Secretary*

Favors raising the exemption level to \$200,000, with such increase to be made effective immediately.

## **2. Marital Deduction**

*American College of Probate Counsel, Committee on Estate and Gift Tax Reform*

Favors retention of the 50-percent marital deduction generally, but amended to take account of inter vivos transfers of joint and community property.

*Interreligious Task Force on U.S. Food Policy, George A. Chauncey, Chairman*

Believes that some recognition should be given to the wife's contribution to the value of the farm estate when it is taxed. Favors the elimination or substantial reduction of estate taxes when an estate is passed on to a surviving spouse who has been involved in building that estate.

*Ad Hoc Agricultural Tax Committee by Don Woodward, President, National Association of Wheat Growers*

Suggests increasing the marital deduction.

*Citizens Committee on Tax Reform, Stephen J. Rapp, Chairman*

Believes that only one-half of joint tenancy property should be taxed to the surviving spouse.

*Public Citizen's Tax Reform Research Group, William Pietz and Robert Brandon*

Support a full (100%) marital deduction in recognition of the joint contributions made by spouses in building an estate.

*Mrs. Jacqueline J. Furber, Wolcott, N.Y.*

States that there should be a more liberal marital deduction than the current 50 percent.

*National Conference of State Legislatures, Honorable Loran Schmit,  
Chairman, Committee on Agriculture and Environment, State  
Legislature of Nebraska*

Recommends raising the marital deduction to 50 percent of the adjusted gross estate, plus \$100,000.

*Mrs. Jerome Sickinger, Cato, Wisconsin*

Supports provisions in H.R. 1793 which would grant a marital deduction of 50 percent of the adjusted gross estate, plus \$100,000.

*Mrs. Marcellus Vebel, Manitowoc County, Wisconsin*

Believes there should be a 100-percent marital deduction, as farm wives contribute equally to operating the farm and should not have to pay estate taxes if their husbands predecease them.

*Laura Lane, Philadelphia, Pennsylvania*

Endorses S. 1173, which would increase the marital deduction by \$100,000 beyond the current 50 percent.

### **3. Valuation and Payment Provisions**

*Honorable Charles McC. Mathias, Jr., U.S. Senator, Maryland*

Asks consideration of S. 80, to provide that farmland, woodland or open land may be valued at its value for this use rather than at its fair market value, and to provide that real property which is listed on the National Register of Historic Places may be valued at its value for its existing use. The bill would also revoke such lower valuation and require recapture of unpaid tax with interest if the use changes. In order for the property to qualify, it must have been devoted to such use for 5 years preceding the death of the decedent. (Estimates that S. 80 would cost only \$20 million.)

*National Conference of State Legislatures, Honorable Loran Schmit,  
Chairman, Agriculture and Environment Committee of the  
Nebraska Legislature*

Endorses assessing farm property at its value for current agricultural use, not at fair market value.

*American College of Probate Counsel, Committee on Estate and Gift  
Tax Reform*

Proposes that the definition of a closely-held business be broadened (for purposes of the 10-year installment payment provision) to include other situations where an estate may be unable to pay the tax because its assets consist substantially of an interest in an unliquid business. (Presents possible definitions to qualify.)

Suggests that objective standards be set for determining reasonable cause for deferring payment of tax, with an extension of the time from one year to five years. Proposes that the maximum time for installment payments be extended from 10 years to 20 years.

*Interreligious Task Force on U.S. Food Policy, George A. Chauncey,  
Chairman*

Recommends that the executor of a farm estate be given the option of valuing farm land at its value for agricultural purposes rather than at its "fair market value." Contends that the present valuation system encourages families to sell the land and leave farming.

*Ad Hoc Agricultural Tax Committee by Don Woodward, President,  
National Association of Wheat Growers*

Supports valuation of farmland on the basis of its value for farming purposes rather than valuation on the basis of fair market value. Generally favors 5-year deferral followed by extended payout of estate taxes but does not believe this provision standing alone provides sufficient relief.

*Pottberg Ranches, Alric Pottberg, President*

Urges the committee to support legislation allowing agricultural land to be assessed at its value for agricultural use under the estate tax law, rather than being assessed at its highest or best use value.

*Mrs. Jacqueline J. Furber, Wolcott, N.Y.*

Asserts that farm land valuation for estate tax purposes should be based on the agricultural use value rather than the potential use value.

*National Limestone Institute, Inc., Richard P. Rechter, Chairman*

Endorses Administration's proposals for a five-year moratorium on estate tax payments, with an additional twenty years for full payment. Opposes, however, the Administration's ceiling of \$300,000.

*Mrs. Marcellus Vebel, Manitowoc County, Wisconsin*

Supports proposal in H.R. 1793, which would permit elective appraisal of farm property according to its agricultural use, provided such use is continued for five years after the appraisal.

*Mrs. Jerome Sickinger, Cato, Wisconsin*

Recommends valuing property according to the rules proposed in H.R. 1793. Also, suggests an 18-month period for filing an estate tax return.

*National Milk Producers Federation, Patrick B. Healy, Secretary*

Urges valuation of family plans, for estate tax valuation purposes, at their current agricultural use rather than some other potential use.

Believes the President's proposal to extend the time of payment of estate tax to 25 years with liberal interest terms could be beneficial. Notes, however, that if current restrictions on 10-year payment stretch-outs are carried over to the President's 25-year proposal, it would be likely to find only limited use.

*National Cotton Council of America, W. D. Lawson III, President*

Supports the concept that farm property in an estate should be valued according to its use as agriculture rather than its speculative value to a real estate developer or some other nonfarm investor. Indicates that, to prevent abuses, the valuation should depend on the property's use in the hands of the decedent's heirs.

#### **4. Charitable Bequest Deduction**

*United States Catholic Conference, Eugene Krasicky, General Counsel*

Objects to any limitation on deductibility of bequests to public charities, including the imposition of any capital gains tax on unrealized appreciation at death which does not exempt contributions to public charities.

Express opposition to any limitation on estate tax deduction for charitable bequests to be used outside the United States or its possessions because such a restriction would impair missionary activity.

*James H. Zumberge, President, Southern Methodist University*

Opposes any tax on the appreciation element of gifts of appreciated property given to charitable organizations at death.

*Child & Family Services of Connecticut, Inc., Roger Sullivan, Director of Development and Public Affairs*

Objects to any proposal to impose a 50-percent ceiling on the estate tax charitable contribution deduction.

*American Hospital Association*

Urges rejection of any limitation on the estate tax charitable contribution deduction.

*Hillcrest Medical Center, William H. Bell, Chairman, Board of Trustees*

Opposes any ceiling on the estate tax charitable contribution deduction.

*Council of Jewish Federations and Welfare Funds*

Objects to any ceiling on the deductibility of charitable bequests.

#### **5. Capital Gains at Death (or Carryover of Basis)**

*Citizens Committee on Tax Reform, Stephen J. Rapp, Chairman*

Supports the repeal of the provision of the Code which allows a step-up in basis of capital assets at death.

*American Hospital Association*

Opposes taxation of the appreciated value of property at the owner's death.

*Chicago Association of Commerce and Industry*

Urges rejection of any proposals to tax at death the appreciated value of decedent's property or to apply a carryover basis for the property in the hands of the decedent's heirs.

*Public Citizen's Tax Reform Research Group, William Pietz and Robert Brandon*

State that the policy of not taxing capital gains at death is the most glaring weakness in the present tax structure.

*Ad Hoc Agricultural Tax Committee by Don Woodward, President, National Association of Wheat Growers*

Opposes capital gains tax at death.

*Leonard Woodcock, President, UAW*

Proposes taxing capital gains at death, with an offset of such tax against the estate tax.

#### **6. Generation-skipping Trusts**

*Leonard Woodcock, President, UAW*

Recommends removal of the allowance of generation-skipping trusts to avoid payment of estate tax.

*Public Citizen's Tax Reform Research Group, William Pietz and Robert Brandon*

Believe that generation-skipping trusts should not escape tax. Support the 1969 Treasury proposals (or any other method) that would tax these transfers.

### **7. Other Items**

*Public Citizen's Tax Reform Research Group, William Pietz and Robert Brandon*

Favor repealing the credit against Federal estate tax for death taxes paid to the states.

*Laura Lane, Philadelphia, Pennsylvania*

Recommends a modification of existing estate tax provisions which preclude the assignment of any value to the services of a farm wife in computing her contribution to the farm operation if no value is assigned to such services under applicable state law.

*American College of Probate Counsel, Committee on Estate and Gift Tax Reform*

Asks that the interest charge on deferred estate tax payments be set at two-thirds of the rate charged on tax deficiencies. Also, urges that effective dates for any estate tax changes be prospective only, along with a reasonable period (5 years) for amending wills and trusts.

*Interreligious Task Force on U.S. Food Policy, George A. Chauncey, Chairman*

Proposes that the interest rate on deferred estate tax payments be reduced to 4 percent.

## **B. Gift Tax**

### **1. Exemption level**

*National Associated Businessmen, Inc., Homer E. Marsh, President*

Recommends that the lifetime exemption be increased from its present \$30,000 level to \$105,000.

*Interreligious Task Force on U.S. Food Policy, George A. Chauncey, Chairman*

Favors an increase in the lifetime exemption level to reflect inflation.

### **2. Gift Tax Rates**

*Child & Family Services of Connecticut, Inc., Roger Sullivan, Director of Development and Public Affairs*

Opposes a unified transfer tax in place of the present estate and gift taxes.

*Public Citizen's Tax Reform Research Group, William Pietz and Robert Brandon*

Believe that the gift and estate taxes should be integrated and the same rate of tax should apply to both. State that if there is any increase in the estate tax exemption, it should be offset by repeal of the lifetime gift tax exemption.

## PART V—PAYROLL TAXES

### A. Social Security Taxes

*Honorable Stanley N. Lundine, Member of Congress, New York*

Recommends that the payroll tax be revised to apply only to earnings above a fixed minimum per capita.

*Citizens Committee on Tax Reform, Stephen J. Rapp, Chairman*

Favors a \$900 personal exemption from the social security payroll tax.

### B. Employment Taxes

*National Association of Independent Insurers, Charles W. Davis, Counsel*

Requests that the Congress resolve a definitional problem with respect to the administration of the employment tax provisions to insurance companies. Considers unfair the Service's retroactive determination that commission insurance agents to be employees instead of independent contractors. Also, asks consideration of the problem of multiple exaction of FICA and FUTA taxes in certain circumstances from related employers of the same employee.

## PART VI—TAX TREATMENT OF STATE-LOCAL BONDS

### A. Taxable Bond Option

*Citizens Committee on Tax Reform, Stephen J. Rapp, Chairman*

Recommends allowing State and local governments the option of issuing taxable securities with a federal interest subsidy.

*Kidder, Peabody & Co., Incorporated, John H. Noonan, Vice-President*

Endorses H.R. 12774, which provides that states may elect to issue a taxable bond and qualify for a 35 percent Federal subsidy of the interest yield.

*Leonard Woodcock, President UAW*

Recommends elimination of the tax exemption for State-local bond interest. Prefers the taxable bond approach such as that reported by the House Ways and Means Committee as a more efficient way of assisting State-local governments. Suggests that the interest subsidy should be high enough to encourage the use of the taxable bond option.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Supports continued tax exemption for municipal bonds. Questions whether eliminating or reducing the current exemption for municipal bonds in return for a subsidy would provide a broader market for such bonds.

### B. Industrial Development Bonds

*Federation of American Hospitals, Michael D. Bromberg, Esq., Director*

Supports S. 3241, a bill designed to add investor-owned hospitals to the list in Code sec. 103(c)(4) of categories exempt from the \$5 million limitation on qualified, tax-exempt industrial development bonds.

*Humana, Inc.*

Recommends that section 103(c)(4) of the code be changed to permit the funding of all hospital facilities, not just nonprofit, by tax-exempt bonds regardless of the size of the project (replace the present \$5 million limit).

**PART VII—FOUNDATIONS, CHARITIES, AND OTHER  
TAX-EXEMPT ORGANIZATIONS**

**A. Tax Treatment of Foundations**

*American Hospital Association*

Supports S. 2348, which would amend section 4940 of the Code to reduce the excise tax on investment income of private foundations from 4 percent to 2 percent. Supports S. 2475, which would amend the minimum investment return provisions of Code section 4942(e).

*Sand Springs Home, Charles E. Chamberlain and William J. Lehrfeld,  
Counsels*

Endorse H.R. 5815, which would exclude from private foundation status a charitable organization operated, supervised or controlled by or in connection with a fraternal benefit association, including the Masons and Shriners.

*Havens Relief Fund Society, John S. Nolan*

Recommends that Code section 6056(d)(3) be amended so that a private foundation not be required in its annual report filed with the Internal Revenue Service to identify by name and address each recipient of a grant, as well as the amount of the grant, if its amount is not more than \$1,000 and the recipient is an indigent and needy person.

*Los Angeles Inter-Foundation Center, Joseph G. Dempsey, Executive  
Director*

Urges complete repeal of the excise tax imposed by section 4940 on private foundations' investment income. However, if the tax is retained, supports reduction of the rate to an amount closer to the actual costs of administering the audits of private foundations.

Supports S. 2475 which would set the annual payout requirement (minimum investment return) for private foundations at a flat 5 percent instead of the current variable 6 percent rate.

*The May Department Stores Company, Newman T. Halvorson, Jr.,  
Counsel*

Proposes amendments to the transitional rules in the Tax Reform Act of 1969 to permit a private foundation to sell to a disqualified person, for not less than fair market value, any property being leased by that person under a lease entered into prior to the enactment of the 1969 legislation and which, under the Act's transitional rules, may be continued between a foundation and a disqualified person until December 31, 1979. [A similar amendment was unanimously approved by the House Ways and Means Committee in 1972 (H.R. 9520).]

## B. Charities and Other Tax-Exempt Organizations

### 1. Charitable Contributions

*Nebraska Wesleyan University, Charles E. Sconyers, Vice-President for Development*

Opposes any proposal to reduce the deduction for charitable contributions of appreciated property in the form of real estate or securities. Believes such changes would reduce gifts to the university very substantially.

*Lutheran Council, on behalf of the American Lutheran Church, Minneapolis, Minnesota, and the Lutheran Church of America, New York*

Urges generally that the tax law continue incentives to charitable giving in order to maintain the financial stability and program effectiveness of voluntary institutions, including churches and related organizations.

*United States Catholic Conference, Eugene Krasicky, General Counsel*

Opposes any further limitation on deductibility of contributions of appreciated property to public charities.

*Southern Methodist University, Dallas, Texas, James H. Zumberge, President*

Recommends allowing a charitable deduction for contributions of inventory crops, works of art, and short-term property, provided the gift qualifies under all provisions of the Internal Revenue Code as directly attributable (applicable) to the exempt purpose of a qualified institution, for the property's full fair market value minus one-half the amount which would be taxed as ordinary income on a sale.

Opposes proposals to limit the charitable deduction for contributions of appreciated long-term tangible personal property to the property's cost basis, or to the property's fair market value minus one-half of the appreciation.

Objects to proposals to tax the value of appreciation as if the donor had sold the property and contributed the proceeds.

Opposes proposals to require a longer holding period (e.g., one year) for a donor to be allowed a charitable contribution deduction for the fair market value of appreciated long-term tangible property.

*Child & Family Services of Connecticut, Inc., Roger Sullivan, Director of Development and Public Affairs*

Opposes any new restrictions on deductions for charitable contributions of appreciated property.

*American Hospital Association*

Recommends that the deduction allowed for property donated to public charities continue to be the fair market value of such property.

*Hillcrest Medical Center, William H. Bell, Chairman of the Board of Trustees*

Opposes any proposal that would limit the deductibility of charitable contributions of long-term appreciated property or tax the appreci-

ation, the enactment of a percent of adjusted gross income floor on deductions for charitable contributions, and the enactment of an allocation of deductions rule or any other rule that would penalize donors who make substantial gifts.

*Stonewall College, Rev. Ernest Bartell, President*

Urges the committee not to support any legislation that would lessen tax incentives for private philanthropy.

*The Academy of the New Church, Louis B. King, President*

Asks that the committee preserve current tax incentives for charitable giving and to authorize a new type of deferred gift—the charitable remainder variable annuity trust.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Recommends implementation of the report of the Commission on Private Philanthropy and Public Needs (Filer Commission).

## **2. Lobbying**

*National Audubon Society, Elvis J. Stahr, President and Chairman of the Coalition of Concerned Charities*

Endorses S. 2832, which would allow public charitable organizations qualified under section 501(c)(3) to participate in certain legislative activities.

*United States Catholic Conference, Eugene Krasicky, General Counsel*

Will oppose proposed legislation (e.g., H.R. 8021 and S. 2832) allowing charities, other than churches, to elect specific expenditure tests instead of present substantiality test with regard to their legislative activity, unless such legislation includes amendments (1) indicating that Congress is not ratifying the decision of the Court of Appeals for the Tenth Circuit in *Christian Echoes National Ministry, Inc. v. U.S.*, 470 F. 2d 849, cert. den. 414 U.S. 864; (2) that the principles applicable to organizations electing under the legislation have no effect on churches and could have no affect in determining “substantiality”; and (3) until the proposed Treasury regulation interpreting “integrated auxiliaries” of churches is narrowed so as not to exclude certain related activities of the church and thus to expose the charitable organizations to the proposed lobbying legislation.

## **3. Other Items**

*American Hospital Association*

Recommends the adoption of certain amendments to Code section 501(e) relating to cooperative hospital service organizations.

*Greater Philadelphia Chamber of Commerce, John B. Huffaker, Chairman, Federal Tax Committee*

Believes that condominium management or homeowners associations should qualify as exempt civic associations under section 501(c)(4) of the Code.

*Order of Cistercians of the Strict Observance (The Trappists),  
Charles M. Whelan, S.J., Counsel, New York City*

Recommends modifying section 512 so that in the computation of the unrelated business income tax, tax-exempt organizations may take a reasonable deduction for the value of labor contributed by unpaid volunteers in the conduct of the unrelated trade or business. Argues that this deduction for unpaid workers is necessary to create parity of deductions for monastic organizations conducting businesses which compete with regular commercial businesses which deduct wages and salaries to all employees.

*Southern Methodist University, Dallas, Texas, James H. Zumberge,  
President*

Requests repeal of regulation treating outright charitable gift of mortgaged property as bargain sale.

Urges repeal of the self-dealing prohibition on the transfer of an asset with a mortgage which was placed upon it within the past 10 years, if the transfer is to a charitable trust, or involves gifts of a personal residence or a farm with a retained life estate. Asks that transfers of mortgaged property no longer be treated as a bargain sale generating capital gain for the donor.

Recommends revising the Code so that taxable unrelated business income is not incurred merely because a trust holds mortgaged property or borrows to meet trust payment.

Also, proposes that the Code be revised so that a charitable gift annuity funded with mortgaged property does not give rise to taxable unrelated business income.

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