

August 1, 1977

Caumsett State Park should be developed by the state by 1980 as a regional beach and as a casual recreation facility inland. Development on the shore could include a Classroom by the Sound in the Fly Island wetland area and more than one mile of beach. In the inland portion, development should be limited, but include the preservation and appropriate reuse of the buildings, about 200 camping and picnic sites. Minor improvements to existing roads, development of a small minibus service from inland parking facilities, and passenger ferry service from Port Totten and Oyster Bay to the existing dock within the cove would provide access.

Roanoke Point in Suffolk. Four hundred and fifty acres of beach, bluff, and woodlands along Suffolk County's north shore between Roanoke Landing and Jacobs Point, should be purchased by 1978, for recreation and scenic preservation. While the back of the bluffs could be used for camping, hiking, and picnicking, foot access to the beach or bluffs, which are extremely erodible, would be limited to a few points.

North Shore Bluffs to the east and west of Roanoke Point should be designated as an area of particular concern in New York State's coastal zone management plan. The bluffs should be preserved and development prevented by the study's proposed permit process described in Chapter 9.

Mr. RIBICOFF. In his message on the environment, President Carter proposed establishing a comprehensive Federal program to identify, acquire, and protect our natural and historic heritage. This national heritage trust is to help coordinate Federal programs with States and private citizens more effectively and to acquire significant and endangered areas. I believe that the Long Island Sound Heritage is precisely what Mr. Carter has in mind. The legislation I am introducing today is not only consistent with the President's objectives but also represents a crucial step in protecting this very necessary area.

Long Island Sound is at a critical turning point in its centuries-old history. It can no longer be ignored or abused by the people who live and work along its shores or who govern activities related to it. The Long Island Sound Heritage is a first step but an important one in reversing public and private indifference to the future of the sound.

Writing of Long Island Sound the late American poet Mark Van Doren, a very dear friend, said:

All such glories must be preserved, and if damage has already been done to them, they must be restored as nearly as possible to their original state. The beauty of beaches is nothing slight; it is solid, it is substantial, it is health and wealth and life itself for millions of people who have every right to take its natural continuation for granted.

Meaningful efforts to revitalize and preserve the sound are long overdue. I urge that prompt and favorable action be taken on the Long Island Sound Heritage so that the necessary work can begin without further delay.

By Mr. HATFIELD:

S. 1969. A bill to reform and simplify the Federal individual income tax; to the Committee on Finance.

SIMPLIFORM TAX ACT OF 1977

Mr. HATFIELD. Mr. President, perhaps the most enduring issue before the

U.S. Congress has been the need for tax reform and simplification. Most of my colleagues agree that tax reform and simplification is necessary, but when we set out to do it, conflicting interests result in a tax code even more incomprehensible than before.

During the last year the Congress has taken action on two major tax "reform" or "simplification" bills. The Tax Reform Act of 1976 and the Tax Reduction and Simplification Act were discussed by my colleagues with every good intention of carrying out what their titles imply. These bills left us, however, with a tax code still seemingly ready to crumble under its own weight. Now we are awaiting the Carter administration's own views on tax reform, with a new push for tax legislation expected later this year or early next year. What will be the result of this new debate? If past history is any indication, Congress will once again fail to significantly reduce the burden of a complex and often inequitable tax code on the citizens of this country.

For this reason, Mr. President, I am sending to the desk today a bill which would totally restructure the individual income tax system. The Simpliform Tax Act, which I am introducing is similar to the bill I proposed in the last Congress, and to the concept originally offered to the Republican Platform Committee in 1972.

Few would deny that the Federal income tax system 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. Individual and corporate income taxes are expected to provide 52 percent of the revenue for the fiscal year 1978 Federal budget. State and local governments have also employed income taxes to supplement other forms of revenue.

Nearly 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.

There is little question that our income tax system is currently falling well short of those goals.

In the first place, income taxes are 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 form or turn to a professional tax preparer or Internal Revenue Service employee for assistance. Even the experts, who work with the Tax Code every day, frequently disagree or make errors about the application of tax laws to an individual. The complexity of the forms required for filing a return with itemized deductions violates the principle of convenience. While some progress has been made toward simplifying income tax forms, they remain far too inconvenient and complex. The person who can afford to employ a tax accountant to handle his personal taxes benefits more than those who cannot afford such services.

Of greatest concern to me, however, in offering the simpliform tax proposal, is the failure of the present system to genuinely reflect the capacity to pay. The Internal Revenue Code is still formally based upon the principle of the ability to pay. That is, the rates are scaled upwards along with income. There is nothing sinister or un-American about this committee to income redistribution. From the very adoption of income tax laws, 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 bills, particularly including the regressive payroll tax. This combined analysis, however, is not necessary to demonstrate the failings of the individual income tax. The public exposure of the minimal income tax payments of public figures over 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 Federal Government.

It should not be thought that income tax underpayment is limited to a few highly publicized cases. In fact, 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 79 percent. Recent attempts 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 that supposedly values equal opportunity.

Studies conducted in 1970 indicate that the wealthiest 10 percent of the population receives 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, regardless of 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 tax principle and now two significant studies from both the legislative and executive branches 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 1974 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

August 1, 1977

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 for such things 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. Undoubtedly, the figure was even higher in fiscal year 1976.

Of even greater interest is the disclosure by the Office of Management and Budget of a similar listing of tax breaks called tax expenditures in the "special analysis" to the fiscal year 1978 budget. The disclosure of this information is required by the Congressional Budget Act of 1974. 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 used to encourage specific behavior by individuals and organizations by distributing to such individuals and organizations tax money which would normally be placed in the public coffers.

Of greatest interest in the context of individual income tax reform is the fact that almost 40 percent of the tax expenditures expected for fiscal year 1978 will go to individuals. Even allowing for a margin of error in these estimates—or this year, budget revisions by the new administration—the amount is enormous compared to the total expected receipts from individual income taxes in fiscal year 1978, which totals about 39 percent of total receipts, or an estimated \$171.2 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 or tax subsidies.

These new studies speak eloquently of the need for tax reform, as do the economic problems of our country and the world. President Carter has promised a tax reform package to the American people before the end of 1977. The Congress will probably begin considering tax legislation early in 1978. While I do not pretend that tax reform, whether achieved by my plan or any other, will cure all 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 well-intentioned efforts of the Congress to achieve comprehensive tax reform last year and on a more limited basis earlier this year, we were hindered by the resistance to basic tax reform from many sectors. Item-by-item reform, in my opinion, is always doomed to failure. Beneficiaries of tax loopholes

will continue to bring pressure to bear in order to protect laws that 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 complement 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 nine, and four tax tables with one. 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 to complete the tax forms, 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 for those with income above \$5,000. 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 in excess of \$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 also 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 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 more from deductions than the lower-income person.

There are those who are troubled at the thought of tampering with some tax subsidies, such as reduced rates for capital gains and deductions for charitable contributions. 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 deductions for con-

tributions to charitable organizations should not be seen as a threat to the many worthy causes benefiting 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 of 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 for 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 1976 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 that 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 will be 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 true comprehensive tax reform.

Mr. President, I ask unanimous consent that an article by Henry M. Wriston which appeared in the April 13, 1977, issue of the Christian Science Monitor entitled "The Scandalous Form 1040," as well as an article in the April 1977, issue of Harper's by Peter Meyer entitled "A Short History of Form 1040," appear in the RECORD at this time.

Mr. President, I also ask unanimous consent that the text of the bill be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

S. 1969

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 37 (relating to credit for the elderly).

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

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

(4) 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 for 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),

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

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

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

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

(7) Section 163 (relating to interest).

(8) Section 164 (relating to taxes).

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

(10) 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).

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

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

(13) 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 of 1954, as amended by this Act), and all administrative regulations or rulings which exempt or exclude items of income of individuals 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.

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

"If the taxable income is:

Over \$10,000 but not over \$15,000.....

Over \$15,000 but not over \$20,000.....

Over \$20,000 but not over \$25,000.....

Over \$25,000 but not over \$50,000.....

Over \$50,000 but not over \$100,000.....

Over \$100,000 but not over \$500,000.....

Over \$500,000 but not over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

Over \$1,000,000.....

"SECTION 1. TAX IMPOSED.

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

"(b) SURTAX.—There is imposed on the taxable 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.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

\$344,000, plus 40% of the excess over \$1,000,000.

"(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 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 a written declaration (in such manner and form as the Secretary 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

respect to so much of the tax imposed by chapter 1 as is attributable to the application of section 85 (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 85 of the Internal Revenue Code of 1954 (as added by subsection (a)) and the amendments made by paragraphs (1), (2), (4), and (5) of subsection (b) shall apply with respect to decedents dying after the date of enactment of this Act. Section 86 of such Code (as added by subsection (a)) and the amendments made by paragraphs (3) 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 individual" after "Corporations" in the heading of subsection (a) and inserting "or an individual" after "a corporation" in the text of subsection (a),

(2) inserting "or an individual" after "other than a corporation" in paragraph (1) of subsection (b), striking out subparagraph (B) of such paragraph, and redesignating subparagraph (B) as (C), 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. 87. 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. 87. 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 entertaining, 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."

(b) Subsection (o) (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, 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."

[From the Christian Science Monitor, Apr. 13, 1977]

THE SCANDALOUS FORM 1040

(By Henry M. Wriston)

Income tax time invites rage. To be constructive anger should spark a concerted demand for fundamental reform. No thousand-page "amendment" will do; it only makes the taxpayer more frustrated. No draftsman can write so large a volume without providing many "loopholes."

The demand should be for clarity. The bill should raise taxes and avoid attempts at social engineering, which belongs, if anywhere, in separate legislation. The present law has so many purposes, some incongruous with others, that it makes the constructs of the late Rube Goldberg seem models of simplicity and elegance of design. In its present form the income tax law shows Congress to be the enemy of thrift, generosity, common sense and even good morals. It is as though Congress had purposely incorporated into law some of the widely advertised bad habits of certain members.

There is no excuse for a statute so long and so complex that its purported authors cannot expound it. Millions watching TV heard the director of the Internal Revenue Service admit that some passages were obscure to him. And the chairman of one of the responsible committees conceded that he found a passage he could not recall approving.

Most citizens are ready to render unto Caesar that which bears his image and superscription. We have a right, indeed a duty, to denounce a quagmire of needlessly involved requirements which expose us to penalties for perjury, for lateness and other entrapments. It is intolerable, moreover, to face a law which virtually requires a retired teacher to employ a lawyer, an accountant, a banker or a wizard—or a team of them, to guide him through a legal maze so complex that even experts get confused. I have paid penalties for "errors" when I felt sure the IRS auditors were as likely to be wrong as my own experts were said to have been. The needless cost to the taxpayer arising from poor congressional draftsmanship is an unreasonable burden on the innocent. It is an added impost which arises from no fault of the citizen but from carelessness on the part of Congress.

The President of the United States told the senators and representatives in joint session assembled that, on the average, they each cost a million dollars a year for salary, staff, pension and other expenses. At that heavy price it is insufferable to have Congress enact a statute which confuses the taxpayer and endows an ever growing bureaucracy as well as a generation of lawyers, et al. who make a living out of penetrating obscurity.

Senators blather about the aged ad nauseum. "Senior citizens," they proclaim, must be treated with compassion. I am one of the aged who consider the scandalous stimulation of inflation by acts of Congress a heavy, needless burden upon those of us who are retired. Added to the weight of taxation it is unendurable. What we need is a law which we can read, understand, and obey at no extra cost occasioned by the ineptitude of costly Job's counselors in Washington.

While imposing unnecessary punishment upon the hapless citizen, Congress wonders why it is not held in high esteem. How can the public have confidence in legislators who turn out volumes of sticky flypaper and call the mess law? Each member took an oath to "perform to the best of my ability." Then they enact a tax statute that make a mockery of their oath. If that law is the best they can do they should all resign forthwith. At an annual cost of a million dollars apiece we have a right to demand clarity of language, readable prose. No senator can stand in his place (among the six or eight colleagues who normally attend) and assert he has met that elementary test. No representative (between Tuesday and Thursday, his normal week) can say "under penalty of perjury" that he has even tried to meet that modest obligation. No one who voted for this convoluted abomination can pretend he tried to be clear. Whatever else he had in mind, convenience of the taxpayer was not on the list.

The Congress voted a premium on immorality. President Carter, speaking in the Department of Agriculture, made the offhand comment that some in his audience were living in sin. That quaint expression clearly puzzled his hearers. When he clarified it by suggesting that those who were so living should get married, the response was laughter. Did not the President know that, by congressional ukase, marriage would result in a tax penalty? That was part of a "reform" bill. It was made the law of the land by a Congress which, in exchange for "30 pieces of silver" they were too craven to vote themselves, is now taking an exceedingly elementary course in "ethics," and making heavy weather of it.

Finally, consider the cost of this legislative monstrosity. It calls to mind a passage in the Declaration of Independence, he "has erected a multitude of New Offices and sent hither swarms of officers to harass our people and eat out their substance." The sheer bureaucratic cost of administering this atrocious caricature of "a government of laws, not of men" boggles the mind. When to this first cost is added the time and effort of the tax-

payer, his aides, and then the auditors, the cost of obedience to law is staggering.

The President characterized this law as a scandal. Too long we have submitted to taxation without lucidity. It is time for Congress to write a statute an honest citizen can understand.

[From Harper's—April 1977]

A SHORT HISTORY OF FORM 1040

On October 11, 1913, Edward S. Beach dashed off an angry letter to the New York Times. He called President Wilson "the father of spies," and thanked the "whole brood of predatory politicians for the coming espionage." Beach was convinced that the new tax law would unleash upon the country a whole "army of Federal spies whose nose will be stuck into the affairs of every man suspected of having an income of \$3,000 or more a year."

Unfortunately for Beach, the vast majority of Americans earned much less than \$3,000 a year in 1913. In fact, they welcomed a law which promised to police the incomes of the rich, a measure which would redistribute the wealth and equalize the tax burden. The week before Beach's letter, Congress had attempted to do just that.

With its newly acquired Sixteenth Amendment powers, Congress wrote the first income-tax law of the century, an appendage to the Underwood-Simmons Tariff Act which reduced the tariff to its lowest level since the Civil War. Rep. Cordell Hull, chief draftsman of the income tax, had called the tariff an "infamous system of class legislation." The new tax, he argued, would rectify the inequities of a system which was "virtually exempting the Carnegies, the Vanderbilts, the Morgans and the Rockefellers with their aggregated billions of hoarded wealth." Congressman Hull also boasted that the new law was brief. In less than fifteen pages, Congress spelled out the income-tax requirements for both corporations and individuals. Only on net incomes above \$3,000 (roughly equivalent to \$17,550 today), said Congress, would the "normal tax" of 1 percent be levied. An additional tax ranging from 1 to 6 percent was imposed on amounts in excess of \$20,000 (about \$117,000 today). In the first full year of enforcement of the new law, the tax burden fell to a scant 357,000 people—less than one-half of 1 percent of the population. Few could complain. At a time when the per capita annual income of the gainfully employed hovered near \$900, the weight of the tax ballast fell clearly to those most able to pay.

On January 5, 1914, the Treasury Department unveiled the individual income-tax blank. Form 1040, together with its instructions—four pages in all—read like a Dick-and-Jane primer. It was short enough to be reproduced, instructions included, in four columns of a single page of the New York Times. (The next day two New Jersey gentlemen filed the Time's clippings, dutifully filled in, with their local revenue agent.) The original 1040 form is no less a relic of simpler times than the 1913 law itself. But the majority of the country, it seems, once granted a reprieve from taxation in 1913, sighed in

relief and promptly fell asleep. From a perspective granted by six decades of tax increases and bureaucratic expansion, it appears that something has run amok.

Rev. Charles A. Vanik was born just a few months before the passage of the first income-tax law. He now sits on the House Ways and Means Committee, but believes that "there is an Alice-in-Wonderland quality in speaking of a voluntary tax system when nearly half of the nation's taxpayers feel that they must get or pay others to help them complete their own returns." The phenomenal proliferation of law, loophole, litigation, and juridical exegesis has spawned a huge tax industry. It gathers its capital from legal conundrums. "The tax system and support for it," as Vanik points out, "is being smothered by the endless forms, instructions, and complexities of present tax law."

During 1975 the weekly Internal Revenue Bulletin notified its subscribers of 576 revenue rulings, 66 revenue procedures, 27 public laws relating to Internal Revenue matters, 31 committee reports, 3 executive orders, 42 Treasury decisions, and a host of other addenda. What does this catalogue of IRS statistics and tax-law twists and turns do for taxpayers? It insures that millions of them run to the doors of their preparers each year for guidance.

But even this recourse is not safe. A report reluctantly released by the IRS last year revealed that the experts, too, are confused. Three out of four tax returns filed by paid preparers—attorneys, public accountants, CPAs, commercial preparers—for those with incomes between \$10,000 and \$50,000 contain mistakes. Even the IRS errs on 79 out of each 100 returns it completes for the middle-income taxpayer.

Altogether the IRS audits a couple of million returns each year. And each year the American taxpayer comes up short—\$5.3 billion in 1975. Countless millions more contain mathematical errors, most of which increase the taxpayer's liability when corrected. (The word countless is a slight exaggeration because there are very few things which the IRS doesn't count.) The mistakes, whether made innocently or fraudulently, speak less than optimistically either about our ability to comprehend our tax responsibilities or our desire to tolerate them.

So Congress bemoans the muddle in the IRS while the service pleads for simplification of the law. Commissioner Donald Alexander once told a Ways and Means subcommittee that taxpayers couldn't "find their way through the maze that Congress intended for them." Though the Tax Reform Act of 1976 was the most extensive overhaul of the system since the Internal Revenue Code of 1954, it did little to de-maze the law. As a result, the commissioner was forced back to the drawing board to relay the good news to 1977 taxpayers. "Completing your return this year," he writes, "could be more difficult."

The instructions for page one of this year's 1040 comprise nearly four pages. If the taxpayer perseveres that far he will have already encountered 15 "cautions" and "notes," as well as 206 "if" clauses, and been referred to another 39 forms, schedules, and related IRS publications. If he had a question about

estimated itemized deductions for alimony expenses, for example, and had a copy of the new law at hand he might turn to Code Section 3402(m)(2)(A) for explanation:

"The term 'estimated itemized deductions' means the aggregate amount which he reasonably expects will be allowable as deductions under chapter 1 (other than the deductions referred to in sections 141 and 151 and other than the deductions required to be taken into account in determining adjusted gross income under section 62 other than paragraph (13) thereof) for the estimation year."

As the figures show, most taxpayers will pay an expert to make their mistakes.

The code remains our basic tax document, a legal farrago that, as one IRS spokesman has said, "defies human understanding." Prior to last year's Reform Act it was barely compactible into a single bulky volume. The amending legislation is itself nearly 1,000 pages long. There are also volumes of Income Tax Regulations (the Treasury Department's interpretation of the code), volumes of revenue rulings (the IRS's interpretation of specific situations), and more volumes of court decisions. It's no wonder that such an imposing tax industry has risen to interpret, administer, and exploit that document.

How many different livelihoods depend on the legal tax jargon? Nine percent of the 218,146-member American Bar Association are considered tax specialists. The IRS itself employs more than 800 attorneys; some 200 lawyers work in the Justice Department's Tax Division. Hundreds of commercial tax preparers (in the Manhattan Yellow Pages alone, seventy-five entries crowd under the "Tax Preparation" heading) vie for the \$600 million that Americans pay annually for their services. H. & R. Block, "the income tax people," last year prepared 10 percent of the more than 85.5 million individual income tax returns. Twenty research centers across the country find sustenance in tax specializing, as do 14 tax associations and some 300 journals and periodicals. And not to be forgotten in the enumeration is the IRS and its 82,000 employees, 4,050 different forms, and hundreds of publications.

The latest development in the tax imbroglio industry is the electronic law libraries. Their services are increasingly valuable as a means of sorting through what otherwise would be reams of paper. The Lexis Library of Meade Data Central, Inc., for example, has nearly 300 subscribers throughout the country. In a matter of seconds any one of them may requisition the latest tax regulation or court decision from an IBM 370/155 computer. Not surprisingly, Meade's most frequent patron is the Internal Revenue Service.

It has taken less than sixty-four years to slide into a system which warrants Mr. Beach's wrath. In the meantime we seem also to have slipped "through the looking-glass" and come upon a system bereft of manageability, not to mention comprehensibility. But Lewis Carroll said it best. "Curiouser and curiouser!" cried Alice. . . . Now I'm opening out like the largest telescope that ever was! Good-bye, feet!"

THEN AND NOW

	1914	1975	Percentage change		1914	1975	Percentage change
U.S. population	97 million (est.)	214 million	120	Tax per return	\$114.80 (\$671.58 today)	\$1,840	173
U.S. labor force	34.8 million (est.)	94.8 million	172	IRS employees	4,000	82,000	1,950
Total Internal Revenue	\$415.6 million (\$2.43 billion today)	\$293.8 billion	172	IRS employees per capita	1:24,250	1:2609	829
collections	100 million (est.)	4,050		IRS forms	45 (est.)	4,050	8,900
Individual income tax collected	\$41.04 million (\$24 billion today)	\$156.4 billion	551	ABA members	8,033 (1913)	218,146	2,600
Number of individual returns	357,515	85,518,719	23,800	IRS lawyers	1	800	799
Percent of population taxed	Less than 0.5 percent	40 percent		Tax-related court cases	4,731	43,687	820
Percent of labor taxed	1 percent	90 percent		IRS costs	\$6.8 million (\$39.7 million today)	\$1.58 billion	3,900
Tax per capita	\$4.28 (\$25.03 today)	\$1,375	5,390	Number of words of law	10,000 (good est.)	750,000 (good guess)	7,400