I will always Back the Blue.
Sincerely Yours,

RUTH MAHL,
Executive Director, Helping Hands Lifeline Foundation.

LEGISLATIVE BRANCH FUNDING BILL

HON. RON PACKARD

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, June 13, 1995

Mr. PACKARD. Mr. Speaker, last week the Legislative Branch Subcommittee, which I chair, slashed $155 million in an unopposed bill. And that is just the beginning. If every other Government agency cut themselves back like we did, we would be three-quarters down, $133 billion, the road toward a balanced budget in 1 year—never mind the year 2002. We have set the standard and now it's up to the other branches of Government to do their part.

We must make Congress work better and at less cost to the taxpayer. To that end, we have defunded certain items, looking toward privatizing them, eliminated others which were redundant, reduced those which were bloated and recommended innovative ways to move Congress into the 21st century. The bill is structured to allow for privatizing many of the constituent related services including congressionally flown flags, historical calendars, and some mailing operations. We also eliminated redundant agencies and services. Among them, the Office of Technology Assessment [OTA], the Joint Committee on Printing, one House parking lot, funding for the barber and beauty shops and the House restaurants. And remaining agencies have all been held at fiscal year 1995 levels or have been reduced greatly.

This bill does what we said we would do last November. We are downsizing Government, making it work better for less. I ask that my colleagues support this effort.

WHEN INSURANCE TAX BACKFIRED, CONGRESS PASSED THE BUCK

HON. BOB FILNER

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, June 13, 1995

Mr. FILNER. Mr. Speaker, newspapers across the country last week reported a story that this Congress and the Clinton administration have known for several years—the Federal Government is losing almost $2 billion annually because of a flaw in the tax policy. The analysis, prepared by a team of investigative reporters from the Associated Press [AP], concluded that a powerful political lobby has succeeded in blocking all attempts to close this unintended loophole. I ask unanimous consent to reproduce this report in the CONGRESSIONAL RECORD.

The political lobby cited by the AP story is the mutual life insurance industry. The industry says they have been assured by Ways and Means Chairman Bill Archer, according to AP, that Congress isn't ''looking to advance anything.''

At a time when Congress is supposedly examining every program for possible cutbacks and savings, we should not put any spending item—including unintended tax loopholes—off limits from scrutiny. My colleagues should be aware that Senator BOB DOLE recently stated on ''Meet the Press'' that closing loopholes is not considered a tax increase—but merely a correction.

The unintended loophole in Federal tax policy identified by the AP story in section 809, a provision included in 1984 amendments to the U.S. Tax Code. The Ways and Means Committee acknowledged in 1989 that section 809 had backfired and tried to fix the problem. As reported by AP, ''After months of hearings and debate, lawmakers caved to the insurance lobby, with—the committee—asking the industry to devise its own tax plan.'' No industry recommendations have been forthcoming.

My own investigations suggest the yearly loss of revenues from section 809 is nearly $2 billion, a staggering amount of money. Rather than cut food programs for school children and hungry families, Congress should use these funds to reduce the Federal deficit.

Representative HELEN CHENOWETH and I have introduced legislation, H.R. 1497, to repeal section 809, a bill to restore tax fairness and close an unintended loophole. The Congress is proposing to ask every American to share in the effort to control spending, and to share the pain from downsizing the Federal Government. Everyone should be expected to contribute to this effort, including mutual life insurance companies which now escape their fair share of the tax burden.

Mr. Speaker, the independent voice of the Associated Press has revealed in this article that this $2 billion loophole exists and is being used by a handful of the country's largest mutual insurance companies. I hope the Ways and Means Committee will hold hearings on this situation and approve the legislation Congresswoman CHENOWETH and I have proposed to correct it.

Because no other major media outlet has delved into this national scandal, the AP story is reprinted below:

WHEN INSURANCE TAX BACKFIRED, CONGRESS PASSED BUCK

(By David Morris and John Solomon)

WASHINGTON.—Congressman BOB FILNER wants to put billions of extra dollars in the U.S. Treasury, but he is having trouble finding people to take up his cause.

The California Democrat has introduced legislation designed to close a loophole in federal tax law that allows mutual life insurance companies to avoid paying at least $1 billion in additional taxes each year. The legislation, similar to his bill that stalled in the last session of Congress, appears likely to be blocked again by the politically savvy insurance lobby.

The problem is not new. For six years, top officials in Congress and at the White House have known that an earlier law intended to increase taxes on the mutual companies backfired. Instead of raising additional tax dollars, documents obtained by The Associated Press show the 1984 law unwittingly gave mutual companies a new deduction that wiped out most of the intended increase.

''We compromised away too much,'' said Rep. Pete Stark, D-Calif., a frequent critic of the insurance industry and an architect of the 1984 plan. Accounting studies show the mutual insurance companies which include such insurance giants as Prudential and Metropolitan Life, pay taxes at half the rate of stockholder-owned insurers 10.8 percent versus 22 percent. The disparity was supposed to be corrected through an additional tax on the mutuals, which are owned by their policyholders. The catch came in a provision of the 1984 formula that allowed the mutuals to deduct capital gains.

Congress expected the deduction to be minimal, since mutuals had reported less than $100 million in capital gains between 1979 and 1984. But the mutuals changed their accounting, declaring nearly $15 billion in capital gains over the next five years. With encouragement from the Bush administration, Congress tried to fix the problem in 1989. But after months of hearings and debate, lawmakers caved to the insurance lobby, with then-House Ways and Means Committee Chairman Dan Rostenkowski asking the industry to devise its own tax plan.

That, Stark scolded, ''was like putting them on a steak and ice cream diet and telling them to get their cholesterol and fat down.'' The industry convened a study group, but eventually abandoned the effort.

Filner's bill also appears unlikely to solve the problem. He has only one co-sponsor, while the mutual industry apparently has locked up a powerful commitment to keep the bill back. Carroll Campbell, a former South Carolina governor who now heads the American Council of life Insurance, said he recently received assurances from Republican Ways and Means Chairman Bill Archer that bills to raise taxes were ''non-starters.''

Archer declined an interview. Ted Groom, a spokesman for the mutual side of the industry, said the system is already unfair. He contends that changing the law to collect more taxes would drive mutual companies out of business. ''We are currently overtaxed,' he said in an interview.

Still, study after study by independent agencies has shown that the 1984 law backfired, and that giant mutual companies were benefiting the most. One 1989 Treasury Department study said the law was supposed to generate $5.2 billion from the mutual insurance industry from 1984 to 1986, but had fallen $2.4 billion short. Other estimates put the shortfall as high as $2 billion a year.

Most large mutual companies have entirely offset the amount of new taxes they were supposed to pay. Some even claim the formula left them with a negative tax bill, and one company has sued to get the money back from the government. The government's expert witness in that case estimates that if the company wins, mutual companies could get refunds of up to $5 billion.

For years, the mutual companies have argued that the official figures indicating they were paying a low tax rate were erroneous. But they have failed to offer proof. This year, the industry apparently changed its tack, acknowledging the 809 section worked in its favor in the early years. But mutual companies also point to a 1995 analysis by Moody's Investors Service, which predicts the industry will see a sharp increase in taxes this year because a poor year gave them fewer capital gains to deduct.

Girding for a new fight in Congress, insurers donated an estimated $25 million to the national parties and congressional candidates in the past two elections. They also have hired some of the most powerful lobbyists in Washington, including Thomas J. Downey, a former member of the House Ways and Means Committee.

As the lobbyists lined up in opposition, Filner tried to get help from the Clinton administration, which has declared war on ''corporate welfare.'' But the administration has refused to take a position on the tax measure.