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Box: 3

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

February 26, 1981

Economic Package

TO: Elizabeth Dole

FROM: Bob Bonitati

RE: Tomorrow's Press Conference by Coalition for the Fiscal Year 1982 Budget

Thelma Duggin and I have tried to gather information on the press conference scheduled for tomorrow by the Coalition on the Fiscal Year 1982 Budget. Here's what we have been able to find out:

1. The Coalition on the Fiscal Year 1982 Budget is being spearheaded by the Americans for Democratic Action and the AFL-CIO.

2. The Coalition appears to be a reassemblage of a similar coalition that was formed in 1980 to fight budget cuts proposed by President Carter.

3. The Coalition includes about 120 groups and organizations (see attached membership list).

4. The Coalition will be meeting tomorrow and has scheduled a press conference at the AFL-CIO building at 11:00 AM. Participants will be Lane Kirkland, Monsignor Higgins, Dick Hatcher and about eight other representatives of the NAACP, the ADA, the Urban League and the National Women's Political Caucus.

5. Based on the rhetoric of their initial press release, we can expect the Coalition to criticize the President's budget proposal as "reactionary," attacking the poor and benefitting the rich.

In light of the short time available, I would suggest the following:

1. Alert the Press Office as they will probably be called for some reaction.

2. Suggest that the Press Office treat the Coalition Announcement as one that was "expected" using the opportunity to emphasize the positive aspects of the program.

3. Try to get three or four spokesmen who broadly represent some of the constituencies in the Coalition to simultaneously issue statements that support the President's program. Hopefully, the statements can provide some of the "balance" that will be sought by the media.

Americans for Democratic Action
1411 K Street, N.W.
Suite 850
Washington, D.C. 20005
202/638-6447

February 1981

COALITION ON THE FEDERAL BUDGET MEMBERS

American Assoc. of Univ. Women
ACLU
American Council on Education
ACTWU
AFL-CIO
AFSCME
American Friends Service Committee
AFT
American Jewish Committee
American Nursing Association
Anti-Defamation League
B'nai B'rith
B'nai B'rith Women
Campaign for Housing
Center for Community Change
Center for National Policy Review
Center for Theology and Public Policy
Children's Defense Fund
Children's Foundation
Coalition for a New Foreign and Military Policy
Coalition for Health Funding
Coalition for Water Project Review
Committee on Urban Program Universities
Communications Workers of America
Conf./Alt. State & Local Policies
Conference of Mayors
Congress Watch
Congressional Black Caucus
Consumer Federation of America
Council of Churches
Council for A Livable World
Environmental Action Foundation
Environmental Defense Fund
Environmental Policy Center
Environmentalists for Full Employment
Epilepsy Foundation
Federal Organization of Professional Women
Food Research Action Council
Friends Committee on National Legislation
Full Employmennt Action Council
Gray Panthers
Hispanic Housing Coalition
Housing Assistance Council
Human Environment Center
ILGWU
Industrial Union Department, AFL-CIO
Internationnal Association of Machinists
I.U.E.
IVI/ADA
Japanese American Citizens League
Leadership Conference on Civil Rights
League of Women Voters
NAACP
National Association for Economic Alternative
National Association of Farmworkers Org.
National Association of Housing Co-ops
National Association of Neighborhoods
National Association of Retarded Citizens
National Association of Social Workers
National Association of State Universities and Land Grant Colleges

--------over

National Caucus on the Black Aged
National Center for Appropriate Tech.
National Coalition Against Domestic Violence
National Community Action Agency
National Conference of Catholic Charities
National Consumer Law Center
National Council of Churches
National Council of Jewish Women
National Council of La Raza
National Council of Senior Citizens
National Conference on State Legislatures
National Education Association
National Employment Law Project
National Farmers Union
National Health Law Program
National Hispanic Coalition for Better Housing
National Housing Law Project
National Low Income Housing Coalition
National Organization for Women
National Rural Housing Coalition
National Rural Center
National Senior Citizen's Law Center
National Soc. for Autistic Children
National Urban Coalition
National Urban League
National Wildlife Federation
National Women's Political Caucus
National Youth Alternatives Project
National Youth Work Alliance
Native American Rights Fund
Natural Resources Defense Council
Network
New Democratic Coalition
New York State Assembly
Office of New York State Senate Minority Leader
Organization of Chinese Americans
Planned Parenthood
Public Interest Economic Center
Sheetmetal Workers Union, Int'l.
Sierra Club
Tax Reform Research Group
The Alan Guttmacher Institute
The Progressive Alliance
The Rural Coalition
Unitarian Universalist Association
United Auto Workers
United Cerebral Palsy
United Church of Christ
United Food and Commercial Workers
United Methodist Women
United Presbyterian Church U.S.A.
U.S. Catholic Conference
United States Student Association
Volunteer
Washington State Department of Education
Wider Opportunities for Women
Women's Equity Action League
Women's International League for Peace and Freedom
Women U.S.A.
Youth Policy Institute

# # #

file
economic package

THE WHITE HOUSE

Office of the Press Secretary

EMBARGOED FOR RELEASE UNTIL 1:30 pm EST APRIL 15, 1981

STATEMENT BY THE PRESIDENT
INCOME TAX DAY 1981

Today is the last day for filing income tax returns -- a day that reminds us that taxpayers pay too much of their earnings to the Federal Government.

And Americans will continue to pay too much money to the Federal Government until the Congress acts on our proposals to reduce tax rates across the board. Without these reductions, there will be an automatic $200 billion tax increase over the next 2 years.

While April 15 serves as a reminder, the people of the U.S. truly do not need to be reminded. They are victims of inflation which pushes them into higher tax brackets. They are robbed daily of a better standard of living. They are discouraged from work and investment.

There are a few other alternative tax proposals now before the Congress, but compared to our proposals, they will result in higher taxes for the American people. In fact, these alternatives are not the answer; they are the problem.

Taxes are much too high to deal in half measures. In 1965, less than 6 percent of all taxpayers faced marginal rates of 25 percent or more. Today, more than one of every three taxpayers is in at least the 25 percent bracket. In addition, since 1965 the marginal tax rate for a median-income family of four has jumped from 17 percent to 24 percent in 1980. And under current law it would grow to a crushing 32 percent in 1984. We simply can't allow our already overburdened and demoralized taxpayers to suffer this unacceptable increase.

By commparison, our tax reduction program will reduce the marginal tax rate to 23 percent in 1984, a very important step in the right direction; a step that will play a significant role in rejuvenating the economy.

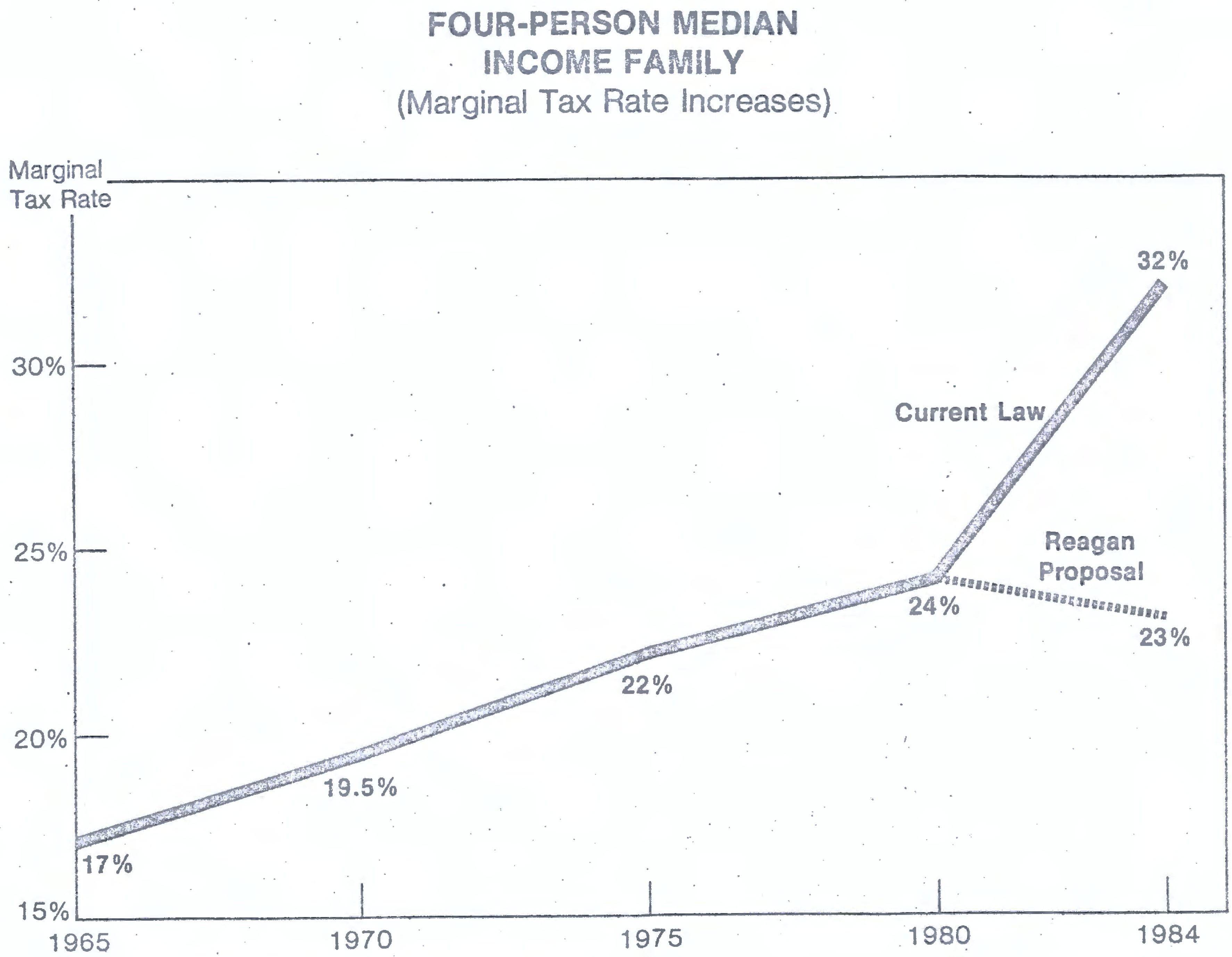
Our plan treats Americans at all income levels evenly and fairly. Three-fourths of the tax cuts will go to middle-income taxpayers. Under present law, these middle-income citizens -- who make bewteen $10,000 and $60,000 -- pay 72 percent of all income taxes and will receive 73 percent of the benefits of our proposal.

The choice before us is clear. I strongly feel that the great majority of Americans believe that nothing would better encourage economic growth than leaving more money in the hands of the people who earn it. It's time to stop stripping bare the productive citizens of America and funnelling their hard-earned income into the federal bureaucracy.

Today is a day when the people reaffirm their commitment to our system by contributing a portion of their income to the government. Americans have always been prepared to pay their fair share, but today they should make it clear to all elected officials that government has gone beyond its bounds and that the people will not tolerate the ever-increasing tax burden they have experienced in recent years.

I ask all Americans to join me in changing our tax system so that next April 15 we shall begin to celebrate tax reductions instead of simply one more predictable and painful tax increase.

# # #



Source: Department of the Treasury

Marginal Tax Rates for Four-Person Families

(percent)

Year	One-half median income	Median income	Twice median income
1965	14%	17.0%	22.0%
1966	14	19.0	22.0
1967	15	19.0	22.0
1968	15	20.4	26.9
1969	15	20.9	27.5
1970	15	19.5	25.6
1971	15	19.0	28.0
1972	15	19.0	28.0
1973	16	19.0	28.0
1974	16	22.0	32.0
1975	17	22.0	32.0
1976	17	22.0	36.0
1977	16	22.0	36.0
1978	19	25.0	39.0
1979	16	24.0	37.0
1980	18	24.0	43.0
Current Law			
1981	18	28.0	43.0
1982	18	28.0	49.0
1983	21	28.0	49.0
1984	21	32.0	49.0
Administration's Proposal			
1981	17	27.0	41.0
1982	15	24.0	42.0
1983	16	22.0	38.0
1984	15	23.0	36.0

Office of the Secretary of the Treasury
Office of Tax Analysis

April 14, 1981

Dene

file Reagan Tax proposal
Economic

Document No. ______

WHITE HOUSE STAFFING MEMORANDUM

DATE: 6/9/81 ACTION/CONCURRENCE/COMMENT DUE BY: --------

SUBJECT: ECONOMIC RECOVERY TAX ACT OF 1981

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	JAMES	☐	☐
MEESE	☐	☐	MURPHY	☐	☐
BAKER	☐	☐	NOFZIGER	☐	☐
DEAVER	☐	☐	WILLIAMSON	☐	☑
STOCKMAN	☐	☐	WEIDENBAUM	☐	☐
ALLEN	☐	☐	CANZERI	☐	☐
ANDERSON	☐	☐	FULLER *(For Cabinet)*	☐	☐
BRADY	☐	☐	HICKEY	☐	☐
DOLE	☐	☑	HODSOLL	☐	☐
FIELDING	☐	☐	MC COY	☐	☐
FRIEDERSDORF	☐	☐	CEQ	☐	☐
GARRICK	☐	☐	OSTP	☐	☐
GERGEN	☐	☐	USTR	☐	☐
HARPER	☐	☐	ROGERS	☐	☐
			URSOMARSO		✓

Remarks:

Attached for your information is a general explanation of the Conable-Hance bill introduced today.

Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)

ECONOMIC RECOVERY TAX ACT OF 1981

<u>GENERAL EXPLANATION</u>

June 9, 1981

TITLE I--INDIVIDUAL TAX RATE REDUCTIONS

Sec. 101--25 Percent Phased Rate Reduction

Under each of the four present law tax rate schedules -- married filing jointly, single, married filing separately, and head of household -- individuals pay tax at marginal rates ranging from 14 to 70 percent. For earned income, there is a separate provision in the law that provides for a "maximum tax" rate of 50 percent.

Section 101 of the bill would reduce marginal tax rates for individuals across-the-board by 25 percent. This would lower marginal tax rates from a range of 14 percent to 70 percent under present law to a range of 11 percent to 50 percent. The new top marginal tax rate of 50 percent represents a reduction slightly more than 25 percent. Without the slight additional reduction in this top rate, however, the complexities associated with computing the maximum tax on earned income could not be eliminated.

The provision would phase in the 25 percent rate reduction by 5 percent on October 1, 1981, by an additional 10 percent on July 1, 1982, and by a final 10 percent on July 1, 1983. The top marginal tax rate would be reduced to 50 percent on January 1, 1982, in order to achieve simplification associated with the maximum tax on earned income as soon as practicable. Moreover, any delay could induce taxpayers with marginal tax rates currently greater than 50 percent to put off realizing income and making new productive investments until later years.

TITLE II--INCENTIVES FOR PLANT, EQUIPMENT AND REAL PROPERTY

Accelerated Cost Recovery System

The Accelerated Cost Recovery System will provide for faster write-off of capital expenditures by means of simplified and standardized rules. The system will replace the present complex provisions for determination of depreciation allowances. It substitutes easily identified classes, each with a standard schedule of deductions to be taken over a fixed recovery period. The proposed legislation assigns machinery and equipment used in business and depreciable real estate to classes with recovery periods of 3, 5, 10, or 15 years and provides accelerated recovery over those periods.

<u>Classes</u>. Brief descriptions of the classes summarize the essentials of the system.

- <u>3-year property</u>. This class consists of autos, light trucks, machinery and equipment used in research and development activities, and assets (such as special tools) with a guideline life under ADR of four years or less. Expenditures for these assets will be written-off in three years according to an accelerated schedule. An investment credit of 6 percent will also apply to this class, an increase of 2-2/3 percentage points over the present law for property written-off in three years.

- <u>5-year property</u>. All other outlays for machinery and equipment, including public utility property with present guidelines lives of 18 years or less, are assigned to a 5-year class. Additions to this class will be written-off according to an accelerated 5-year schedule. The full 10 percent investment credit will be allowed for this class.

- <u>10-year property</u>. Public utility property for which present guidelines exceed 18 years and real estate covered by the ADR system with a lower limit of 10 years or less will be written-off on an accelerated basis over 10 years. As under present law, the 10 percent investment credit applies to public utility property in this class, but is not generally available for real property.

- <u>15-year property</u>. Depreciable real estate (which is not 10-year property) will be assigned an audit-proof life of 15 years and will be written off on a composite basis according to an accelerated schedule. As under present law, no investment credit is allowed for property in this class.

Rates. The recovery percentages for 3, 5 and 10-year property will be based on use of the 150 percent declining balance method for the early years and the straight-line method for the remainder of the recovery period. The recovery for 15-year (real) property will be based on use of the 200 percent declining balance method (switching to straight line). The applicable rates are as follows:

Accelerated Cost Recovery

Ownership Year	Class of Investment			
	3-year	5-year	10-year	15-year
1	25%	15%	8%	7%
2	38	22	14	12
3	37	21	12	11
4		21	10	9
5		21	10	8
6			10	7
7			9	6
8			9	5
9			9	5
10			9	5
11				5
12				5
13				5
14				5
15				5
	100%	100%	100%	100%

Accounting rules. Unlike present law, all of the cost recovery rules apply alike to new and used property, and no estimate of salvage value is required. An asset acquired at any time in the tax year is added to the "vintage" account for its class and is kept in that account until fully written-off or retired. A "half-year convention" for the year of acquisition is built-in to the recovery schedule.

Flexibility. Taxpayers may use, instead of the prescribed rates, rates based on use of the straight-line method over either the otherwise applicable recovery period or the longer period used for earnings and profits purposes. In addition, the net operating loss and investment credit carryover periods are extended from 7 to 10 years.

Dispositions. Gain or loss is generally recognized on disposition of an asset. Gains on property in the 3, 5, and

10-year classes will be recognized as ordinary income to the extent of prior allowances (section 1245 rules). Similarly, for property in the 15-year class (unless a straight-line recovery is elected) other than residential real estate and low income housing, section 1245 recapture will apply. For these latter types of property, section 1250 recapture will apply.

Special rules.

- Earnings and profits. Cost recovery for earnings and profits purposes will be, for property in the 3, 5, 10, and 15-year classes, based on periods of 5, 12, 25, and 35 years respectively. Additionally, the straight-line method will be used.

- Foreign assets. The recovery period for foreign assets will be the ADR guideline period as of January 1, 1981. The rate of recovery will be based on use of the 200 percent declining balance method in the early years and the straight line method in the later years of the recovery period. For foreign real property, recovery will be over 35 years under the 150 percent declining balance method (switching to straight line). Flexibility similar to that provided for domestic assets is provided with respect to foreign property.

- Minimum tax. For noncorporate lessors of machinery and equipment in the 3, 5, and 10-year classes the excess of the recovery deduction over the deduction based on use of the straight-line method over 5, 8, and 15 years, respectively, will be a preference item for purposes of the minimum tax. For real estate, the excess of the recovery deduction over the deduction based on a 15-year straight-line recovery will be a preference item.

- Leasing. A safe harbor is provided for leasing transactions involving new personal recovery property for corporate lessors. In general, these transactions will not be denied treatment as a lease merely because the tax benefits of ownership are taken into account as part of the economic substance of the transaction or if the minimum investment is not greater than 10 percent of the cost of the property.

Investment tax credit

- Recapture. Taxpayers must pay back, or "recapture," a portion of the investment credit in the case of early retirements up to the fifth year that an asset is held. In these cases, the taxpayer may keep a credit of 2 percent for each full year the property is held, up to the amount of credit originally claimed.

- At risk. The proposal extends the at risk rules to the investment credit allowed under ACRS. However, an exception is provided for amounts borrowed from third party banks, savings and loan associations and insurance companies.

Effective date

The Accelerated Cost Recovery System will be effective for property acquired or placed in service after December 31, 1980. However, for machinery and equipment, ACRS does not apply to property in use before January 1, 1981 unless acquired after December 31, 1980 in a transaction in which both the owner and user change. For real property, ACRS does not apply to property in use before 1981 transferred in a transaction in which the owner does not change, or to property acquired for pre-1981 property in certain substituted basis transactions.

Increase in Recovery Rates after 1984

The recovery percentages for 3, 5 and 10-year property will be increased for property placed in service after 1984. For property placed in service in 1985 the percentages will be based on the use of 175 percent declining balance method for the first year and switching to the sum-of-the-years digits method for the remaining years. For property placed in service after 1985, the rates will be based on the use of 200 percent declining balance method for the first year and switching to sum-of-the-years digits method for the remaining years.

TITLE III--MISCELLANEOUS TAX PROVISIONS

SUBTITLE A--INCENTIVES FOR RESEARCH AND EXPERIMENTATION

Under section 301 of the bill, a nonrefundable income tax credit would be allowed for research and experimental wage expenditures paid or incurred by a taxpayer during the taxable year in carrying on a trade or business of the taxpayer, but only to the extent such expenditures exceed the average amount of the taxpayer's research wage expenditures in a base period.

The rate of the credit would be 25 percent of the incremental research wage expenditures for the year. Eligible wages would be those paid or incurred for services performed in conducting research and experimentation. In computing the credit, only wage expenditures for research conducted within the United States would be taken into account. Research funded by government and research in the social sciences or humanities would not qualify.

The provision adopts the definition of research and experimentation now used for purposes of deduction of research expenditures under Code section 174. However, it is intended that the Internal Revenue Service may, over time, provide further guidance as to the definition, consistent with the existing approach.

In the case of contract research, the person on whose behalf the research is done would be entitled to the credit. Accordingly, wages paid or incurred by the person doing the work would be attributable to the person making reimbursement therefor.

For individuals, the credit could only offset tax attributable to income from the trade or business with respect to which the research and experimental wage expenditure was incurred.

For the taxpayer's first taxable year to which the credit applies, the base period would be the first preceding taxable year. For the second credit year, the base period would be the preceding two taxable years. For the third credit year and thereafter, the base period would consist of the three preceding taxable years.

The provision would be effective for wages paid or incurred after June 30, 1981, in taxable years ending after such date.

SUBTITLE B--INVESTMENT TAX CREDIT FOR QUALIFIED REHABILITATION EXPENDITURES

Under section 311 of the bill, the current law 10 percent investment credit for rehabilitation expenditures incurred in connection with existing nonresidential commercial and industrial buildings would be replaced by a three-tier credit. A credit of 15 percent would be available in the case of rehabilitation expenditures incurred for buildings that have been in use at least 30 years and a credit of 20 percent would be available with respect to the rehabilitation of buildings that are at least 40 years old. In addition, a 25 percent credit would be provided for certified rehabilitation expenditures incurred in connection with certified historic buildings. The 25 percent credit would be available with respect to all income-producing certified historic buildings, including those used for residential purposes; the 15 and 20 percent credit would be limited, like the credit under current law, to nonresidential buildings.

In order to qualify for the credit, expenditures must be incurred after December 31, 1981. In addition, they must be expenditures of the type that must be capitalized and they must be for property (or additions or improvements to property) which have a recovery period of 15 years under the new ACRS system.

The provision would simplify the requirement of current law that a credit may be taken only once every 20 years with respect to a building, or a major portion of a building, by requiring only that a rehabilitation be substantial. To qualify as a substantial rehabilitation, rehabilitation expenditures must exceed the greater of the taxpayer's adjusted basis in the building before the rehabilitation or $5,000.

Lessees would be eligible for the credit with respect to rehabilitation expenditures incurred by the lessee, provided that, on the date of completion of the rehabilitation, the remaining term of the lease is at least 15 years.

Rehabilitation expenditures incurred in connection with a certified historic building or a building in a registered historic district would not qualify for the credit, unless the rehabilitation is certified by the Secretary of Interior as being consistent with the historic character of the building or the district in which such building is located. This rule would not apply to a building in a registered historic district, if the building is not a certified historic building and the Secretary of Interior certifies that the building is not of historic significance to the district.

Expenditures for property eligible for the rehabilitation investment credit would not be eligible for the regular 10 percent investment credit. In addition the energy credit would not be allowed with respect to property which is eligible for the rehabilitation credit. Finally a taxpayer would not be permitted to use accelerated methods of depreciation in conjunction with the credit.

SUBTITLE C--MARRIAGE PENALTY DEDUCTION

Present law generally imposes a greater tax on a two-earner married couple than would be imposed if each spouse were single. Section 321 of the bill would reduce the current discrimination against two-earner families by providing a marriage penalty deduction equal to a specified percent of the lower earning spouse's earnings up to $30,000. The specified percentage would be 5 percent in 1982 and 10 percent in subsequent years. This deduction would be allowable whether or not the taxpayer itemizes deductions.

The marriage penalty deduction would not increase taxes paid by single persons and one-earner couples. Thus, it would not change the amount of tax savings achieved by a single worker who marries a non-employed spouse.

SUBTITLE D--SAVINGS PROVISIONS
Individual Retirement Accounts

Under present law, an individual generally is entitled to deduct the amount contributed to an individual retirement account, annuity or bond (referred to collectively as "IRAs"). The limitation on the deduction for a year is generally the lesser of 15 percent of compensation for the year or $1,500. The $1,500 contribution limit is increased to $1,750 for a year if (1) the contribution is equally divided between an employee and the spouse of the employee and (2) the spouse has no compensation for the year. However, no IRA deduction is allowed for a taxable year to an individual who is an active participant during any part of the year in a qualified plan, a tax-sheltered annuity, or a governmental plan.

Section 331 of the bill would both increase the deductible limits of IRAs and extend their availability.

In the case of an employee who is <u>not</u> an active participant in a qualified plan (<u>i.e.</u>, one who is currently eligible to make IRA contributions), the current limit would be raised to $2,000, and the percentage limitation would be 100 percent of compensation.

In the case of an employee who <u>is</u> an active participant in an employer-sponsored plan (<u>i.e.</u>, one who is not currently eligible for an IRA), a deduction would be allowed for contributions by the employee to an IRA. The annual deduction by an active participant would be limited to the smaller of $1,000 or 100 percent of the participant's compensation.

The current spousal IRA provisions would be deleted but the IRA limits would be increased to a total of $2,250 ($1,125 in the case of an active participant) where an IRA is established for a non-employee spouse.

EXAMPLES

An employee with $10,000 of compensation for a year who does not participate in an employer-sponsored plan could, under current law, contribute and deduct up to $1,500 to an IRA. Under the proposal, this employee would be entitled to a deduction for IRA contributions up to $2,000.

An employee with $10,000 of compensation for a year who is an active participant in an employer-sponsored plan is not allowed to make any deductible contributions to an IRA under current law. The proposal would allow this employee to contribute and deduct up to $1,000 to an IRA.

Retirement Savings for the Self-Employed

Under present law, a qualified retirement plan generally must be established by an employer for the benefit of employees and their beneficiaries. For plan qualification purposes, a sole proprietor is considered both an employee and his or her own employer, and a partnership is considered the employer of each partner. Thus, a sole proprietorship or a partnership may adopt a tax-favored retirement plan, referred to as an H.R. 10 plan or Keogh plan, for both common law employees and for the proprietor or partners.

The maximum deductible contribution to an H.R. 10 plan on behalf of a self-employed individual is the lesser of $7,500 or 15 percent of the individual's net earnings from self employment.

Although sole proprietors and partners with more than a 10 percent interest in the capital or profits of a partnership are prohibited from borrowing from an H.R. 10 plan, common law employees and partners with less than a 10 percent interest may borrow from the plan if certain loan conditions are met.

Section 332 of the bill would both increase the H.R. 10 plan deduction limits and change the rules regarding loans from the plan to certain participants.

The maximum deductible contribution to an H.R. 10 plan would be increased to $15,000. The percentage limit (15 percent of net earnings from self employment) would be retained. However, if the proposals to expand the availability of deductible employee contributions to an IRA are adopted, the effective maximum deductible contribution to an H.R. 10 plan would be increased to $16,000, with no antidiscrimination or percentage limits applied to the additional $1,000.

The prohibition against borrowing by sole proprietors and more than 10 percent partners would be expanded to all partners.

Permanent Exclusion of a Portion of Dividends and Interest

Under present law, individuals may exclude from gross income up to $200 ($400 on a joint return) of dividends and interest income received from domestic sources. However, the provision is effective only for taxable years beginning after December 31, 1980, and before January 1, 1983 (generally 1981 and 1982 calendar years).

Section 333 of the bill would make the partial exclusion of dividends and interest by individuals permanent.

SUBTITLE E--EXCLUSIONS OF FOREIGN EARNED INCOME AND FOREIGN HOUSING COSTS

Section 341 of the bill would provide simpler and more generous tax relief for foreign earned income to facilitate the employment of Americans abroad. Under the provision, individuals who satisfy either a foreign residence or foreign presence test could exclude the first $50,000 of foreign earned income per year plus 50 percent of the next $50,000. In addition, the provision would exclude from income expenses incurred for reasonable housing in excess of a base amount. The base amount would be 16 percent of the salary of a U.S. Government employee at civil service grade GS-14, step 1. These amounts would be pro-rated on a daily basis for individuals eligible during only part of a tax year.

Deductions attributable to excluded income would not be allowed and foreign taxes paid on the excluded income could not be claimed as a foreign tax credit.

The exclusions provided would be elective. Qualifying individuals could choose to be taxable on their full foreign earnings and claim the ordinary foreign tax credit.

The provision would also shorten the required period of physical presence in a foreign country to 11 out of 12 months rather than 17 out of 18 months. It would retain the present rules allowing pro rata benefits in certain cases where civil unrest or similar adverse conditions required an individual to leave the foreign country before meeting the time requirements.

The benefits of the exclusions would be extended to include individuals whose foreign earned income is paid by the U.S. Government but who do not qualify for the benefits provided under section 912 of the Internal Revenue Code.

The provision would clarify the conditions under which a camp located in a foreign country qualifies as part of the employer's business premises for purposes of the exclusion provided under section 119.

The provision would take effect as of January 1, 1982. It would replace the exclusion allowed under section 911 and the deductions allowed under section 913 of present law.

SUBTITLE F -- ESTATE AND GIFT PROVISIONS

Increase in the Unified Credit

Section 351 of the bill would increase the unified credit from $47,000 to $192,800 over a 4-year period. The amount of the credit would be $70,800 in 1982, $96,300 in 1983, $121,800 in 1984, and $192,800 in 1985. These levels of the unified credit are equivalent to exemption levels of $250,000, $325,000, $400,000 and $600,000, respectively.

This provision would also change the estate tax filing requirements to conform to the increase in the unified credit in terms of an exemption equivalent. When fully phased-in in 1985, an estate tax return would be required only if the decedent's gross estate exceeds $600,000, rather than $175,000 as provided by current law. During the phase-in period, the filing requirements would be $250,000 in 1982, $325,000 in 1983, $400,000 in 1984 and $600,000 in 1985.

Finally, this section provides a special rule for property received by a decedent by gift within three years of the date of his death. In such a case the gift would not receive a stepped-up basis. This rule is necessary to prevent individuals from giving property in contemplation of the donee's death merely to obtain a tax-free step-up in basis.

Unlimited Marital Deduction

Section 352 of the bill provides an unlimited marital deduction for both estate and gift tax purposes. This would permit an individual to make lifetime and deathtime transfers to his spouse, no matter how large, without the imposition of a transfer tax. It would not change present law with respect to transfers of terminable interests: these interests would not qualify for the marital deduction. Gifts of community property, however, would qualify for the deduction.

Increase in the Annual Gift Tax Exclusion

Section 353 of the bill would increase the annual gift tax exclusion from $3,000 to $10,000 per donee. This would permit a husband and wife to transfer jointly $20,000 per donee each year without being subject to the gift tax.

These amendments would apply to gifts made, and decedents dying after December 31, 1981.

SUBTITLE G--EXTENSION OF AND INCREASE IN CREDIT AGAINST CRUDE OIL WINDFALL PROFIT TAX FOR ROYALTY OWNERS.

Under current law royalty owners receive a credit (or refund) of up to $1,000 against the windfall profit tax imposed on the removal of their royalty oil during calendar year 1980. The credit is available only to individuals, estates and family farm corporations and not to other corporations or trusts. The credit may be claimed in 1981 either as a credit against income tax or as a refund of excise tax.

Section 361 of the bill would provide royalty owners with a credit (or refund) against the windfall profit tax imposed on the removal of their royalty oil during each calendar year. The credit would not exceed $2,500. The proposal generally would retain the present law rules relating to eligibility for the credit and would make adjustments to accommodate the increase in the credit.

Under present law, both percentage depletion and the special windfall profit tax rates for independent producers generally are denied in case of properties transferred from one person to another. The current law credit does not contain a provision denying the credit in cases of the transfer of royalty interests in proven properties. This is because the Congress believed that no transfer limitation was required since the loss of percentage depletion on transferred properties will generally outweigh the benefits of a one year credit. However, since the proposal extends and increases the amount of credit there will be a significant incentive for royalty owners to transfer interests which do not qualify for the applicable credit. Accordingly, in order to prevent evasion of the credit limit and preclude proliferation of the credit, the provison contains a rule that denies the credit to royalty interests in proven properties transferred after June 9, 1981.

The royalty owner credit would apply to oil produced in calendar years beginning after December 31, 1980, in taxable years ending after such date.

THE WALL STREET JOURNAL,
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Reagan's Tax Plan Makes Sense

By PAUL W. McCracken

Would a tax reduction along the lines of the President's proposal be a fiscally responsible action in this session of the Congress? It is this part of the President's program that has produced the most skepticism.

In the static sense, those skeptical of the President's tax program would have a case for at least two reasons. The fact is that economists simply do not know for sure to what extent movements in the economy are caused by fiscal policy, by monetary policy, by "external shocks" or by destabilizing forces internal to the private economy itself.

On these matters the profession has been all over the map during the last several decades. At one time it was assumed that the task of those managing monetary and budget policies was to counter the tendency for the private sector "on its own" to ricochet from boom to bust. Then we decided that the private economy was reasonably stable except when drawn off course by erratic economic policies of government.

At one time we were sure that monetary policy did not matter much, and fiscal policy would deliver sustained prosperity. By a decade ago monetary policy occupied center stage, and the old conventional Keynesian fiscal policy wisdom (as usually happens to old conventional wisdoms) was on the defensive. In recent years, however, the relationship between the money stock (however defined) and the pace of business activity began to blur—encouraging the agnostic view that what we know for sure about these matters remains limited.

With uncertainty about the relative influence on the economy of the Federal Reserve's monetary and credit policies and the government's fiscal policies, prudence would seem to dictate caution about sharp changes in any policy.

Dangerously Low Savings

Moreover, in our low savings economy large budget deficits do crowd markets. The U.S. is now a dangerously low-savings economy, not only relative to such countries as Japan and the Federal Republic of Germany but relative to our own historical performance.

The problems with which economic policy must come to grips, however, are far more fundamental and dynamic than leaning against the zigs and zags of the normal business cycle.

The American economy seems to have lost its vigor, operating for years with rates of unemployment, inflation, and particularly gains in productivity and real income that compare unfavorably with our own history and with other economies of the industrial world.

The causes of this deteriorating economic performance are numerous and deep, but two are clearly related to the fiscal operations of government. One is that because of inflation and our archaic accounting conventions, the federal government is collecting corporate taxes on fictitious profits, thereby contributing to the low-investment tendencies of the economy. National income data suggest that we are understating the cost of capital currently expiring by about $17 billion per year. If the profits taxes paid on these nonexistent profits were instead going into more capital formation, the economy would be less afflicted with a productive plant that is now too small and too old.

Another basic source of our troubles is that we have gone too far in making income available without regard to whether the recipient earned it through productive activity that enlarges the output of goods and services. This process shows up in the federal goverment's budget. If projections in President Carter's January Budget Message (adjusted for the usual initial underestimates) were to be realized for fiscal 1982, the rise in total public spending at all levels of government would have been equal to half or more of the projected increase in the total national income.

The tandem strategy that says we must first hold down spending until a budget surplus is achieved before considering tax reduction is in a sense unexceptionable. We would thereby have won the right to a lower tax burden.

> ## Board of Contributors
>
> *The idea that a budget surplus should be achieved before cutting taxes has a major flaw: It doesn't work. It makes sense, then, to try the opposite strategy.*

It also has a major flaw. It does not work.

Experience shows that this strategy leads not to a budget in the black, but to a budget with outlays and revenues both higher than would otherwise occur. It is a strategy that, particularly in recent years, has produced a public sector absorbing a large proportion of increases in the national income. It is the ineluctable end result because it is a strategy which in essence says that government has first claim on earnings, and those earning these incomes must make do with the remainder.

It makes sense, therefore, to try the opposite strategy. The thrust of public policy should be shifted toward giving higher priority to those doing the earning and producing and saving, with the public sector being required to accommodate to that part of their earnings that people are willing to have spent collectively. If that is to be the strategy, the trail should be blazed far enough ahead so that the private sector can have enough confidence to alter its long-range plans.

This is the real significance of a three-year tax proposal. The effort to limit the tax program to one year, if it were to be successful, would be a major victory in the effort to avoid that fundamental change in the direction of national policy so essential to start the process of economic revitalization.

This the "big spenders" understand well enough. If they can hold the tax structure essentially intact, they win. In the years ahead more money would then be spent on more public programs than if government commits itself to a tax reduction program with a multi-year time horizon—long enough so that people and businesses can start to make the basic plans that this arthritic economy needs. This is why conservatives genuinely concerned about budget deficits find that they are joined by the spenders in trying to limit the scope of tax reduction—the spenders also, of course, voicing concerns about deficits, which have caused them little loss of sleep for decades before this year.

In fact, the President's program might be criticized for its modesty. As for taxes on corporate income, the administration pared out its recommendations at a $2.5 billion tax reduction for this fiscal year and $9.7 billion for fiscal 1982. For an economy where capital formation ought to be running $50 billion per year above current levels, if it is to get back on the track, these are not extravagant figures.

Moreover, if the National Income Accounts estimates are reasonably correct—that we are underestimating the cost of capital currently expiring by $17 billion per year—it is not until fiscal 1983 that the administration's tax program would get beyond eliminating this tax on phantom profits. It's a tax which we should never have been collecting in the first place. (It has been the most clear-cut case of a penalty tax on economic progress.)

Incorrect Image

Clearly the most controversial part of the President's tax program is the proposal pertaining to individual income taxes. The administration has been talking to conservative House Democrats about the possibility of fashioning a three-year cut with figures different than its original proposal of a 10% reduction in three successive years. Whatever three-year package results from this process, it is here that the image emerges of revenues going *down*.

For the sake of argument, we will work with the administration's original 10-10-10 proposal and address the opposition's assumption that revenues will go down a like amount, or 30%. This is not correct. The administration projected revenues from individual income taxes at $311 billion in fiscal 1983, 27% above the $244 billion realized in fiscal 1980.

What the President's proposal here does is little more than to neutralize the tendency for a progressive tax rate structure over time to increase the proportion of the national income going for taxes as the national income rises (either because of inflation or rising real incomes).

We see this clearly by comparing the projections for future years by President Carter in his January Budget Message and President Reagan's projections. In fact, with the President's tax package the proportion of aggregate personal incomes going for individual income taxes in the next fiscal year would be about a half of one percent only below that in 1980, and with full implementation of the program by fiscal 1983 the proportion would be only one percentage point lower.

Individual Income Tax Receipts
As Percent Projected Personal Incomes

FY	Carter	Reagan
1980	11.7%	11.7%
1981	12.1	11.9
1982	12.6	11.1
1983	13.1	10.7
1984	13.8	10.6

SOURCES: Basic data from: "Budget Message of the President, January 1981" and "Fiscal Year 1982 Budget Revisions."

What 10-10-10 essentially does, in short, is to avoid an unlegislated increase in the proportion of people's earnings which would accrue to government from inaction. This is clearly evident in the Carter budget, which projected a persistent rise in the share of incomes going to the tax collector.

The President's tax program, in short, is an essential element in the strategy to regain control of spending as well as to revitalize the economy. The spenders understand this. Hopefully the conservatives will also.

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THE BIPARTISAN TAX PLAN

On June 4, President Reagan announced a bipartisan tax reduction plan with individual cuts to begin on October 1,1981. He rejected the Democratic leadership's alternative plan. On June 9, the bipartisan plan was introduced by Congressman Barber Conable (R-NY) and Kent Hance (D-TX).

This package is designed to provide tax relief to working Americans and to stimulate the economy by encouraging saving and job-creating investment.

--It is real tax relief. Individual rates will be cut 25 percent in three years, enough to offset the 22 percent increase that bracket creep and social security hikes would induce without the plan. The Democratic leadership's 2 year, 15 percent plan would not fully compensate for the increase.

--It is fair, cutting rates on earned income across the board for all Americans.

The President would have preferred to compromise with the House Democratic leadership. But their 2-year, 15 percent proposal, with numerous special-interest "sweeteners" attached was, in President Reagan's words, "not good enough." An additional third year, 10 percent rate cut is necessary:

--so the overall cut will be big enough to offset inflation and social security tax rise

--to provide longer-range predictability for individuals and businesses

--to keep pressure on Congress to hold the line on spending by holding the line on revenues

The plan has bipartisan support, reflecting a consensus that the economy needs substantial, multi-year rate cuts to improve incentives to work, save and invest.

Together with the budget cuts, the tax reductions will help restore a sound economy with more growth and jobs, and less inflation and government spending.

--The budget will be balanced by 1984 and deficits between now and then will be $40 billion lower than planned.

WHAT THE PLAN PROVIDES

Individual Tax Relief

--Across-the-board tax rate reductions of 5 percent on October 1, 1981 and additional reductions of 10 percent on July 1, 1982 and 10 percent on July 1, 1983

--Relief from the marriage tax by allowing lower paid spouse to deduct 5 percent of income (up to $1500) in 1982 and 10 percent (up to $3000) in 1983 and after.

Savings, Investment and Productivity Incentives

--Accelerated cost recovery for business.

--A reduction in the top rate on investment income from 70 to 50 percent.

--Expansion of individual retirement accounts, from $1500 to $2000 per year.

--Permanent extension of the interest and dividend exclusions of $200 for individual and $400 for joint returns.

--A 25 percent tax credit for R&D costs.

--Relief for Americans working abroad, allowing an exclusion of up to $75,000 in income.

--Expansion to $2500 of the credit for royalty owners against the wind-fall profits tax.

--An investment tax credit for rehabilitation.

--Exemption from estate taxes of first $600,000 and an increase in the gift tax exemption to $10,000.

THE LARGEST TAX CUTS IN HISTORY

For individuals

--Under the plan, tax rates will be cut 25 percent across the board.

-A family of four that earned $25,000 in 1980 and gets cost of living increases for four years will pay $1056 less on its 1984 income of $33,674 with these cuts than it would under present law.

-In 1980, this family paid 11.6 percent of income in federal taxes. In 1984, the percentage would fall to 10.9 percent.

--Relief from the marriage tax penalty will substantially ease situation in which married couple with two incomes pays more taxes than two single people with same incomes.

For business

--The accelerated cost recovery plan will no longer be phased-in gradually. It will take effect, as of January 1, 1981, as soon as it is enacted.

-Will save business $122.6 billion by 1986

-Will streamline, simplify, and speed-up procedures for writing-off investment costs.

TIME-TABLE FOR CONSIDERATION

The House Ways and Means Committee began mark-up during the week of June 8; the Senate Finance Committee began general discussions and mark-up the same week.

Speaker O'Neill has reiterated his intentions to have a tax bill on the President's desk by August 1st.

KEY POINTS ON THE BIPARTISAN TAX PROGRAM

The restoration of economic growth is primary objective

--It is designed to strengthen incentives to work, save, invest
--Not intended to redistribute income or stimulate demand

Under the plan, inflation will decline as savings increase

--will stimulate supply of goods, not demand
--marginal rate cuts will increase incentives
--under Kennedy cuts, savings increased by one-third
--higher savings will make it possible to finance the deficit privately without inflationary practice of "printing more money"

Tax rates higher than ever for most Americans

--one out of three in 25 percent bracket or above
--average worker today taxed at rates applied to affluent fifteen years ago
--11.6 percent of personal income goes to income tax
--21 percent of GNP goes to federal government in taxes
--creates growing disincentive for productive effort

Taxes will get worse automatically without marginal rate cuts

--inflation, bracket creep, push workers to higher tax rates
--for each 10 percent income rise, taxes rise 15 percent
--without cuts, percent of personal income going to taxes will hit 14.7 by 1984 and percent of GNP to federal government will near 25 percent

Equal tax rate cut for all is only fair policy

--all marginal rates will be cut same percentage
--all taxpayers will pay less income taxes than under current law
--without cuts, virtually all individual taxpayers will hit the 50 percent bracket in 1990s

Even liberal Democrats have accepted marginal rate cut approach

--two year, 5-10 concept is too little however
--their argument that two year test of "untried" marginal cuts is necessary is a false argument because

-marginal cuts were tried in 60s and they worked
-5-10 is just not enough of a cut, over a long enough period to provide improvement in incentives necessary.
-3 years needed to keep pressure on Congress to hold line on spending by holding the line on revenues.

Table 1

Summary of the Reduction in Fiscal Year Receipts
under the Economic Recovery Act of 1981 and
under the Administration's Original Tax Reduction Program

Fiscal Years 1981-86

($ billions)

Program	Fiscal Years 1981	1982	1983	1984	1985	1986
Economic Recovery Act of 1981:						
Personal tax reductions	*	28.3	74.8	119.8	138.7	159.9
Business tax reductions	2.1	9.7	18.6	29.8	43.5	65.6
Total	2.1	38.0	93.4	149.6	182.2	225.6
Administration's Original Bill:						
Personal tax reductions	6.4	44.5	81.9	118.9	142.5	163.5
Business tax reductions	2.5	10.5	20.9	32.7	46.1	60.2
Total	8.9	55.0	102.8	151.5	188.6	223.7
Reduced deficit or increased surplus resulting from substituting the Economic Recovery Act of 1981 for the Administration's original Bill	6.8	17.0	9.4	2.0	6.4	-1.8

Office of the Secretary of the Treasury
Office of Tax Analysis

June 10, 1981

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

*Less than $50 million.

Table 2

Reduction in Fiscal Year Receipts Resulting
from the Personal Tax Provisions
of the Economic Recovery Act of 1981

Fiscal Years 1981-86

($ billions)

	Fiscal Years					
	1981	1982	1983	1984	1985	1986
Across-the-board tax rate reduction of 5 percent on October 1, 1981 with additional reductions of 10 percent on July 1, 1982 and 10 percent on July 1, 1983	--	25.7	64.4	104.3	121.1	139.0
Lower top rate to 50 percent on January 1, 1982 and thereafter	--	1.1	2.2	1.1	0.8	1.0
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	3.8	7.0	7.8	8.7
Phase-in increase in the unified estate and gift tax credit to $192,800, allow an unlimited marital deduction, and increase the annual gift tax exclusion to $10,000 (January 1, 1982)	--	0.1	1.9	3.0	4.0	5.8
Increase IRA limit to $2,000 ($2,250 spousal) 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 ($1,125 spousal) limit (January 1, 1982)	--	0.1	0.7	1.0	1.3	1.4
Increase Keogh plan limit to $15,000 (January 1, 1982)	--	*	0.1	0.2	0.2	0.2
Make permanent the $200/$400 interest and dividend exclusion	--	--	0.8	2.5	2.7	3.0

Table 3

Reduction in Fiscal Year Receipts Resulting
from the Business Tax Provisions of the Economic Recovery Act of 1981

Fiscal Years 1981-86

($ billions)

	Fiscal Years					
	1981	1982	1983	1984	1985	1986
Accelerated cost recovery system	2.1	8.9	17.3	28.3	41.9	63.9
25 percent incremental credit for direct wages for research and development (July 1, 1981)	*	0.4	0.6	0.7	0.7	0.7
Allow an exclusion of $50,000 plus 50 percent of the next $50,000 of foreign earned income, with a housing allowance (January 1, 1982)	--	0.3	0.5	0.5	0.6	0.6
Investment tax credit for rehabilitation expenditures (15 percent for 30 years, 20 percent for 40 years, and 25 percent for historic structures) (January 1, 1982)	--	0.1	0.2	0.2	0.3	0.4
Total	2.1	9.7	18.6	29.8	43.5	65.6
Business tax reductions under the original Administration Bill	2.5	10.5	20.9	32.7	46.1	60.2
Cost of business tax reductions under the original Administration Bill in excess of the business tax reductions under the Economic Recovery Act of 1981	0.4	0.8	2.3	2.9	2.6	-5.4

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

*Less than $50 million.

Table 4

Effect on Fiscal Year Receipts Resulting
from the Accelerated Cost Recovery System
under the Economic Recovery Act of 1981

($ billions)

	Fiscal Years					
	1981	1982	1983	1984	1985	1986
Accelerated cost recovery system under the original Administration Bill	-2.5	-10.5	-20.9	-32.7	-46.1	-60.2
Modifications to the original Administration Bill:						
All structures at 15 years under 200 percent declining balance	-0.2	-0.8	-1.4	-1.7	-1.9	-2.2
Limit the 10-year, 5-year, and 3-year class to 150 percent declining balance through 1984, 175 percent declining balance in 1985, and 200 percent declining balance in 1986 and thereafter; allow taxpayers to elect the straight-line method	0.6	2.9	5.0	7.1	8.8	3.3
Eliminate the deduction for qualified progress expenditures	0.5	2.2	3.8	4.4	4.6	4.6
Liberalize leasing requirements	-0.5	-2.7	-3.8	-5.4	-7.3	-9.4
Accelerated cost recovery system under the Economic Recovery Act of 1981	-2.1	-8.9	-17.3	-28.3	-41.9	-63.9
Cost of the accelerated cost recovery system under the original Administration Bill in excess of the accelerated cost recovery system under the Economic Recovery Act of 1981	0.4	1.6	3.6	4.3	4.2	-3.7

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

Table 5

Personal Tax Reductions Resulting from Key Elements of the Economic Recovery Act of 1981
Distributed by Adjusted Gross Income Class

($ millions)

Adjusted gross income class	Current 1984 law tax liability		Tax rate reductions		10 percent second-earner income exclusion		Increase IRA and Keogh limits; liberalize IRA eligibility 2/		$200 ($400 for joint returns) interest and dividend exclusion		Total change in tax liability		
	Amount	Percentage distribution	Amount	Percentage distribution	Amount	Percentage distribution	Amount	Percentage distribution	Amount	Percentage distribution	Amount	Percentage distribution	Percent of tax
($000)		(percent)		(percent)		(percent)		(percent)		(percent)		(... percent ....)	
Less than 5	$ 5	*	-117	0.1%	$ *	*	$ *	*	$ -20	1.1%	$ -137	0.2%	3/
5 - 10	6,591	2.3%	-1,906	2.8	-16	0.4%	-5	0.4%	-114	6.0	-2,041	2.7	-31.0%
10 - 15	16,752	5.8	-4,139	6.2	-78	1.7	-21	1.8	-159	8.4	-4,397	5.9	-26.2
15 - 20	23,404	8.1	-5,702	8.5	-201	4.5	-44	3.8	-168	8.8	-6,115	8.2	-26.1
20 - 30	59,955	20.7	-14,110	21.0	-1,070	23.9	-304	26.1	-436	22.9	-15,920	21.3	-26.6
30 - 50	87,552	30.3	-20,553	30.5	-2,250	50.4	-342	29.3	-647	34.0	-23,792	31.8	-27.2
50 - 100	52,547	18.2	-12,307	18.3	-657	14.7	-315	27.0	-289	15.2	-13,568	18.1	-25.8
100 - 200	23,840	8.2	-4,987	7.4	-157	3.5	-113	9.7	-57	3.0	-5,314	7.1	-22.3
200 & over	18,538	6.4	-3,470	5.2	-38	0.9	-23	2.0	-12	0.6	-3,543	4.7	-19.1
Total	$289,183	100.0%	$-67,291	100.0%	$-4,468	100.0%	$-1,166	100.0%	$-1,902	100.0%	$-74,827	100.0%	-25.9%

Office of the Secretary of the Treasury, Office of Tax Analysis June 10, 1981

1/ Includes outlay portion of the earned income credit.
2/ Increase IRA limit to $2,000 and increase the percentage limit to 100 percent. Extend IRA eligibility to covered persons with a $1,000 limit. Increase Keogh plan limit to $15,000.
3/ Due to the refundability feature of the earned income credit the net tax liability for this income class is negative under the proposal. Calculation of a percentage reduction is not meaningful.

Note: Details may not add to totals due to rounding. *Less than $500 thousand or .05 percent.

Dole's new idea

The Republicans on the Senate Finance Committee (and mainly Sen. Robert J. Dole, as I understand) have come up with a slick new tax gimmick that must gladden the Keynsian hearts of all the Super-Liberals in the land! It should even please Sen. Ted Kennedy, promoter-in-chief of the idea of reducing what he calls "tax expenditures." It places Dole and his minions about as far to the left of their natural constituency as Madalyn Murray O'Hair is from the College of Cardinals.

Their new idea is to have the Internal Revenue Service dip into interest and dividend income *before* the real owners of those earnings get them. The government guys think they gave first right to all earnings. The person who worked for those earnings is second in line. That is in tune with so much of the socialistic thinking that seems to pervade government. But the bureaucratic boon-doggling and government empire-building possibilities in interest and dividend withholding stagger the mind.

Can you picture the army of clerks they will hire to process the tax on the 5¼ percent interest you and millions of others earn on the five hundred bucks you have in the local savings and loan? And imagine the potential for computer foulups!

Let's say your bank credits interest daily. Your $500 will earn $26.25 a year — which works out to $.0729166 a day on a 360-day year. The bank will have to notify the government money-gatherers that it is sending over a check for 10 percent (the proposed withholding rate) which comes to exactly $.0072916.

This colossal bookkeeping chore will add another government-ordered cost to banks' overhead, many of which are already losing money faster than they can buy red ink.

Quite naturally, the proposed withholding rate of 10 percent is likely to skyrocket, just like the original income tax rate of 1 percent climbed to a marginal rate of 90 percent (now "reduced" to 50%).

Hasn't the Senate Finance Committee heard about the growing sentiment for less government interference in our lives? Don't the committee members understand the importance of ending government's wrecking-ball actions in financial markets? Can't they realize that most older people need every penny of the earnings their savings produce — and not at the end of the tax-year when the IRS is good and ready to return their excess withholding? Can't they realize that many retirees will suffer if the IRS takes another cut off the top? And has anyone figured out that by dipping into people's savings, the amount that one can earn will be reduced? The Senate Finance Committee would prevent much of one's interest from accumulating and compounding. The most serious question of all is, when are government people going to figure out that it isn't only "the rich" who depend on interest and dividends.

Of course, the Senate Finance Committee did worry about the banks' costs — especially, the large, well-represented ones. So they decided to let the banks use the money they withdraw (for the government) from your bank account. The banks will take the money to pay your new tax bill — only they won't! Not right away. The government is going to let them invest your money for a while to earn enough to cover their costs. How about that, fellow taxpayers!

The Dole folks will let the banks earn interest on your earnings — but deny you the same right! The person who works to earn the money, pays income taxes on it, and then chooses to save what is left can't earn interest on the money his savings earn. But the banks will and the government will. Heads they win, tails you lose!

What ever happened to the idea that one had the right to his own property? If the IRS is having difficulty collecting taxes on dividend and interest income, it is not for a lack of forms and reports about what people earn. Interest/dividend income is already reported to the IRS in full on Form 1099. We are the most reported-on people in history.

As a Republican (so far) and a contributor to that party (so far) I can't help wondering how Sen. Dole et al ended up playing on Tip O'Neill's team!

G.T. Urquhart
Washington, D.C

Talking Points

Senate Budget Committee Package vs. Jones Package

Excessive Tax Increase

- $151 billion over three years compared to $95 billion in SBC package.
- Jones tax increase is three times greater than President's February Budget.
- Cancels 37 percent of three year tax reduction ($407 billion) voted by Congress last year.
- Results in $263 billion total tax increase over FY 83-85 when added to scheduled Social Security tax rises.
- Jones revenue target can not be achieved without repeal of third year rate cut and major scale-back of business tax incentives for investment, productivity and jobs.

Eliminates Most of Essential National Security Buildup

- Jones package includes $46 billion in defense program savings and $17 billion in pay and retirement savings.
- This $63 billion total DOD cut eliminates 71 percent of the Administration's increase over the last Carter defense budget.
- Jones defense outlay target would require at least $100 billion in budget authority cuts over three years -- resulting in major damage to strategic modernization, readiness, and upgrading of conventional land, air and naval forces.
- Jones defense program cut is $24 billion larger or 210 percent of SBC defense program savings.

Minimal Domestic Spending Cuts

- Jones provides three-year savings of $41 billion in discretionary spending and targeted entitlements.

- This represents only 40 percent of the President's February Budget savings and falls far short of $72 billion in SBC package.

- Jones three year entitlements savings of $22 billion amount to only 1.8 percent of current law (automatic) entitlement spending baseline of $1.2 trillion.

Old Priorities

- The Jones package represents a relapse to the failed fiscal policies of the 1970's: Excessive tax increases, inadequate defense funding and over-spending for domestic programs.

- Jones tax increases and defense cuts total $214 billion or 51 percent of deficit reduction package.

- By contrast, SBC package contains only $138 billion in defense savings and revenue increases, of 33 percent of deficit reduction package.

Superiority of Senate Budget Committee Package

- Unlike the Jones plan, the SBC package provides a balanced approach to reducing the deficit that is consistent with the President's basic priorities:

    - SBC outlay savings total $281 billion or 68 percent of total deficit reduction package.

    - SBC tax increases preserves 87 percent ($312 billion) of net three-year tax cut contained in President's February Budget.

    - SBC entitlement savings total $49 billion or more than double Jones package.

May 11, 1982

May 11, 1982

JONES PACKAGE

	1983	1984	1985	Three Year Total Jones	Three Year Total SBC
1) Baseline Deficit (adjusted)...........	181.4	215.3	232.2	628.9	630.5
Deficit Reduction Measures:					
2) Management............................	12.9	16.0	14.6	43.5	33.1
3) User Fees.............................	0.7	1.1	1.1	2.9	6.0
4) Federal Pay and Retirement............	5.1	10.6	15.7	31.4	27.3
5) COLAs.................................	—	—	—	—	15.0
6) Non-Defense Discretionary Savings......	(4.9)	(10.6)	(17.2)	(32.7)	—
o Discretionary Add-Back...........	(+1.0)	(+2.2)	(+2.9)	(+6.1)	—
o Net Discretionary Savings.........	3.9	8.4	14.3	26.6	38.3
7) Targeted Entitlements.................	3.0	4.7	6.7	14.4	33.6
8) Social Security Commission Solvency Recommendations.......................	—	—	—	—	40.0
9) Defense (Excluding Pay/Retirement).....	8.6	15.2	22.4	46.2	22.0
10) Other Policy Savings..................	0.6	1.1	1.2	2.9	—
11) Revenue...............................	31.0	52.0	68.0	151.0	95.0
12) Interest Rates........................	8.0	19.0	28.0	55.0	54.9
13) Debt Service..........................	4.7	16.4	29.4	50.5	50.7
14) Total Deficit Reduction...............	78.5	144.5	201.1	424.4	415.9
15) Remaining Deficit.....................	102.9	70.8	31.1	—	—

POLICY CHANGES: SENATE BUDGET COMMITTEE

	1983	1984	1985	Totals 1983-85 President's Budget 1/	Totals 1983-85 Senate Budget Committee
1) Baseline Deficit............	182.0	216.0	232.5	630.5	630.5
Deficit Reduction Measures:					
2) Management..................	8.9	12.1	12.1	33.9	33.1
3) User Fees...................	2.0	2.0	2.0	9.0	6.0
4) Civilian Pay................	3.9	6.3	8.5	9.8	18.7
5) Military Pay................	1.6	3.0	4.0	0.4	8.6
6) COLA's......................	2.7	5.1	7.2	4.7	15.0
7) Non-defense Discretionary...	5.7	12.5	20.1	53.3	38.3
8) Targeted Entitlements.......	7.2	11.4	15.0	48.5	33.6
9) Social Security Commission Solvency Recommendations...	6.0	17.0	17.0	---	40.0
10) Defense (excluding pay/ retirement)................	5.0	7.0	10.0	1.2	22.0
11) Revenue....................	20.0	35.0	40.0	45.2	95.0
12) Interest rates.............	8.0	19.1	27.8	---	54.9
13) Debt Service...............	4.9	16.5	29.3	47.5 2/	50.7 2/
14) Total Deficit Reduction.....	75.9	147.0	193.0	260.5	415.9
15) Remaining Deficit..........	106.1	69.0	39.5	370.0	214.6

1/ CBO estimates. The $260.5 billion total includes $7.0 billion of savings for certain social services programs, employer share employee retirement, and several mandatory programs that are not shown on the table.
2/ Debt service savings for the President's budget are estimated by CBO using CBO pre-policy interest rates. Debt service savings for the Senate Budget Committee are estimated using post-policy rates, which are 2 1/2 percentage points lower.

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Budget 1984

THE HOUSE DEMOCRATIC BUDGET PLAN:

A RADICAL ATTACK ON TWO YEARS OF PROGRESS

I Democratic budget plan is a blueprint for repealing two years of progress on every element of national policy.

- Restores failed pump-priming approach with $58 billion in 1983-84 add-ons for anti-recession and social spending programs. (Tab A)

- Repeals essential welfare, food stamp, medicaid and other entitlement reforms enacted in 1981-82 -- throwing away savings of nearly $10 billion. (Tab B)

- Rejects all new medical, pension and other entitlement reforms proposed in President's FY 1984 budget -- thereby raising spending by $6 billion in FY 1984 and $71 billion over five years. (Tab C)

- Starts ten major new spending programs with six year price-tag of $52 billion --- despite $200 billion plus annual baseline deficits resulting from existing programs. (Tab D)

- Restores funding levels for two-dozen domestic spending programs nearly to the bloated Carter 1981 levels -- thereby wiping out two years of spending restraint and adding $32 billion to the President's FY 1984 budget. (Tab E)

- Resorts to drastic underfunding of defense and over-burdening of taxpayers to finance this spending splurge. Compared to CBO baseline for 1984-88:

  - Taxes up $315 billion

  - Defense cut by $206 billion (budget authority)

  - This amounts to a one-half trillion dollar retreat over five years straight back to failed Carter policies and priorities.

II For the near-term, the Democratic budget plan causes everything to go the wrong way --all at the same time. Compared to the President's budget for 1983-84:

- Domestic spending up by $45 billion

- Taxes up by $27 billion

- National security down by $10 billion

- Deficit up by $8 billion

III Over 1984-88 the Democratic plan cancels 42 percent of the net tax reduction enacted over last two years and increases and middle income tax burdens by a staggering $203 billion.

- The Democratic "tax, tax and tax" plan cancels 38 percent of the 1984 tax cut and nearly 52 percent by 1988:

	1984	1985	1986	1987	1988	Total
o Net tax cut enacted 1981-82...	-93	-121	-154	-178	-207	-753
o Democratic tax increase..........	+35	+48	+58	+74	+100	+315
o Percent of tax cut cancelled.........	38%	40%	38%	42%	48%	42%

IV The so-called Democratic "Fairness" Budget amounts to downright cruelty to lower and middle income taxpayers. Nearly two thirds of the massive $319 billion proposed tax increase would fall on lower and middle income taxpayers as a result of cancelling the third year and indexing.

Impact of Cancelling Third-year and Indexing

	1983	1984	1985	1986	1987	1988	Total
Under $20,000....	+1.2	+4.7	+6.6	+9.6	+13.1	+17.2	+52.4
$20 - 40,000.....	+3.6	+15.6	+20.2	+27.7	+36.5	+46.7	+150.3
Total............	+4.8	+20.3	+26.8	+37.3	+49.6	+63.9	+202.7
Percent of Democratic tax increase....	--	58%	56%	64%	67%	64%	64%

V Democratic budget plan shatters two-year Administration-Congressional consensus for domestic spending restraint and restoration of national defense strength by turning the President's FY 1984 budget priorities upside down.

- o Rather than proposing constructive moderate adjustments to the President's defense request, the Democratic plan guts the entire defense build-up and re-allocates the entire sum to massive increases in domestic spending. Compared to the President's FY 1984 budget, the Democratic plan

	1984	1985	1986	1987	1988	Total
o Increases non-defense spending by	+29	+33	+35	+40	+44	+181
o Slashes national security spending (outlays) by........	-9	-26	-37	-44	-47	-163

VII The Democratic claim that their big defense cuts and major tax increases are needed to cut the deficit is phony.

- Two out of every three dollars of combined revenue increases and defense reductions in the proposed plan are allocated to increase domestic spending -- not lower deficits.

Compared to the President's budget:

o Combined tax increases and defense cuts..................	$277 billion
o Higher domestic spending........	+181 billion
o Percent allocated to higher domestic spending.............	65%