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# WITHDRAWAL SHEET

## Ronald Reagan Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
letter case 0			
1. notes	re: discussions on budget resolution (1p, partial)	5/6/81	P5
2. notes	re: discussions of budget resolution (1p, partial)	5/6/81	P5
letter case 0			
3. report	re: administration's tax proposals (2pp)	n.d.	P5 6/23/16/00
COLLECTION:  GERGEN, DAVID: Files			smf
FILE LOCATION:  Legislative Strategy <del>Box 94208</del> OA 10529 OA 9421			3/24/94

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

**Freedom of Information Act - [5 U.S.C. 552(b)]**

- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].
- C. Closed in accordance with restrictions contained in donor's deed of gift.

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5/6/81

Wednesday, May 6 (or, more likely, Thursday morning)

- 1) Favorable House Budget Resolution vote (if). (Note: Senate vote not til May 12.) Statement, etc.

*F. by*  
Thursday May 7

- 2) President call in Republican Leadership, CDF leadership, and selected Senate Democratic leadership (those who vote for Budget Resolution) for reception -- to thank re budget, and give message of commitment re battle for "tax cut Americans now expect."
- 3) Leak story that White House has been approached by several key members of Congress (including Democrats) about coming up with a tax accommodation. They would be said to have in mind a bill that would satisfy both supply-siders and "a majority of the Congress as a whole" (i.e., at least a majority in the Senate and a large minority in the House). "The White House" would be said to be "intrigued" by the possibility of supporting a bill that would either (a) be enacted, giving the President a victory; or (b) be passed by the Senate and come close in the House, leaving the House Democratic leadership responsible for the failure to give Americans the tax cut they need and expect. WH public posture would remain "no compromise."
- 4) (a) DS talk to Gramm; (b) DR talk to Hance.  
(c) Get statement from CDF saying they want to work with the Administration for a successful tax bill.

*-1*  
*negotiation →*

*-1*  
*for -*  
*P. at*

*S. +*  
*Shut*

Friday, May 8

- 5) Same as (2) -- but for selected/diverse outside endorsers of budget program.
- 6) (a) P/DR meet with Dole in Oval Office (again). Tell him we really do need 3-year rate cut. Get reaction. Say want to work closely together and to work out strategy together. (b) DR have private follow-up conversation to get more detailed feel.
- 7) P/DR meet with Conable in Oval Office. Same as 6.
- 8) (a) DS talk with Kemp/supply-siders. Keep them from either worrying too much, on one hand, or getting too euphoric on the other. (b) DR/DS also have private, more detailed conversation with Kemp.

- 9) DR meet with Rostenkowski for lunch. Give him sense that we think we can either beat him outright, or put him and House Democratic leadership in position where they're responsible for failure to get a tax bill. Tell him we might be able to talk if we could get 3-year rate cut. Get reactions. Don't yet commit to work together.

Saturday, May 9

- 10) Saturday (or Monday), Legislative Strategy Group meet to review findings and develop (a) acceptable positions and (b) tactical plan for next week -- including decision on composition of negotiating group, as may be indicated.

Week of May 11

[Details to be determined in light of Step 10. Week includes:]

- additional meetings with members of intended negotiating group -- individually -- to prepare them for 1st meeting of negotiating group to be termed something like "leadership consultative group"
- 1st meeting of "leadership consultative group".
- DR testimony before Senate Finance, Thursday, May 14.
- 2nd meeting of "leadership consultative group".

NOTE: Need to determine when House W&M mark-up to take place and whether/how reach agreement before mark-up. [Further note: Recess May 21; W&M Report due June 10.]

	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>
<u>BUILT IN INCREASE</u>			
Bracket Creep	30	55	85
Social Security	22	25	27
Total Built-in Tax Increase	52	80	112
<u>VARIOUS PROPOSED PLANS</u>			
Rosty Cut	(35.0)	(?)	(?)
Jones Cut	(30.5)	(49.5)	(66.4)
Admin Cut	(55.0)	(102.8)	(151.5)
<u>DEFICIT/SAVINGS PROBLEM</u>			
- Admin. Deficit Target	(45)	(22.9)	0.5
- SBC uncertain savings (low estimate)	0	27.5	25.4
- Deficit if half uncertain savings are achieved	(45)	(46.7)	(12.2)
- Possible Admin cut adjusted for 1/2 savings prob. -- holding deficit tgt. constant	(55.0)	(89.0)	(138.8)*

\*NOTE: This is greater than necessary to offset built-in increase and far closer to original admin. than to Jones.

OPTIONS:

- Individual rate cut
- ACRS
- 70-50
- low income
- targeted savings
- marriage
- other
- TOTAL

## Administration's Tax Proposals

If the basic position of the Administration with respect to its tax proposals -- standing firm for 30 percent marginal rate cuts for individuals phased-in over 3 years and the Accelerated Cost Recovery System (ACRS) -- must be altered, the following changes could be accepted without irreparable harm to the economic program.

We could accept an adjustment in the individual rate cuts to a total of 25 percent (rather than 30 percent) beginning January 1, 1982 (rather than July 1, 1981). The individual rate cuts would be 5 percent in 1982, 10 percent in 1983, and 10 percent in 1984. We could also accept any combination of individual rate cuts which would have basically the same effect on marginal rates, and cost approximately the same in lost revenues, over the 3-year period 1982-1984.

We can also accept the following as part of the basic package:

- Immediate reduction of the top rate on unearned income from 70 percent to 50 percent, effective January 1, 1982.
- Immediate reduction of the bottom rate from 14 percent to 10 percent, effective January 1, 1982, followed by further reductions in the bottom rate to 9 percent and then to 8 percent in 1983 and 1984, respectively (to offset the effects of bracket creep and social security increases in the lower end of the income scale).

We would resist the addition of any second bill items to the first bill except those that are to some degree related to the purpose of the Administration's economic package. On this basis we could accept the following:

- 25 percent incremental credit for research and development.
- 50 percent exclusion of foreign earned income, up to \$50,000, with a housing allowance.
- Marriage penalty relief.
- Phased-in increase in the unified estate and gift tax credit.
- Increase in IRA limit; extension of IRA eligibility; and increase in Keogh plan limit.
- \$100,000 dividend paid deduction for small corporations.

Schedule A shows the revenue impact of the above package and compares the revenue impact with the Administration's original proposals.

It should be emphasized that the package described above would be very acceptable to the Republicans and the conservative Democrats on the Ways and Means Committee and would have appeal in varying degrees to the remaining Democrats on the Committee.

We feel the other items that may be proposed by Members of Congress to be part of the first bill must be strongly resisted as inconsistent with the President's economic package. These would include tuition tax credits, charitable deductions for non-itemizers, further reductions in capital gain taxes, a broad range of small business relief proposals, a broad range of targeted savings proposals, and various other miscellaneous tax amendments.

#### Alternative Individual Rate Reduction Proposals

There is attached as Table 2 the revenue impact of the following alternative individual rate reduction proposals:

- ° Reduction of 5 percent, 10 percent and 10 percent commencing July 1, 1981.
- ° Reduction of 10 percent, 10 percent and 10 percent commencing January 1, 1982.
- ° Reduction of 8 percent, 8 percent, and 8 percent commencing January 1, 1982.

#### Rostenkowski and Hance Proposals

Table 3 and Table 4 show the revenue impact of the Rostenkowski and Hance proposals and how they compare to the Administration's original proposals.

Attachments



Table 1

Reduction in Fiscal Year Receipts Resulting  
from Alternative #1 Tax Reduction Program

(\$ billions)

	Fiscal Years						
	:	1981	1982	1983	1984	1985	1986
Across-the-board tax rate reductions of 5 percent on January 1, 1982 with additional reductions of 10 percent on January 1, 1983 and 10 percent on January 1, 1984 .....	--	12.7	47.1	94.6	120.0	137.8	
Lower the bottom marginal tax rate to 10 percent on January 1, 1982, 9 percent on January 1, 1983 and 8 percent on January 1, 1984 .....	--	4.7	7.6	7.3	7.3	7.7	
Lower top rate to 50 percent (January 1, 1982 .....	--	1.7	3.4	1.7	0.8	1.0	
25 percent incremental credit for research and development (July 1, 1981) .....	0.1	0.4	0.5	0.6	0.6	0.6	
Allow a 50 percent exclusion of foreign earned income up to \$50,000 with a housing allowance (January 1, 1982) .....	--	0.2	0.4	0.4	0.4	0.4	
Marriage penalty relief (5 percent exclusion up to \$1,500 in 1982, 10 percent exclusion up to \$3,000 in 1983 and thereafter) (January 1, 1982) .....	--	0.4	4.0	7.2	7.7	8.6	
Phase-in increase in the unified estate and gift tax credit to \$192,800 and increase the annual gift tax exclusion to \$10,000 (January 1, 1982) .....	--	0.1	1.7	2.9	3.9	5.7	
Increase IRA limit to \$2,000 and increase the percentage limit to 100 percent (January 1, 1982).	--	0.1	0.2	0.2	0.2	0.3	
Extend IRA eligibility to covered persons with a \$1,000 limit (January 1, 1982) .....	--	0.1	0.7	1.1	1.3	1.4	
Increase Keogh plan limit to \$15,000 (January 1, 1982) .....	--	*	0.1	0.2	0.2	0.2	
\$100,000 dividend paid deductions for corporations with less than \$1 million of net worth January 1, 1982) .....	--	0.2	0.5	0.5	0.6	0.7	
Total, excluding the depreciation proposal .....	<u>0.1</u>	<u>20.6</u>	<u>66.3</u>	<u>116.6</u>	<u>143.0</u>	<u>164.3</u>	
Administration ACRS proposal (January 1, 1981) .....	2.5	10.6	21.1	33.0	46.4	60.4	
Total .....	<u>2.6</u>	<u>31.2</u>	<u>87.4</u>	<u>149.6</u>	<u>189.4</u>	<u>224.7</u>	

Table 1

Reduction in Fiscal Year Receipts Resulting  
from Alternative #1 Tax Reduction Program

	(\$ billions)					
	Fiscal Years					
	1981	1982	1983	1984	1985	1986
Original Administration Bill:						
Individual tax rate reductions .....	6.4	44.5	81.9	118.9	142.5	163.5
ACRS proposal .....	2.5	10.5	20.9	32.7	46.1	60.2
Total .....	<u>8.9</u>	<u>55.0</u>	<u>102.8</u>	<u>151.5</u>	<u>188.6</u>	<u>223.7</u>
Cost of original Administration Bill in excess of the Alternative Proposal .....	6.3	23.9	15.4	1.9	-0.8	-1.0
		25.4	23.6	25.2		

Office of the Secretary of the Treasury  
Office of Tax Analysis

May 6, 1981

\*Less than \$50 million.

Table 2

Reduction in Fiscal Year Receipts  
from Alternative Tax Rate Reduction Proposals

	(\$ billions)					
	Fiscal Years					
	1981	1982	1983	1984	1985	1986
<b>Alternative A:</b>						
Across-the-board tax rate reductions of 5 percent on July 1, 1981 with additional reductions of 10 percent on July 1, 1982, and 10 percent on July 1, 1983 .....	3.2	26.2	64.0	103.4	120.0	137.8
Reduce bottom marginal rate to 12 percent on January 1, 1981, 10 percent on January 1, 1982, 9 percent on January 1, 1983, and 8 percent on January 1, 1984 .....	1.0	3.2	4.0	8.6	7.3	7.7
Reduce top marginal rate to 60 percent effective January 1, 1981 and 50 percent January 1, 1982 and thereafter .....	<u>0.2</u>	<u>2.1</u>	<u>2.2</u>	<u>1.1</u>	<u>0.8</u>	<u>1.0</u>
Total .....	4.4	31.5	70.2	113.1	128.1	146.5
<b>Alternative B:</b>						
Across-the-board tax rate reductions of 10 percent on January 1, 1982 with additional reductions of 10 percent on January 1, 1983, and 10 percent on January 1, 1984 .....	--	26.8	64.1	113.1	142.5	163.5
Reduce bottom marginal rate to 10 percent on January 1, 1982, 9 percent on January 1, 1983, and 8 percent on January 1, 1984 .....	--	2.9	5.0	4.5	4.4	4.6
Reduce top marginal rate to 50 percent effective January 1, 1982 .....	<u>--</u>	<u>1.1</u>	<u>2.2</u>	<u>0.7</u>	<u>--</u>	<u>--</u>
Total .....	--	30.8	71.3	118.3	146.9	168.1
<b>Alternative C:</b>						
Across-the-board tax rate reduction of 8 percent on January 1, 1982 with additional reductions of 8 percent on January 1, 1983, and 8 percent on July 1, 1984 .....	--	20.8	54.0	95.0	118.5	136.0
Reduce bottom marginal rate to 10 percent on January 1, 1982, 9 percent on January 1, 1983, and 8 percent on January 1, 1984 .....	--	4.7	6.7	7.0	7.3	7.7
Reduce top marginal rate to 50 percent effective January 1, 1982 .....	<u>--</u>	<u>1.3</u>	<u>2.8</u>	<u>1.6</u>	<u>1.0</u>	<u>1.4</u>
Total .....	--	26.8	63.5	103.6	126.8	145.1

Table 3

Reduction in Fiscal Year Receipts Resulting  
from the Hance Alternative Tax Program

	(\$ billions)					
	Fiscal Years					
	:	:	:	:	:	:
	1981	1982	1983	1984	1985	1986
Across-the-board tax rate reductions of 5 percent on January 1, 1982 with additional reductions of 10 percent on January 1, 1983, and 10 percent on January 1, 1984 .....	--	12.7	47.1	94.6	120.0	137.8
Reduce the top marginal tax rate to 50 percent (January 1, 1982) .....	--	1.7	3.4	1.7	0.8	1.0
Increase the capital gain exclusion to 70 percent and lower the top rate of the alternative minimum tax to 15 percent (January 1, 1982) .....	--	*	1.6	2.8	3.6	4.0
Phased-in increase in the unified estate and gift tax credit to \$192,800 and increase the annual gift tax exclusion to \$10,000 (January 1, 1982) .....	--	0.1	1.7	2.9	3.9	5.7
25 percent incremental credit for research and development (July 1, 1981) .....	0.1	0.4	0.5	0.6	0.6	0.6
Total, excluding the depreciation proposal .....	<u>0.1</u>	<u>14.8</u>	<u>54.4</u>	<u>102.6</u>	<u>128.9</u>	<u>149.0</u>
Administration ACRS proposal adjusted to place nonresidential structures at 15 years straight line (January 1, 1981) .....	2.4	9.8	19.4	30.0	41.7	53.5
Total .....	<u>2.4</u>	<u>24.7</u>	<u>73.8</u>	<u>132.6</u>	<u>170.6</u>	<u>202.4</u>
Original Administration Bill:						
Individual tax rate reductions .....	6.4	44.5	81.9	118.9	142.5	163.5
ACRS proposal .....	<u>2.5</u>	<u>10.5</u>	<u>20.9</u>	<u>32.7</u>	<u>46.1</u>	<u>60.2</u>
Total .....	<u>8.9</u>	<u>55.0</u>	<u>102.8</u>	<u>151.5</u>	<u>188.6</u>	<u>223.7</u>
Cost of original Administration Bill in excess of Alternative Proposal .....	6.5	30.3	29.0	18.9	17.9	21.3

Office of the Secretary of the Treasury  
Office of Tax Analysis

May 6, 1981

\*Less than \$50 million.

Note: Details may not add to totals due to rounding.

Table 4

Reduction in Fiscal Year 1982 Receipts Resulting  
from the Rostenkowski Tax Reduction Proposal

(\$ billions)	
	: Fiscal Year
	: 1982
Reduce marginal tax rates and/or widen taxable income brackets (July 1, 1981).	21.5
Reduce top marginal tax rate to 60 percent on January 1, 1981 and 50 percent thereafter .....	2.1
Reduce marriage penalty (January 1, 1982) .....	0.4
Increase zero bracket amount and liberalize earned income credit (July 1, 1981)	4.0
Increase IRA limit to \$2,000 and increase the percentage limit to 100 percent (January 1, 1982) .....	0.1
Extend IRA eligibility to covered persons with a \$1,000 limit (January 1, 1982)	0.1
Increase Keogh plan limit to \$15,000 (January 1, 1982) .....	*
Dividend reinvestment plan for public utilities (January 1, 1982) .....	0.3
Tax credit for rehabilitated structures (January 1, 1982) .....	0.3
Liberalize the exclusion for foreign earned income (January 1, 1982) .....	0.2
Tax credit for incremental research and development (July 1, 1981) .....	0.4
Lengthen carryback period for unused investment tax credits (January 1, 1982).	0.1
Total, excluding depreciation proposal .....	<u>29.5</u>
Depreciation proposal .....	10.5
Total .....	<u>40.0</u>
Original Administration Bill:	
Individual tax rate reductions .....	44.5
ACRS proposal .....	<u>10.5</u>
Total .....	55.0
Cost of Administration Bill in excess of Alternative Proposal .....	15.0

Office of the Secretary of the Treasury  
Office of Tax Analysis

May 6, 1981

\*Less than \$50 million.

Note: Revenue estimates are rough approximations. Specific details on the program are not available.