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THE WHITE HOUSE

WASHINGTON

July 3, 1975

MEMORANDUM FOR:

JACK MARSH

THRU:

MAX FRIEDERSDORF

VERN LOEN *VL*

FROM:

CHARLES LEPPERT, JR. *CLJ.*

SUBJECT:

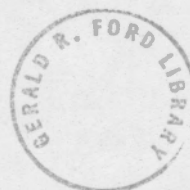
Status Report, H. R. 8053
Job Creation Act

H. R. 8053 is a bill to accelerate the formation of the investment capital required to expand both job opportunities and productivity in the private sector of the economy. The bill was introduced on June 19, 1975 with 79 co-sponsors (seven Democrats) and was referred to the House Ways and Means Committee. Rep. Jack Kemp (R-NY) is the principal sponsor of the legislation and the bill is popularly termed the "Job Creation Act".

On June 23, 1975, the House Ways and Means Committee began hearing testimony on general tax reform. Capital formation is a separate subject or topic of these tax reform hearings. The Committee plans to continue its hearings during July and take up specific panels on tax reform of which capital formation will be one of the panels before the Committee.

Attached is Rep. Kemp's speech on the subject for your information.

cc: Tom Loeffler





United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 94th CONGRESS, FIRST SESSION

Jobs Creation Act of 1975

SPEECH
OF
HON. JACK F. KEMP

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Wednesday, May 21, 1975

Mr. KEMP. Mr. Speaker, together with nearly 50 of my colleagues, I have today introduced the Jobs Creation Act of 1975.

This legislation is designed to accelerate the formation of the investment capital required to expand both job opportunities and productivity in the private sector of the economy. And, it is done without additional reliance on government and through the removal and lessening of present disincentives to investment and savings found in our tax laws.

I am joined in the bipartisan and nationwide cosponsorship of this important legislation by Mr. ARCHER, of Texas; Mr. ARMSTRONG, of Colorado; Mr. ASHBROOK, of Ohio; Mr. BAUMAN, of Maryland; Mr. BEARD of Tennessee; Mr. BROWN of Ohio; Mr. BURGNER, of California; Mr. CLANCY, of Ohio; Mr. CONLAN, of Arizona; Mr. CRANE, of Illinois; Mr. ROBERT W. DANIEL, Jr., of Virginia; Mr. DERWINSKI, of Illinois; Mr. DEVINE, of Ohio; Mr. DICKINSON, of Alabama; Mr. DUNCAN of Tennessee; Mr. ESCH, of Michigan; Mr. ESHLEMAN, of Pennsylvania; Mr. FRENZEL, of Minnesota; Mr. FREY, of Florida; Mr. GOLDWATER, of California; Mr. GOODLING, of Pennsylvania; Mr. GUYER, of Ohio; Mr. HAGEDORN, of Minnesota; Mr. HASTINGS, of New York; Mrs. HECKLER of Massachusetts; Mrs. HOLT, of Maryland; Mr. KASTEN, of Wisconsin; Mr. KETCHUM, of California; Mr. KINDNESS, of Ohio; Mr. LOTT, of Mississippi; Mr. MARTIN, of North Carolina; Mr. MCCLORY, of Illinois; Mr. MCCOLLISTER, of Nebraska; Mr. MILFORD, of Texas; Mr. MOORE, of Louisiana; Mr. PRESSLER, of South Dakota; Mr. QUITE, of Minnesota; Mr. QUILLEN, of

Tennessee; Mr. ROBINSON, of Virginia; Mr. ROUSSELOT, of California; Mr. SEBELIUS, of Kansas; Mr. SHUSTER, of Pennsylvania; Mr. SPENCE, of South Carolina; Mr. SYMMS, of Idaho; Mr. THONE, of Nebraska; Mr. TREEN, of Louisiana; and Mr. WAGGONER, of Louisiana.

The Jobs Creation Act would help substantially and dramatically to create jobs in the private sector of the economy. It would encourage additional savings and investments by individuals, stimulate home construction and plant expansion, cause major new equipment purchases, assure an increase in real purchasing power by the work force, and help assure the continuity of family businesses and farming operations. It would, consequently, begin a major nationwide shift from tax-consuming jobs to tax-generating jobs and would reduce unemployment compensation and similar aid through a reduced need for them—and all without dependency on new or expanded Federal grants or loan programs.

The proposed act consists of the following provisions:

First, it allows an exclusion from gross income of qualified additional savings and investments made during a tax year—an exclusion up to \$1,000 or \$2,000 for a married couple filing a joint return.

Second, it eliminates the present system of double taxation of common dividends by excluding dividends paid by domestic corporations from gross income.

Third, it grants a \$1,000 exclusion from capital gains for each capital transaction qualifying.

Fourth, it grants an extension of time for payment of estate taxes where the estate consists largely of small business interests.

Fifth, it increases the estate tax exemption for family operations to \$200,000.

Sixth, it amends the corporate normal tax rate and increases the corporate sur-

tax exemption, including provisions for reduced taxes for small business, to give an effective corporate income tax reduction in the range of 6-percent.

Seventh, it increases the investment tax credit to 15-percent and makes it permanent.

Eighth, it allows taxable year price-level adjustments in property and allows increases in class life variances for purposes of depreciation—the latter increasing the asset depreciation range—ADR—from 20 to 40.

Ninth, it provides for a complete write-off in 1 year of required but nonproductive pollution control facilities and equipment.

Tenth, it provides for employee stock ownership plan financing, giving our work force a bigger stake in the productivity and profits of corporations.

Surely, this bill alone will not accomplish all that must be done to assure an adequate investment of job-creating capital over the next decade, but it is an important first step.

To avoid frustration of this bill's purposes we must also start concentrating on means to reduce Government deficit spending—because the borrowing that deficit spending necessitates pre-empts private capital needs out of the available money markets; we need to require more stable and less inflationary monetary policies; we must reduce the massive degree of Government regulation which requires businesses to turn otherwise productive uses of capital into nonproductive uses and prevents competition; and, to stimulate personal savings.

While some Members may not individually endorse every single provision we all agree that we must begin these steps of capital formation if we wish to help preserve our free and prosperous way of life.

During the 1960's the United States had the worst record of capital investment among the major industrialized

nations of the free world. Correspondingly, our records of productivity growth and overall economic growth during this period were also among the lowest of the major industrialized nations. As other nations have channeled relatively more of their resources into capital investment and have acquired more modern plants and equipment, they have eroded our competitive edge in world markets. The logical consequence of such patterns has occurred: The loss of jobs in the American work force. That the present recession—including the high level of unemployment—is a direct consequence of our Government's economic policies and tax-and-spend-and-tax programs of the past years is an inescapable conclusion.

It is time this Nation—and this Congress—be more fully concerned with the relationship between capital investment and prosperity. History shows that true prosperity, measured in real and constant terms, is a direct consequence of increases in capital investment per capita. Yet in terms of constant 1958 dollars, the gross nonresidential fixed investment per person added to the civilian work force in our country has declined by an appreciable 17 percent in the past 18 years, down from \$49,500 to \$41,000.

America is losing its prosperity. It is losing the spirit essential to encourage a full economic recovery. It is forfeiting reliance on the forces of a free economy and the marketplace as the surest means of recovery, substituting for it a false belief that Government deficits can do it for us. There is no basis for that belief in recorded history.

On February 5 of this year, I had the honor of leading a colloquy on the House floor, through which 30 Members presented a statement on alternative economic policies, a statement which we all signed. For us, we drew the line beyond which we would not go in seeing the continuing erosion of individual economic freedom in this country—an erosion of freedom occasioned by once-gradual, now-accelerating intervention by Government in the economic affairs of the people. That statement read, in part:

We believe that solutions to our dual economic problems of inflation and recession lie in returning decision-making to the people through the forces of the marketplace—letting the people decide what to produce, sell, and buy, and at what price levels. The pricing mechanism of the marketplace, derived from the interaction of supply and demand, is a more efficient, productive and stable regulator of the economy than government can ever be. No government agency or official is

as capable of making such decisions as are the people through the voluntary exchange of goods and services. To believe otherwise is to deny the basic tenets of democracy and liberty.

We also believe increased productivity—not compulsory rationing, allocations or regulations and controls—is the basic answer to our problems. We believe prosperity to be related directly to the amount of capital invested in increased production. We believe over-concentration on consumption, fostered by government policy, has led to inadequate attention to the production which results in improved efficiency, more jobs at higher pay, and more goods at less cost.

Finally, we believe our economic ills—from heavy inflation to rising unemployment, from high interest rates to inadequate capital formation, from exorbitant fuel costs to anti-competitive regulatory practices—have one root cause: Policies of government, principally those of the Federal government which cause or contribute to inflation.

We, therefore, propose the following:

Controlling the run-away growth of government and the soaring increases in Federal expenditures and deficits, in an effort to better balance the budget. This would reduce the need for government borrowing from the capital markets and would put a brake on the inflationary expansion of the money supply.

The enactment of job-creating, accelerated capital formation techniques, sufficient to insure the full productive capacity of this country and the millions of jobs which would flow from such full capacity.

It is in furtherance of that statement that we here today offer for the consideration of this Congress—and the people it represents—the Jobs Creation Act.

An increase in private investment is the key to avoiding dependency on Government. As a matter of fact, that dependency deprives our economy of the means of assuring such private investment growth. There can be no rise in the absolute standard of living without increases in private investment in plant and machinery, and there can be no increase in that private investment when Government continues to take massive percentages of the peoples' livelihood in the form of direct taxes and indirect inflation.

Real economic benefits flow from adequate capital investment—increased wages, growth in additional investment, higher return to investors, improved production efficiency and the lowering of costs stemming from such efficiency, and an increase in goods and services.

Yet, as I indicated a few moments ago, America is falling behind in its investment rate. The amount of money added to our industrial plant for each person added to the labor force in the 1970's is

22 percent below what was invested between 1956 and 1965, as an example. As another example—one drawing a foreign parallel—while we have been drifting, France and Germany have doubled their industrial capacity and Japan has tripled its.

If this rate continues, there will be a capital shortfall of \$1,500,000,000,000—\$1.5 trillion—over the next 10 years in what it will take to just stay even at the standard of living we now enjoy. This shortfall means we will be underinvesting \$400 million each and every day for a full decade. If we could find the capital to make up for that loss, we could reduce poverty by 10 million people, create 20 million new jobs, 30 million new homes and a 75 percent increase in the standard of living.

A study released this week by the American Enterprise Institute for Public Policy Research of Washington, D.C., and authored by Alan Fechter, a senior research economist at the Urban Institute, shows convincingly why reliance on the tools of Government—public service employment programs and public works programs—are no answer. For every full \$1 billion in such program money spent, no more than 50,000 jobs are created, and even they are not permanent. If this Congress went out and spent \$8 billion—as some have proposed—in additional public service employment this year, it would reduce unemployment by only 400,000 or a total reduction of only about one-half of 1 percent in the unemployment rate.

There has to be a better way. There is a better way: Reliance on our massive \$1.4 trillion per year economy to recreate these jobs, which it can do if the choking, strangling hands of Government policy and control are taken off that economy.

I have already enumerated the provisions of the Jobs Creation Act, and its projected impact on the economy. As I indicated, it will not do the job alone, but it is a crucial first step. Most of those cosponsoring the measure have also cosponsored other bills to carry into effect the other components of an economic recovery program—lessening expenditures and reducing the deficit, stabilizing monetary policy, reducing regulatory controls, et cetera.

The Jobs Creation Act will help to accomplish these objectives by reducing Government's tax demands on individuals and business. It could, by operation of its provisions, result in a projected loss of revenue to the Treasury of between \$27.5 and \$32.5 billion in revenue. But I hasten to add that much of that loss will

be recovered through increases in the productivity of business and the earnings of more wage earners employed at higher real wages.

We have an excellent recent corporate tax cut parallel from which to make this judgment.

Several years ago the Canadian Government cut its corporate taxes drastically. The effective rate of taxation was reduced from 49 percent to 40 percent, amid cries that it would bring about a substantial decline in revenue to the treasury. Yet, because of the substantial increase in productivity and jobs generated by the tax cut—through the removal of disincentives to investment—there were no losses in revenue. Instead of the \$450 million net loss projected at the time of its enactment, a \$250 million surplus was generated.

We know what this bill will do. It will create jobs, cause additional home construction and plant expansion, cause major new equipment purchases, and so forth. All of this will automatically generate additional revenue for the Treasury in the form of corporate taxes paid on increased business activity. This will happen because of the expanded volume of business activity—not because of the continuance of too high an effective tax rate—and because people who were on unemployment and other forms of relief go back to work.

We have today requested the Economics Division of the Library of Congress to put the provisions of the bill we introduced today onto the economic model now at their disposal to determine the additional revenue which will be generated by this bill. To the degree this revenue offsets projected losses, the Government will not finance expenditures through inflation-creating borrowing. Of course, we believe that total spending should be reduced anyway.

We, the cosponsors of this measure, intend to pursue its enactment actively. We intend to obtain additional cosponsors. We intend to seek public hearings before the House Committee on Ways and Means and the Senate Committee on Finance on the measure.

In order that all Members, as well as the public, know specifically what the provisions of the two identical bills, H.R. 7240 and H.R. 7241 will do, I am at this point including the full texts of those bills:

H.R. 7240 AND H.R. 7241

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this

Act may be cited as the "Jobs Creation Act of 1975".

SEC. 2. TABLE OF CONTENTS.—

Sec. 1. Short title.

Sec. 2. Table of contents.

TITLE I—INDIVIDUAL INCOME TAXES

Sec. 101. Tax credits for qualified savings and investments.

Sec. 102. Exclusion from gross income of amounts received by an individual as dividends from domestic corporations.

Sec. 103. Limited exclusion of certain capital gains.

Sec. 104. Extensions of time for payment of estate tax where estate consists largely of interest in closely held business.

Sec. 105. Interests in family farming operations.

TITLE II—CORPORATION TAXES

Sec. 201. Adjustments of corporate normal tax rates.

Sec. 202. Increase in investment credit.

Sec. 203. Increase in corporate surtax exemption.

Sec. 204. Taxable year price level adjustments in property.

Sec. 205. Increase in class life variance for purpose of depreciation.

Sec. 206. Alternative amortization for pollution control facilities.

TITLE III—EMPLOYEE STOCK OWNER-SHIP PLAN FINANCING

Sec. 301. Employee stock ownership plan financing.

TITLE I—INDIVIDUAL INCOME TAXES

TAX CREDITS FOR QUALIFIED SAVINGS AND INVESTMENTS

SEC. 101. (a) IN GENERAL.—There shall be allowed to an individual, as a credit against the tax imposed by this chapter for the taxable year, an amount equal to 10 percent of the amount of qualified savings deposits and investments such individual makes during such year.

(b) LIMITATION.—The credit allowed by subsection (a) for a taxable year shall not exceed \$1,000 (\$2,000 in the case of a joint return under section 6013).

(c) DEFINITIONS.—For the purposes of this section—

(1) QUALIFIED SAVINGS DEPOSITS AND INVESTMENTS.—The term "qualified savings deposits and investments" means—

(A) amounts deposited in a savings deposit or withdrawable savings account in a financial institution;

(B) amounts used to purchase common or preferred stock in a domestic corporation; and

(C) amounts used to purchase a bond or other debt instrument issued by a domestic corporation.

(2) FINANCIAL INSTITUTION.—The term "financial institution" means—

(A) a commercial or mutual savings bank whose deposits and accounts are insured by

the Federal Deposit Insurance Corporation or otherwise insured under State law;

(B) a savings and loan, building and loan, or similar association the deposits and accounts of which are insured by the Federal Savings and Loan Insurance Corporation or otherwise insured under State law; or

(C) a credit union the deposits and accounts of which are insured by the National Credit Union Administration Share Insurance Fund or otherwise insured under State law.

(b) TECHNICAL AMENDMENT.—The table of sections for such subpart A is amended by adding at the end thereof the following:

"SEC. 43. Increased savings and investments by individuals."

(c) EFFECTIVE DATE.—The amendments made by this section apply to qualified savings deposits and investments made after the date of enactment of this section.

EXCLUSION FROM GROSS INCOME OF AMOUNTS RECEIVED BY AN INDIVIDUAL AS DIVIDENDS FROM DOMESTIC CORPORATIONS

SEC. 102. (a) (1) Subsection (a) of section 116 of the Internal Revenue Code of 1954 (relating to partial exclusion of dividends received by individuals) is amended to read as follows:

"(a) EXCLUSION FROM GROSS INCOME.—Gross income does not include amounts received by an individual as dividends from domestic corporations."

(2) The section heading of such section 116 is amended by striking out "Partial Exclusion" and inserting in lieu thereof "Exclusion".

(3) The table of sections for part III of subchapter B of chapter 1 of such Code is amended by striking out the item relating to section 116 and inserting in lieu thereof the following:

"SEC. 116. Exclusion of dividends received by individuals."

(4) Section 643(a)(7) of such Code is amended by striking out "partial exclusion" and inserting in lieu thereof "exclusion".

(b) The amendments made by the first subsection of this section shall apply to taxable years beginning after December 31, 1974.

LIMITED EXCLUSION OF CERTAIN CAPITAL GAINS

SEC. 103. (a) IN GENERAL. Part III of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to items specifically excluded from gross income) is amended by—

(1) redesignating section 124 as section 125, and

(2) inserting immediately after section 123 the following new section:

"SEC. 124. LIMITED EXCLUSION OF CERTAIN CAPITAL GAINS.

"(a) GENERAL RULE.—In the case of a taxpayer other than a corporation, gross income for the taxable year does not include an amount equal to the net section 1201 gain resulting solely from the sale or exchange of securities, to the extent that such amount does not exceed \$1,000.



"(b) EXCEPTION.—Subsection (a) does not apply to a taxpayer who is subject to the tax imposed under section 1201(b).

"(c) DEFINITIONS.—

"(1) NET SECTION 1201 GAIN.—The term 'net section 1201 gain' has the same definition it has under section 1222(11).

"(2) SECURITIES.—The term 'securities' has the same meaning it has under section 165(g)(2)."

(b) TECHNICAL AMENDMENTS.—

(1) Section 1202 of such Code (relating to deductions for capital gains) is amended by adding at the end thereof the following new sentence: "No amount of such excess shall be allowed as a deduction under this section to the extent such amount is excluded from gross income under section 124."

(2) The table of sections for part III of subchapter B of chapter 1 of such Code is amended by striking out the item relating to section 124 and inserting in lieu thereof the following:

"Sec. 124. Limited exclusion of certain capital gains.

"Sec. 125. Cross reference to other Acts."

(c) EFFECTIVE DATE.—The amendments made by this section apply to sales or exchanges of securities occurring after December 31, 1974.

EXTENSIONS OF TIME FOR PAYMENT OF ESTATE TAX WHERE ESTATE CONSISTS LARGELY OF INTEREST IN CLOSELY HELD BUSINESS

SEC. 104. (a) ELIMINATION OF REQUIREMENT OF UNDUE HARDSHIP.—Section 6161(a)(2) (relating to extension of time for paying estate tax) is amended by striking out "undue" before "hardship".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only with respect to estates of decedents dying after the date of the enactment of this Act.

INTERESTS IN FAMILY FARMING OPERATIONS

SEC. 105. (a) Part IV of chapter 11B of the Internal Revenue Code of 1954 (relating to deductions from the gross estate) is amended by adding at the end thereof the following new section:

"SEC. 2057. INTERESTS IN FAMILY FARMING OPERATIONS.

"(a) GENERAL RULE.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate the lesser of (1) \$200,000, and (2) the value of the decedent's interest in a family farming operation continually owned by him or his spouse during the 5 years prior to the date of his death and which passes or has passed to an individual or individuals related to him or his spouse.

"(b) SUBSEQUENT DISQUALIFICATION RESULTS IN DEFICIENCY.—The difference between the tax actually paid under this chapter on the transfer of the estate and the tax which would have been paid on that transfer had the interest in a family farming operation not given rise to the deduction allowed by paragraph (a) shall be a deficiency in the

payment of the tax assessed under this chapter on that estate unless, for at least 5 years after the decedent's death—

"(1) the interest which gave rise to the deduction is retained by the individual or individuals to whom such interest passed, and

"(2) the individual or any of the individuals to whom the interest passed resides on such farm, and

"(3) such farm continues to qualify as a family farming operation.

"(c) DEATH OF SUBSEQUENT HOLDER.—In the case of the subsequent death of an individual to whom the interest in a family farming operation has passed, his successor shall be considered in his place for purposes of paragraph (b).

"(d) DEFINITIONS.—

"(1) FAMILY FARMING OPERATION.—A 'family farming operation' is a farm—

"(A) actively engaged in raising agricultural crops or livestock 'for profit', within the meaning of section 183, and

"(B) over which the owner or one of the

"If the taxable income is:

Not over \$1,000,000.....
Over \$1,000,000 but not over \$10,000,000....
Over \$10,000,000 but not over \$100,000,000...
Over \$100,000,000 but not over \$1,000,000,000
Over \$1,000,000,000.....

For purposes of applying the percentages and amounts of tax set forth in the preceding table in the case of a corporation which is a component member of a controlled group of corporations (within the meaning of section 1563), the taxable income of the other component members of such group shall, under regulations prescribed by the Secretary or his delegate, be taken into account."

(b) The amendments made by subsection (a) of this section shall apply to taxable years beginning after December 31, 1974.

INCREASE IN INVESTMENT CREDIT

SEC. 202. (a) INCREASE OF INVESTMENT CREDIT TO 15 PERCENT.—Paragraph (1) of section 46(a) (determining the amount of the investment credit) is amended to read as follows:

"(1) GENERAL RULE.—

"(A) FIFTEEN-PERCENT CREDIT.—Except as provided in subparagraph (B), the amount of the credit allowed by section 38 for the taxable year shall be equal to 15 percent of the qualified investment (as defined in subsection (c)).

"(B) TWELVE-PERCENT CREDIT.—In the case of property—

"(i) the construction, reconstruction, or erection of which is completed by the taxpayer before July 1, 1975, or

"(ii) which is acquired by the taxpayer before July 1, 1975,

owners exercises substantial personal control and supervision.

"(2) RELATIONS.—An individual is 'related' to the decedent or his spouse if he is that person's father, mother, son, daughter, grandson, granddaughter, brother, sister, uncle, aunt, first cousin, nephew, niece, husband, wife, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half brother, half sister, or in the absence of any of the above his next of kin."

(b) The amendments made by subsection (a) of this section shall apply to taxes imposed by section 2001 after December 31, 1974.

TITLE II—CORPORATION TAXES

ADJUSTMENTS OF CORPORATE NORMAL TAX RATE

SEC. 201. (a) Section 11(b) (relating to corporate normal tax) is amended to read as follows:

"(b) NORMAL TAX.—The normal tax is the amount determined in accordance with the following table:

The normal tax is:	
20% of the taxable income.	
\$200,000, plus 20.35% of excess over \$1,000,000.	
\$2,000,000, plus 20.5% of excess over \$10,000,000.	
\$20,000,000, plus 20.75% of excess over \$100,000,000.	
\$200,000, plus 21% of excess over \$1,000,000,000.	

the amount of the credit allowed by section 38 for the taxable year shall be equal to 12 percent of the qualified investment (as defined in subsection (c)).

"(C) TRANSITIONAL RULE.—In the case of property—

"(i) the construction, reconstruction, or erection of which is begun by the taxpayer before July 1, 1975, and

"(ii) the construction, reconstruction, or erection of which is completed by the taxpayer after June 30, 1975,

subparagraph (B) shall apply to the property to the extent of that portion of the basis which is properly attributable to construction, reconstruction, or erection before July 1, 1975, and subparagraph (A) shall apply to such property to the extent of that portion of the basis which is properly attributable to construction, reconstruction, or erection after June 30, 1975."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) of this section shall apply to taxable years beginning after December 31, 1974.

INCREASE IN CORPORATE SURTAX EXEMPTION

SEC. 203. (a) GENERAL RULE.—Section 11(d) (relating to surtax exemption) is amended by striking out "\$25,000" and inserting in lieu thereof "\$100,000".

(b) TECHNICAL AND CONFORMING AMENDMENTS.—



(1) Paragraph (1) of section 1561(a) (as in effect for taxable years beginning after December 31, 1974) (relating to limitations on certain multiple tax benefits in the case of certain controlled corporations) is amended by striking out "\$25,000" and inserting in lieu thereof "\$100,000".

(2) Paragraph (7) of section 12 (relating to cross references for tax on corporations) is amended by striking out "\$25,000" and inserting in lieu thereof "\$100,000".

(3) Section 962(c) (relating to surtax exemption for individuals electing to be subject to tax at corporate rates) is amended by striking out "\$25,000" and inserting in lieu thereof "\$100,000".

(c) EFFECTIVE DATE.—The amendments made by subsection (a) of this section shall apply to taxable years beginning after December 31, 1974.

TAXABLE YEAR PRICE-LEVEL ADJUSTMENTS IN PROPERTY

SEC. 204. Section 1016(a) of the Internal Revenue Code of 1954 (relating to adjustments to basis) is amended—

(1) by striking out the period at the end of paragraph (22) and inserting in lieu thereof a semicolon; and

(2) by adding at the end thereof the following new paragraph:

"(23) in respect to any period after December 31, 1974, before making any other adjustments of basis under this subsection, for an amount which is equal to the difference between—

"(A) the basis of the property, as determined under section 1011, before adjustment under this section, multiplied by the ratio which the prices index (average over a taxable year of the Consumer Price Index (all items—United States city average) published monthly by the Bureau of Labor Statistics) for the taxable year in which the property is sold or otherwise disposed bears to the price index for the taxable year in which the property was acquired, or for the calendar year 1974, whichever is later, and

"(B) the basis of the property as determined under section 1011 before adjustment under this section."

INCREASE IN CLASS LIFE VARIANCE FOR PURPOSES OF DEPRECIATION

SEC. 205. (a) IN GENERAL.—Section 167 (m) (1) of the Internal Revenue Code of 1954 (relating to class lives for purposes of depreciation) is amended by striking out "20" and inserting in lieu thereof "40".

(b) EFFECTIVE DATE.—The amendment made by this section applies to property acquired or the construction of which is begun after December 31, 1974.

ALTERNATIVE AMORTIZATION PERIOD FOR POLLUTION CONTROL FACILITIES

SEC. 206. (a) IN GENERAL.—Section 169 of the Internal Revenue Code of 1954 (relating to amortization of pollution control facilities) is amended by—

(1) striking out "60 months" in subsection (a) and inserting in lieu thereof "60 months or 12 months",

(2) striking out "60-month period" in subsection (a) and inserting in lieu thereof "60-month or 12-month period", and

(3) striking out "60-month period" in subsection (b) and inserting in lieu thereof "60-month or 12-month period".

(b) EFFECTIVE DATE.—The amendments made by this section apply to any new identifiable treatment facility (as defined in section 169(d)(4) of such Code) acquired or the construction, reconstruction, or erection of which is begun after December 31, 1974.

TITLE III—EMPLOYEE STOCK OWNERSHIP PLAN FINANCING

EMPLOYEE STOCK OWNERSHIP PLAN FINANCING

SEC. 301. (a) The Internal Revenue Code of 1954 is amended by adding the following new section 416 at the end of subpart B of part I of subchapter D of chapter 1:

"SEC. 416. EMPLOYEE STOCK OWNERSHIP PLAN FINANCING.

"(a) DEFINITIONS.—

"(1) 'Employee stock ownership plan' means a technique of corporate finance described in section 4975(e)(7) that utilizes stock bonus plans, or stock bonus plans coupled with money purchase pension plans, which satisfy the requirements of section 401(a) and are designed—

"(A) to invest primarily in qualifying employer securities;

"(B) to meet general financing requirements of a corporation, including capital growth and transfers in the ownership of corporate stock;

"(C) to build into employees beneficial ownership of qualifying employer securities;

"(D) to receive loans or other extensions of credit to acquire qualifying employer securities, with such loans and credit secured primarily by a commitment by the employer to make future payments to the plan in amounts sufficient to enable such loans and interest thereon to be repaid; and

"(E) to limit the liability of the plan for repayment of any such loan to payments received from the employer and to qualifying employer securities, and dividends thereon, acquired with the proceeds of such loan, to the extent such loan is not yet repaid.

"(2) For purposes of this section, the term 'employer securities' means securities issued by the employer corporation, or by an affiliate of such employer.

"(3) For purposes of this section, the term 'qualifying employer securities' means common stock, or securities convertible into common stock, issued by the employer corporation, or by an affiliate of such employer.

"(b) SPECIAL DEDUCTIONS.—

"(1) In addition to the deductions provided under section 404(a), there shall be allowed as a deduction to an employer the amount of any dividend paid by such employer during the taxable year with respect to employer securities, provided—

"(A) such employer securities were held on the record date for such dividend by an employee stock ownership plan; and

"(B) the dividend received by such plan is distributed, not later than 60 days after the close of the plan year in which it is received, to the employees participating in the plan, in accordance with the plan provisions; or

"(C) the dividend received by such plan is applied, not later than 60 days after the close of the taxable year, to the payment of acquisition indebtedness (including interest) incurred by the plan for the purchase of qualifying employer securities.

"(2) Notwithstanding the limitations of section 404(a), there shall be allowed as a deduction to an employer the amount of any contributions paid on account of a taxable year (as described in section 404(a)(6)) to an employee stock ownership plan, provided such contributions are applied to the payment of acquisition indebtedness (including interest) incurred by the plan for the purchase of qualifying employer securities.

"(3) For purposes of sections 170(b)(1), 642(c), 2055(a) and 2522, a contribution, bequest or similar transfer of employer securities or other property to an employee stock ownership plan shall be deemed a charitable contribution to an organization described in section 170(b)(1)(A)(iv), provided—

"(A) such contribution, bequest or transfer is allocated, pursuant to the terms of such plan, to the employees participating under the plan in a manner consistent with section 401(a)(4);

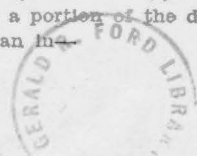
"(B) no part of such contribution, bequest or transfer is allocated under the plan for the benefit of the taxpayer (or decedent), or any person related to the taxpayer (or decedent) under the provisions of section 267(b), or any other person who owns more than 25 percent in value of any class of outstanding employer securities under the provisions of section 318(a); and

"(C) such contribution, bequest or transfer is made only with the express approval of such employee stock ownership plan.

"(c) TREATMENT OF PARTICIPANTS.—

"(1) Qualifying employer securities acquired by an employee stock ownership plan through acquisition indebtedness incurred by the plan in connection with the financing of capital requirements of the employer corporation or its affiliates must be allocated to the accounts of the participating employees to the extent that contributions and dividends received by the plan are applied to the payment of such acquisition indebtedness (including interest), in accordance with the terms of the plan and in a manner consistent with section 401(a)(4).

"(2) Upon retirement, death or other separation from service, an employee participating under an employee stock ownership plan (or his beneficiary, in the event of death) will be entitled to a distribution of his nonforfeitable interest under the plan in employer securities of other investments allocated to his account, in accordance with the provisions of such plan. If the plan so provides, the employee (or beneficiary) may elect to receive all or a portion of the distribution from the plan in—



"(A) employer securities, other than qualifying employer securities;

"(B) cash;

"(C) a diversified portfolio of securities;

"(D) a nontransferable annuity contracts;

or

"(E) any combination of the above.

"(3) An employee stock ownership plan may provide for the required repurchase of qualifying employer securities from an individual receiving a distribution thereof if all other such outstanding employer securities, whether or not acquired through the plan, are subject to repurchase from nonemployee shareholders under similar circumstances.

"(4) Upon receipt of a lump sum distribution, as described in section 402(e) (4) (A), from an employee stock ownership plan, an individual may exclude from gross income that part of the distribution which consists of employer securities or other assets if income producing, held or reinvested within 60 days in income-producing assets of equivalent value, for the purpose of providing that individual with dividends or other forms of realized current income from such assets. Upon subsequent sale or disposition of any employer securities or other assets distributed by an employee stock ownership plan, to the extent that proceeds realized from such sale or disposition are not reinvested within 60 days in income producing assets, the total amount of such proceeds (or the fair market value of any such securities or assets that are transferred without adequate

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consideration) shall be treated as ordinary income to the individual.

"(5) An employee receiving a distribution under paragraph (b) (1) (B) of this section shall be subject to taxation under section 402(a) (1), and the provisions of section 116 shall not apply to such distribution.

"(6) A contribution by an employer which is deductible under paragraph (b) (2) of this section, or a contribution described in paragraph (b) (3) of this section, shall not be included in the meaning of annual addition under section 415(c) (2).

"(7) No contribution to an employee stock ownership plan may be allocated for the benefit of any participant if the value of the total accumulation of employer securities and other investments under the plan for the benefit of that participant equals or exceeds \$500,000, less the amount of any such accumulation for that participant under any other employee stock ownership plans.

"(d) SPECIAL PROVISIONS.—

"(1) The acquisition or holding of qualifying employer securities and the incurring of acquisition indebtedness by an employee stock ownership plan shall be deemed to satisfy the requirements of section 404(a) (1) of the Employee Retirement Income Security Act of 1974 provided that—

"(A) the requirements of sections 408(b) (3) and 408(e) of such Act are satisfied; and

"(B) the same standards of prudence and fiduciary responsibility that corporate management must exercise with respect to its shareholders are satisfied.

"(2) Upon application by an employee

stock ownership plan, the Secretary of the Treasury or his delegate shall issue an advance opinion as to whether a proposed transaction involving that employee stock ownership plan will satisfy all the requirements described in paragraph (1) of this subsection, and any such opinion shall be binding upon the Secretary."

(b) Payments by an employer to an employee stock ownership plan as defined in section 416(a) (1) of the Internal Revenue Code of 1954, of the purpose of enabling such plan to pay acquisition indebtedness incurred for the purchase of qualifying employer securities or other contributions to such plan shall not be treated as compensation, fringe benefits, or deferred compensation payments for the purposes of any laws, Executive orders, or regulations designed to control, establish guidelines, or otherwise stabilize employee compensation or benefits, but shall be treated as the equivalent of debt service payments made in the normal course of financing the capital requirements of that employer.

Mr. Speaker, if we are to preserve economic freedom in our society—and there cannot long exist any type of freedom without economic freedom—then we must begin now to reduce the overwhelming burden of taxes placed on our Nation's productive capacity. This bill is the crucial first major step in that direction. If we truly cherish individual freedom of choice in the economic lives of the people, we will enact this bill and do so very soon.