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Folder Title: Tax Bill 1982 (1 of 2)
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1982 Tax bill

D. WALTER ROBBINS, JR.
42 SHELDRAKE ROAD
SCARSDALE, NEW YORK 10583

August 16, 1982

The Honorable Robert J. Dole
United States Senate
Dirksen Senate Office Building, Room 2213
Washington, D.C. 20510

Dear Senator Dole:

A study over the weekend of the tax bill which you have crafted and sponsored prompts one to make the following observations.

As you well know, the economy is in the worst condition since the depression of the 1930's. Over the years Congress has wisely sought to induce personal investment in certain areas of the economy through tax incentives, especially where a large number of jobs are involved. Congress has also cut the maximum tax on capital gains by subjecting only 40% of realized long term gains to taxation as an incentive to make high risk equity investments in a nation where savings and investment in relation to GNP are among the lowest of any developed country in the world.

Under your tax bill, approved by the Republican-controlled Senate, and now approved in conference, the taxpayer is basically required to prepare two tax returns, i.e. the regular return and an alternate minimum tax return. The regular tax return contains all of the above incentives. However, the alternate minimum tax return for individuals essentially eliminates the incentives by adding them back to adjusted gross income and actually taxing them at the alternate minimum tax rate of 20%.

Obviously, what Congress giveth, Congress can taketh, and you have certainly taken full advantage of this prerogative in the alternative minimum tax return by adding back to adjusted gross income, subject to tax, the following items:

1. Accelerated depreciation on real property.

2. Amortization of certified pollution control facilities.

3. Amortization of railroad rolling stock.

4. Amortization of on-the-job training facilities.

5. Amortization of child care facilities.

6. Reserves for losses on bad debts of financial institutions.

7. Incentive stock options.

8. Depletion.

9. Intangible drilling costs.

10. The 60% portion of long term capital gains not taxed under the regular tax return.

11. Excluded interest and dividend income including the all-savers and net interest exclusion and the dividends exclusion.

Now, as you know, under the regular tax return itemized deductions and dependent exemptions are subtracted from adjusted gross income to determine personal income subject to tax. In studying your tax bill, one is rather shocked by the limitation of itemized deductions against adjusted gross income under the alternate minimum tax. Only a few insignificant deductions are allowed, mostly for items which are very politically sensitive, including charitable contributions and home mortgage interest. Items conspicuously disallowed for deductions because of their magnitude include:

1. State and City Taxes (New York Congressmen please take note as you have the highest tax rate in the Nation.)

2. Local Property Taxes (Homeowners take note.)

3. Expenses related to managing investments and professional accounting and tax work.

With State, City and Local property taxes moving up to compensate for less Federal aid under your programs, and such taxes non-deductible on the Federal alternative minimum tax return, one could reach that stage of euphoria for the Government where one's total taxes exceed one's income.

It does not take too much imagination to figure out your eventual scenario of eliminating the regular tax form and substituting therefore your alternative minimum tax with limited deductions, taxing 100% of capital gains, etc., followed by a simple increase in the minimum tax rate from 20% to, say, initially 30% for openers, and, "voilà" you have underwritten the continued feeding at the Government trough for years with no problem of deficits.

To push through in a deep recession, and a chaotic stock market, taxes of the above type which focus on productive people who provide needed investment capital, doesn't seem like the greatest idea. It is also impossible to make a long term investment decision under the Las Vegas environment of Congress changing the tax rules affecting same every year. Of course, one realizes that your program to increase taxes by approximately $100 billion over three years has been sold to the voters on the basis that it is "soaking the rich", and therefore very fair.

An examination of the 1980 IRS data indicates that the top 10% of total Federal income taxpayers paid 49.2% of total personal income taxes in 1980 and the top 25% paid 73.2% of total personal income taxes in that year. I would be interested in your criteria for fairness in the tax system.

In dismay, I thought about throwing in the towel and retiring, but further examination of your tax bill indicates that you are also closing that so-called "loophole" for anyone in the private sector (Government employees and Congressmen conveniently excluded!) by reducing maximum pension benefits for future retirees by up to 34% despite over 50% inflation over the past ten years.

I believe that someone called it "the road to serfdom". It is very discouraging to see the present Administration paving the way.

Sincerely,

D. Walter Robbins, Jr.

D. Walter Robbins, Jr.

DWRJr/mg

Republican
National
Committee

Richard Richards
Chairman

August 18, 1982

Dear Republican Congressman:

I want to personally apologize to you for the statements made by Deputy Chairman Rich Bond reported today in the Wall Street Journal.

His actions and statements were out of line. He has been called on the carpet for them, and he recognizes the seriousness of his error.

You will note the attached statement, which has been issued to the media. The statement makes clear my position and the constant position of the Republican National Committee.

As I said in the statement, it has never been and will never become, the policy of the Republican National Committee to put pressure on Members of Congress.

I want you to know, this type of thing will never happen again.

At the same time it is important to note the valuable job Rich has been doing for the Republican Party. It is important to the Party and the hundreds of races we are involved in this year that we maintain the level of excellence he has helped us achieve.

His organizational skills and leadership qualities have played a major part in putting our committee in the best possible position to help the largest number of candidates.

He obviously made a mistake, but, to his credit, he has accepted the responsibility for the mistake and genuinely acknowledges the error in judgment.

Dwight D. Eisenhower Republican Center: 310 First Street Southeast, Washington, D.C. 20003. (202) 484-6500.

I hope you will accept my apology, and the apology he has tendered in his public statement.

Very truly yours,

Richard

Richard Richards

RR/Wej

Attachment

RNC 82-076
FOR IMMEDIATE RELEASE
AUGUST 18, 1982

CONTACT: JENNIFER HILLINGS
(202) 484-6550

STATEMENT OF CHAIRMAN RICHARDS, REPUBLICAN NATIONAL COMMITTEE

Rich Bond is out-of-line. His comments, as reported in today's Wall Street Journal, demonstrate a lack of sensitivity to the legislative process and represent an over-zealous attempt to secure passage of this legislation. He was told to back-off last week when this interview took place, and he has done so. I extend my personal apology for this behavior and will offer him no second chance in the event this should ever occur again. It has never been, and will never become, the policy of the RNC to put pressure on Members of Congress.

# # #

STATEMENT OF RICHARD N. BOND

I must have been taking stupid pills that morning instead of my vitamin C. I apologize to the members of Congress, the White House, and the membership of the Republican National Committee. These statements do not reflect any instructions I ever received as to how to lobby for this legislation.

# # #

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VOL. CC NO. 34 ★ ★ ★ EASTERN EDITION 1982 Taffbell

Playing Hardball

How Reaganites Push Reluctant Republicans To Back Tax-Rise Bill

Party Uses PAC Power And Other Tough Tactics On Many Representatives

The Golden Glover's Touch

WASHINGTON—A political commander in the heat of battle, Rep. Trent Lott of Mississippi sits confidently amid a squad of White House lobbyists. They are deployed to fire off phone calls to the many Republican lawmakers opposed to President Reagan's tax-increase proposal.

Then the intense No. 2 Republican in the House answers a phone himself. He tells the

This article was prepared by Wall Street Journal reporters Dennis Farney, Leonard M. Apcar and Rich Jaroslovsky.

caller that the White House must aim some heavy artillery—Budget Director David Stockman—at GOP Rep. Ed Bethune of Arkansas, a dug-in opponent of the $98.3 billion increase. The need is urgent because the House is expected to vote on the tax bill this week. "You've got to get to him (Rep. Bethune) this afternoon," Mr. Lott insists brusquely and then hangs up.

The budget director may not be able to convert Mr. Bethune, Rep. Lott says, "but it will give him more to think about."

Three blocks away, at Republican National Committee headquarters, Rich Bond, the Republicans' brash deputy chairman, relates with relish how he persuaded two timid Republicans to vote for the president's budget cuts earlier this year.

"They said, 'This'll kill us.' I said, 'Look—what if I can guarantee we'll max out on you?' " ("Maxing out" means giving the maximum campaign aid the law generally allows a party to give: $30,000 in cash, another $36,880 in services.) "We'll help you do a quick-and-dirty newsletter, make a commercial, organize a town meeting. Boom, Boom, Boom."

Dire Consequences

The two congressmen rallied behind their president. And if they hadn't? "I would have nailed them to the wall," vows the deputy chairman.

Those are glimpses of the formidable Republican Party discipline apparatus that has undergirded Ronald Reagan in every critical congressional fight so far. That apparatus, ultimately directed by the president's top aides, incorporates the Republican National Committee and GOP House and Senate campaign committees. Its enforcer is Edward Rollins, the White House political director and a pugnacious former Golden Glove boxer. The apparatus cements GOP

What's News—

Business and Finance

STOCK PRICES SOARED, with the Dow Jones Industrial Average surging a record 38.81 points on 92,860,000 shares, the second highest volume on record. Much of the "buying panic" was credited to an optimistic prediction by Salomon Brothers analyst Henry Kaufman that interest rates would fall sharply in the next 12 months.

In the credit markets, bond prices rose sharply, with prices for some long-term Treasury bonds up over four points. Most short-term interest rates fell, with several banks cutting their prime rate to 14% from 14½%. The dollar weakened in the wake of Mr. Kaufman's prediction.

(Stories on Pages 3, 28, 49 and Col. 6)

* * *

Occidental Petroleum is considering a new acquisition proposal for Cities Service or a tender offer to Cities shareholders.

(Story on Page 2)

* * *

Housing starts surged 33.7% in July, to the highest level in 15 months, reflecting a jump in work begun on government-funded multifamily units. Single-family housing starts declined.

(Story on Page 3)

* * *

Plunging interest rates promise to cut consumers' borrowing costs. But for those who invest in money-market funds, benefits of lower interest rates will be offset by a much faster drop in income from savings.

(Story on Page 3)

* * *

A package of budget cuts approved by a House-Senate conference committee was unexpectedly rejected by the House, mainly because it included a provision that could boost lawmakers' pay. The measure is to be redrafted and returned to the House floor today.

(Story on Page 4)

* * *

The holding period for the long-term capital gains or losses would be halved to six months under legislation cleared by the Senate.

(Story on Page 2)

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Tenneco and the Conoco unit of Du Pont reported two dry holes in the Georges Bank. That brought to six the number of dry holes reported so far in the offshore Massachusetts area, fur-

World

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file Tax bill - 1982

Phillips Publishing, Inc.

7315 Wisconsin Avenue, Suite 1200N, Bethesda, Md. 20814 301-986-0666

August 2, 1982

President Ronald Reagan
The White House
Washington, D.C. 20500

Dear President Reagan:

If it is passed, I urge you to veto the new tax increase bill.

It is outrageous that our political leaders should consider such heavy tax increases before supply-side economics is given a chance to work. The middle of a recession is not the time to levy heavier tax burdens on American taxpayers.

The most objectionable part of the Bill is in the proposal for withholding on interest and dividends. I'm sure most taxpayers recognize the 10 percent withholding as just "a foot in the door" which would lead to ever higher levels of withholding in future years. Furthermore, it may become "the straw that breaks the camel's back" to the savings and loan industry. Withholding will give the investor just one more reason not to place his money in a savings and loan institution.

Sincerely,

Thomas L. Phillips

Thomas L. Phillips
President

cc: Mr. Morton Blackwell, Special Assistant to the President

Reagan defends taxes in letter to Lofton

By Bill Kling
WASHINGTON TIMES STAFF

p1 8/16

President Reagan's backing of the huge tax-increase proposal now before Congress is a tradeoff to preserve the congressional coalition that has given him major victories in his economic recovery program, according to a letter Reagan has sent to a columnist for The Washington Times.

"We found we could not put last year's coalition together unless we agreed to some increases in revenue," Reagan wrote in last Friday's letter to John Lofton, who pens "John Lofton's Journal" three times a week for The Times.

Reagan's letter indicates that his support of a tax increase was necessary to keep an unspecified number of Democrats and Republicans in line on the economic recovery program.

"The defectors were on both sides of the aisle," Reagan's letter says in his first public explanation of his reasons for supporting the pending tax bill.

The "Dear John" letter, signed "Ron," was in response to a question Lofton slipped to the president in a note as Reagan left last week's news conference in the East Room of the White House.

Lofton's question was: "Why now a $228 billion tax increase through 1987?

(Lofton responds to the President's letter in today's "John Lofton's Journal," which appears on Page 3A.)

Reagan's letter to Lofton reads:

"I'll be happy to answer your question although the answer seems so obvious I'm surprised that I have to.

"If you don't mind, I'll use the three-year projection figures which seem to be the ones being discussed on the Hill and in the press. Besides, I haven't much confidence, if any, in economic projections as far out as 1987.

"We found we could not put last year's coalition together unless we agreed to some increases in revenue."

"Over the three years the increased revenue from the Senate bill will total

see **LETTER,** ***page 10A***

LETTER

From page one

"I point this out as a preface to refuting the common practice of calling this the biggest single tax increase in history. It is no such thing. Even if you take the entire $99 billion for '83 through roughly $99 billion. Of that amount, $31 billion is not additional tax. It is tax owed under the present laws but not now being collected. The remaining $68 billion is from shutting off unintended tax advantages such as the estimated 60 percent tax cut some insurance corporations received as the result of faulty legislation a few years ago and some new taxes.

'85 that is less than the $112 billion increase in the Social Security tax for the same period. There are other equally valid examples.

"Now, to answer your question of 'why?' It's very simple. This was the price we had to pay to get a reduction of outlays which amount to three dollars for every one dollar of increased revenue.

"Leaders of the opposition were determined to cancel the remaining tax cuts passed last year and which come into place beginning in 1983. (The tax cuts from our 1981 bill total $408 billion for '83 through '85.) We found we could not put last year's coalition together unless we agreed to some increases in revenues. The defectors were on both sides of the aisle.

"Personally, I had to swallow very hard. I believe in 'supply side,' and that tax increases slow the recover. I'm also determined that we haven't had all the spending or tax cuts we're going to get. However, I could not stand by and see the further cuts in spending go down the drain when the price, distasteful as it is, gave us the biggest share of what we were seeking."

JOHN LOFTON'S JOURNAL

Ball's in your court, Mister President

Dear Mr. President:

Thank you very much, sir, for your prompt reply to my rather unorthodox method of questioning you. And just as I hope my note was not impertinent, I also hope the following observations are not out of line.

Point One: No, I do not mind if you prefer to use the three-year Dole bill "increased revenue" projections of roughly $99 billion. And the point you make about the reliability of five-year estimates has merit. But, despite your preference, the fact remains that according to the Senate Finance Committee's report, by 1987, the Dole bill increases taxes by about $228 billion.

Point Two: Regarding the size of the Dole bill, you say that even if the entire three-year $99 billion figure is counted, this is still not the biggest single tax increase in history. You say that for this same time period, the Social Security tax hike is larger and there are other equally valid examples.

Well, sir, I'm sure you've been told this. But Charlie Powers, a public information officer at your Treasury Department, tells me that the Dole bill is the "largest, one-year and three-year legislated tax increase on record, in dollar terms, in a single piece of legislation."

Furthermore, even if what you say is true, the question remains: Why now, in a recession, support a large tax increase when even *larger* tax increases are already in place?

Point Three: As to the "why?" of your support for the Dole bill, you say it is the price you had to pay to get a reduction in outlays which amount to three dollars for every one dollar of increased revenue.

Now, I assume that this three-to-one ratio is an allusion to the First Concurrent Budget Resolution conference report which passed the House (210-208) and the Senate (54-45) in late June. Because in the Dole bill — which is what I asked you about — there is no such ratio. In fact, the Dole bill, over three years, calls for $99 billion in tax increases and only $17.5 billion in budget savings.

Speaking of this alleged three-to-one ratio rationale, sir, I must be blunt: Many of your strongest supporters on the Hill believe that in buying this, you were sold a bill of goods. What these Reaganites believe is that there's no way — once the dust settles — that Congressional spending cuts are going to outnumber tax increases by a margin of three-to-one. No way.

One strong Republican backer of yours on the Hill put it to me this way:

"The problem with the three-to-one spending cuts versus tax hikes argument is that it is premised on events in the House the President has no hope of controlling, that is how the Democrats will specifically consider cuts and tax increases and how many votes they will force us through.

"Last year we were very lucky. We defeated a rule on reconciliation and we got our own rule adopted with the result being one big vote on the whole package. But this won't happen this year.

"The only way the three-to-one ratio could possibly work would be if the Democrats let us set the voting procedure which, of course, they won't."

This source says that what the House Democrats are doing, and will continue to do, is put Republicans through a whole series of votes — like silhouette targets in a shooting gallery — where they will be cut to ribbons by highly organized special interest groups.

Point Four: You say that as a "supply sider" you believe that tax increases "slow the recovery." Well, I could not agree more. And the reason I agree is because I have found your previous utterances on this subject so convincing. Over and over, you have said that the way to reduce the size of the deficit is not to *increase* taxes but to *cut* Federal spending. For example, at the White House on May 20, you told a group of businessmen:

"We don't have a trillion dollar debt because we don't tax enough; we have a trillion dollar debt because bill of goods. What these Reaganites believe is that there's no way — once the dust settles — that Congressional spending cuts are going to outnumber tax increases by a margin of three-to-one. No way.

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"We don't have a trillion dollar debt because we don't tax enough; we have a trillion dollar debt because government spends too much. Simply raising taxes won't do the trick. It's well for us to remember that in the last five years taxes went up by more than 200 percent, and we still had in those five years the largest string of deficits in our history."

Well, sir, this is indeed something to remember. But, according to a report prepared for the Senate-House conference committee by the staff of the Joint Economic Committee on Taxation, the business tax provisions of the Dole bill will account for $40 billion of the $99 billion in proposed new revenues. People will, of course, pay these additional taxes.

And, in addition, even though you traveled to Hartford, Connecticut, on Tuesday and declared that "we've replaced that old doctrine of tax and tax, spend and spend with a new philosophy that says there is one overriding cause for our current economic troubles: government is too big and it spends too much money," this has not happened. A study released yesterday by the New York Federal Reserve Bank shows that under the First Concurrent Budget Resolution — which you supported — federal spending, as a percent of the Gross National Product, will be 24.3 percent of the GNP in 1983, 24 percent of GNP in 1984 and 23.8 percent of the GNP in 1985. To put it kindly, this hardly represents an end to the old doctrine of tax and tax, spend and spend.

I know, Mr. President, that you sincerely believe the Dole bill represents an acceptable trade-off in terms of tax hikes versus budget cuts. But, for what it's worth, I and a lot of other people who are among your staunchest and most enduring supporters, strongly disagree.

In my judgment, because I agree with your repeated statements that tax increases only increase the deficit, you should have thrown down the gauntlet and fought! You should have fought for at least another $100 billion in budget cuts and dared Tip O'Neill and Company to oppose you.

Too many of your top advisers really believe that because you don't "have the votes" on an issue — and you might not on another $100 billion cut — that the battle is over, that you've lost. But his is a dangerously mistaken analysis. If you don't have the votes on another $100 billion budget cut, all this means is that *another* battle has begun.

Take your case to the people, Mr. President, in a systematic comprehensive campaign to pin the tail on the Democratic donkey where it belongs. The Big Government, tax and tax, spend and spend issue is yours, all yours.

In every poll I've seen, when given a choice between raising taxes or cutting federal spending to reduce the deficit, by sizable margins the American people favor the latter over the former.

This is your issue, Mr. President. You have only to seize it and run with it. As you've often asked, sir, if not you, who? If not now, when?

Best regards,
John

1982
Tax bill

file

March 20, 1982

Dear Morton:

Enjoyed our talk. I'm enclosing a recent column I did for the Chamber of Commerce's Washington Report which I thought you might be interested in.

Best,

Donald Lambro 569-0182

6605 Greenview Lane
Springfield, Va. 22152

Evening News Lacks Balance

Every evening at 6:30, while I am trying to relax over the evening meal, I must perforce view the national TV news to at least keep up on national and worldwide events.

In between advertisements suggesting I might be suffering from constipation, hemorrhoids, upset stomach, arthritis and shrinking gums, I am spoon-fed the negative viewpoints of several commentators.

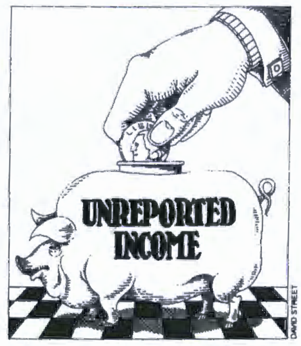
Their principal aim seems to be to portray how blacks, the elderly, welfare recipients, labor leaders and House Speaker Thomas P. "Tip" O'Neill feel about Reaganomics. Very seldom are the positive views of those of us who are for less government given equal time.

Why is it not possible to publicize and emphasize the positive side of our country? Why not portray the feelings of millions of our people who believe in the self-help system and who quietly pay their taxes and go about their daily business with a smile instead of a complaint?

What can be done without jeopardizing the guarantee of free speech to somehow get the media to understand there is another side to their stories?

Leonard M. Roche
Vice President and Cashier
Citizens Valley Bank
Albany, Ore.

'Under the Table' Work Increasingly Popular



The Chamber does not appear to have addressed the very serious, growing and continuing problem of the underground economy. It seems that almost everywhere I turn, someone is working on the side for cash.

This is bound to affect business and the Treasury very seriously. Whenever there is a regressive tax on middle-income wage earners, something like this is bound to happen. The wage earner feels this is the only way he can get ahead, and I believe he is right.

But the federal, state and local governments had better address this before it gets worse.

Mary Souza
Mary Souza Personnel Agency
San Francisco, Calif.

Child Care Suggestion Would Help Workers

Although I have no children, I am very much in favor of employers offering child care facilities as was suggested by Sen. Bob Packwood (R-Ore.) in his Feb. 22 Viewpoint column.

For a worker to be able to leave his or her house early in the morning and take his or her children directly to work would be a great time saver. Being able to reach a child in a matter of seconds if an emergency arose would also be a great relief.

Tammy Sprinkle
Thomasville, N.C.

We Must Stop Passing Tax Buck to Others

I read with interest two letters in your Feb. 15 issue suggesting ways to stabilize the Social Security and federal budgets. F. Fyock advocated higher Social Security taxes for people whose incomes are above the ceiling, and R.L. Spartman called for higher taxes on alcohol and tobacco.

I am going to hazard a guess that F. Fyock makes less than the Social Security ceiling and R.L. Spartman does not drink or smoke.

The real problem in this country is the people who demand a balanced budget and lower taxes but always expect someone else to pay for it.

It's kind of like ripping off an insurance company. They can't justify it as right or fair, but they can rationalize that the other guy can afford it.

For this reason, I think any increase or decrease in taxes should be 100 percent across the board and include federal employees and elected officials.

When people stop pointing their fingers at others for tax increases and, at the same time, congressmen stop trying to make all the budget cuts in someone else's district while demanding more spending in their own, the United States will get on an even keel.

We will have enough money for defense and enough to help the truly needy without raising anybody's taxes.

Wayne D. Sherman
Beaumont, Texas

Leasing Rule Doesn't Shelter Small Firms

A Feb. 8 Advocacy section article entitled "A New Lease on Life: Small Firms Benefit" reported that "safe harbor" leasing can help small as well as large firms.

Such leasing allows non-profitable companies to "sell" the deductions and tax credits they would have received to companies that can use them to reduce or eliminate their tax liability.

However, the same article quoted Treasury Department regulations that make it virtually impossible for most small businesses to benefit from safe harbor leasing. Almost all small firms fall into categories excluded or severely restricted from using such leasing: closely held corporations, some partnerships and Subchapter S corporations.

Maybe people are right when they say Big Business is the only one getting this administration's help. Apparently *Washington Report* is helping in this effort.

Harry J. Cornwall, P.E.
President
ConServ, Inc.
Long Beach, Calif.

Listen to Social Security Views of the Young

Some of my views on Social Security were expressed by Peter Germanis in your Feb. 8 Viewpoint column.

The 24-year-old economist pointed out that while the burden placed on his generation will increase, the "windfalls" from Social Security will diminish.

Although his views on the unfairness of this situation are more than likely in the minority, Mr. Germanis did not make up his facts and figures.

The youths of this country are forced to contribute higher amounts at higher rates at a time when their money is more valuable than ever.

Over half of the people in the United States are under age 30. But because many are under the voting age and few of the others, if any, are lawmakers, they are completely ignored when it comes to Social Security.

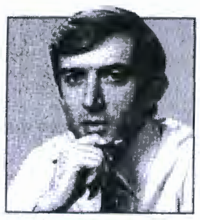
Perhaps if decisions regarding the retirement system were shared equally by those under age 30, more sound answers would surface.

Frederick J. Brown
Clearfield, Pa.

We invite your letters. They should be signed and include a return address and telephone number.
Please write to Editor, *Washington Report*, 1615 H Street N.W., Washington, D.C. 20062.

By-Line

President's Splintered Coalition Must Regroup For Budget Battle II



Donald Lambro

Ronald Reagan is taking a beating in his struggle to cut government down to a more affordable size, and from where I sit, some of the people who should be rushing to his defense have been strangely silent.

The drumbeat of criticism on the nightly television news and in the major newspapers has been relentless and, to a considerable degree, effective.

Explanation Simplistic

Night after night millions of Americans are seeing federal spending reduced to the most simplistic generality: The budget is composed of two piles of money. One is for the military, and it is beginning to look like Mount Everest. The other is for the poor, and it is beginning to look like an ant hill.

One, of course, expects this kind of remedial "see the budget fall" journalism from the news networks. Few of television's star reporters have ever bothered to spend a few days poring through agency contract printouts to see where all those billions of dollars really go.

Very few of them could explain the particulars of an Urban Development Action Grant or Small Business Administration loan or explain who really benefits from these and other expenditures.

It is certainly worth a Ford Foundation grant to find out why television has been so adept over the last year at showing us how budget cuts are destroying the fabric of our nation.

Prior to this time, television programs rarely if ever devoted any time to examining the thousands of programs and expenditures that have been ripping off taxpayers for decades.

Yet it is difficult to throw stones at the networks when the president's men in Congress have so visibly retreated from the ranks of the Reagan revolution.

The conspicuous absence of support from Republican leaders such as Senate Majority Leader Howard Baker, House Minority Leader Robert Michel, Senate Finance Committee Chairman Robert Dole, Senate Budget Committee Chairman Pete Domenici and even Nevada Sen. Paul Laxalt has been one of the major disappointments in the opening round of Budget Battle II.

Even some taxpayer and business groups have retreated in varying degrees from their initial all-out support of Reagan.

Businesses Change Tactics

The Business Roundtable, once so bullish on the Reagan budget, is now suggesting that defense spending be reduced. The group has indicated it might support higher excise taxes and a postponement in the individual tax cuts slated for 1983.

Leaders of some other major business and trade organizations are also expressing some nervousness over Reagan's program, although the U.S. Chamber of Commerce has reaffirmed its support.

Most distressing have been the sharp attacks from the right at a time when the president should be girding all of his traditional allies for the second major thrust on the budget.

This is not to say that the criticism from the New Right about the administration's depressing personnel choices and the State Department's often weak and vacillating policies is not deadly accurate and needed.

But to the extent that some on the New Right have been excessively accelerating all their fire on the administration and expending far less ammo against those who seek to preserve a bloated bureaucracy, there is serious cause for concern.

One need only look at the budget projections contained in the administration's fiscal 1983 proposals to understand the enormity of the problem that confronts us.

Even with the kind of cuts the president is proposing, the figures show spending rising to nearly $1 trillion in five short fiscal years, with a tax take that nearly matches that sum. In fact, it is a safe bet that that figure will be reached even sooner under present spending practices.

"If we don't get a package implemented of the size that we have proposed," a deadly serious David Stockman, director of the Office of Management and Budget, told me in a recent interview, "then we won't have a $98 billion deficit; we're going to have something like a $147 billion deficit in the coming year."

The time has come for every group and political constituency that came together during last year's stunning tax and budget-cutting coalition to re-examine what is at stake in this year's budget battle and to begin regrouping for another major offensive on Big Government.

1982
Rep. Lott

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 17, 1982

TEXT OF A LETTER FROM THE PRESIDENT
TO REPRESENTATIVE TRENT LOTT

Dear Trent:

You know I strongly believe that enactment of the pending Conference Report on revenue and reconciliation is a price worth paying for lower interest rates, economic recovery, and more jobs. It is an essential element in the implementation of the Budget Resolution -- which, if faithfully followed, will reduce deficits by $380 billion over three years.

This deficit reduction program is entirely consistent with our efforts to shrink the growth of government. It would involve almost $3 in outlay reduction for every $1 in revenue increase.

I recognize that there is some uncertainty about the ability to assure that future spending reductions will be achieved. But I am encouraged by the Congress' work on the pending reconciliation measures, which come very close to meeting their spending reduction targets. Further, I assure you that the Administration will not relax one bit in our continued pursuit of spending cuts.

I will, of course, resist any budget-busting spending measures that may come to my desk. And, lest there be any doubt on this point, I would ask you to remind your colleagues that as Governor of California I exercised the veto power successfully 993 times. I hope I will not have to use the veto so frequently here in Washington. But, for my part, I will -- without reservation -- do what has to be done to control spending.

Your support has been invaluable in the implementation of our program to date. With your continued strong leadership and support, we can continue to restrain government, as we restore America's strength and vitality.

Sincerely,

RONALD REAGAN

###

1982 Tax Bill

THE CASE AGAINST INTEREST AND DIVIDEND WITHHOLDING

1. The withholding plan as written cannot raise more than $1.2 billion in fiscal 1983 (as opposed to the official estimate of $4.3 billion).
-- Institutions and corporations will need six to nine months to implement full withholding. This delay alone will mean only one-fourth to one-half anticipated revenue for fiscal 1983 can be realized, because nearly three-fourths of the first year's projected revenue is from accelerated cash flow.
-- Other reasons why the estimates are too high: individual and institution exemptions added to the bill since revenue estimates were made and the option to withhold annually on some accounts.
-- Treasury will also lose an estimated $250 million solely because of reduced interest income (not including dividend losses) as a result of withholding. The income loss results from reduced compounding of interest.

2. Private sector costs to act as IRS collection agents are estimated at 30 to 40 per cent of the $4.3 billion first year Treasury projection.
-- Costs of withholding are estimated at $2 to $4 per account -- costs which many withholding agents will have no choice but to pass on to customers.
-- In order to reach all saving and investment vehicles without exception, the withholding plan will have to be extremely complex and inefficient.

3. The temporary exemptions for some withholding agents will result in unfair discrimination among customers of competitive institutions and corporations.
-- The lack of any objective standard under which Treasury will be granting temporary institutional exemptions creates another potential inequity.

4. Savers and investors entitled to exemption from withholding will be burdened instead with enormous paperwork and red tape requirements to establish their eligibility. For example, someone with many accounts at one institution will have to file for each account.
-- Exempt individuals who switch investment and savings vehicles will have to file new exemption certificates for each new vehicle.
-- Individuals who have been eligible for exemption but later become liable for taxes that year will have to have all exemption certificates revoked. If they again become eligible for exemption, they will have to reverse the process once again.

5. To avoid undue tax liability, individuals for the first time will be required to disclose their anticipated tax liability to third parties -- bankers, brokers and other withholding agents. In effect, they must certify their "poverty status." In contrast, an employee whose tax status changes need only instruct his employer to alter his withholding form.

6. Withholding works against the objective of enhancing incentives to save and invest.

7. Much of the interest earned on savings accounts remains in financial institutions and is used, thereby, to fund home mortgages and other loans; withholding will tighten the supply of lendable funds.

to: Mr. Morton Blackwell

room: ________ date: 8/6/82

Department of the Treasury
Public Liaison and Consumer Affairs
Washington, D.C. 20220

The attached summary is forwarded for your information.

Thought you might be interested.

Cyndy Powell

Cynthia J. Powell
Special Assistant to the Assistant Secretary
room 2327
phone 566-9075

TAX BILL

BRIEFING MATERIAL

AUGUST 4, 1982

Department of the Treasury

FACT SHEET

TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

The Senate has passed a bill which improves the fairness of the tax system while preserving the savings and investment incentives necessary for economic recovery. It is a measure the Administration can and does support, and one which Congress should support.

The bill complies with the revenue-raising requirements of the First Budget Resolution -- thus reducing projected budget deficits -- while maintaining the integrity of the President's economic recovery program.

* The bill preserves the individual tax rate reduction and indexing provisions enacted last year.

* Rather than raising taxes across-the-board, the bill focuses on the elimination of unintended abuses, the removal of obsolete incentives, and improvements in taxpayer compliance.

* More than three-fourths of the increased tax revenues come from increased taxpayer compliance and the closing of tax loopholes.

* The bill will have little or no effect on the majority of individual taxpayers.

Individual Tax Cuts Maintained

-- Maintaining the third year of the tax cut and indexing is essential to providing real tax relief to the American people.

-- Repealing the third year and indexing would result in substantial tax increases for average working taxpayers.

-- The tax cuts are fair, and the average taxpayer would bear the brunt of a repeal of the third year. Taxpayers earning less than $50,000 now pay 67 percent of all income taxes and will receive 70 percent of the tax cut.

Compliance and Collection

-- Rather than imposing new taxes, the bill achieves one-third of the increased tax revenues by adopting measures to collect taxes already owed.

-- If these measures -- such as withholding on interest and dividends -- are not adopted -- new tax increases would have to be imposed to meet the requirements of the budget resolution.

-- Withholding will not have an adverse impact on savings. It will be a savings disincentive only to those who are not now paying all the taxes they owe on interest and dividend income. For honest taxpayers, the yield on an asset earning 9 percent after taxes would be 8.97 percent after withholding.

-- Specific exemptions are provided for the elderly and low-income individuals. Nearly 80 percent of the elderly, those with income of less than $14,450 ($24,214 on joint returns), will be exempt.

-- The administrative burden on financial institutions is minimized. The bill contemplates compensating financial institutions for start up costs through favorable rules with respect to the deposit of withheld taxes. It also provides an exemption for small institutions and small accounts.

Base Broadening Measures

-- The bill includes a number of measures proposed by the Administration to eliminate tax abuses, including changes in the treatment of long-term contracts, private purpose tax-exempt bonds, construction period interest and taxes, and modified coinsurance.

-- The bill restricts and ultimately phases out the safe harbor leasing provisions. The proposal would recoup a significant amount of the revenue loss from leasing and correct a number of the perceived and real abuses.

-- The bill restructures and strengthens the minimum tax for individuals and corporations.

-- The bill modifies ACRS and the investment tax credit to insure that the tax benefits are not more generous than an immediate write-off.

Impact on Individuals

-- The bill will have little or no effect on the vast majority of taxpayers.

-- When combined with the tax reductions enacted last year, the taxpayers of this country will still receive substantial net tax reductions, as the following table shows.

	82	83	84	85	Total
Tax Reductions, 1981 Act	-38	-90	-138	-178	-444
Senate Tax Increases (not including compliance)	--	11	24	32	67
Net Tax Reductions	-38	-79	-114	-146	-377

-- The bill preserves all of the individual marginal rate reductions and most of the basic ACRS changes enacted last year. In the aggregate, the Senate bill merely offsets the lost revenue due to the add-ons included in last year's bill.

	82	83	84	85	Total
Individual Rate Reductions and ACRS	32	77	116	142	367
Add-ons enacted last year	6	13	22	36	77
Senate Tax Increases	--	11	24	32	67

8/2/82

TALKING POINTS ON TAX BILL

The Deficit and Taxes

- This Administration is committed to reducing budget deficits, but in a way that preserves incentives for savings and investment and the integrity of our basic economic recovery program. The primary means of reducing these deficits is to reduce the overall size of the federal government by cutting expenditures. Nonetheless, the Administration recognizes that what expenditures remain must be paid for -- either by taxpayers today or taxpayers tomorrow. Without the tax bill, future deficits would simply be too large, choking off economic growth.

- The issue of the deficit concerns the means of financing the government, not the size of the government. Government borrowing is a drain on our capital markets. A central goal of this Administration is to foster economic growth through new investments in physical capital. Consistent large government borrowing that soaks up new savings available for real investment runs directly counter to that goal.

Comparison with the Economic Recovery Tax Act of 1981

- The tax bill is carefully crafted to preserve the incentives for saving and investment contained in the Administration's economic program. Most importantly, the bill leaves intact the basic tax cuts for individuals as passed in the Economic Recovery Tax Act of 1981.

- There is an important difference between the rate reductions established in ERTA and the base broadening in this tax bill. Rate reductions help restore incentives to the economy. The changes in this bill help insure that any remaining tax burden is distributed fairly and efficiently.

  --Fairness is enhanced because the bill helps eliminate special tax breaks which are available only to some individuals or some businesses. The bill will have little or no effect on the majority of individual taxpayers.

  --Efficiency is improved because tax rates across sectors or businesses are made more even. When the government tends to favor certain individuals or businesses over others, regardless of their income, it also tends to interfere in their choice of goods to produce or consume. This makes the economy less efficient and less likely to produce those goods which provide the greatest value for the least cost.

Provisions of the Tax Bill

o The provisions of the bill can be broken down into four components. About three-fourths of the increased tax revenues come from improvements in tax collection and base broadening measures.

(1) Compliance and Collection Measures account for about 32 percent of the revenues.

(2) Base Broadening Measures, including the removal of obsolete incentives and the elimination of tax abuses, account for about 50 percent of the revenues.

(3) New Personal Taxes account for about 17 percent of the revenues.

(4) New Business Taxes account for less than 1 percent of the revenues.

(Though less than 1 percent of the revenues come from new business taxes, a large amount of the base broadening measures directly affect business. Overall about half of the increased revenues are business taxes.)

o The Compliance and Collection Measures are designed to collect taxes from those who currently owe them, but do not pay them. Penalties will be raised for those who underreport their income. Some businesses will be made to pay their taxes on a more current basis, but no faster than most individuals pay already. Reports will be sent to the government on income which is often underreported such as gains on sales of stocks and on other income; these reports will be little different from reports that are now sent for most individuals on their wages, dividends and interest.

o Despite what has been reported, withholding on interest and dividends will not impose any new tax on anyone. It is designed only to insure that taxes are collected from everyone who owes those taxes. Individuals who pay their taxes currently will get the entire amount of withheld dollars back, either through reductions in their other withholding or estimated payments of tax, or through a later refund. This is no different from wage withholding.

--Because withholding involves increased tax collections only on those who do not currently report their interest and dividends, it will not be a savings disincentive. For honest taxpayers, the interest lost on additional withheld dollars, if any, will be trivial. In the worst case example, the yield on an asset earning 9.00 percent would be reduced by 5/100 of one percent to 8.95 percent.

--Specific exemptions will be provided for the elderly and low income individuals. Nearly 80 percent of the elderly (including single persons with incomes less than $14,450 and joint returns with incomes less than $24,214) will be exempt.

--The administrative burden on financial institutions is minimized. The bill contemplates compensating financial institutions for start-up costs through favorable rules with respect to the deposit of withheld taxes.

- <u>Base Broadening Measures</u> include a number which were proposed by the Administration to eliminate tax abuses, including changes in the treatment of long-term contracts, private purpose tax-exempt bonds, construction period interest and taxes and modified coinsurance.

- The bill restricts and ultimately phases out the safe harbor leasing provisions. The proposal would recoup a significant amount of the revenue loss from leasing and correct a number of the perceived and real abuses.

- The bill restructures and strengthens the minimum tax for individuals and corporations. Although this Administration has fought to lower the tax burdens of all Americans, it supports the notion that some minimum tax should be collected from individuals and businesses with significant economic income.

- The bill modifies the accelerated cost recovery system (ACRS) and the investment tax credit to insure that the tax benefits are not more generous than an immediate write-off. For instance, the bill will limit the extent to which businesses can write-off costs essentially paid for through the investment tax credit.

- <u>New Personal Taxes and New Business Taxes</u> are only a small part of the overall bill. Only one of these provisions involves an increase in actual tax rates. Unemployment taxes are increased primarily because of a large shortfall in the unemployment trust funds.

The Effect on Fiscal Year Receipts of the Tax Equity and Fiscal Responsibility Act of 1982 (H.R. 4961) as Passed by the Senate, by Type of Provision

($ millions)

	Fiscal Years							
	1983		1984		1985		Cumulative 1983-1985	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Compliance and collections	$ 9,005	42%	$11,534	32%	$10,297	24%	$30,836	31%
Base-broadening measures (including the elimination of tax abuses)	8,254	39	17,878	50	24,296	58	50,428	51
New personal tax provisions	3,829	18	5,891	17	6,967	17	16,687	17
New business tax provisions	293	1	237	1	412	1	942	1
Total, all provisions	$21,381	100%	$35,540	100%	$41,972	100%	$98,893	100%

Office of the Secretary of the Treasury
Office of Tax Analysis

August 4, 1982

July 27, 1982

SUMMARY OF SENATE REVENUE RAISING PROVISIONS IN H.R. 4961

Compliance and Collection Measures

- The bill contains measures to reduce the so-called tax gap from noncompliance and to facilitate the collection of taxes already owed. These include provisions to improve and expand information reporting to the IRS, increased penalties for noncompliance, changes in interest computation rules, and revisions to pension withholding provisions. The bill also establishes a safe harbor for the tax classification of independent contractors. The bill further provides rules for access to tax information for use in nontax criminal investigations and prosecutions.

- The collection of corporate estimated income taxes is accelerated by changes which include increasing payments from 80 to 90 percent of the actual tax due and requiring all remaining tax to be paid on the return due date.

- Withholding at a flat rate of 10 percent will be required on payments of interest and dividends after December 31, 1982. Special rules are provided to minimize the financial and administrative burdens on financial institutions adjusting to the system. Interest payments of $100 or less are exempt. Low income individuals whose tax liability for the prior year was less than $600 ($1,000 on a joint return) will be exempt, as will individuals age 65 or over with tax liabilities under $1,500 ($2,500 for a married couple filing jointly). This exempts those over 65 with taxable incomes in 1984 of less th-- $14,450 ($24,214 on a joint return). Finally, t- -holding period for long-term capital gains is reduced from 1 year to 6 months, for sales and exchanges after June 30, 1982.

Individual and Corporate Base Broadening

- Individual Minimum Tax. The bill strengthens the existing alternative minimum tax by shifting to that tax base all items currently subject to the add-on minimum tax and by adding several new items to existing preferences. Specifically excluded by Senate floor action, however, was interest on tax-exempt bonds. The existing add-on tax is repealed. This change affects a small number of high-income taxpayers.

- Pensions. Pension tax benefits for high income individuals are limited. The maximum annual addition to a defined contribution plan is reduced from $45,475 to $30,000 and the maximum annual benefit under a defined benefit plan is reduced from $136,425 to $90,000. Where a combination of plans is provided, the maximum benefits allowable are reduced from 140 to 125 percent, applicable to dollar limits only. Cost of living adjustments are frozen for 2 years. To move toward parity between corporate and noncorporate plans, deductible contributions to plans benefitting self-employed individuals increase $5,000 per year for 3 years, and then are indexed. Loans to plan participants are limited to $10,000, except that loans up to $50,000 will be permitted for housing.

- Casualty and Medical Deductions. The bill makes casualty losses deductible only to the extent they exceed 10 percent of adjusted gross income, and raises the floor for deductible medical expenses from 3 to 7 percent of adjusted gross income. The bill reduces to $100 the present law rule allowing one-half of medical insurance premiums up to $150 per year to be deducted without regard to the floor.

- Original Issue Discount and Stripped Coupon Bonds. The bill provides amortization rules for original issue discount bonds and eliminates the unwarranted tax advantage from coupon "stripping."

- Dividend Reinvestment Plans. The bill repeals the tax exclusion of certain dividends reinvested in public utility stock, for dividends paid after 1982.

- Changes to ACRS. The bill repeals the more rapid recovery rates scheduled to take effect in 1985 and 1986 under the accelerated cost recovery system. Moreover, the bill requires an adjustment to reduce the cost basis of an asset by 50 percent of the investment tax credit and other credits in computing deductions under ACRS. Both provisions are designed to insure that the combination of ACRS deductions and tax credits do not result in treatment more favorable than expensing of equipment costs.

- Safe Habor Leasing. The bill phases out safe harbor leasing by September 30, 1985. During the interim, leasing is extended to certain closely-held businesses. The rules are modified substantially to include limits on the amount of property that may be leased and the amount of benefit from depreciation and investment tax credits available to lessors. Certain abuses of leasing, including its use to increase the benefits of percentage depletion, are expressly barred. Transition rules are provided for certain paper companies, airlines, and auto manufacturers. Leasing of certain mass transit vehicles, including ferries, continues through 1987.

- Cutback of Corporate Tax Preferences. The bill supplements the existing corporate minimum tax with a new set of rules that generally require a 15 percent cutback in the availability to corporations of certain items of tax preference. In addition, the limit on the amount of tax which may be offset by the investment tax credit is reduced from 90 to 85 percent.

- Construction Period Interest and Taxes. The bill requires corporations to capitalize and amortize over 10 years interest and real property taxes attributable to the construction period of nonresidential real estate. The Alaska Natural Gas Transportation System and certain hotel and motel construction will not be affected by this change.

- Completed Contract Method of Accounting. The bill instructs the Treasury Department to amend its completed contract regulations to establish rules relating to the termination and severability of long-term contracts. For all contracts expected to take more than 24 months to complete, Treasury is to provide new rules which would allocate items formerly treated as period costs to the contract. These cost rules will not apply to a construction contractor with average gross receipts over the prior 3 years of $25 million or less, or to any construction contract of 36 months or less.

- Tax Exempt Bonds. In order for a private purpose tax exempt issue to be allowed the bill requires public accountability through reporting, public hearings, and local approval by elected officials or legislative action. To the extent facilities placed in service after December 31, 1982 are financed by post-July 1, 1982 IDBs, accelerated cost recovery is limited, with exceptions for low income housing, municipal solid waste and sewage facilities, UDAG assisted facilities, and certain pollution control equipment. The exemption for small issue IDBs will not be available after September 30, 1987. In addition, IDBs will not be available to finance automobile dealerships, recreational, and entertainment facilities, and several changes were made to liberalize the single family mortgage subsidy bond provisions.

- Life Insurance Company Taxation. The bill includes the Administration proposal to repeal the modified coinsurance rules. The bill also changes the treatment of annuity contracts, taxing withdrawals to the extent of investment income. A number of other changes to life insurance taxation will be effective through 1984, including rules governing deductions for policyholder dividends.

- Possession Credit Limitation. This provision, included over the Administration's objection, denies the special credit against U.S. tax liability for a possession corporation with respect to income from intangible assets such as patents and trademarks, and sharply restricts the credit with regard to passive investment income. The bill in effect allows the credit only with regard to the income from operating assets in a possession.

- Foreign Oil and Gas Income. This provision repeals the per-country extraction loss rule which currently operates to increase the special foreign tax credit limitation for taxpayers with oil and gas extraction income in other foreign countries. As a result, foreign taxes paid on extraction activities could not be used to offset U.S. tax on other foreign source income. In addition, the bill eliminates the deferral of tax on certain foreign oil-related income. The Administration opposed these changes.

- Mergers and Acquisitions. Tax incentives for corporate mergers and acquisitions are reduced.

Other Provisions

- The Committee generally adopted the Administration's proposed increase in airport and airway user taxes, along with airport and airway system development act expenditure provisions.

- The targeted jobs tax credit is extended for 3 years, and modified to encourage summer youth employment.

- The cost bases of certain capital assets will be adjusted for inflation, beginning in 1985.

- The bill extends the FICA hospital insurance tax and Medicare coverage to Federal employees.

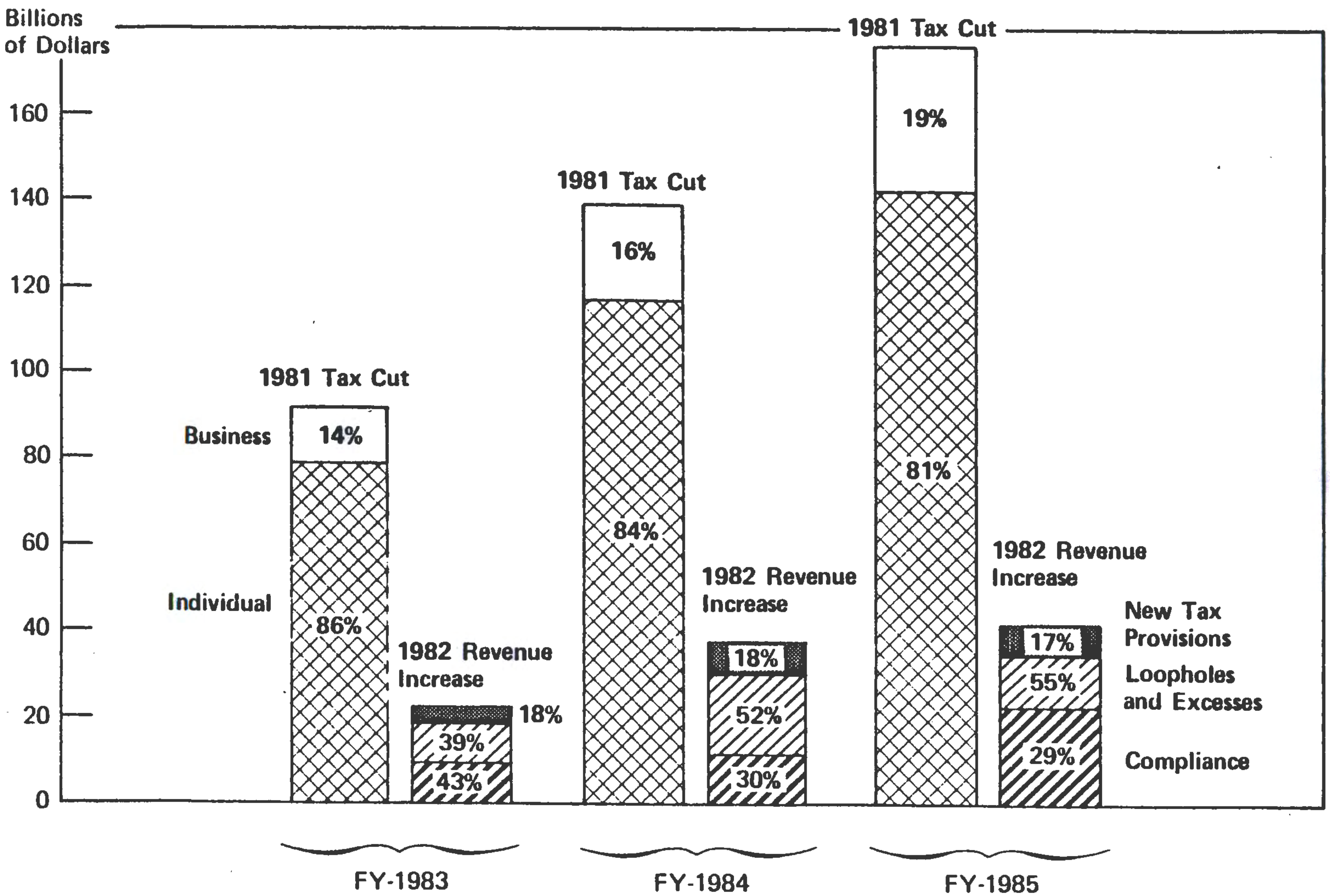
- The Federal Unemployment Tax Act wage is increased to $7,000 and the effective Federal tax rate, after credits for state taxes, is increased from .7 to .8 percent.

- The telephone excise tax is raised to 2 percent in 1983, 3 percent in 1984 and 1985, and 2 percent for years after 1985.

- The present Federal excise tax on cigarettes is increased from 8 to 16 cents per pack. This increase sunsets on September 30, 1985.
- The Dingell-Johnson Fund excise taxes on fishing equipment are increased, with the revenues available to expand this program.
- The private foundation business enterprise divestiture rules are waived for a number of specified organizations.
- The investment tax credit is extended to certain soil and water conservation expenditures.
- The bill provides an exemption from the windfall profit tax for wholly owned subsidiaries of Alaska Native Corporations.
- The special Trans-Alaska Pipeline System adjustment under the windfall profit tax is repealed.
- Tax exempt status for certain veterans organizations is provided.
- The bill extends for two additional years the income tax exclusion for National Research Service Awards.
- The bill extends the annual accrual accounting method to certain partnerships.
- Payments legal under the Foreign Corrupt Practices Act will be allowed a business expense deduction.
- Certain debt management authority is provided to the Secretary of the Treasury.
- Studies of alternative tax systems and monetary policy are required.

Chart 1

REVENUE EFFECTS OF THE 1981 TAX CUT VS. H.R. 4961*



* Tax Cuts in 1981 Economic Recovery Tax Act and revenue enhancement measures in 1982 H.R. 4961

Tax Bill
1982

We feel that this is a vitally important issue, and I wanted you to see this statement. I hope you will be able to help spread the word.

For Immediate Release: 7-20-82

Best Regards
Richard

Contact: Hans Kaiser
703-356-0440
x 277

CONSERVATIVE LEADERS DENOUNCE REAGAN TAX HIKE

A coalition of 42 conservative leaders today denounced a Reagan-supported tax hike of $98.6 billion over the next three years.

In a joint statement the leaders charged that the Reagan tax hike "undermines his original economic recovery plan and reneges on his pledge not to balance the budget on the backs of the American taxpayer." Among those signing the statement were: Ron Godwin, Jay Parker, Howard Phillips, General John K. Singlaub, Richard Viguerie and Jude Wanniski.

The tax bill, crafted by Senator Bob Dole (R-Kan.), was passed by the Senate Finance Committee on July 2, and has received support from the Reagan administration. The $98.6 billion tax hike was characterized by the Washington Post as possibly "the largest tax increase since World War II." The conservative leaders said that, "As conservatives, we cannot support this tax hike."

The statement added, "The way to balance the budget is to stop Congress from spending money. Increasing revenues won't help balance the budget --- it will just enable Congressmen to spend more and avoid cutting the budget."

(A copy of the statement and a complete list of the signers is attached.)

**Titles for Identification Purposes Only

1. A. Clifton Barker (President, Navidyne Corp. Newport News, VA)
2. Dan L. Beaird (President, Dan Beaird Inc., Dallas TX)
3. Mark A. Benson
4. James A. Blanchard III (Chariman, National Comm. for Monetary Reform)
5. Gerald G. Bordelon (Bollinger Machine Shop)
6. William H. Cies
7. Dr. James Dobson (Psychologist and author)
8. Fr. Charles C. Fiore O.P. (Chairman, National Pro-Life PAC)
9. Richard A. Ford (Coordinating Consulting Inc., Dallas TX)
10. Peter Gemma (Executive Director, National Pro-Life PAC)
11. Dr. Ron Godwin (Vice President, The Moral Majority)
12. Gen. Daniel O. Graham (Lt. Gen. U.S. Army Ret.)
13. Rev. Melvin Hodges (Foundation for Black Christian Education in America)
14. George W. Holland
15. Barbara Keating-Edh (Consumer Alert)
16. Dr. D. James Kennedy (Senior Minister, Coral Ridge Presbyterian Church)
17. Gen. Albion Knight (Brig. Gen., U.S. Army Ret.)
18. Mrs. Beverly LaHaye (Concerned Women for America)
19. Dr. Tim LaHaye (Family Life Seminars)
20. June Larson (Legislative Chairman, Citizens for Constructive Education)
21. Vincent Larson (Chairman, Citizens for Constructive Education)
22. John Lofton (Editor, Conservative Digest)
23. Sam Moore (President, Thomas Nelson Publishing Group)
24. Phil Nicolaides (Vice-President, World News Institute)
25. Dr. Gary North (President, American Bureau of Economic Research)
26. Dr. Alton Ochsner, Jr.
27. Jay Parker (The Lincoln Institute)
28. Howard Phillips (National Director, The Conservative Caucus)
29. Patrick J. Quinn (Chairman, Concordia Tax Limitation Committee)
30. Prof. Charles E. Rice (Notre Dame Law School)
31. Harlan Schlicher (New Jersey Conservative PAC)
32. Richard Shoff (President, Lincoln Log Homes)
33. Gen. John K. Singlaub (Maj. Gen. U.S. Army Ret.)
34. Dr. W. Cleon Skousen
35. The Hon. Arthur Sour
36. Rhonda Stahlman (Chairman, Conservatives Against Liberal Legislation)
37. Scott Stanley (Editor, Review of the News)
38. Edward J. Steimel (President, Louisiana Association of Business and Industry)
39. T. W. Stivers
40. Kathy Teague (Executive Director, American Legislative Exchange Council)
41. Richard A. Viguerie (Publisher, Conservative Digest)
42. Jude Wanniski (President, Polyconomics, Inc.)

CONSERVATIVE LEADERS' STATEMENT ON REAGAN TAX HIKE

President Reagan's support of a $98.6 billion tax hike over the next three years undermines his original economic recovery plan and reneges on his pledge not to balance the budget on the backs of the American taxpayer.

The President's abandonment of tax and spending cuts means the Reagan Administration has sadly slipped into the familiar Washington political pattern of spend more, tax more.

Worse, according to the Washington Post of July 2, the Senate Finance Committee's $98.6 billion tax package appears to be "the largest tax increase since World War II." This tax increase, crafted by Senator Bob Dole and supported by President Reagan will provide a powerful issue to use against those who stood up to support the Reagan economic policies based on his own campaign promises. As conservatives, we cannot support this tax hike.

The way to balance the budget is to stop Congress from spending money. Increasing revenues won't help balance the budget --- it will just enable Congressmen to spend more and avoid cutting the budget.

We applaud the brave efforts of Congressional conservatives who are working to defeat the tax increase and we reaffirm our belief that the federal budget should be balanced by reducing non-defense spending.

Copy to Press 8/19/82

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 18, 1982

QUESTION AND ANSWER SESSION
WITH
WILLIAM P. SIMON
FORMER SECRETARY OF THE TREASURY

The Rose Garden

5:45 P.M. EDT

Q Do you know why the stock market went down today?

MR. SIMON: Win some, lose some, Sam. It was up 19 bucks at noontime, I'm told. I was traveling from California today and it was up $19 and I guess it closed down $1.70 and I would say that that's a lot of profit taking after a tremendous rally.

You know, people are very nervous in the marketplace which is the understatement of the century because where we use to view a long-term and a long-term investor and be able to invest with confidence on many of our blue-chip stocks today that the government's become such a destabilizing factor that many people including myself don't believe there's really a long-term anymore because the government is so unpredictable except in its spending habits. And that's, of course, one of the reasons that I'm here today on behalf of all former Secretaries of the Treasury. I guess you'll get a printed statement -- except John Connally who was not reachable. And I'm sure John would have supported this as well -- to support the tax legislation that the President has been talking to you all about.

We've all analyzed this legislation and in light of the current economic situation concluded that it has to be enacted. The budget is not only out of control, it's hemorrhaging. And that has a great many inflationary and financial consequences. The prospect of these historically, incredibly high deficits have kept the interest rates too high, and the interest rate expectations and inflation expectations on what the Federal Reserve policy in monetizing this debt. We realize that the fiscal policy isn't helping and the Fed's doing it all alone and the Federal Reserve is a crude and a blunt instrument when acting without budget policy.

So, that is what we are here for to talk about the tax bill, about bringing a balance between our fiscal and monetary policies and urging the Congress to move further because the ultimate solution to our budget problems has to be controlling spending and shrinking the size of government. And that's it, period, and that's why I'm so pleased to be here in support of this and I'd be delighted to answer any questions you'd like to ask.

Q If this bill is defeated, will the market then go back down or what do you predict?

Q It was down.

MR. SIMON: I think the market would be disappointed if, indeed, the bill was defeated because the financial markets view the deficits as they look out as just so incredibly huge that they have to be curbed.

Q Did you support the tax cut?

Q Mr. Simon, in your 1980 book, Time for Action, you wrote, and I quote, "The American people must have relief from the present crushing burden of taxation." If you really believe

MORE

that, why are you here today supporting a five-year, $228 billion tax increase?

MR. SIMON: I can answer both questions at the same time. Yes, I did, obviously, support the tax reduction that worked so hard on shifting -- making that shift which is so important from consumption to savings and investment and a reduction for the individuals. The President and Bill Simon remain committed to the so-called "supply side," even that sloganism theory. That's nothing more than capital formation which I spoke to all of you about on many occasions. And, fine, this is necessary -- a necessary evil, if you will.

I wouldn't support all of the parts of this package, necessarily, if I were here in Washington but I recognize that trade-offs have to be made, that this tax package is the key to getting the spending reductions that can truly bring us a balanced budget.

Q I have a follow-up, sir. You also wrote that personal business and investment income taxes had to be reduced. But the bill that you're supporting increases taxes on people, business, and investment income.

MR. SIMON: It does and in the short-term you're going to find a contradiction. And there's always contradictions in policies in the short-run and the fact of the matter is that if we look ahead at the deficits -- that if we don't have this legislation, and the concomitant reductions in spending, then you're going to see inflation and all the financial consequences. You know the illiquidity -- the bankruptcy rate is the highest level in history is not a coincidence. These deficits operate in the marketplace taking the productive capital and crowding out private investment. Savings continue to be at the lowest level in history. All this has to be corrected.

Q Do you think federal spending is under control, sir?

MR. SIMON: No, I do not. Federal spending is, as I said a moment ago, not only out of control, it's hemorrhaging.

Q Why not cut the budget?

MR. SIMON: That's what you have to do and that's the price -- this is the price that you have to pay to cut that budget and you have to go after the sacrosanct programs too -- the entitlements, the cost-of-living allowances.

Q Don't they spend the money you give them?

MR. SIMON: Oh, yes, indeed, but they're not spending the money you give them. They're reducing the deficit. That's what they're doing. The money's already been spent. That's the problem.

Q Do you believe that increasing taxes can reduce the size of a deficit?

MR. SIMON: Yes, it will in the short run.

Q When in history has that ever happened?

MR. SIMON: In the short run, an increase in these taxes will reduce the deficit, absolutely.

Q Will you be doing anything on the Hill to promote this point of view?

MR. SIMON: No, the vote's tomorrow and Friday so, Helen, I don't think that that will be necessary. As I say,

MORE

I'm just here representing all the former Secretaries with the exception of John Connally in support of the President's bill.

Q How many are there?

MR. SIMON: I think there's 11 going back to John Snyder.

Q Do you think the President's going to win on this, Mr. Secretary?

MR. SIMON: Yes, I do.

Q Do you think last year's tax cut was too large?

MR. SIMON: No, I do not. I think that enough spending wasn't reduced last year. I think that's the major problem. And I've spoken on --

Q The third year --

MR. SIMON: Yes, I do think the third year ought to stay intact and the indexation ought to stay intact, absolutely.

Q What's your prediction? Will this be passed by both Houses?

MR. SIMON: In my opinion, it will be passed because as tough medicine as it is, politically, everybody realizes that we have to do something to get the deficits under control in the short run and give us time to reduce the spending which we will over the next year.

Q Mr. Simon, you also wrote a book called A Time For Truth. Do you think this is the largest tax increase in American history?

MR. SPEAKES: I don't know that it is or not. I don't know because I haven't researched those numbers. But I'll bet you when adjusted for inflation, it might not be.

THE PRESS: Thank you.

END 5:52 P.M. EDT

To correspondence
please respond.
M. Blackwell

#23 Brentwood Circle
Lubbock, Tx. 79416
August 16, 1982

President Ronald Reagan
The White House
Washington, D.C. 20500

Dear President Reagan:

We have been very disturbed by your support of HR4961, the Tax Equity and Fiscal Responsibility Act of 1982. Compliance provisions are acceptable, but the proposed huge tax increases in this bill would stifle recovery from the recession while fueling continued rampant federal spending. We expected many members of Congress to resist cuts in social programs and entitlements, defunding grants to liberal groups, abolishment of bureaucracies such as the Departments of Energy and Education, and decreasing foreign aid.

However, those of us who volunteered many hours to aid your election expected you to support a budget at least as tough as the Rousselot proposal. We never dreamed that you would compromise conservative principles to appease those who never believed in supply side economics. There is still great public support for stopping government growth despite media reports to the contrary.

This fall we are trying to elect more courageous candidates on all levels who will work to keep control of agencies near the local level, restore traditional moral values, and support superiority and defense of our country. Your apparent reversal is making voters wonder if there is any real difference in Republican policies and will lead to apathy in November.

Please don't take pragmatist, moderate advice from those around you. Instead, listen to the conservative grassroots leaders and the Republican Representatives who are fighting tax increases. These long-time supporters are your staunchest allies. Since 1964, we have hoped and prayed for your success. We implore you to continue to lead the Reagan Revolution!

Respectfully yours,

Mr. & Mrs. Larry Ward

Mr. and Mrs. Larry Ward

to: Mr. Blackwell

room: ________ date: 8/17/82

Department of the Treasury
Public Liaison and Consumer Affairs
Washington, D.C. 20220

The enclosed is a summary of the Conference Agreement on the Tax Equity and Fiscal Responsibility Act of 1982. I included a Fact Sheet and Talking Points on the Conference Agreement and questions and answers regarding withholding on interest and dividends.

Cyndy Powell

Cynthia J. Powell
Special Assistant to the Assistant Secretary
room 2327
phone 566-9075

FACT SHEET

TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

The Tax Equity and Fiscal Responsibility Act of 1982 is designed to improve the fairness of the tax system while preserving the savings and investment incentives necessary for economic recovery. It is a measure the Administration can and does support, and one which Congress should support.

The bill complies with the revenue-raising requirements of the First Budget Resolution--thus reducing projected budget deficits--while maintaining the integrity of the President's economic recovery program.

* The bill preserves the individual tax rate reduction and indexing provisions enacted last year.

* Rather than raising taxes across-the-board, the bill focuses on the elimination of unintended abuses, the removal of obsolete incentives, and improvements in taxpayer compliance.

* More than 80 percent of the increased tax revenues come from increased taxpayer compliance and the closing of tax loopholes.

* The bill will have little or no effect on the majority of individual taxpayers.

Reducing Budget Deficits and Interest Rates

-- The choice confronting Members of Congress is to either reduce deficits and interest rates by raising revenues from those not now paying their fair share or to accept larger budget deficits and higher interest rates.

-- Failure to adopt the spending cuts and revenue increases in this bill will result in substantially larger deficits over the next three years.

-- These increased deficits could jeopardize the success we are now having with interest rates and weaken the anticipated economic recovery.

Individual Tax Cuts Maintained

-- Maintaining the third year of the tax cut and indexing is essential to providing real tax relief to the American people.

-- Repealing the third year and indexing would result in substantial tax increases for average working taxpayers.

-- The average taxpayer would bear the brunt of a repeal of the third year of the individual tax reductions in ERTA. Taxpayers earning less than $50,000 now pay 67 percent of all income taxes and will receive 70 percent of the tax cut.

Compliance and Collection

-- Rather than imposing new taxes, the bill achieves one-third of the increased tax revenues by adopting measures to collect taxes already owed.

-- If these measures -- such as withholding on interest and dividends -- are not adopted, new tax increases would have to be imposed to meet the requirements of the budget resolution.

-- Withholding will not have an adverse impact on savings. It will be a savings disincentive only to those who are not now paying all the taxes they owe on interest and dividend income. For honest taxpayers, the yield on an asset earning 9.00 percent after taxes would be reduced at most to 8.95 percent after withholding.

-- Specific exemptions are provided for the elderly and low-income individuals. Nearly 80 percent of the elderly, those with income of less than $14,450 ($24,214 on joint returns), will be exempt.

-- The administrative burden on financial institutions is minimized. The bill contemplates compensating financial institutions for start up costs through favorable rules with respect to the deposit of withheld taxes. It also provides an exemption for small institutions and small accounts.

Reduction of Unintended Benefits

-- The bill includes a number of measures proposed by the Administration to eliminate tax abuses, including changes in the treatment of long-term contracts, private purpose tax-exempt bonds, construction period interest and taxes, and modified coinsurance.

-- The bill restricts and ultimately phases out the safe harbor leasing provisions. The proposal would recoup a significant amount of the revenue loss from leasing and correct a number of the perceived and real abuses.

-- The bill restructures and strengthens the minimum tax for individuals and corporations.

-- The bill modifies ACRS and the investment tax credit to insure that the tax benefits are not more generous than an immediate write-off.

<u>Impact of Individuals</u>

-- The bill will have little or no effect on the vast majority of taxpayers.

-- When combined with the tax reductions enacted last year, the taxpayers of this country will still receive substantial net tax reductions,

TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

SUMMARY OF CONFERENCE AGREEMENT

Compliance and Collection Measures

- Rather than imposing new taxes on taxpayers who report all their income and pay their taxes on a timely basis, the bill achieves one third of increased tax revenues simply by adopting measures to collect taxes already owed. These meaasures include provisions to improve and expand information reporting to the IRS, increase penalties for noncompliance, change interest computation rules, revise pension withholding, and allow partnership level audits. The bill requires that all bonds (both tax-exempt and taxable) be issued in registered form after December 31, 1982. The bill further provides rules for access to tax information for use in Federal nontax criminal investigations and prosecutions.

- Because of substantial underreporting of tip income, the conference agreement requires food establishments to report gross receipts and tip information to the IRS. After April 1, 1983, an establishment must allocate and report tip income equal to 8 percent of gross receipts among its tipped employees unless they already have reported tip income of at least this amount.

- In order to insure that corporations pay taxes on as timely a basis as most individuals, corporate estimated income taxes are accelerated by increasing payments from 80 to 90 percent of the actual tax due and requiring all remaining tax to be paid on the due date for the tax return. Special payment rules are provided for seasonal industries.

- To collect taxes due from all taxable recipients of interest and dividend income, not just those who currently report such income to the IRS. Withholding at a flat rate of 10 percent will be required on payments of interest and dividends after June 30, 1983. Special rules are provided to minimize the financial and adminstrative burdens on financial institutions adjusting to the system, including authority to the Treasury to waive withholding requirements for various payors for the first six months after the provision is in place. Interest payments of $150 or less in a year are exempt. Low income individuals whose tax liability for the prior year did not exceed $600 ($1,000 on a joint return) are exempt, as are individuals aged 65 or over with tax liabilities not exceeding $1,500 ($2,500 for married couples filing jointly). This exempts those over age 65 with adjusted gross incomes in 1984 of less than $14,450 ($24,214 on a joint return).

- The bill takes a step in dealing with the complex issue of whether some individuals are employees or self-employed independent contractors. Direct sellers and licensed real estate agents are excluded from the definition of employee for employment tax purposes. The moratorium on reclassification of independent contractors as employees is extended, pending further Congressional action.

<u>Reductions in Unintended or Unwarranted Tax Benefits</u>

- <u>Individual Minimum Tax</u>. To insure that individuals making extensive use of tax preferences pay a minimum level of tax, the bill strengthens the existing alternative minimum tax on individuals by shifting to that tax base items currently subject to the add-on individual minimum tax and by adding several new items to the list of tax preferences. Interest on tax-exempt bonds is not a preference item. The expanded tax base is adjusted gross income plus these preferences less certain itemized deductions. The existing add-on individual minimum tax is repealed. The conference bill applies a flat 20 percent rate to this expanded base in excess of $30,000 for single individuals ($40,000 for joint returns). The alternative minimum tax is paid if it exceeds the individual's regular tax liability. This provision affects only several hundred thousand of the 90 million individual tax returns filed.

- <u>Pensions</u>. Tax-favored pension benefits for high income individuals are limited. The maximum annual addition to a defined contribution plan is reduced from $45,475 to $30,000 and the maximum annual benefit under a defined benefit plan is reduced from $136,425 to $90,000. Where a combination of defined contribution and defined benefit plans is provided, the maximum dollar limitation benefits allowable are reduced from 140 to 125 percent of the separate maximum dollar limits for defined contribution plans and defined benefit plans. Cost of living increases in the maximum dollar limits are frozen until 1986. The bill achieves parity between corporate and noncorporate plans by increasing allowable deductions for contributions to noncorporate plans to the levels allowable for corporate plans, and by placing restrictions on certain "top heavy" corporate and noncorporate plans favoring key employees. Loans to plan participants are limited to the lesser of $50,000 or one-half of the participant's nonforfeitable benefits, and must be repaid within 5 years (except for certain home purchase or improvement loans). The credit for integration of defined contribution plans with social security contributions will be limited to the statutory OASDI rate. The estate tax exclusion allowed for qualified plan benefits is limited to $100,000.

- <u>Casualty and Medical Deductions</u>. Casualty and medical deductions were originally intended to apply only to extraordinary expenses. The bill maintains this principle, while simplifying the tax treatment of such expenses. The bill makes casualty losses deductible only to the extent they exceed 10 percent of adjusted gross income. The conference agreement raises the floor for deductible medical expenses from 3 percent to 5 percent of adjusted gross income. After 1983, the deduction for drugs is limited to prescription drugs and insulin, and the separate 1 percent floor for drugs is eliminated. The conference agreement repeals the present law rule allowing one-half of medical insurance premiums up to $150 per year to be deducted without regard to the floor.

- <u>Original Issue Discount and Stripped Coupon Bonds</u>. The bill provides amortization rules which require the correct economic measurement of the interest expense associated with original issue discount bonds and eliminates unwarranted tax advantages from coupon "stripping." The conference agreement changes the effective date of these provisions to obligations issued after July 1, 1982.

- <u>Changes to ACRS</u>. The conference bill changes the accelerated cost recovery system (ACRS) to insure that the combination of ACRS deductions and tax credits do not result in treatment more favorable than expensing of equipment costs. The bill repeals the more rapid cost recovery rates scheduled to take effect in 1985 and 1986 under ACRS. Moreover, the bill requires an adjustment to reduce the cost basis of an asset by 50 percent of the investment tax credit and other credits in computing cost recovery deductions. However, the conference bill permits taxpayers to avoid the reduction in basis for any asset by electing to reduce the allowable investment credit by 2 percentage points. Special transitional rules are provided.

- <u>*Safe Harbor Leasing*</u>. The bill phases out safe harbor leasing by January 1, 1984. During the interim, leasing is extended to certain closely held businesses. The rules are modified substantially to include limits on the amount of property that may be leased and the amount of benefit from depreciation and investment tax credits available to lessors. Certain abuses of safe harbor leasing, including its use to increase the benefits of percentage depletion, are expressly barred. Transitional rules are provided for certain investments and classes of taxpayers (including airlines and auto manufacturers). Leasing of certain mass transit vehicles, including ferries, continues through 1987. After 1983, regular leasing rules are liberalized to permit fixed price purchase options and the leasing of special use property, although use of these liberalized rules is restricted in 1984 and 1985.

- <u>*Cutback of Corporate Tax Preferences*</u>. Some corporations with substantial income pay very low rates of tax. Therefore, the bill supplements the existing corporate minimum tax with a new set of rules that generally require a 15 percent cutback in the availability to corporations of certain items of tax preference. In addition, the limit on the amount of tax which may be offset by the investment tax credit is reduced from 90 to 85 percent.

- <u>Construction Period Interest and Taxes</u>. The bill requires corporations to capitalize and amortize over 10 years interest and real property taxes attributable to the construction period of nonresidential real property. The Alaska Natural Gas Transportation

System will not be affected by this change, and transitional rules are provided for certain hotel, motel, hospital and nursing home construction.

o <u>Completed Contract Method of Accounting</u>. The bill instructs the Treasury Department to amend its completed contract regulations to establish rules relating to the termination and severability of long-term contracts. For all contracts expected to take more than 24 months to complete, Treasury is to provide new rules which would allocate to the contract items formerly treated as period costs. These cost allocation rules will not apply to a construction contractor with average gross receipts over the prior 3 years of $25 million or less, or to any construction contract of 36 months or less.

o <u>Tax Exempt Bonds</u>. The bill requires public accountability in the issuance of private activity tax exempt bonds through information reporting, public hearings, and local approval by elected officials or voter referendum. To the extent facilities placed in service after December 31, 1982 are financed by industrial development bonds (IDBs) issued after July 1, 1982, accelerated cost recovery is limited, with exceptions for low income housing, municipal solid waste or sewage facilities, UDAG assisted facilities, and certain pollution control equipment. The tax exemption for small issue IDBs will sunset on December 31, 1986. In addition, IDBs generally will not be available to finance automobile dealerships, as well as facilities for recreation, entertainment, or retail food and beverage services. Numerous changes also were made to liberalize the present law limitations on multifamily housing bonds and mortgage subsidy bonds.

o <u>Life Insurance Company Taxation</u>. The bill includes the Administration proposal to prohibit the abuse of modified coinsurance. The bill also changes the treatment of annuity contracts, taxing certain withdrawals to the extent of investment income. A number of other changes to life insurance taxation that were sought by the industry, including rules governing deductions for policyholder dividends, will be effective through 1983.

o <u>Possessions Corporations</u>. With respect to the special credit against U.S. tax liability for possessions corporations, the conference agreement accepts the compromise proposal developed by the Administration and the Puerto Rican government to limit the tax benefits of possessions corporations. Under the bill, a possessions corporation will be entitled to report on its tax return the income from intangibles provided the corporation bears a proportionate share of research and development costs. Alternatively, the taxpayer may split income from products made in the possession between the possession and the United States.

- <u>Foreign Oil and Gas Income</u>. This provision repeals the per-country extraction loss rule which currently operates to increase the special foreign tax credit limitation for taxpayers with oil and gas extraction income in other foreign countries. As a result, foreign taxes paid on extraction activities could not be used to offset U.S. tax on other foreign source income. In addition, the bill eliminates the deferral of tax on certain foreign oil-related income. Deferral would still be allowed for income of certain independent traders and refiners.

- <u>Mergers and Acquisitions</u>. Tax incentives for corporate mergers and acquisitions are reduced, with transitional rules for specific situations.

<u>Other Provisions</u>

- The conference agreement increases unemployment compensation benefits for certain long-term unemployed workers. The threshold above which unemployment benefits are subject to income tax is lowered to $12,000 ($18,000 on a joint return).

- Airport and airway user taxes are increased to provide funds for airport and airway system development.

- The targeted jobs tax credit is extended for 2 years, and modified to encourage summer youth employment.

- The bill extends the FICA hospital insurance tax and Medicare benefits to Federal employees.

- To help deal with the large deficits in the unemployment trust fund, the Federal Unemployment Tax Act wage base is increased to $7,000 and the effective Federal tax rate, after the credit for state taxes, is increased from .7 to .8 percent.

- The telephone excise tax is raised to 3 percent in 1983, 1984 and 1985. The tax will terminate after 1985.

- The present Federal excise tax on cigarettes is increased from 8 to 16 cents per pack. This increase sunsets on September 30, 1985.

- An extension of time is allowed for refunds of certain excise taxes for buses.

- The special Trans-Alaska Pipeline System adjustment under the windfall profit tax is repealed.

- Tax-exempt status for certain veterans organizations and amateur athletic organizations is provided.

- The bill extends for two additional years the income tax exclusion for National Research Service Awards.

- The bill extends the annual accrual accounting method to certain farming partnerships.

- Payments legal under the Foreign Corrupt Practices Act will be allowed a business expense deduction.

- Broader debt management authority is provided to the Secretary of the Treasury, including discretion to set yields on U.S. savings bonds.

- Beginning March 1, 1983, taxpayers who prevail in tax litigation where the government has been unreasonable are entitled to an award of attorneys' fees of up to $25,000. Where a taxpayer brings an action primarily for delay or takes a frivolous or groundless position, the Tax Court is authorized to award the government damages of up to $5000.

- Minor adjustments are made in the treatment of personal holding companies and Alaska Native Corporations.

TALKING POINTS ON TAX BILL

The Deficit and Taxes

- This Administration is committed to reducing budget deficits, but in a way that preserves incentives for savings and investment and the integrity of our basic economic recovery program. The primary means of reducing these deficits is to reduce the overall size of the federal government by cutting expenditures. Nonetheless, the Administration recognizes that what expenditures remain must be paid for -- either by taxpayers today or taxpayers tomorrow. Without the tax bill, future deficits would simply be too large, choking off economic growth.

- The issue of the deficit concerns the means of financing the government, not the size of the government. Government borrowing is a drain on our capital markets. A central goal of this Administration is to foster economic growth through new investments in physical capital. Consistent large government borrowing that soaks up new savings available for real investment runs directly counter to that goal.

Comparison with the Economic Recovery Tax Act of 1981

- The tax bill is carefully crafted to preserve the incentives for saving and investment contained in the Administration's economic program. Most importantly, the bill leaves intact the basic tax cuts for individuals as passed in the Economic Recovery Tax Act of 1981.

- There is an important difference between the rate reductions established in ERTA and the tax revisions in this tax bill. Rate reductions help restore incentives to the economy. The changes in this bill help insure that any remaining tax burden is distributed fairly and efficiently.

  -- Fairness is enhanced because the bill helps eliminate special tax breaks which are available only to some individuals or some businesses. The bill will have little or no effect on the majority of individual taxpayers.

  -- Efficiency is improved because tax rates across sectors or businesses are made more even. When the government tends to favor certain individuals or businesses over others, regardless of their income, it also tends to interfere in their choice of goods to produce or consume. This makes the economy less efficient and less likely to produce those goods which provide the greatest value for the least cost.

Provisions of the Tax Bill

- The provisions of the bill can be broken down into four components. Over 80 percent of the increased tax revenues come from improvements in tax collection and base broadening measures.

  (1) Compliance and Collection Measures account for about 32 percent of the revenues.

  (2) Removal of obsolete incentives and the elimination of tax abuses, account for about 49 percent of the revenues.

  (3) New Personal Taxes account for about 17 percent of the revenues.

  (4) New Business Taxes account for about 2 percent of the revenues.

  (Though only about 2 percent of the revenues come from new business taxes, a large amount of the base broadening measures directly affect business. Overall about half of the increased revenues are business taxes.)

- The Compliance and Collection Measures are designed to collect taxes from those who currently owe them, but do not pay them. Penalties will be raised for those who underreport their income. Some businesses will be made to pay their taxes on a more current basis, but no faster than most individuals pay already. Reports will be sent to the government on income which is often underreported such as gains on sales of stocks and on other income; these reports will be little different from reports that are now sent for most individuals on their wages, dividends and interest.

- Despite what has been reported, withholding on interest and dividends will not impose any new tax on anyone. It is designed only to insure that taxes are collected from everyone who owes those taxes. Individuals who pay their taxes currently will get the entire amount of withheld dollars back, either through reductions in their other withholding or estimated payments of tax, or through a later refund. This is no different from wage withholding.

  -- Because withholding increases tax collections only for those who do not currently report their interest and dividends, it will not be a savings disincentive. For honest taxpayers, the interest lost on additional withheld dollars, if any, will be trivial. For example, the yield on an asset earning 9.00 percent would be reduced by 5/100 of one percent to 8.95 percent.

-- Specific exemptions will be provided for the elderly and low income individuals. Nearly 80 percent of the elderly (including single persons with incomes less than $14,450 and joint returns with incomes less than $24,214) will be exempt.

-- The administrative burden on financial institutions is minimized. The bill contemplates compensating financial institutions for start-up costs through favorable rules with respect to the deposit of withheld taxes.

o <u>Measures to Reduce Unintended Benefits</u> include a number of proposals of this Administration to eliminate tax abuses, including changes in the treatment of long-term contracts, private purpose tax-exempt bonds, construction period interest and taxes and modified coinsurance.

o The bill restricts and ultimately phases out the safe harbor leasing provisions. The proposal would recoup a significant amount of the revenue loss from leasing and correct a number of the perceived and real abuses.

o The bill restructures and strengthens the minimum tax for individuals and corporations. Although this Administration has fought to lower the tax burdens of all Americans, it supports the notion that some minimum tax should be collected from individuals and businesses with significant economic income.

o The bill modifies the accelerated cost recovery system (ACRS) and the investment tax credit to insure that the tax benefits are not more generous than an immediate write-off. For instance, the bill will limit the extent to which businesses can write-off costs essentially paid for through the investment tax credit.

o <u>New Personal Taxes and New Business Taxes</u> are only a small part of the overall bill. Unemployment taxes are increased primarily because of a large shortfall in the unemployment trust funds.

Questions and Answers

Withholding on Interest and Dividends

Why is the Administration supporting withholding on interest and dividends?

- In order to comply with the budget resolution, $98 billion in revenues must be raised between fiscal years 1983 and 1985.
- To the maximum extent possible, the Administration believes the revenue should be raised through measures which collect taxes already owed, rather than imposing new taxes on people who are already paying taxes.

But won't withholding penalize people who are already paying taxes?

- Withholding on interest and dividends will be no different than withholding on wages and salaries.
- Those who are already paying their taxes will get all of the amount withheld back either by reducing the amount now withheld on their wages, reducing the amount of estimated taxes many taxpayers now pay every quarter, or by claiming a larger refund when their tax returns are filed.

But won't withholding have an adverse impact on savings?

- It will be a savings disincentive only to those who are not now paying the taxes they owe on interest and dividend income.
- Even for those who do not adjust for overwithholding, and thus are not able to use the amount withheld, the amount of interest lost will be very small. According to Treasury calculations, the yield on an asset earning 9.00 percent would be reduced by only 5/100 of one percent to 8.95 percent.
- In addition, the impact on total savings would be much greater if withholding is not adopted and the budget deficit is that much larger.

But won't withholding hurt the elderly, the poor, and the small saver?

- Not at all. Specific exemptions have been included for the elderly, for low-income people, and those with small savings accounts.
- Nearly 80 percent of the elderly, those with a prior year tax liability of $1500 or less ($2500 on a joint return) will be exempt. This means that elderly taxpayers with incomes of less than $14,450 ($24,214 on a joint return) will be exempt.

8/12/82

-- Low-income individuals, those with a prior year tax liability of $600 or less ($1,000 on a joint return) will be exempt.

-- Small savings accounts (those with interest payments of $150 or less a year) will be exempt.

<u>But won't withholding impose a tremendous burden on financial institutions?</u>

-- Special rules are provided to minimize the administrative burden on financial institutions before it goes into effect on July 1, 1983.

-- The bill contemplates compensating financial institutions for start-up costs through rules with respect to deposit of withheld taxes.

-- In addition, financial institutions may be temporarily exempted from withholding when compliance would impose an undue burden.

<u>But many Members of Congress have voted against withholding in the past. How can they justify a vote for it now?</u>

-- Previous Administrations have attempted to raise revenue through the withholding proposal in order to increase Government spending, and previous proposals have not contained all of the safeguards and exemptions included in this proposal.

-- The Reagan Administration is committed to reducing Government spending, and this Congress has taken major steps in slowing the growth of Government spending.

-- At a time when spending programs are being cut and revenues need to be raised there is no justification for not collecting taxes which are owed but not being paid.

-- The Administration believes it is better to reduce deficits and interest rates in part by raising revenues from those who are not now paying their fair share than it is to accept larger budget deficits, higher interest rates, and higher unemployment.