

incentive to minimize their U.S.-based income, and therefore their U.S. taxes. Therefore, they shift income away from the United States and shift tax-deductible expenses into the United States. Plain and simple, it's cooking the books, shifting costs from one part of the company to another for tax purposes, or transfer pricing.

IBM, for example, was fortunate enough to accumulate \$25 billion in U.S. sales in 1987. That same year, its 1987 annual report stated that one third of its worldwide profits were earned by its U.S. operations. Clearly, its U.S. operations appeared profitable and successful. Yet, its tax return reported almost no U.S. earnings.

A recent study asserts that transfer pricing could cost as much as \$35 to \$40 billion annually. The Multi-State Tax Commission has stated that it is at least a \$2 billion a year problem, and that only includes foreign-based companies doing business in the United States. And there are far more U.S.-based companies with foreign operations than foreign-based companies with U.S. operations.

And this is not the result of tax policy that is intended to spur U.S. investment. In contrast, it is revenue lost directly as a result of multinational companies fixing the books to minimize their U.S. tax liability.

This is not a new problem with which we are dealing. To the contrary, we have been trying to close this loophole for almost 20 years. Back in 1978, when we debated the United States-United Kingdom tax treaty, we spent a substantial amount of time on this issue. We knew then, as we know now, that it was a loophole that necessitated action. The only difference now is that it is a much bigger problem, more pervasive, and more costly to the Federal Treasury.

States have responded to this problem by requiring companies to proportion their costs and profits according to employees, payroll, and other standards. We can do the same.

And even more troubling is the fact that this is not a single loophole that exists by itself for multinational corporations. There are others, such as tax credits provided to U.S. companies for tax payments made to foreign countries by their subsidiaries, or tax deferrals for U.S. companies on income of foreign operations that are not repatriated to this country.

Title passage—\$16 billion over 7 years: Another tax loophole for multinational corporations is the so-called inventory property sales source rule. Large multinational exporting corporations are able to sell goods abroad and avoid U.S. taxes through some fancy footwork during the export process. This provision allows multinational corporations to shift sales to overseas operations, eliminating taxation in this country.

This loophole was closed by both the House and the Senate in the 1986 tax reform process, but was reopened in

conference. Treasury has estimated that if we eliminated it altogether, as we tried to do in 1986, we would generate as much as \$16 billion.

Let's look at an example. Company X is shipping out some products to a foreign country. Under normal circumstances, that shipment would pay taxes to the United States. But under a special rule, that company passes title to the products out on the high seas, thereby avoiding all Federal taxes. This is equivalent to a tax exemption that disproportionately benefits upper income individuals.

Some people will say that we are taking steps that will hurt exports and the expansion of our markets that can create new jobs for the economy. But we are only closing an unnecessary loophole that is prevalent because companies are willing to pass title of property in the middle of the Atlantic and Pacific Oceans.

Foreign sales corporations—\$9.4 billion over 7 years: An additional tax break is provided to companies through paper transactions. It is called the foreign sales corporation loophole, and provides exporters with the opportunity to exempt a portion of their export income from U.S. taxation.

A company does not have to increase its export activity, increase its payroll, or even increase its own production in the United States. It only has to set up a foreign sales corporation on paper. It can then exempt up to 30 percent of its export income from taxes. The Joint Tax Committee estimates that the closure of this loophole would raise \$9.4 billion in new revenue over the 7-year budget period.

Capital gains tax reduction: Whether we agree or disagree about its merits, do any of us really believe that it should be retroactive to January 1, 1995?

Is that fair? To give new tax breaks to wealthy individuals retroactively while we also cut important programs for our working families?

Billionaires' loophole: We still haven't closed the so-called billionaires' loophole. On April 6, we voted 96-4 to close it up tight, and the Senate Finance Committee has closed it twice now. But every time it goes to conference, it gets opened up.

This is a tax loophole that exists for billionaires who renounce their American citizenship to avoid millions and even billions of dollars in taxes on income, capital gains, gifts, and estates.

The law would not prevent individuals from shifting both their assets and their citizenship to a foreign country. Rather, it would just make sure that those who have amassed great wealth through the U.S. economic system pay their fair share of taxes.

Last year, approximately 850 individuals renounced their citizenship, but only a handful of those would be affected by this legislation. The tax loophole only applies to those with a minimum \$600,000 in unrealized gains, which generally would necessitate a mini-

mum \$5 million net worth. All those without that level of liability can renounce their citizenship without the IRS ever questioning their motives.

This loophole allows an individual to enjoy all the benefits of the United States, including its stature as an economic engine for the world, grow rich because of it, and then expatriate without being taxed on the wealth generated in this country. This tax break costs the taxpayers \$3.6 billion over 10 years.

It is not even a slap on the wrist. It is barely enough to close the loophole that permits American billionaires to renounce their citizenship and take up their residency overseas in order to escape American taxes.

Unbelievable. We passed the amendment here on the floor of the U.S. Senate by over 90 votes, saying: When you go to the conference on those budgets, pull that Benedict Arnold proposal out of that budget.

Those doors were not even closed over there when out it came again, right out again. No wonder the President vetoed that particular budget. Who wants to be associated with saying to a superwealthy American, "Renounce your citizenship and escape all the taxes for the moneys you have earned in the United States"? That provision is still in there.

The PRESIDING OFFICER. The time of the Senator has expired.

The Senator from Mississippi.

WHO SPEAKS FOR THE TAXPAYER?

Mr. LOTT. Mr. President, I will be brief because I have spoken earlier. I see there is another Senator wishing to speak. But I would like to respond directly to some of the comments just made with regard to taxes. I will hold it down. We are trying to go back and forth.

Mr. President, there is a lot of complaining about tax cuts in the budget negotiations. I ask the question again, who, here, is going to speak for the taxpayers of America? There are a lot of Americans out there getting up every morning at 5 o'clock, going to work, pulling their share of the load, paying taxes. They think a little more fairness in the Tax Code, a little incentive to save, a little incentive for growth in the economy to create jobs is a good idea. Everybody around here seems to be worried about this program or that program, this welfare program, that program. What about the people who are paying the taxes on all these programs? Why do they not get a little help?

As I understand it, one of the points that was indirectly referred to was the earned income tax credit. I do not know much about what has been going on in the budget negotiations at the White House, but I understand that is one area where they are very close to agreement.

Mr. KENNEDY. Will the Senator yield on that point?

Mr. LOTT. The earned income tax credit program is one that most of us have supported in the past. The problem has been it has exploded, like so many Federal programs. Now, I understand, people who have an income of up to \$30,000 a year are getting a tax credit. We are not saying eliminate it. We are not saying wipe it out. We are saying control the explosive growth, make sure it is applicable and provided to those who are at the low-income, entry level, and not begin to move it on up into the beginnings of middle-income people.

Another point, let us talk about the specifics of the tax proposals. I have asked this question here on the floor and nobody has really responded to it.

Mr. KENNEDY. Could I ask the Senator this question, why is the Senator—

Mr. LOTT. Mr. President, I yield for a question.

Mr. KENNEDY. Why is the Senator so concerned about providing some offset for the EITC program, for the increases in the Social Security and the excise taxes and other FICA taxes, for families that are making \$30,000, yet so unwilling to try to provide also some belt tightening for those who are making \$400,000? I have not heard the Senator talk about that. I am stunned by his silence. I am sure he is going to address that issue. That is what this is about.

Mr. LOTT addressed the Chair.

The PRESIDING OFFICER. The time belongs to the Senator from Mississippi.

Mr. LOTT. I would ask this of the Senator, is he opposed to eliminating the marriage penalty in the Tax Code? For years we have talked about the unfairness of the marriage penalty. That is one of the things we propose to eliminate, and it is not cheap. It costs a good bit of money. Why should a couple living apart pay more when they get married, under the Tax Code, even though they are making the same money?

Who among us opposes the option of the spousal IRA, the spouse working in the home being able to have an individual retirement account? I do not think anybody is opposed to that. Most of us would like to see the IRA expanded because we would like to encourage savings. When we had the individual retirement account provisions in the 1980's it worked. It encouraged people to save. Part of what is going on in these negotiations would allow for an expansion of IRA and then allow it to be used for education and for medical purposes. I think those are good ideas.

And should we not allow for changes in the estate taxes so people who have small farms and small businesses do not wind up having to sell the farms that have been in their families for years to pay for the estate taxes—how in the world did we ever get in a position of taxing death, anyway? I think most American people would like to receive some relief there, whether they are wealthy or poor, frankly.

Also, you want to help families, a family of four? How about helping them by allowing them to keep a little of their own money with a tax credit for children? We are trying to encourage and help families with children provide for their own needs, and not everybody just look to the Federal Government to do it for them.

Yes, the capital gains tax rate cut. This is something most people will acknowledge, if it is done properly, will encourage growth in the economy and the creation of jobs. Even the President has said as much. He has said that if other tax provisions can be worked out, and the spending disagreements can be worked out, that this is something that he could support.

So it is one thing to bash the tax cuts en bloc, but when you take it apart and look at what is in the package that passed the Congress overwhelmingly, there is an awful lot of good in there. I hope it will remain in the final package.

Maybe the magic number is not 240 or 245, maybe it is less than that. But I think we need to look at the specifics of what we are trying to do and who we are trying to help in the economy. If we need to make changes to make sure it is directed more to the middle-income families, fine. I would support that. I think that is the way the talks will eventually go.

Mr. SARBANES. Will the Senator yield for a question?

Mr. LOTT. Mr. President, before I yield the floor I yield for a question.

Mr. SARBANES. Yesterday AT&T announced they were going to fire 30,000 people. Why in the world would you cut the taxes, in some instances in half, on the CEO's getting the stock options, who are not on their way out the door, and then turn to these fired, these families who have been fired, and say it is going to be harder for you to get a tuition loan to send your son and daughter to college. Or, if they are—

Mr. LOTT. It is not going to be harder for them to get a tuition loan.

Mr. SARBANES. Low-income people, they are not going to get the tax credit.

Mr. LOTT. Everybody who wants to go to college will be able to get a loan or grant or work-study program or scholarship. They will be able to go to college in America.

Mr. SARBANES. Not under the plan you put forward. You are cutting back on that.

You are having senior citizens finding themselves unable to get medical care and, at the same time you are doing all this, you are going to give a big tax break.

Mr. LOTT. Mr. President, I reclaim my time. If the Senator is going to make that kind of statement about what we are going to do, throwing senior citizens off of Medicare, that is just not the case. It is not the intent and it would not be the result.

As a matter of fact, I think the Senator from Maryland knows that in the

alternative budget that has been proposed by the majority in Congress, more money is added back for education. Even these direct loans are being increased.

Mr. KENNEDY. Will the Senator yield on the issue of education?

Mr. LOTT. I still maintain, when you look at the Federal programs we have with the NDSL, the Pell grants, the other grants, the myriad of programs to help people who want to go to college, the money is there for people that need it. The only ones who may not be getting enough help are those in the upper-middle-income category that cannot qualify for the loans or the grants.

Mr. KENNEDY. Mr. President, could I ask, just on that question—

Mr. LOTT. I yield to the Senator from Massachusetts.

Mr. KENNEDY. Why does the Senator, who believes in competition and also in choice, why does he defend the Republican position in insisting that students get their aid and assistance through colleges through the guaranteed loan program, which provides, over the period of the next 7 years, a guaranteed profit of between \$7 and \$9 billion over that period to the banks in this country, rather than letting the college and the student make their choice whether they want that or the direct loan program?

Mr. LOTT. Let the Government do it. That is always the answer. Let the Federal Government become the lender of first resort.

Mr. KENNEDY. Why not let the schools and students choose the loan program that provides the best services at the lowest cost, rather than writing in, as the Republicans have done, an arbitrary cap on direct loans?

Mr. LOTT. Mr. President, I reclaim my time to say this. The answer is always let Uncle Sam give the money, direct the money, loan the money. I say the private sector can do it and they will do a better job of collecting the loans that are owed than the Federal Government. The Federal Government has a terrible record in collecting money that is owed on these loans that have been made.

I say we should have a greater emphasis on loans, as a matter of fact. I have always supported the NDSL Program. But now we are going to a program that, in my opinion, is going to wind up costing a whole lot more and, for a lot of kids in the future who will need that help, the money will not be there to help them.

Mr. President, I yield the floor.

The PRESIDING OFFICER. The Senator from Montana.

THE GOVERNMENT SHUTDOWN

Mr. BAUCUS. Mr. President, we have heard some very interesting comments by the Senator from Mississippi, the Senator from Maryland, and the Senator from Massachusetts, debating what the provisions of the Federal