

the deliberations of this body, its proposals, its attendance, we are acting as if it were business as usual, and so I do not think it is very long before the Nation is going to wonder whether indeed there is a crisis in energy or whether there is a crisis in the Penn Central, or jobs or what have you.

I would like to point out to my colleagues that in returning to my State—and I am sure the same holds true for everyone in this Chamber—when I went home for the day and a half after we recessed on Saturday, I had an opportunity to talk to quite a few people who are out of business because of the energy crisis. They no longer have their business; they are out. They do not have jobs.

We are all employed in this body. We have got a job. We have got some place to go. But, because of the inaction both of the executive and the legislative branches, businesses are going bankrupt. If we do not act on the Penn Central in fairly short order, the Penn Central is going to be out of business. If we do not act on the recession, then more and more individuals are going to lose their jobs. I just do not think that is something that we care to have on our heads. But this is what we have been preaching to the American people. This is indeed what has been happening throughout the country, and yet, insofar as our own attentiveness to the problem, it has been somewhat lacking.

Now, Mr. President, it is my intention from here on in—and I would hope I would have the support of my colleagues—to request of the leadership that when we have matters pending in the Senate Chamber waiting for a vote, if we have not done our business in the normal 5 days, then we can come back on Saturday, and we can come back on Sunday, and we could do the business that we are being paid to do.

I might add the same holds true if we have business pending when it comes up to one of the recesses which was established months ago, and the business has not been disposed of. Then I would suggest again to the leadership on both sides that we stay here until we have accomplished the job.

It seems to me if we do that then maybe once again we will establish confidence. We all keep on talking about the crisis in confidence in this Nation. Well, the first thing we have got to do is to establish some credibility between ourselves and the American people, and a confidence on the part of the American people that we are doing our job.

It seems to me in a day and age of reality that the only way that can be done is by example. I think we are all pretty darned fortunate to have a job. As each day goes by, more and more Americans do not have jobs. As each day goes by, more and more businesses are going bankrupt. As each day goes by, more hundreds of millions of dollars go offshore. As each day goes by, the type of crisis exemplified by Penn Central is on the increase.

I do not know what the Senate has been doing, and I wish that we could go

at a more relaxed pace. Indeed, I would hope the whole country would not have to be concerned. But this is not business as usual. These are not normal times. This is probably as severe a test of the Nation as we have ever had, including armed conflict.

I would suggest, Mr. President, and very respectfully suggest to the leadership and to my colleagues, that by our example now we have people believing that what is going on down in Washington means something; and, at the present time, there is no reason why that belief should exist, principally because of our own omissions and our own activity.

Saturday really did not stand as testimony to either leadership or the urgency of the problems confronting us. I would hope that is the last time or the last Saturday—I might add with ample warning from the assistant majority leader, who indicated that there might be votes, and put everybody on full alert, just as on a normal session day of the Senate—I would hope that would be the last time that that occurs, but that we stop thinking of these very real problems as if they are academic or philosophical. They are not. A awful lot of people are being hurt, and the only way they are going to be stopped from being hurt is if we act, and I do not care whether that action comes on Monday, Tuesday, Wednesday, Thursday, Friday, Saturday, or Sunday.

Mr. ROBERT C. BYRD. Mr. President, will the Senator yield?

Mr. WEICKER. I yield to the assistant majority leader.

Mr. ROBERT C. BYRD. Mr. President, I might observe for the record that those who are responsible for the managing of the Penn Central measure could very well have entered a cloture motion on Friday and there would then have been a vote on that cloture motion today.

Mr. WEICKER. I would have to respond to that comment by the distinguished assistant majority leader by saying that there were indications or requests on the part of the leadership that we not file such a petition.

Mr. ROBERT C. BYRD. May I say that there was no indication, that I know about, that such a cloture petition not be filed.

I am not saying that the Senator does not know something about such; I do not know of any.

May I say also that a cloture motion could have been filed on Saturday and there would have been a vote on the cloture petition tomorrow, if that had been done, so the Saturday session need not have been entirely a futile effort.

Mr. WEICKER. If the distinguished Senator from West Virginia will yield for a minute, in order that the record be set straight—

Mr. ROBERT C. BYRD. I am sorry—

Mr. WEICKER. I think it important to point out it was in an attempt to achieve a compromise, or getting together of the parties, the distinguished Senator from Indiana forebore, if you will, filing a cloture petition. I think that

ought to be stated on his behalf; that people were at loggerheads. He was not trying to throw fuel in the fire, but trying to get people together where we could move.

Make no mistake about it, having endured the ridiculousness of Saturday and the inability of the leadership and various parties to get together, I do not know what the Senator from Indiana is going to do. I suspect he has in the back of his mind filing the petition. If he does not by the end of today, I will by the end of today.

Mr. ROBERT C. BYRD. I am glad the distinguished Senator made that observation, but the record still stands as I indicated, that such a cloture petition could have been filed on Friday, in which case the meeting of the Senate on Saturday would have accomplished a purpose, that being the vote on the cloture motion would have been conducted today.

So when we talk about the responsibility of the leadership, the leadership cannot carry the whole responsibility for everything around here, but I think the Senator would have to agree that such a cloture motion, if it had been entered on Friday, the Saturday session would have been useful in that there would have been a vote thereon today.

Perhaps a lesson could be learned from that situation that, in the future, cloture motions ought to be—

Mr. WEICKER. Put it this way then, as I understand it the distinguished assistant majority leader has indicated what could or could not have been done. I can assure him from now on I will pay no attention to the entreaties of the leadership and the motion will be filed.

Mr. ROBERT C. BYRD. Well, may I say for the record, this Member of the leadership made no entreaties.

Mr. WEICKER. Then the Senator ought to consider—

Mr. ROBERT C. BYRD. I do not know to whom the Senator refers.

If the Senator is implying that this Senator made entreaties, he is wrong. I do not want the record to be left like that.

The PRESIDING OFFICER. The Senator's 10 minutes have expired.

Mr. WEICKER. May I request 1 additional minute from the distinguished Senator from Michigan?

The PRESIDING OFFICER. The Senator from Michigan has no additional time.

#### ORDER OF BUSINESS

The PRESIDING OFFICER. Under the previous order, the Senator from Oregon (Mr. HATFIELD) is recognized for not to exceed 15 minutes.

#### SIMPLIFORM ON INCOME TAX

Mr. HATFIELD. Mr. President, Congress is faced with a number of urgent economic proposals, including some significant changes in our income tax laws. Tax increases and decreases are standard tools of fiscal policy and may well be necessary instruments in dealing with our present evils of recession and inflation.

However, I believe that tax reform of a much broader nature is needed at this time, to achieve the long-range objective of social and economic justice and to solve the short-range problems of our economy.

The PRESIDING OFFICER. If the Senator will suspend, the Senate is not in order. Senators will take their seats, the Senator from Oregon is entitled to be heard.

The Senator may proceed.

Mr. HATFIELD. For this reason I am introducing a bill today which would totally restructure the individual income tax. I call this tax proposal Simpliform. It is only slightly changed from a bill I introduced in the last Congress and which has been under development since I presented the concept to the Republican Platform Committee in 1972.

None of us would deny that the income tax is an indispensable tool for gathering revenue and redistributing income. Since it was first authorized by the 16th amendment to the Constitution in 1913 it has played a leading role in our Federal revenue system. Income taxes are expected to provide 44 percent of the revenue for the budget recently presented to the Congress. State and local governments have also turned to the income tax to supplement other sources of revenue.

Almost 200 years ago Adam Smith offered a helpful set of criteria for a "good tax." He said:

It should be certain, convenient, cost little to collect, and be based on the capacity of the taxpayer.

While the income tax may come closer to meeting these standards than any other revenue tool used by the Federal Government, there is no doubt that it falls far short of these goals.

First of all, the income tax is not "certain" in the sense of being clear and indisputable to the ordinary taxpayer. The layman who itemizes his deductions must struggle through a very complex tax code or turn to the private tax preparer or Internal Revenue Service employee for help. Even the experts, who work with the tax code every day, frequently disagree about the application of tax laws to an individual.

The complexity of the forms required in filing a return with itemized deductions violates the criterion of convenience. While some progress has been made in the direction of simplification and the matter was considered further in the House Ways and Means Committee during the last Congress, the individual income tax is far from being convenient and simple. There is no question that the person who can afford to employ a tax accountant to handle his personal tax program benefits more than the person who cannot afford such services.

Of greatest concern to me, however, in offering the Simpliform tax proposal is the failure of our individual income tax to genuinely reflect the capacity to pay. Our tax code is still formally based on the principle of the ability to pay, that is, the rates are scaled upward along with income. There is nothing sinister or un-American about this commitment to in-

come redistribution. From the very adoption of the income tax it has been assumed that the funds to meet the social and economic needs of those with little or no income must come from the higher tax rates of the wealthy.

The failure of the individual income tax to be genuinely progressive in this country is best seen by considering the total tax bill, particularly including the regressive payroll tax. But this combined analysis is not necessary to demonstrate the failings of the individual income tax. The public exposure of the minimal income tax payments of public figures in the last several years has dramatized the failings of our tax code. Quite apart from the ethical and legal questions about the tax payments of particular individuals, the point is that the intent of the tax has been violated when a wealthy person pays little or no tax and a person of modest income surrenders \$1 in \$5 to the Government.

It should not be thought that income tax underpayment is restricted to a few highly publicized cases. Studies by the Brookings Institution have indicated that the tax paid by those with income of six figures and above does not average more than 30 percent, in spite of a statutory rate up to 70 percent. Recent efforts to correct the problem by means of a minimum tax have not solved the fundamental problem. The result of this nonprogressive tax is a serious imbalance of income in a country supposedly valuing equal opportunity. Studies based on 1970 data indicate that the wealthiest 10 percent of the population receive 29 percent of the personal income and own 56 percent of the wealth. In contrast, the poorest 10 percent receive 1 percent of the income and owe more than they own.

The feature of the tax laws which allows most people, whatever their income, to keep their tax rate in the 20-percent range is, of course, the generous array of deductions, credits, and exemptions. Tax reform groups have been warning us about the violation of the progressive principle and now two significant studies by the legislative and executive branch lend weight to their arguments.

The Subcommittee on Priorities and Economy in Government of the Joint Economic Committee of Congress completed a study in October of Federal subsidy programs. This excellent document prepared under the direction of the subcommittee chairman, the distinguished Senator from Wisconsin (Mr. PROXMIER) covers the full range of direct cash payments, credit subsidies and in-kind distributions. Of greatest significance in reference to tax policy is the section on tax subsidies, that is, those provisions of the law which allow an individual or firm engaging in a specific market activity to make smaller tax payments to the Government than would otherwise be made. Having dealt with items which allow reduced tax payments such as capital gains, charitable contributions, and medical expenses, the committee estimated that nearly \$60 billion was retained by individuals and corporations in fiscal year 1975 because of tax subsidies.

Of even greater interest is the recent disclosure by the Office of Management

and Budget of a similar listing of tax breaks, called tax expenditures in the "Special Analyses" to the 1976 budget now before Congress. Tax expenditures are defined in this report as "revenue losses attributable to a special exclusion, exemption, or deduction from gross income or to a special credit, preferential rate of tax, or deferral of tax liability." It is correctly pointed out that tax expenditures are best seen as alternatives to budget outlays. They are ways of distributing to individuals and organizations tax money which would normally be placed in the public coffers.

The administration cautions against adding up their list of tax expenditures, since each item was calculated on the assumption that other tax laws would remain unchanged and that taxpayer behavior and general economic conditions would remain unchanged. Nevertheless, it is illustrative to see their combined effort. Fortunately, the OMB provided separate columns for corporate and for individual tax expenditures. Some subsidies, of course, affect both corporations and individuals. Acknowledging that the totals may be misleading, it is interesting to note that a combined figure of \$91.8 billion is expected in tax expenditures in fiscal year 1976, if no changes were made in the 1974 tax laws. The figures are consistently higher than those used by the Proxmire committee, even though OMB left out some significant corporate tax expenditures, such as investment credits and the "asset depreciation range."

Of greatest interest in the context of individual tax reform is the fact that \$70.8 billion of the tax expenditures expected in fiscal year 1976 will go to individuals. Even allowing for a margin of error in these estimates, the amount is enormous when compared with the total expected receipts from individual income taxes in fiscal year 1976 of \$106.3 billion.

Tax expenditures and subsidies, then, are responsible for short-circuiting a supposedly progressive income tax. We agonize over finding the funds to appropriate a few million dollars for various worthy programs, but do not bother to regularly review the system of hidden appropriations in the form of tax expenditures, referred to as tax expenditures and tax subsidies.

These new studies speak eloquently of the need for tax reform, as do the economic problems of our country and the world. The President in his state of the Union address and in his budget message has presented a program to combat excessive energy consumption and mounting unemployment. The American people seem to be the losers in this program, for it anticipates unemployment continuing at about 8 percent, inflation remaining above 11 percent and the annual budget deficit soaring to \$49 billion. All of this is projected in the basis that new spending is ruled out and most human services are being curtailed. The only portions of the budget which seem to be judged worthy of strengthening are defense and energy development.

While I do not pretend that tax reform, whether achieved by my plan or any other, will cure all of our economic ills, I do insist that it be considered as a



necessary component of current as well as long-range economic policy.

Despite the efforts of the House Ways and Means Committee to achieve tax reform in the last Congress, they were hindered not only by committee difficulties and election-year delays, but the resistance to tax reform from some sectors. Item-by-item reform, in my opinion, is doomed to failure. Beneficiaries of tax loopholes will continue to bring pressure to bear to guard the laws are advantageous to themselves.

For these reasons, Mr. President, I offer Simpliform as one solution to the failings of the individual income tax. I am leaving to others the needed reforms in the corporate income tax, the payroll tax, and the estate and gift taxes. My plan would be complementary to efforts to reform these other taxes, as well as to overhaul our welfare and income maintenance programs.

For most people Simpliform would substitute a four-line calculation for the present complex form 1040. It replaces 27 tax brackets with 9 and 4 tax tables with 1. It provides one tax credit for adults in place of a series of exemptions under present law. No technical assistance would be needed in most cases and the process of filing returns and receiving refunds would be quick and inexpensive.

The reform features of Simpliform are even more important than the simplification gains. The multitude of individual tax subsidies would be eliminated in favor of a lower, but progressive tax rate. While the personal tax credit would mean that a couple with income under \$5,000 would pay no tax, the basic tax rate would be 10 percent. As income moved above \$10,000, the progressive feature would be implemented by means of a surtax, which would reach a total of 50 percent for incomes over \$1 million. While upper income people who have been benefiting from various deductions would be subject to more tax under Simpliform, their tax rate would not surpass 30 percent unless their income exceeded \$50,000.

Simpliform would achieve some profound gains in fairness and equity. Personal tax credits are much more equitable than exemptions, for they always carry the same dollar value. The present personal exemptions provide four times as much tax saving for the wealthy as for the lower income person. Simpliform's restriction of credits to adults removes the tax disadvantage from the single and the childless taxpayers. The advantages enjoyed by the homeowner over the renter are eliminated, at least from the tax law. While these and other tax advantages under present law may actually be consistent with American goals and values, the problem is that these deductions always benefit the wealthy more than the middle- and lower-income person. As in the case of personal exemptions, the person in the higher tax bracket gains much more from the deductions than the lower-income person.

There are those who would be troubled at the thought of tampering with some

of the tax subsidies, such as reduced rates for capital gains and deductions for charitable contribution. Actually, reduced rates for capital gains would no longer be necessary for most people, because their lower Simpliform rate would be comparable to the reduced capital gains rate.

The elimination of the deduction for contributions to charitable organizations should not be seen as a threat to the many worthy causes benefitting from these deductions. In some cases, such as educational institutions and health agencies, support should be provided by means of the direct and responsible route, that of appropriations. This could be done without seriously increasing the tax burden on the average person. Those organizations which should not be directly subsidized, such as religious groups, would continue to rely on the voluntary contributions of their supporters. Those who deeply believe in the goals and values of such groups will not cease their support because of the loss of the tax deduction. Moreover, the typical taxpayer would have additional funds to such purposes, because of the tax savings under Simpliform. A person can easily compare the effect of Simpliform on his own income tax obligation by a quick exercise in arithmetic and a comparison with his 1974 return. Simpliform is calculated by multiplying income by the appropriate tax rate and subtracting the number of \$250 adult tax credits. While those now subtracting large deductions from an income over \$20,000 will probably pay more tax, they can depend on the rate not exceeding a reasonable figure and are assured of fairness in the amount they pay. The modest-income family, the single person, and the typical senior citizen can count on paying less tax under Simpliform and can also be assured of fairness in what they pay.

Mr. President, I submit Simpliform in the hope that it will be given thorough consideration. Other tax reform plans are being offered and I am happy to have them considered as well, hoping that they too will be thorough and simple. Let us not become so preoccupied with short-range economic solutions that we neglect the urgent goal of tax reform.

Mr. President, I ask unanimous consent that the text of the bill, along with a brief summary of the bill, be printed in the RECORD.

There being no objection, the bill and summary were ordered to be printed in the RECORD, as follows:

S. 802

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) this Act may be cited as the "Simpliform Tax Act".*

(b) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, whenever in this Act a reference is made (by way of amendment, repeal, or otherwise) to a section, chapter or other provision, the reference shall be considered to be made to a section, chapter, or other provision of the Internal Revenue Code of 1954.

(c) TECHNICAL AND CONFORMING CHANGES.—The Secretary of the Treasury or his delegate

shall, as soon as practicable but in any event not later than 90 days after the date of enactment of this Act, submit to the Committee on Ways and Means of the House of Representatives a draft of any technical and conforming changes in the Internal Revenue Code of 1954 which are necessary to reflect throughout such Code the changes in the substantive provisions of law made by this Act.

#### EFFECTIVE DATE

SEC. 2. Except as otherwise provided the amendments and repeals made by this Act shall apply to taxable years beginning after the date of the enactment of this Act.

#### REPEALS

SEC. 3. (a) The following provisions in chapter 1 (relating to normal taxes and surtaxes) are repealed:

(1) Section 4 (relating to rules for optional tax).

(2) Section 35 (relating to partially tax-exempt interest received by individuals).

(3) Section 37 (relating to retirement income).

(4) Section 41 (relating to contributions to candidates for public office).

(5) Part VI of subchapter A (relating to minimum tax for tax preferences).

(6) All sections in part III of subchapter B (relating to items specifically excluded from gross income), except—

(A) section 101 (relating to certain death benefits),

(B) section 102 (relating to gifts and inheritances),

(C) section 104 (relating to compensation for injuries or sickness),

(D) section 105 (relating to amounts received under accident and health plans),

(E) section 106 (relating to contributions by employer to accident and health plans),

(F) section 109 (relating to improvements by lessee on lessor's property),

(G) section 110 (relating to income taxes paid by lessee corporation),

(H) section 115 (relating to income of States, municipalities, etc.),

(I) section 118 (relating to contributions to the capital of a corporation), and

(J) section 122 (relating to certain reduced uniformed services retirement pay).

(K) section 124 (relating to cross references to other Acts).

(7) All sections in part IV of subchapter B (relating to standard deductions for individuals) except section 143 (relating to determination of marital status).

(8) Part V of subchapter B (relating to deductions for personal exemptions).

(9) Section 163 (relating to interest).

(10) Section 164 (relating to taxes).

(11) Section 170 (relating to charitable, etc., contributions and gifts).

(12) All sections in part VII of subchapter B (relating to additional itemized deductions for individuals) except—

(A) section 211 (relating to allowance of deductions),

(B) section 212 (relating to expenses for production of income), and

(C) section 215 (relating to alimony, etc., payments).

(13) Subchapter D (relating to deferred compensation, etc.).

(14) Section 911 (relating to earned income from sources without the United States).

(15) Section 6013 (relating to joint returns of income tax by husband and wife).

(b) All provisions of law (other than the provisions of subtitle A of the Internal Revenue Code 1954, as amended by this Act), and all administrative regulations or rulings which exempt or exclude items of income from the tax imposed by such subtitle A shall have no force or effect for taxable years beginning after the date of the enactment of this Act.

#### RATE OF TAX ON INDIVIDUALS

SEC. 4. Part I of subchapter A of chapter 1 (relating to tax on individuals) is amended to read as follows:

#### "PART I—TAX ON INDIVIDUALS

"Sec. 1. Tax imposed.

"Sec. 2. Community property laws not to apply.

"If the taxable income is—

Over \$10,000 but not over \$15,000.....	5% of the excess over \$10,000.
Over \$15,000 but not over \$20,000.....	\$250 plus 10% of the excess over \$15,000.
Over \$20,000 but not over \$25,000.....	\$750 plus 16% of the excess over \$20,000.
Over \$25,000 but not over \$50,000.....	\$1,500 plus 20% of the excess over \$25,000.
Over \$50,000 but not over \$100,000.....	\$6,500 plus 25% of the excess over \$50,000.
Over \$100,000 but not over \$500,000.....	\$19,000 plus 30% of the excess over \$100,000.
Over \$500,000 but not over \$1,000,000.....	\$169,000 plus 35% of the excess over \$500,000.
Over \$1,000,000.....	\$344,000 plus 40% of the excess over \$1,000,000.

"(c) NONRESIDENT ALIENS.—In the case of a nonresident alien individual, the tax imposed by subsections (a) and (b) shall apply only as provided by section 871 or 877.

"SEC. 2. COMMUNITY PROPERTY LAWS NOT TO APPLY.

"For purposes of this subtitle, the income of a married taxpayer shall be determined without regard to the property laws of any State under which any part of the income of a married individual is treated as the income of his spouse.

"SEC. 3. CROSS REFERENCES RELATING TO TAX ON INDIVIDUALS.

"(a) OTHER RATES OF TAX ON INDIVIDUALS, ETC.,

"(1) For rates of tax on nonresident aliens, see section 871.

"(2) For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.

"(3) For limitation on tax attributable to claims against the United States involving acquisitions of property, see section 1347."

#### PERSONAL EXEMPTION CREDIT

SEC. 5. (a) Subpart A of part IV of subchapter A of chapter 1 is amended by redesignating section 42 as 43 and by inserting after section 41 the following new section:

"SEC. 42. PERSONAL EXEMPTION.

"(a) ALLOWANCE OF CREDIT.—There shall be allowed to an individual as a credit against the tax imposed by this subtitle for the taxable year, an amount equal to—

"(1) \$250 for the taxpayer,

"(2) \$250 for the spouse of the taxpayer (unless such spouse files a separate return), and

"(3) \$250 for each dependent of the taxpayer who is 18 years of age or older.

"(b) DEFINITION OF DEPENDENT.—For purposes of this section, the term 'dependent' means any of the following individuals over half of whose support, for the calendar year in which the taxable year of the taxpayer begins, was received from the taxpayer (or is treated under subsection (c) or (e) as received from the taxpayer):

"(1) A son or daughter of the taxpayer, or a descendant of either,

"(2) A stepson or stepdaughter of the taxpayer,

"(3) A brother, sister, stepbrother, or step-sister of the taxpayer,

"(4) The father or mother of the taxpayer, or an ancestor of either,

"(5) A stepfather or stepmother of the taxpayer,

"(6) A son or daughter of a brother or sister of the taxpayer,

"(7) A brother or sister of the father or mother of the taxpayer,

"(8) A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the taxpayer.

"Sec. 3. Cross references relating to tax on individuals.

"SEC. 1. TAX IMPOSED.

"(a) BASIC TAX.—There is imposed on the income of every individual a tax of 10 percent.

"(b) SURTAX.—There is imposed on the income of every individual a surtax in accordance with the following table:

The surtax is—

5% of the excess over \$10,000.
\$250 plus 10% of the excess over \$15,000.
\$750 plus 16% of the excess over \$20,000.
\$1,500 plus 20% of the excess over \$25,000.
\$6,500 plus 25% of the excess over \$50,000.
\$19,000 plus 30% of the excess over \$100,000.
\$169,000 plus 35% of the excess over \$500,000.
\$344,000 plus 40% of the excess over \$1,000,000.

"(9) An individual (other than an individual who at any time during the taxable year was the spouse, determined without regard to subsection (e), of the taxpayer) who, for the taxable year of the taxpayer, has as his principal place of abode the home of the taxpayer and is a member of the taxpayer's household, or

"(10) An individual who—

"(A) is a descendant of a brother or sister of the father or mother of the taxpayer,

"(B) for the taxable year of the taxpayer receives institutional care required by reason of a physical or mental disability, and

"(C) before receiving such institutional care, was a member of the same household as the taxpayer.

"(c) RULES RELATING TO DEFINITION OF DEPENDENT.—For purposes of this section—

"(1) The terms 'brother' and 'sister' include a brother or sister by the halfblood.

"(2) In determining whether any of the relationships specified in subsection (a) or paragraph (1) of this subsection exists, a legally adopted child of an individual (and a child who is a member of an individual's household, if placed with such individual by an authorized placement agency for legal adoption by such individual), or a foster child of an individual (if such child satisfies the requirements of subsection (b) (9) with respect to such individual), shall be treated as a child of such individual by blood.

"(3) The term 'dependent' does not include any individual who is not a citizen or national of the United States unless such individual is a resident of the United States, of a country contiguous to the United States, of the Canal Zone, or of the Republic of Panama. The preceding sentence shall not exclude from the definition of 'dependent' any child of the taxpayer—

"(A) born to him, or legally adopted by him, in the Philippine Islands before January 1, 1956, if the child is a resident of the Republic of the Philippines, and if the taxpayer was a member of the Armed Forces of the United States at the time the child was born to him or legally adopted by him, or

"(B) legally adopted by him, if, for the taxable year of the taxpayer, the child has as his principal place of abode the home of the taxpayer and is a member of the taxpayer's household, and if the taxpayer is a citizen or national of the United States.

"(4) A payment to a wife which is includable in the gross income of the wife under section 71 or 682 shall not be treated as a payment by her husband for the support of any dependent.

"(5) An individual is not a member of the taxpayer's household if at any time during the taxable year of the taxpayer the rela-

tionship between such individual and the taxpayer is in violation of local law.

"(d) MULTIPLE SUPPORT AGREEMENTS.—For purposes of subsection (b), over half of the support of an individual for a calendar year shall be treated as received from the taxpayer if—

"(1) no one person contributed over half of such support;

"(2) over half of such support was received from persons each of whom, but for the fact that he did not contribute over half of such support, would have been entitled to claim such individual as a dependent for a taxable year beginning in such a calendar year;

"(3) the taxpayer contributed over 10 percent of such support; and

"(4) each person described in paragraph (2) (other than the taxpayer) who contributed over 10 percent of such support files written declaration (in such manner and form as the Secretary or his delegate may by regulations prescribe) that he will not claim such individual as a dependent for any taxable year beginning in such calendar year.

"(e) DETERMINATION OF MARITAL STATUS.—For purposes of this section—

"(1) the determination of whether an individual is married shall be made as of the close of his taxable year; except that if his spouse dies during his taxable year such determination shall be made as of the time of such death; and

"(2) an individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

"(f) CROSS REFERENCES.—

"(1) For definitions of 'husband' and 'wife', as used in subsection (c) (4), see section 7701(a) (17).

"(2) For deductions of estates and trusts, in lieu of the credit under this section, see section 642(b)."

(b) The table of sections for such part is amended by striking out the last item and inserting in lieu thereof the following:

"SEC. 42. PERSONAL EXEMPTION.

SEC. 43. OVERPAYMENT OF TAX.

(c) Section 143(b) (1) is amended by striking out "deduction" and inserting "credit", and by striking out "section 152" and "section 151" and inserting in each place "section 42".

(d) Section 46(a) (3) (B) (relating to the investment credit) is amended to read as follows:

"(B) section 42 (relating to personal exemptions), and".

(e) Section 172(d) (3) (relating to net operating loss deduction) is amended to read as follows:

"(3) ESTATES AND TRUSTS.—No deduction shall be allowed for the personal exemption allowed an estate or trust under section 642(b)."

(f) Section 443(c) (relating to return for short period) is amended by striking out "a deduction under section 151 (and any deduction in lieu thereof)" and inserting in lieu thereof "as a credit under section 42 or a deduction under section 642(b)".

(g) The last sentence of section 642(b) (relating to estates and trusts) is amended to read as follows: "The deductions allowed by this subsection shall be in lieu of the credits allowed under section 42 (relating to credit for personal exemption)".

(h) Section 703(a) (2) (relating to partnership computations) is amended by striking out subparagraph (B).

(i) Paragraph (3) of section 873(b) (relating to nonresident aliens) is amended to read as follows:

"(3) CREDIT FOR PERSONAL EXEMPTION.—Except in the case of a nonresident alien individual who is a resident of a contiguous country, only one credit shall be allowed for exemptions under section 42."



(j) Section 891 (relating to citizens of foreign countries) is amended by striking out "under section 151 and".

(k) Section 933(1) (relating to residents of Puerto Rico) is amended by striking out "(other than the deductions under section 151, relating to personal exemptions)".

(l) Section 1211(b) (3) (relating to deduction of capital losses) is amended by striking out "the deductions provided in section 151 (relating to personal exemptions) or any deduction in lieu thereof" and inserting in lieu thereof "any deduction allowed by section 642(b)".

(m) Section 1402(a) (relating to self-employment income) is amended by striking out paragraph (7).

#### GAINS AND LOSSES ON PROPERTY HELD AT DEATH OR TRANSFERRED BY GIFT

SEC. 6. (a) Part II of subchapter B of chapter 1 (relating to items specifically included in gross income) is amended by adding at the end thereof the following new sections:

#### "SEC. 84. GAINS AND LOSSES ON PROPERTY AT TIME OF DEATH.

"(a) IN GENERAL.—Upon the death of an individual, there shall be taken into account in computing taxable income for the taxable period in which falls the date of his death, a percentage (determined under subsection (c)) of the gains and losses which would have been realized and taken into account in computing taxable income (of the decedent or some other person) if all the property (other than property described in subsection (b)) required to be included in determining the value of the decedent's gross estate under chapter 11 had been sold immediately before his death at the estate tax fair market value. This subsection shall not apply unless the aggregate amount of such fair market value exceeds \$60,000.

"(b) EXCLUDED PROPERTY.—Subsection (a) shall not apply to—

"(1) property which passes or has passed from the decedent to his surviving spouse and which qualifies for the deduction provided by section 2056;

"(2) property which passes or has passed to a corporation, organization, or other entity described in section 2055 and which qualifies for the deduction provided by such section;

"(3) items of gross income in respect of a decedent described in section 691; or

"(4) any other property includable in the gross estate of the decedent under chapter 11 for which basis is not provided for in section 1014 (a).

"(c) RULES FOR APPLICATION OF SUBSECTION (a).—For purposes of subsection (a)—

"(1) The estate tax fair market value of property is the fair market value of the property at the date of the decedent's death, or, in the case of an election under section 2032, its value at the application valuation date prescribed by that section.

"(2) If the aggregate adjusted basis of all property subject to the provisions of subsection (a) is less than \$60,000, and the gains under subsection (a) (without the application of this paragraph) exceed the losses, then the aggregate adjusted basis of such property shall be increased to \$60,000.

"(3) Losses shall be taken into account without regard to the provisions of section 1091.

"(4) The percentage of gains and losses taken into account shall be determined in accordance with the following table:

For taxable years beginning:	The percentage is—
Less than 1 year after the date of enactment of the Simpliform Tax Act	0
1 year or more but less than 2 years after such date	20
2 years or more but less than 3 years after such date	40
3 years or more but less than 4 years after such date	60
4 years or more but less than 5 years after such date	80
5 years or more after such date	100

"(d) TIME FOR FILING RETURN.—If subsection (a) applies to the taxable year, the time for filing the return for such year shall be the date nine months after the date of the decedent's death if such date is later than the time prescribed in section 6072 for filing such return.

"(e) LIABILITY WITH RESPECT TO PROPERTY TRANSFERRED BEFORE DEATH.—If gain is taken into account under subsection (a) with respect to property transferred by the decedent during his lifetime, the executor shall be entitled, unless the decedent directs otherwise in his will, to recover from the transferee of such property the amount of income tax imposed with respect to such gain.

#### "SEC. 85. GAINS AND LOSSES ON INTER VIVOS GIFTS.

"(a) IN GENERAL.—In the case of the transfer of property by an individual by inter vivos gift, there shall be taken into account in computing taxable income for the taxable period in which the transfer was made, the gain or loss which would have been realized and taken into account in computing taxable income if the taxpayer had sold the property at its fair market value at the time of the transfer.

"(b) EXCEPTIONS.—

"(1) IN GENERAL.—Subsection (a) shall not apply to a transfer of property, to the extent that, at the time of the transfer, the aggregate fair market value of—

"(A) property (including the transferred property) held by the taxpayer, and

"(B) property previously transferred by the taxpayer after the date of the enactment of the Simpliform Tax Act,

does not exceed \$60,000.

"(2) GIFTS TO SPOUSE.—Subsection (a) shall not apply to a transfer of property to the taxpayer's spouse."

"(b) (1) Section 1014(b) (relating to basis of property acquired from a decedent) is amended by striking out paragraphs (5) and (6).

"(2) Paragraph (9) of section 1014(b) is amended by inserting "and" at the end of subparagraph (A), by striking out subparagraph (B) and by redesignating subparagraph (C) as subparagraph (B).

"(3) Section 1015 (relating to basis of property acquired by gifts and transfer in trust) is amended by adding at the end thereof the following new subsection:

"(e) PROPERTY SUBJECT TO TAX UPON TRANSFER.—If the property was acquired by gift in a transfer to which section 85(a) (relating to gains and losses on inter vivos gifts) applied, the basis shall be the fair market value of the property at the time of the transfer."

"(4) Section 6161(a) (relating to extension of time for paying tax) is amended—

(A) by inserting "or income tax for a decedent's final taxable period" after "estate tax" in paragraph (1),

(B) by inserting "and income tax on gains at death" after "Excise tax" in the heading of paragraph (2), and

(C) by inserting at the end of paragraph (2) (A) "or of any part of the tax imposed by chapter 1 attributable to the application of section 84."

(5) Section 6166 (relating to extension of time for payment of estate tax where estate consists largely of interest in closely held business) is amended—

(A) by inserting "AND INCOME TAX ON GAINS AT DEATH" after "ESTATE TAX" in the heading, and

(B) by redesignating subsections (j) and (k) as (k) and (l), respectively, and by inserting after subsection (i) the following new subsection:

"(j) TAX ON GAINS AT DEATH.—Under regulations prescribed by the Secretary or his delegate, the provisions of this section shall apply with respect to so much of the tax imposed by chapter 1 as is attributable to the application of section 84 (relating to gains and losses on property at time of death) in the same manner as it applies to the tax imposed by section 2001."

(c) Section 84 of the Internal Revenue Code of 1954 (as added by subsection (a) and the amendments made by paragraphs (1), (2), (5), and (6) of subsection (b) shall apply with respect to decedents dying after the date of the enactment of this Act. Section 85 of such Code (as added by subsection (a)) and the amendments made by paragraphs (3) and (4) of subsection (b) shall apply with respect to transfers of property by inter vivos gift after such date.

#### TREATMENT OF CAPITAL GAINS

SEC. 7. (a) Section 1201(b) (relating to other taxpayers) is amended by inserting "or an individual" after "other than a corporation".

(b) Section 1202 (relating to deduction for capital gains) is amended by inserting "or an individual" after "other than a corporation".

(c) Section 1211 (relating to limitation on capital losses) is amended by—

(1) inserting "or an individual" after "other than a corporation" in subsection (a),

(2) inserting "or an individual" after "other than a corporation" in paragraph (1) of subsection (b), and

(3) striking out paragraph (2) and redesignating paragraph (3) as (2).

#### SPECIFIC INCLUSIONS IN GROSS INCOME

SEC. 8. (a) Part II of subchapter B of chapter 1, as amended by section 6, is amended by adding at the end thereof the following new section:

#### "SEC. 86. SOCIAL SECURITY AND WELFARE PAYMENTS.

"There shall be included in gross income monthly insurance benefits paid under title II of the Social Security Act to the taxpayer and any other cash benefits paid (other than a lump sum payable on account of death) to the taxpayer under such Act or any other Act of the United States or of any State providing for the payment of money to individuals in order to enable them to purchase food, clothing, and shelter and otherwise provide for their general welfare."

(b) The table of sections of such part is amended by adding at the end thereof the following new item:

"Sec. 86. Social security and welfare payments."

(c) Section 74 (relating to prizes and awards) is amended to read as follows:

#### "SEC. 74. PRIZES AND AWARDS.

"Gross income includes amounts received as prizes and awards, including amounts received as scholarships and fellowship grants."

(d) (1) Section 274(a) (relating to entertainment, amusement, or recreation expenses) is amended to read as follows:

"(a) ENTERTAINMENT, AMUSEMENT, OR RECREATION.—No deduction otherwise allowable under this chapter shall be allowed for any item with respect to an activity which is of a type generally considered to constitute entertainment, amusement, or recreation, or with respect to a facility used in connection with such activity. For purposes of this subsection—

"(1) dues or fees to any social, athletic, or sporting club or organization shall be treated as items with respect to facilities, and

"(2) an activity described in section 212 shall be treated as a trade or business."

(2) Section 274(e) (relating to specific exceptions to application of subsection (a)) is amended by striking out paragraph (1) (relating to business meals).

#### MISCELLANEOUS AMENDMENTS

SEC. 9. (a) Section 62 (relating to adjusted gross income defined) is amended by striking out paragraphs (3) and (8) and redesignating paragraphs (4), (5), (6), (7), and (9) as (3), (4), (5), (6), and (7), respectively.

(b) The text of section 63 (relating to taxable income defined) is amended to read as follows:

"For purposes of this subtitle the term 'taxable income' means gross income minus the deductions allowed by this chapter."

#### WITHHOLDING

SEC. 10. (a) Section 3402 (relating to income tax collected at source) is amended by—

(1) striking out subsections (b), (c), (f), and (m), and

(2) amending subsection (a) to read as follows:

"(a) REQUIREMENT OF WITHHOLDING.—Every employer making payment of wages shall deduct and withhold upon such wages (except as otherwise provided in this section) a tax determined in accordance with tables prescribed by the Secretary or his delegate."

(b) Subsection (p) (relating to extension of withholding to certain payments other than wages) is amended by—

(1) striking "General rule." in paragraph (1) and inserting in lieu thereof "Supplemental unemployment compensation benefits and annuities,"

(2) redesignating paragraphs (1) through (3) as (2) through (4), respectively,

(3) striking "paragraph (1)" in paragraph (3) (A) (as redesignated by this Act) and inserting in lieu thereof "paragraph (2)", and

(4) inserting before paragraph (2) (as redesignated by this Act) the following new paragraph:

"(1) IN GENERAL.—Under regulations prescribed by the Secretary or his delegate, any person making a payment of interest, a dividend, or any other payment subject to tax under chapter 1, shall deduct and withhold upon such payment a tax of 10 percent. For purposes of this chapter (and so much of subtitle F as relates to this chapter) any such payment shall be treated as if it were a payment of wages by an employer to an employee for a payroll period."

#### BRIEF SUMMARY OF SIMPLIFORM TAX PLAN

##### PURPOSE

To reform the individual income tax and eliminate tax loopholes.

##### SUMMARY

Simpliform would replace most income tax deductions and exemptions with a uniform and fair tax rate. Nearly all taxpayers would use a simple, two-step calculation to determine their tax.

##### THE TAX RATE

Eliminating the loopholes would allow the rate to be lowered for most people. A couple with income under \$5,000 would pay no tax.

Above that the standard rate would be 10% with a surtax added for income above \$10,000.

The surtax is summarized in this table:

Income over:	But not over	Basic surtax	Additional surtax (per cent)	For income over
\$10,000	\$15,000	\$250	5	\$10,000
15,000	20,000	750	10	15,000
20,000	25,000	1,250	16	20,000
25,000	30,000	1,750	20	25,000
30,000	35,000	2,250	25	30,000
35,000	40,000	2,750	30	35,000
40,000	45,000	3,250	35	40,000
45,000	50,000	3,750	40	45,000
50,000	1,000,000	340,000	35	1,000,000

#### TAX CREDITS

In place of the present system of personal exemptions, Simpliform would allow a \$250 credit for adults. The present personal exemptions provide up to four times as much tax saving for the wealthy as for the lower income person. Simpliform's restriction of credits to adults removes the tax disadvantages from the single and childless taxpayers.

#### TAX SAVINGS WITH SIMPLIFORM

Using the simplest method of calculating taxes under 1974 laws and using the standard deduction, the following examples illustrate some of the categories of people who would pay lower taxes with Simpliform.

A. Married couples with two children, gross income of \$10,000.

Present tax laws	
Gross income—\$10,000:	
Standard deduction	\$1,500
Exemptions	3,000
Taxable income	5,500
Tax	905

Simpliform	
Gross income—\$10,000:	
Tax	\$1,000
Credits	500
Net tax	500

B. Single person, gross income of \$12,000.

Present tax laws	
Gross income—\$12,000:	
Standard deduction	\$1,800
Exemptions	750
Taxable income	9,450
Net tax	1,852

Simpliform	
Gross income—\$12,000:	
Tax	\$1,200
Surplus	600
Credits	250
Net tax	1,550

C. Retired couple, \$6,000 pension income, \$2,000 Social Security income.

Present tax laws	
Gross income—\$6,000 (S.S. not taxed):	
Standard deduction	\$900
Exemptions	3,000
Taxable income	2,100
Net tax	306

Simpliform	
Gross income—\$8,000:	
Tax	\$800
Credits	500
Net tax	300

D. Married couple with three children, gross income of \$21,000.

Present tax laws	
Gross income—\$21,000:	
Standard deduction	\$3,150
Exemptions	3,750
Taxable income	14,100
Net tax	2,785

#### Simpliform

Gross income—\$21,000:	
Tax	\$2,100
Surplus	910
Credits	500
Net tax	2,510

#### ROUTINE MORNING BUSINESS

The PRESIDING OFFICER (Mr. HATHAWAY). The Senate will now proceed to the transaction of morning business, with statements therein limited to 3 minutes.

#### REGIONAL RAIL REORGANIZATION ACT AMENDMENTS OF 1975

Mr. ALLEN. Mr. President, quite a bit has been said on the floor of the Senate today about the Penn Central bailout bill. The Senator from Alabama would like to relate a little history of the legislative process that has taken place with respect to the bill.

The Senate passed the bill. It went to the House, and they amended it and provided for more Federal subsidy. The bill came back to the Senate at 11:34 Thursday morning and could have been acted upon at 11:35 in the Senate. Instead of that, the proponents of Senate Resolution 4, the so-called rules change resolution, set the change in the Senate rules above the Penn Central issue and every other economic issue facing this country.

So when this time bomb was set off in the U.S. Senate, it was a conscious decision by the proponents of Senate Resolution 4 that they placed this resolution, this gag rule resolution, ahead of the so-called saving of the Penn Central.

On the matter of a final vote after the motion to proceed to Senate Resolution 4 on Thursday, the Senator from Alabama agreed on Friday—and it is in the record—to vote on the Penn Central issue, to vote on Friday, conditioned on being recognized today following the recognition of the two leaders. That offer was rejected. Why an effort was not made to invoke cloture by the filing of a cloture motion on Friday—which would have been voted on today—the Senator from Alabama does not profess to know.

He does feel, however, that the proponents of the Penn Central bill—and I reserve expressly from this charge the distinguished Senator from Connecticut (Mr. WEICKER)—are allowing their interests in Senate Resolution 4 to color their thinking with respect to the passage of the Penn Central issue.

The PRESIDING OFFICER. The Senator's 3 minutes have expired.

Mr. ROBERT C. BYRD. Mr. President, I yield my 3 minutes to the distinguished Senator from Alabama.

Mr. ALLEN. I thank the distinguished Senator from West Virginia.

Mr. President, why do I make that statement? Because they fear that if cloture is invoked on the Penn Central issue, it will be decisive of the question involved on Senate Resolution 4, as to whether that will take a majority vote or a two-thirds vote to cut off debate.