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to: Morton Blackwell

room: ________ date: 8/16/82

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

The attached is a summary of the Conference Agreement on the Tax Equity and Fiscal Responsibility Act of 1982. As additional information is available, I will forward it to you.

Cynthia Powell

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

Second Preliminary Draft
August 15, 1982
6:00 pm

TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

SUMMARY OF CONFERENCE AGREEMENT

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, 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.

- In lieu of limiting deductions for business meals, the conference agreement substitutes a provision requiring food establishments to report gross receipts and tip information to the IRS. After April 1, 1983, an establishment must allocate 8 percent of gross receipts among its tipped employees unless they already have reported tip income equal to this amount.

- The payment 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. The conference agreement provides special rules for seasonal industries.

- 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 for the first six months after the provision is in place to waive withholding requirements for various payors. Interest payments of $150 or less on an annual basis 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 age 65 or over with tax

liabilities not exceeding $1,500 ($2,500 for married couples filing jointly). This exempts those over 65 with adjusted gross incomes in 1984 of less than $14,450 ($24,214 on a joint return).

- 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.

Reductions in Unintended or Unwarranted Tax Benefits

- Individual Minimum Tax. 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 existing add-on individual minimum tax is repealed. The conference bill applies a flat 20 percent rate to all preferences in excess of $30,000 for single individuals ($40,000 for joint returns). The alternative minimum tax so computed is payable to the extent it exceeds the individual's regular tax liability. This provision affects only several hundred thousand of the 90 million individual tax returns filed.

- Pensions. 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 adjustments to the maaximum 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 mortgage 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.

- Casualty and Medical Deductions. 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, instead of the 7 percent floor in the Senate bill. 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 (the Senate bill had allowed a $100 deduction).

- Original Issue Discount and Stripped Coupon Bonds. The bill provides amortization rules for 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.

- Changes to ACRS. 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.

- Safe Harbor Leasing. 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 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>. 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.

- <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.

- <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 not be available after December 31, 1986. In addition, IDBs generally will not be available to finance automobile dealerships, as well as facilities for recreation,

entertainment, for retail food and beverage services. Numerous changes also were made to liberalize the present law limitations on multifamily housing bonds and mortgage subsidy bonds.

- Life Insurance Company Taxation. The bill includes the Administration proposal to prohibit the abuse of modified coinsurance. 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 (sought by the industry), including rules governing deductions for policyholder dividends, will be effective through 1983.

- Possessions Corporations. 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. This proposal limits the tax benefits of possessions corporations, but is less restrictive than the Senate bill. Under the bill, a possessions corporation will be entitled to the return on 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.

- 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. Deferral would still be allowed for income of certain independent traders and refiners.

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

Other Provisions

- 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.

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

- 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.

File
Budget
Briefing
Feb 10

REQUEST FOR APPOINTMENTS

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Wednesday, February 10, 19 82

for Morton Blackwell (NAME OF PERSON TO BE VISITED) of Office of Public Liaison (AGENCY)

JOHN BECKETT	INTERCESSORS FOR AMERICA
BARBARA GEORGE	NATIONAL CHRISTIAN ACTION COALITION
NEIL BLAIR	FREE THE EAGLES
JOE COBB	GOLD NEWSLETTER
JUDIE BROWN	AMERICAN LIFE LOBBY
GARY CURRAN	LIFE AMENDMENT P.A.C.
BERNADETTE BUDDE	BUSINESS AND INDUSTRY P.A.C.
NICHOLAS DEAK	DEAK NEWS
WILLIAM DONOGHUE	DONOGHUE"S MONEYLETTER
Rick Cizik ~~FORREST MONTGOMERY~~	NATIONAL ASSOCIATION OF EVANGELICALS
TOM HUMBERT	THE HERITAGE FOUNDATION
RALPH GALLIANO	CONGRESSIONAL MAJORITY COMMITTEE
PETER GEMMA	NATIONAL PRO_LIFE PAC
DAVID SANDERS	CONGRESSIONAL MAJORITY COMMITTEE
BOB GOLDSBOROUGH	WASHINGTON DATELINE
CHARLES EVANS	WASHINGTON DATELINE
ELGIN GROSECLOSE	GROSECLOSE, WILLIAMS, AND BRODERICK
LEE HAMILTON	NATIONAL ASSOCIATION OF MANUFACTURERS
RICHARD HENDRIX	BRUCE EBERLE AND ASSOCIATES
JOAN HEUTER	PRO_AMERICA
JEFFREY ST. JOHN	W.R.C. RADIO
PAUL KAMENAR	WASHINGTON LEGAL FOUNDATION
PETER KEISLER	LEADERSHIP INSTITUTE
REED LARSON	NATIONAL RIGHT TO WORK FOUNDATION
FRANK VAN DER LINDEN	HISTORICAL RESEARCH FOUNDATION
TOM LIPSCOMB	NEW CAPITOL PUBLICATIONS, INC.
JOHN LOFTON	CONSERVATIVE DIGEST
TONY MAKRIS	AMERICAN SECURITY COUNCIL
EDWARD MC ATEER	RELIGIOUS ROUNDTABLE
RAYMOND MOMBIOSSE	PACIFIC LEGAL FOUNDATION
Thomas G. Donlan	Barron's Weekly

MEETING LOCATION

Building NEOB — Requested by Morton Blackwell

Room No. 2010 — Room No. 191 Telephone 2657

Time of Meeting 5:30 P.M. — Date of request February 10

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB — 395-6046 or WHITE HOUSE — 456-6742

REQUEST FOR APPOINTMENTS

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Wednesday, February 10, 19 82

for Morton Blackwell of Office of Public Liaison
(NAME OF PERSON TO BE VISITED) (AGENCY)

MORGAN NORVEL	POLITICAL GUN NEWS
SUSIE PHILLIPS	THE CONSERVATIVE CAUCUS
VINCENT DROSDIK	PHILLIPS PUBLISHING COMPANY
SAM PIMM	YOUNG AMERICANS FOR FREEDOM
LARRY PRATT	GUN OWNERS OF AMERICA
ROMAN RICE	PUBLIC SERVICE RESEARCH COUNCIL
JOHN SNYDER	CITIZENS COMM. FOR THE RIGHT TO KEEP AND BEAR ARMS
JOHN CARTER	INTERNATIONAL MONEYLINE
THOMAS MACK	AMERICAN LEGISLATIVE EXCHANGE COUNCIL
TOM WILLIAMSON	AMERICAN CONSERVATIVE UNION
MIKE KORBEY	THE VIGUERIE COMPANY
BILL WILSON	NATIONAL RIGHT TO WORK COMMITTEE
SUSAN STACY	THE CONGRESSIONAL CLUB
JOE DI MENNA	ZWEIG FORECAST
DAVID KEATING	NATIONAL TAXPAYERS UNION
WILLIAM SHAKER	NATIONAL TAX LIMITATION COMMITTEE
JOHN BUCKLEY	NATIONAL TAX LIMITATION COMMITTEE
HELEN BLACKWELL	THE EAGLE FORUM
JOHN REES	REVIEW OF THE NEWS
Steve Antosh	Center on National Labor Policy

CHARLES ALLMON
B. RAY ANDERSON
ROBERT ANDERSON
JIM BAKKER
ROBERT BLEIBERG
WALTER BRESSART
LARRY BUTLER
DOUGLAS CASEY
BERNARD CIRLIN

MEETING LOCATION

Building ______ Requested by ______

Room No. ______ Room No. ______ Telephone ______

Time of Meeting ______ Date of request ______

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB — 395-6046 or WHITE HOUSE — 456-6742

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Appointments Center
Room 060, OEOB

Please admit the following appointments on Wednesday, February 10, 19 82

for Morton Blackwell (NAME OF PERSON TO BE VISITED) of Office of Public Liaison (AGENCY)

PAT COLLINS
JIM COOK
PAUL DIETRICH
BERT COHMEN-RAMIEREZ
TERRY DOLAN
KEN GERBINO
RON GODWIN
FREDERICK D. GOSS
JERRY GUTH
HENRY HAZLITT
DONALD HOPPE
JOHN HOUSTON
ELIOT JANEWAY
GARY JARMIN
TERRY JEFFERS
RICHARD JOHNS
ROBERT KEPHART
ROBBIE KIMBALL
ROBERT KINSMAN
KRIS KOLESNIK
MAURY KRAVITZ
JOHN LAXALT
ALBERT J. LOWRY
FRANK MANSON - American Security Council
BOB MC ADAM
JAMES MCKEEVER
R.E. MCMASTER
ANDY MESSING
TED MURPHREE
VERN MYERS
GARY NORTH
TERRI O' GRADY
ALEXANDER PARIS
WALTER PERSCHKE
FRANK PICK
ROBERT POOLE
CAN POPEO
JOHN PUGSLEY
BUTCH RANDALL
DAVID ROBINSON
PAT ROBINSON
STU ROTHENBERG
DONALD ROWE
HOWARD RUFF
LOUIS RUKEYSER
RICHARD RUSSELL
HANS SENNHOLZ
JIM SIBBET
JAMES SINCLAIR
MARK SKOUSEN
RHONDA STAHLMAN
LISA STOLTENBURG
CHUCK THOMANN
PAUL WEYRICH

MEETING LOCATION

Building ______ Requested by ______

Room No. ______ Room No. ______ Telephone ______

Time of Meeting ______ Date of request ______

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB — 395-6046 or WHITE HOUSE — 456-6742

Discussion of Tax Bill

In developing a bill to raise almost $100 billion over 3 years, as mandated by the budget resolution, we have preserved without change the individual rate cuts and indexing which were promised and enacted last year. We were able to raise the needed revenue by emphasizing several tax policy objectives other than raising marginal tax rates. To achieve this, the bill eliminates many unintended benefits and closes many loopholes. I believe the basic objective in this bill is fairness to the American people.

First, we developed a package of measures designed to improve compliance with existing tax laws. It would be extremely unfair to the vast majority of honest taxpayers to increase their taxes without making the utmost effort to collect substantial revenues from those who are not paying what they already owe under existing law. The provisions for withholding on interest and dividends, and optional withholding on pensions improved information reporting, and increasing penalties for noncompliance would raise about 30 percent of the total revenues over the 3-year period.

FY 83 - 8.5 FY 84 - 9.4 FY 85 - 11.2

Second, we were determined to make sure that corporations and high-income individuals, through the use of various incentive provisions enacted over the years, could not avoid paying a fairer share of their tax burden.

We also focused on specific provisions which individuals and corporations are using to reduce excessively their tax burden. These include:

. Individual minimum tax.--We significantly tightened the present minimum tax rules to restrict the ability of high income taxpayers to escape paying any tax by excessively exploiting special credits and deductions, incentive provisions and loopholes.

FY 83 - * FY 84 - .2 FY 85 - .3

. Pension plans.--Eighty percent of the revenue gain comes from wealthy doctors, lawyers and other professional corporations who each are now allowed to put away tax free up to $165,000 per year and accumulate tax free as much as $12 million in their pension funds.

FY 83 - .2 FY 84 - .6 FY 85 - .7

. Defense industry.--The defense industry has avoided hundreds of millions of dollars of taxes by using accounting loopholes to report to the IRS much less income from long-term contracts than they report to their shareholders. The defense industry is benefiting from the buildup in defense procurement and should pay their fair share of taxes.

FY 83 - .8 FY 84 - 2.0 FY 85 - 2.4

. Leasing.--Leasing is being used to sell or buy tax benefits and has allowed some profitable companies to avoid paying tax.

The amount of property that could be safe harbor leased would be phased down, a 50 percent limit would be placed on how much a lessor can reduce its taxes, and public utilities would no longer be permitted to use safe harbor leasing. All safe haror leasing would be repealed after September 30, 1985.

FY 83 - 1.4 FY 84 - 2.6 FY 85 - 3.7

Life insurance companies.--Life insurance companies have discovered an unintended loophole and have used to reduce drastically their tax burden. The bill would close this loophole.

FY 83 - 1.5 FY 84 - 1.5 FY 85 - 2.2

. Corporate tax preferences.--A large number of corporate preferences which allow undue tax avoidance and distort the operation of capital markets were reduced by 15 percent. As an example of the kind of situation these changes are designed to respond to, preliminary figures show that, in the aggregate, the country's 20 largest banks last year paid less than 1 percent tax on U.S. source book income of more than $2 billion.

FY 83 - .7 FY 84 - 1.2 FY 85 - 1.1

. <u>Foreign oil income.</u>--The bill closes loopholes which permit international oil companies to operate overseas without paying any U.S. tax.

FY 83 - .2 FY 84 - .5 FY 85 - .6

. <u>Possessions corporations.</u>--We tightened the special tax treatment for companies doing business in Puerto Rico, which costs up to $60,000 per employee in some industries (4 times more per employee than the actual salary paid to each employee); a spending program this inefficient would have been eliminated long ago.

FY 83 - .5 FY 84 - 1.0 FY 85 - 1.1

. <u>Dividend reinvestment.</u>--We repealed the provision which gives favorable tax treatment to dividends reinvested in public utilities, a provision which gives favorable treatment to one industry, at the expense of other industries, by not allowing the available supply of capital to flow to those investments which provide the highest return.

FY 83 - .1 FY 84 - .4 FY 85 - .4

. <u>Mergers and acquisitions.</u>--We identified and eliminated some of the provisions in the tax law which provided tax avoidance and thus an artificial incentive for corporate mergers and acquisitions.

FY 83 - .7 FY 84 - .8 FY 85 - .7

. Industrial development bonds.--We reduced the benefit flowing to those businesses who can benefit from tax-exempt financing, and thus, reduced the disadvantage suffered by their competitors not able to benefit from this tax subsidy for particular investments.

FY 83 - * FY 84 - .3 FY 85 - .9

. Basis adjustment and ACRS deductions.--The overall benefit from cost recovery allowances and the investment credit was reduced so as to insure that the tax system would not induce businesses to undertake investments so unproductive that they would not be undertaken even in a world with no income tax.

FY 83 - .4 FY 84 - 1.3 FY 85 - 4.0

Third, we found several areas in which those who were responsible for specific government spending were not contributing their fair share toward the expense:

. Federal employees' Medicare.--Eighty percent of Federal retirees age 65 or over receive Medicare, even though they make contributions during only part of their careers, the typical private sector worker makes contributions over his entire career. Thus, we would make Federal employees pay the Medicare portion of the social security tax.

FY - 83 .6 FY 84 - .8 FY - .9

. Federal unemployment tax.--The unemployment compensation system is supposed to be financed by a payroll tax on employers, but over the last decade the tax has been insufficient so that the system has frequently had to borrow substantial revenues from the Treasury, that is, from the general taxpayers. Thus, both Federal and State unemployment taxes are increased.

FY 83 - 1.4 FY 84 - 2.3 FY 85 - 3.0

. Airport and Airway taxes.--The taxes applying to airplanes were increased to insure that users, rather than all taxpayers, pay for the expenses of developing the airport and air control systems. Thirteen percent of the revenue raised by the bill comes from these provisions aimed at those responsible for specific government spending.

FY 83 - 1.1 FY 84 - 1.3 FY 85 - 1.4

As a result of these efforts to increase compliance, to close loopholes which allow individuals and corporations to avoid their fair share of tax and to make sure that those who are the primary users of certain Federal spending programs pay their way, only a few provisions in the bill (less than 15 percent of the total revenue), will affect the average taxpayer. Unfortunately, these provisions to increase the cigarette and telephone taxes and to restrict medical expense and casualty loss

deductions have gotten press attention far out of proportion to their share of the revenue increase in this bill:

. Telephone tax.--The telephone tax will be increase by 1 percentage point in 1983 and by 2 percentage points in 1984 and 1985. A 1 percentage point increase amounts to only 20 cents for a $20 phone bill.

FY 83 - .3 FY 84 - .8 FY 85 - 1.5

. Cigarette tax.--The price of cigarettes will increase by 8 cents a pack, which amounts to only $16 a year for someone who smokes 200 packs a year. If this tax had been increased to keep up with the inflation since the last time it was increased, in 1951, it would be almost 30 cents per pack.

FY 83 - 1.2 FY 84 - 1.8 FY 85 - 1.8

. Medical and casualty deductions.--The changes in the medical and casualty deductions will reduce by more than 80 percent the number of taxpayers who receive a partial reimbursement, through the tax system, for their expenses. At the same time that this important simplification and base broadening is achieved, however, catastrophic losses which significantly affect individuals' ability to pay will be deductible.

FY 83 - .6 FY 84 - .8 FY 85 - .9

Breakdown of Increased Revenues

	3-year amount (billions) (1983-85)	Percent of total
1. General business tax provisions (IR basis adjustment; 1985-1986 ACRS changes; accleration of corporate income tax payment; corporate minimum tax preference reform; construction period interest and taxes; IDB reform; leasing; and mergers and acquisitions	$24.7	25.1%

2. Loopholes primarily affecting one industry (possession credit limitation, foreign oil and gas income, life insurance company taxation, dividend reinvestment plan; completed contract method of accounting)	15.2	15.4
3. Compliance provisions (interest and dividend withholding, optional pension withholding, information importing and improved penalties)	29.1	29.5

4. Taxes on those

	responsible for specific spending (Medicare, unemployment compensation, Airport-Airway)	12.8	13.0
5.	Excise tax provisions (cigarette, telephone)	7.4	7.5
6.	Other individual income tax provisions (minimum tax, pension reform, coupon stripping, casualty and medical deduction etc.)	9.5	9.6
	Total	98.6	100.0%

THE WHITE HOUSE

WASHINGTON

August 10, 1982

MEMORANDUM FOR WHITE HOUSE STAFF

FROM MIKE BAROODY MB
Director of Public Affairs

Attached are two documents which discuss the President's position on the all-important tax bill now pending in Congress. We thought it important that you have all the facts and a clear understanding of the President's strong support for this measure. The attached are 1) a letter approved by the President, outlining his position, and 2) talking points on the bill.

Hope you find them helpful.

August 9, 1982

Dear friend:

I'm writing to you because I know there is great concern in some quarters about the progress of our economic plan and I wanted personally to get the facts to you -- and to ask your help in maintaining the progress we have made so far.

In 1981, we charted a course to turn this economy around, away from policies of high taxes and spending and toward a future of higher growth in the economy and slower growth in government. We've gotten a lot done in 18 months -- reducing tax rates, federal spending growth and inflation. We've put a program for recovery in place that can continue these gains, create jobs and restore incentives and growth to the economy.

We've come a long way in a short time and now we face a critical decision: whether or not to implement a budget resolution that involves some tough choices. The resolution will reduce the deficit by $380 billion from fiscal '83-'85; it will lower interest rates and restore jobs. The fact that it also calls for increasing revenues by some $99 billion in the same three years is, I know, disturbing to many of my friends and supporters.

Let me explain. Interest rates have fallen some in recent weeks, but not nearly far enough. The prime rate fell a full 1.5 points -- to 15 percent -- in just the two weeks ending August 2nd. I'm confident it will drop more. But, if we want interest rates down to stay, the deficit will have to be cut by at least the magnitudes in the budget resolution. Without increasing revenues, there's little, if any, chance Congress will go along with the spending cuts the resolution requires.

If the budget resolution isn't implemented, future deficits will be far worse -- and chances for a sustained recovery could be shattered. Even with the cuts in spending growth already achieved, the federal government will be in the private markets to borrow $100 billion during the second half of this year. Add another $380 billion in deficits to finance by the end of fiscal '85 and "crowding out" won't be just a threat -- it will be an economic reality powerful enough to drive interest rates above the record 21.5 percent prime we saw at the end of the last Administration.

But it doesn't have to be that way. Our success in 1981 exceeded almost everyone's expectation but our own. A few of us knew that support from the American people could make the difference; that we could reverse past trends and start bringing tax rates down for the first time in 20 years and, with indexing, keep them down for the first time ever. We can do the same now with deficits and interest rates -- bringing them down to stay so employment can go back up for good.

And it can be done with no retreat on the fundamental supply-side

incentive tax cuts we fought so hard to pass last year.

Congress has before it now a bill that raises some taxes to achieve the higher revenues called for in the budget resolution. I support it. You know me well enough to be sure my support is carefully considered. Let me share some of the factors that went into my decision.

First, and most important, keep in mind that over the next three years, the tax burden on Americans will be $334 billion less than it would have been if our '81 tax cuts had not been enacted -- and that figure applies after passage of the pending tax bill. As importantly, the 3rd year of the tax cut, indexing, and most of the accelerated cost recovery provisions to help business and create jobs are all protected in this bill. As you know, earlier this year the Democratic leadership tried to eliminate the 3rd year and repeal indexing but we fought them and we beat them. And I'd fight again to keep those gains from being undone.

This new tax bill is a different matter. First, it raises taxes less than it appears at first glance. Of the roughly $99 billion in added revenues in the bill, one-third -- $31 billion -- comes not from new taxes but from new efforts to collect taxes due under existing law. In fact, more than three-quarters of the increased revenues come from this stepped-up compliance and from closing tax loopholes.

Let's look at where the new revenues in the tax bill come from -- and where they don't come from. They don't come from raising individual marginal tax rates. For the average working man and woman, in fact, there is very little in this bill that increases the burden of taxes. This year, because of the '81 cuts, a typical family will pay almost $400 less in federal income taxes than it would have at 1980 rates. Next year, the same family will pay $788 less. New personal taxes in the bill have a small impact on most taxpayers -- the increased federal telephone tax, for example, will raise the typical family's phone bill 54 cents a month -- but it will contribute $1.6 billion a year to bringing down the deficit.

Fifty billion dollars, or half of the new revenues come from efforts to broaden the tax base. This means closing loopholes and eliminating abuses such as those associated with the tax leasing provision. I supported this provision and it has helped some firms that were starved for cash. But it also has been exploited by some profitable businesses in ways never intended. As for new taxes -- for businesses and individuals -they account for less than one-of-every-five dollars of revenue in the bill.

We didn't get all we wanted when the tax bill was passed in 1981. And we got some provisions we didn't originally ask for. These "add-ons," attached to the bill on the floor of Congress cut revenues by an extra $77 billion. The pending bill recovers most of that by raising $67 billion in new revenues (excluding stepped-up compliance) and correcting some of the abuses created by these and other tax code provisions.

I have no enthusiasm for raising taxes but lowering the deficit is

an imperative. The budget resolution passed this year, if Congress sticks to its targets, will decrease the red-ink in the budget by almost $400 billion through 1985. The tax bill's new revenues are only one-quarter of that total. The remaining three-fourths -- $280 billion in deficit reductions -- is to come from lower outlays. We worked with Congress on this resolution and that was the price of my support -- $3 saved in outlays for every $1 in increased revenue.

I'm prepared to fight for those cuts in the coming months -- and the Congress knows it. In past months, I haven't had to use the veto very often, but I'm not shy about it. I proved that on three continuing resolutions (and the Congress didn't override a one). I'll veto any bill Congress sends me that doesn't further our goal of controlling spending.

In my first year as President, we set America on a new economic course. The year before I took office, federal spending grew more than 17 percent. The same budget resolution I've referred to cuts that growth two-thirds -- to under 5 percent for fiscal 1983. We've passed an individual tax rate cut of 25 percent -- with indexing to protect those cuts against inflation -- and nothing in this tax bill threatens those cuts or dilutes the increased incentives to work, save and invest.

We've also brought inflation down farther and faster than anyone thought possible back in January of 1981. From an average of about 13 percent in 1979 and 1980, inflation has been almost cut in half -- to about 7 percent over the last 12 months.

We set this new course because it was right. We were able to do so because scores of millions of Americans agreed it was right -- and we're going to stick to it.

It won't be easy to get $280 billion in additional outlay saving from Congress. We have to have them though, to bring down the deficit and get interest rates back to where they belong. To do it, we have to live by all the provisions of the budget resolution and that means living with the revenue increases it requires.

I can't guarantee the Congress will willingly implement all the spending cuts the resolution calls for. I can assure you that I will use every means available to me to try to make them live up to their obligations -- and to let the public know if they do not.

Together, we have begun to set things right -- to chart a new economic course for America. Together, we can ensure that America sticks to that course -- and that the new beginning we have made will be a lasting one.

I ask for your support in these very tough times. I need your help once more. Please, phone your Congressman and your Senators today and tell them to stick to the lower deficit target they set. Tell them to support the tax bill and the lower outlays contained in the budget resolution. Tell them you support the President and you want them to. The success of my program to reduce the deficit, create more jobs and bring interest rates down depends on your help as never before.

August 9, 1982

TALKING POINTS ON THE TAX BILL

General points

President Reagan supports the tax bill for three primary reasons:

1. it's needed to reduce the deficit, bring interest rates down and stimulate the creation of more jobs;
2. it protects the fundamental incentive tax cuts secured in '81 (3rd year, indexing, most of ACRS);
3. it implements the budget resolution which requires $3 in lower outlays ($280 billion total) for every $1 in higher revenues.

- The budget resolution reduces the deficit $380 billion in the 3 years from fiscal '83-'85. The $99 billion in added revenues in this bill is only about one-quarter of the total but it is necessary in order to get the other three-quarters -- $280 billion in spending cuts.

- One-third of the $99 billion -- $31 billion -- comes not from new taxes, but from stepped up compliance efforts to collect more of the taxes owed under present law but not paid.

Maintaining incentive cuts passed in '81

- Nothing in the bill threatens the supply-side incentives contained in the 1981 tax act. The bill does not change:

    - -- the third year of the tax cut -- the 10 percent rate reduction on July 1, 1983;
    - -- indexing of tax rates after the full 25 percent rate reduction takes effect;
    - -- most of the accelerated cost recovery provisions for business.

- In fact, passage of this tax bill would ensure the revenues required by the resolution could be raised without tampering with any of the supply-side incentives -- and would weaken any future attempts by the Democratic leadership to repeal the 3rd year etc.

- The House Democratic leadership tried it earlier in the year, proposing to raise revenues about twice as much as this bill, and cancel the 3rd year cut and indexing.

- A majority disagreed with them, but enough members, Democrats and Republicans, favored some revenue increases to make last year's coalition impossible to assemble without them.

Taxes still way down '83-'85 and beyond

o For most individual taxpayers, this bill will have little impact.

o Even with the bill's increased revenues, the tax burden on Americans will be $334 billion less the next 3 years than if tax rates of 1980 were still in effect.

o The typical family will pay almost $400 less in taxes this year than if prior rates still applied. Next year, even with passage of this tax bill, that family will pay $788 less.

o From 1985-87, because of indexing, the total tax burden on individual Americans will be some $89 billion less than it would have been without the 1981 tax act.

o New taxes in the bill -- for individuals and business -- account for less than one dollar in five of the new revenues.

o New personal taxes will add little to most individual's tax bill. For example, the one percent increase in the telephone tax will mean 54 cents a month for the average household but it will contribute $1.6 billion to lower deficits.

o Taxpayers earning less than $50,000 now pay about 67 percent of all income taxes and will receive about 70 percent of the tax cut.

Increased compliance

o More than three-fourths of the increased revenues come from stepped-up compliance and loophole closings.

o Rather than imposing new taxes, the bill achieves one-third of the new revenues through improved methods of collecting taxes already owed.

o These collection measures are needed to insure fairness in our tax laws, and would only add to the tax burden of those who don't now pay all they owe under the law. These measures include increased penalties for noncompliance and improved reporting systems for the IRS.

o If these measures -- such as interest and dividend withholding -- are not adopted, new tax increases would be necessary to meet the revenue targets in the budget resolution. And the Democratic leadership this year has already shown it's not reluctant to impose new taxes.

o Withholding will not have an adverse effect on savings except for those who aren't now paying the taxes they owe.

- The bill contains exemptions for the poor and elderly. Nearly 80 percent of people over 65 (those who make less than $14,450; $24,214 for a joint return) and low-income people of any age who owed $600 or less in taxes the prior year ($1000 on a joint return) are exempt from the dividend and interest withholding.

- All interest payments of less than $100 are totally exempt from the withholding requirement.

Closing loopholes and eliminating abuses

- More than half the revenue in the bill is raised by measures which close certain tax loopholes, eliminate abuses by certain taxpayers, and broaden the base of taxpayers to assure equity.

- The bill imposes a minimum tax on individuals and corporations to ensure that all pay a fair, minimum share of taxes.

- It restricts and gradually phases-out the "safe harbor leasing provision." This provision has been beneficial to many cash-starved companies but has also permitted some profitable ones to avoid federal taxes in ways not intended by Congress.

- The bill reduces the amount of tax benefits available to high income individuals from various pension plans.

MEMORANDUM

1982 Budget Briefings

THE WHITE HOUSE

WASHINGTON

SCHEDULE PROPOSAL February 2, 1982

TO: ELIZABETH H. DOLE

THRU: DIANA LOZANO

FROM: MORTON BLACKWELL

REQUEST: Briefing on the 1983 Budget for Pro-Family and Limited Government groups by OMB staff.

PURPOSE: To brief these constituent groups on the budget.

BACKGROUND: These groups were very supportive of the President during the election campaign and helped in the passage of the 1982 legislative program.

PREVIOUS PARTICIPATION: OPL has held previous briefings for these groups.

DATE: Wednesday, February 10, 1982
5:30 P.M.

LOCATION: Room 2010, NEOB

DURATION: 60 minutes

PARTICIPANTS: Approximately 50 people - representatives of the leadership of the pro-family and limited government groups.
David Stockman, Director, Office of Management and Budget
Don Moran, OMB
Morton Blackwell

OUTLINE OF EVENTS: Dave Stockman and Don Moran will brief these groups and answer questions. Morton Blackwell will chair the meeting.

REMARKS REQUIRED: Dave Stockman, Don Moran, and Morton Blackwell will speak.

MEDIA COVERAGE: Coordinate with media liaison

RECOMMENDED BY: Morton Blackwell, Ed Harper, Don Moran.

OPPOSED BY:

PROJECT OFFICER: Morton Blackwell

THE WHITE HOUSE
WASHINGTON

February 4, 1982

TO: Telegraph Office

FROM: Morton Blackwell
Room 191 x. 2657

Please send this mailgram message to the following people.

Thank you.

P.S. Please return this list to our office when you are finished.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

DRAFT FOR MAILGRAM

YOU ARE CORDIALLY INVITED TO A WHITE HOUSE BRIEFING FOR PRO-FAMILY AND LIMITED GOVERNMENT ORGANIZATIONS ON THE FISCAL YEAR 1983 BUDGET, BRIEFING BY DAVID STOCKMAN AND DON MORAN OF THE OFFICE OF MANAGAMENT AND BUDGET.

BRIEFING WILL BE WEDNESDAY AFTERNOON, FEBRUARY 10th AT 5:30 P.M. IN THE NEW (REPEAT, NEW) EXECUTIVE OFFICE BUILDING ON 17th STREET, N.W. IN ROOM 2010.

YOU OR A SUBSTITUTE FROM YOUR ORGANIZATION IS INVITED.

PLEASE CALL MAISELLE SHORTLEY OR KATHY CHRISTIANSEN - 202-456-2657 - BY TUESDAY WITH THE NAME OF THE PERSON WHO WILL ATTEND.

THANK YOU.

CORDIALLY,

MORTON BLACKWELL

SPECIAL ASSISTANT TO THE PRESIDENT

REQUEST FOR APPOINTMENTS

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Wednesday, February 10, 19 82

for Morton Blackwell of Office of Public Liaison
(NAME OF PERSON TO BE VISITED) (AGENCY)

JOHN BECKETT	INTERCESSORS FOR AMERICA
BARBARA GEORGE	NATIONAL CHRISTIAN ACTION COALITION
NEIL BLAIR	FREE THE EAGLES
JOE COBB	GOLD NEWSLETTER
JUDIE BROWN	AMERICAN LIFE LOBBY
GARY CURRAN	LIFE AMENDMENT P.A.C.
BERNADETTE BUDDE	BUSINESS AND INDUSTRY P.A.C.
NICHOLAS DEAK	DEAK NEWS
WILLIAM DONOGHUE	DONOGHUE"S MONEYLETTER
~~FORREST MONTGOMERY~~ Rich Cizik	NATIONAL ASSOCIATION OF EVANGELICALS
TOM HUMBERT	THE HERITAGE FOUNDATION
RALPH GALLIANO	CONGRESSIONAL MAJORITY COMMITTEE
PETER GEMMA	NATIONAL PRO_LIFE PAC
DAVID SANDERS	CONGRESSIONAL MAJORITY COMMITTEE
BOB GOLDSBOROUGH	WASHINGTON DATELINE
CHARLES EVANS	WASHINGTON DATELINE
ELGIN GROSECLOSE	GROSECLOSE, WILLIAMS, AND BRODERICK
LEE HAMILTON	NATIONAL ASSOCIATION OF MANUFACTURERS
RICHARD HENDRIX	BRUCE EBERLE AND ASSOCIATES
JOAN HEUTER	PRO_AMERICA
JEFFREY ST. JOHN	W.R.C. RADIO
PAUL KAMENAR	WASHINGTON LEGAL FOUNDATION
PETER KEISLER	LEADERSHIP INSTITUTE
REED LARSON	NATIONAL RIGHT TO WORK FOUNDATION
FRANK VAN DER LINDEN	HISTORICAL RESEARCH FOUNDATION
TOM LIPSCOMB	NEW CAPITOL PUBLICATIONS, INC.
JOHN LOFTON	CONSERVATIVE DIGEST
TONY MAKRIS	AMERICAN SECURITY COUNCIL
EDWARD MC ATEER	RELIGIOUS ROUNDTABLE
RAYMOND MOMBIOSSE	PACIFIC LEGAL FOUNDATION

MEETING LOCATION

Building NEOB | Requested by Morton Blackwell

Room No. 2010 | Room No. 191 Telephone 2657

Time of Meeting 5:30 P.M. | Date of request February 10

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB — 395-6046 or WHITE HOUSE — 456-6742

UNITED STATES SECRET SERVICE SSF 2037 (05-78)

REQUEST FOR APPOINTMENTS

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Wednesday, February 10, 19 82

for Morton Blackwell (NAME OF PERSON TO BE VISITED) of Office of Public Liaison (AGENCY)

MORGAN NORVEL	POLITICAL GUN NEWS
SUSIE PHILLIPS	THE CONSERVATIVE CAUCUS
VINCENT DROSDIK	PHILLIPS PUBLISHING COMPANY
SAM PIMM	YOUNG AMERICANS FOR FREEDOM
LARRY PRATT	GUN OWNERS OF AMERICA
ROMAN RICE	PUBLIC SERVICE RESEARCH COUNCIL
JOHN SNYDER	CITIZENS COMM. FOR THE RIGHT TO KEEP AND BEAR ARMS
JOHN CARTER	INTERNATIONAL MONEYLINE
THOMAS MACK	AMERICAN LEGISLATIVE EXCHANGE COUNCIL
TOM WILLIAMSON	AMERICAN CONSERVATIVE UNION
MIKE KORBEY	THE VIGUERIE COMPANY
BILL WILSON	NATIONAL RIGHT TO WORK COMMITTEE
SUSAN STACY	THE CONGRESSIONAL CLUB
JOE DI MENNA	ZWEIG FORECAST
DAVID KEATING	NATIONAL TAXPAYERS UNION
WILLIAM SHAKER	NATIONAL TAX LIMITATION COMMITTEE
JOHN BUCKLEY	NATIONAL TAX LIMITATION COMMITTEE
HELEN BLACKWELL	THE EAGLE FORUM
JOHN REES	REVIEW OF THE NEWS
Steve Antach	Center on National Labor Policy

CHARLES ALLMON
B. RAY ANDERSON
ROBERT ANDERSON
JIM BAKKER
ROBERT BLEIBERG
WALTER BRESSART
LARRY BUTLER
DOUGLAS CASEY
BERNARD CIRLIN

MEETING LOCATION

Building ________ Requested by ________

Room No. ________ Room No. ____ Telephone ________

Time of Meeting ________ Date of request ________

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB — 395-6046 or WHITE HOUSE — 456-6742

UNITED STATES SECRET SERVICE

REQUEST FOR APPOINTMENTS

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Wednesday, February 10, 19 82

for Morton Blackwell of Office of Public Liaison
(NAME OF PERSON TO BE VISITED) (AGENCY)

PAT COLLINS
JIM COOK
PAUL DIETRICH
BERT COHMEN-RAMIEREZ
TERRY DOLAN
KEN GERBINO
RON GODWIN
FREDERICK D. GOSS
JERRY GUTH
HENRY HAZLITT
DONALD HOPPE
JOHN HOUSTON
ELIOT JANEWAY
GARY JARMIN
TERRY JEFFERS
RICHARD JOHNS
ROBERT KEPHART
ROBBIE KIMBALL
ROBERT KINSMAN
KRIS KOLESNIK
MAURY KRAVITZ
JOHN LAXALT
ALBERT J. LOWRY
FRANK MANSON – American Security Council
BOB MC ADAM
JAMES MCKEEVER
R.E. MCMASTER
ANDY MESSING
TED MURPHREE
VERN MYERS
GARY NORTH
TERRI O' GRADY
ALEXANDER PARIS
WALTER PERSCHKE
FRANK PICK
ROBERT POOLE
CAN POPEO
JOHN PUGSLEY
BUTCH RANDALL
DAVID ROBINSON
PAT ROBINSON
STU ROTHENBERG
DONALD ROWE
HOWARD RUFF
LOUIS RUKEYSER
RICHARD RUSSELL
HANS SENNHOLZ
JIM SIBBET
JAMES SINCLAIR
MARK SKOUSEN
RHONDA STAHLMAN
LISA STOLTENBURG
CHUCK THOMANN
PAUL WEYRICH

MEETING LOCATION

Building ______ Requested by ______

Room No. ______ Room No. ______ Telephone ______

Time of Meeting ______ Date of request ______

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB – 395-6046 or WHITE HOUSE – 456-6742

UNITED STATES SECRET SERVICE SSF 2037 (05-78)

You are cordially invited to a White House briefing for pro-family and limited government organizations on the fiscal year 1983 budget, briefing by David Stockman and Don Moran of the Office of Management and Budget.

Briefing will be Wednesday afternoon, February 10th at 5:30 p.m. in the New (Repeat New) Executive Office Building on 17th Street, N.W. in Room 2010.

You or a substitute from your organization is invited. Please call Maiselle Shortley or Kathy Christiansen - 202-456-2657 - by Tuesday with the name of the person who will attend. Thank You.

Cordially,

Morton Blackwell
Special Assistant to the President

** END OF FORMATTING, NO ERRORS
IN=EDITOR WORKFILE, TEXT FROM MB0210T1
OUT=MAILGRAM

N Mr. Charles Allmon
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1982 Tax bill

WASHINGTON UPDATE

INSIDE WASHINGTON

Separating the wheat from the chaff... As the time approaches for a decision on whether to negotiate a grain sale agreement with the Soviet Union, President Reagan's domestic and national security advisers once again are jockeying for influence over the decision process. Last year, Reagan finessed the turf battle by bringing the grain embargo question before the full Cabinet. In this election year, watch for Agriculture Secretary John R. Block to remind the White House of the farm votes that ride on the decision. His Cabinet council on food and agriculture already has circulated a position paper on the subject and expects to present the issue to Reagan. But planners at the National Security Council, where economic sanctions against the Soviets are in vogue, think Reagan should hear the options at one of their meetings.

* * *

Wetlands sleeper... William R. Gianelli, who heads the Army Corps of Engineers, appears to be achieving through regulatory "reform" what he couldn't get from Congress: the quick demise of the corps's protector role for the nation's dwindling wetlands. The corps is rewriting its rules on permits for dredge and fill operations to conform with Gianelli's recommendations to the Presidential Task Force on Regulatory Relief. The Environmental Protection Agency is also preparing regulatory changes. Both would make water quality the sole criterion for issuing permits. The strong implication is that other wetland concerns, such as protection of waterfowl habitat, would no longer be enough to block projects that would turn a wetland into solid ground. Environmentalists are only now waking up to this prospect.

* * *

Arms sales manual... After almost a year of study, the Pentagon is putting the final touches on its new arms sales policy, which will regulate the terms of some co-production agreements in which foreign countries help manufacture the weapons they buy. A remaining sticking point: the Air Force and Richard D. DeLauer, Defense undersecretary for research and engineering, reportedly oppose a proposal to create a Pentagon office to oversee co-production deals for fear that it would dilute their influence over the agreements.

* * *

A sigh of relief... Oil lobbyists, who had feared the worst, were relieved by the tax-raising package adopted by the Senate Finance Committee. The measure didn't include any special energy tax and didn't zero in on the petroleum industry as a source of ready cash. A representative of a refinery association said he would advise his members to accept the bill with a smile. Chairman Robert Dole, R-Kan., who earlier had talked of massive new energy taxes, startled a recent hearing by saying the needed revenues could be raised without an energy tax.

* * *

Nuclear trigger... The Administration is working behind the scenes with other nations that export nuclear technology to amend the "trigger list" of items not to be sold to certain countries. The work is being done outside the London Suppliers Group because some members of that body don't want to appear to be limiting the access of developing countries to nuclear technology, say U.S. officials. Critics say the moves only confirm that certain countries will continue to receive technology despite fears that they might use it to make nuclear bombs.

INSIDE UPDATE **1228** Proposed tax increases... World Bank changes its borrowing, lending rules... Supreme Court eases voting rights test... IRS takes aim at college housing perks

GOP tax hike package takes edge off Democrats' thunder

By winning Senate Finance Committee approval of 25 small changes in the tax code, Sen. Robert Dole, R-Kan., has constructed a package that would raise $98.6 billion in the next three years by broadening the tax base instead of raising tax rates. In the process, Republicans have stolen some of the Democrats' political thunder as this fall's elections approach.

Dole's bill strikes at businesses and high-income individuals. Banks, life insurance companies, defense contractors, airlines, drug companies, oil firms, utilities and capital-intensive industries benefiting from the investment incentives of last year's tax reductions would be among those affected. High earners would lose some of their pension tax shelters. The minimum tax on the wealthiest individuals would be strengthened. *(For details, see box, p. 1228.)*

In devising his package, Dole swept aside the argument of corporate lobbyists that Congress could not find the political will to fight dozens of tax battles in an election year and therefore should move to increase revenues with just a few broad measures such as a surtax or delay of the tax cut scheduled for July 1, 1983. But whether the fragile coalitions that provided the needed margin of support in the Finance Committee can also coalesce on the Senate floor and especially in the House remains to be seen.

Both supporters and detractors of Dole's approach to meeting the congressional budget's call for new revenues remarked on his skill in getting the package through the Finance Committee. "I didn't think it could be done," said Rudolph G. Penner, economist at the American Enterprise Institute for Public Policy Research. But he cautioned that the bill "has a long way to go" before enactment.

Penner observed that the tax package's concentration on corporations and high-income individuals should "make it very tempting to the House

(continued on p. 1229)

How the Senate Finance Committee Would Boost Revenue

The tax bill approved by the Senate Finance Committee on July 2 would raise $21.1 billion in fiscal 1983, $34.1 billion in 1984 and $43.4 billion in 1983. Following are the bill's 24 revenue-raising measures and one revenue-losing step, ranked in descending order by the amount they would raise in fiscal 1983. Each item is followed by its effective date and its revenue impact (in billions of dollars) in fiscal 1983, 1984 and 1985.

Taxpayer compliance. Reduce noncompliance by improving information reporting, increasing penalties for cheating, revising withholding rules for pension distributions, collecting taxes from restaurant owners on tip income and urging an increase in the Internal Revenue Service budget.

Jan. 1, 1983 $4.3 $5.9 $7.3

Interest and dividends. Require withholding of 10 per cent on interest and dividend payments, with exemptions for certain tax-exempt institutions, corporations and low-income or elderly individuals. In addition, as of this July 1, reduce the holding period for long-term capital gains tax treatment from one year to six months.

Jan. 1, 1983 $4.2 $3.5 $3.9

Life insurance. Repeal the modified co-insurance tax loophole; allow a deduction of 77.5 per cent of policyholder dividends by mutual insurance companies and 85 per cent by stockholder-owned companies; and stiffen tax penalties for early withdrawals.

Jan. 1, 1982 $1.5 $1.5 $2.2

Unemployment tax. Increase the federal unemployment tax wage base from $6,000 to $7,000 a year and the tax rate from 3.4 to 3.5 per cent and provide for further increases in 1985.

Jan. 1, 1983 $1.4 $2.3 $3.0

Leasing. Modify "leasing" rules governing the sale of corporate tax breaks by requiring that lease deals have other economic merit, phasing out tax-benefit transfer or "wash sale" leases and, retroactively to Feb. 19, limiting the use of leases for certain other tax-avoidance purposes.

July 1, 1982 $1.3 $2.6 $3.7

Cigarettes. Double the cigarette excise tax from 8 cents to 16 cents a pack.

Jan. 1, 1983 $1.2 $1.8 $1.8

Airports and airways. Increase the passenger ticket tax from 5 per cent to 8 per cent; increase the tax on noncommercial gasoline fuels to 12 cents per gallon and increase the tax on other noncommercial fuels to 14 cents per gallon; restore the air freight waybill tax to 5 per cent; and set the international departure ticket tax at $3.

Sept. 1, 1982 $1.1 $1.3 $1.4

Completed contracts. Require current payment of taxes on income from long-term contracts.

Jan. 1, 1983 $0.8 $2.0 $2.4

Corporate income tax. Accelerate payments, primarily by increasing the size of estimated tax bills.

Jan. 1, 1983 $0.8 $1.2 $1.1

Mergers and acquisitions. Limit tax benefits from mergers and acquisitions.

Sept. 1, 1982 $0.7 $0.8 $0.7

Tax preferences. Reduce certain corporate tax preferences by 15 per cent and limit the amount of tax that may be offset by the investment tax credit to 85 per cent.

Jan. 1, 1983 $0.7 $1.2 $1.1

Medicare. Subject federal employees to the social security tax for medicare.

Jan. 1, 1983 $0.6 $0.8 $0.9

Puerto Rico. Limit tax breaks for pharmaceutical companies and other firms that invest in Puerto Rico.

Jan. 1, 1983 $0.5 $1.0 $1.1

Construction expenses. Require corporations to amortize over 10 years the interest and tax expenses incurred during the construction of nonresidential buildings.

Jan. 1, 1983 $0.5 $1.0 $1.0

Depreciation. Reduce write-offs for investments for which taxpayers can claim an investment tax credit, an energy tax credit or a historic rehabilitation tax credit by an amount representing half the value of the credit.

Jan. 1, 1983 $0.4 $1.3 $2.5

Telephone tax. Increase the excise tax now levied on local telephone service, toll telephone service and teletypewriter exchange service from 1 per cent now to 2 per cent in 1983 and 3 per cent in 1984 and 1985 and reduce it to 2 per cent thereafter.

Jan. 1, 1983 $0.3 $0.8 $1.5

Medical and casualty deductions. Limit deductions for medical expenses to amounts above 10 per cent of adjusted gross income instead of 3 per cent and impose a similar limit on casualty losses, which now have no floor.

Jan. 1, 1983 $0.3 $3.0 $3.2

Pensions. Lower limits on tax-deductible contributions to pension plans from $45,475 to $30,000 for a defined contribution plan and from an amount needed to fund a $136,425 annual benefit to that needed to provide $90,000 in a defined benefit plan; cut maximum combined plan benefits from 140 per cent to 125 per cent; and, as of July 2, 1982, curtail loans and reduce benefits for early retirees.

Jan. 1, 1984 $0.2 $0.6 $0.7

Foreign oil. Increase taxes on income from U.S. oil companies' foreign operations.

Jan. 1, 1983 $0.2 $0.5 $0.6

Bonds. Increase taxes on income from original-issue discount bonds and, as of June 10, 1982, on bonds whose coupons have been stripped.

May 4, 1982 $0.1 $0.4 $0.5

Utility dividends. Repeal the deduction for reinvesting public utility dividends.

Jan. 1, 1983 $0.1 $0.4 $0.4

Industrial revenue bonds. Require public hearings and approval by elected officials before private-purpose industrial revenue development bonds can be floated, and impose other restrictions.

Jan. 1, 1983 — $0.3 $0.9

Minimum tax. Strengthen the alternative minimum tax levied on individuals.

Jan. 1, 1983 — $0.2 $0.3

Depreciation. Repeal scheduled 1985 and 1986 acceleration of depreciation deductions for property placed in service after 1984.

Jan. 1, 1985 — — $1.5

Jobs credit. Extend targeted jobs tax credit until Dec. 31, 1985, and broaden its application to the non-educationally disadvantaged, including 16 and 17-year-olds hired for summer jobs.

Jan. 1, 1983 -$0.1 -$0.3 -$0.3

GOP tax bill steals some Democratic political thunder

(continued from p. 1203)

and very hard for the Democrats to play politics with."

At the Chamber of Commerce of the United States, which has fought hard against any tax increases this year, chief economist Richard W. Rahn said the committee's approval of the bill was a "great legislative victory" for Dole. "It is an extraordinarily clever package," he said. "In many ways it is a hard bill for us to fight against, because it's so technical that it's not easy to build up a lot of emotion. People are still trying to figure out how it affects them."

But the Chamber will oppose the bill, or at least elements of it, Rahn said, because it objects to many provisions that would "impede capital formation and slow economic growth." Not only the proposed increases in corporate taxes but also some of the tax hikes aimed at individuals—such as a measure to require withholding of 10 percent of interest and dividend payments—would take money "out of the savings stream" that provides investment capital, he said.

Of the $21.1 billion the bill would raise in fiscal 1983, $7.5 billion, or 36 per cent, would be paid by corporations, with the rest by individuals. This would reverse a trend that has seen the corporate share of taxes decline during the past two decades. During fiscal 1981, corporations paid 17.6 per cent of all taxes, and the share was scheduled to drop to 14.2 per cent in 1986, according to the Office of Management and Budget. If Dole's bill is enacted, the corporate share would rise somewhat.

With some exceptions, the bill also concentrates individual tax increases in the upper brackets. It is, said Rahn, a measure designed to "build a notion of Republican equity" in the face of Democratic charges that the GOP during the Reagan Administration has favored the wealthy at the expense of the poor.

Dole said at a July 2 press conference that "with just a few exceptions, all of the bill is in the direction of bringing fairness, balance and more equity to the tax code."

Democrats on the Finance Committee seemed to agree, at least in part, choosing not to oppose most provisions that would raise corporate taxes. Nonetheless, they object to some of the bill's features, including its proposed withholding of dividend and interest payments, increases in cigarette and telephone excise taxes, reduction of deductible medical expenses, a provision to force restaurant owners to collect taxes on employees' tip income and an increase in unemployment taxes.

During the markup, Finance Committee Democrats raised the fairness argument with an amendment by Sen. Russell B. Long, D-La., to defer the July 1, 1983, tax cut by three months and grant it in full only to families earning less than $40,000. The cut would be reduced for those earning $40,000 to $46,000 and eliminated above that amount until a balanced budget was achieved. Long said 75 per cent of all taxpayers would get the full cut.

Dole said on July 2 that he believed "the White House will be pleased" by the committee's action. Though it was apparent that Administration support likely will be needed to guide the package through minefields on the Senate floor and in the House, a flat endorsement has yet to come.

Treasury Secretary Donald T. Regan issued a statement on July 2 saying that the bill "furthers our efforts to reduce deficits while maintaining the integrity of our economic recovery program." And deputy White House press secretary Larry Speakes said that "at first glance," the tax increases have Reagan's approval but that the President "would have preferred not to raise anyone's taxes."

A stiff battle is likely to come over interest and dividend withholding, which has long been opposed by banking interests. In its first vote on the issue, the committee rejected the measure, 12-7. After a break for some arm-twisting of Republicans by Dole, it was approved by an 11-9 party-line vote.

One of those to change his vote was Sen. Dave Durenberger, R-Minn., and reports circulated that he had agreed to support withholding in exchange for concessions by Dole on a measure the chairman proposed to curtail the controversial practice of tax-break "leasing"—the purchase and sale of corporate tax benefits.

But the committee ultimately approved a leasing provision that it said would cut in half the $15.5 billion in expected revenue losses from that practice in the next three years. Corporate executives said the new provision would markedly reduce incentives for profitable companies to purchase tax breaks.

The Senate is expected to take up the package shortly after it returns from vacation on July 12. The tax hikes will be part of a broader "reconciliation" bill that also will include about $17 billion in spending reductions the Finance Committee approved for the next three years.

Many of the provisions in Dole's package could trace their paternity to Democrats, observed an aide to Ways and Means Committee chairman Dan Rostenkowski, D-Ill. Nonetheless, the Democrats won't acknowledge the link, he said, for fear of being blamed for the tax hikes.

He added that committee Democrats will insist on strong White House support for the tax increases before sending them to the House floor. If the White House pulls back, he said, Democrats will too, and "it will become an entirely Republican tax increase."—**Timothy B. Clark**

New York Times, August 2

Citibank vs. New Withholding Rules

By LEIF H. OLSEN

THE proposal passed by the Senate to withhold taxes on interest and dividends would in effect impose on the public added costs of a dollar for each dollar of additional revenue the Government hopes to collect.

What appears to have been overlooked is the fact that this proposal will cost savers and investors more than the taxes withheld on such income. They will lose their opportunity to earn interest and dividends on the money the Government proposes to take away during the year, and the public in general will have to bear the cost and inconvenience of the system.

Furthermore, it is jarringly incongruous to see a proposal adopted which runs directly counter to what has become bipartisan national policy, namely the encouragement of higher savings and investments. It is also incongruous to hear wishful talk in Washington of the old idea of a flat income tax, which would simplify things for the taxpayer, at the same time that Congress proceeds to add costs and complexity to the tax burdens of savers and investors.

The withholding proposal would collect taxes of 10 percent on interest and dividends as they are paid during the year by banks, corporations and financial institutions. This would deprive taxpayers of at least $1.7 billion they would otherwise earn through interest and dividends on the money the Government now plans to withhold. And it will increase the cost to companies that must administer the withholding. And individuals will ultimately bear those costs as they are incorporated in the pricing structure of the corporations.

All told, the loss of income to savers and investors, together with the cost to the private sector of operating the withholding system, could match the Senate Finance Committee's estimate of $3.9 billion in additional annual revenues that the Government will receive in the next several years as a result of greater compliance in reporting interest and dividends.

Here is how it would all work. Millions of savers and investors — whose funds are used to buy mortgages bonds and stocks, to make loans, and to otherwise support the supply-side of the economy — will receive an estimated $300 billion in interest and dividends in 1983. A 10 percent withholding tax would take away $30 billion from that total by year-end. This averages out to $15 billion for the year as a whole. Left in the hands of taxpayers and invested at, say 11 percent, that $15 billion would yield nearly $1.7 billion before taxes and before taking into account exemptions. But that is only part of the cost of the system.

The total would rise to well over $3 billion when you include the cost to financial concerns of operating the withholding system. The best estimate of that cost, which is probably low, is $1.5 billion a year. Thus, the Government, in order to collect an estimated $3.9 billion in taxes, would require the public to pay an additional estimated $3.2 billion in lost interest and administrative costs, plus the very real costs of added time and a whole new set of regulations.

While the Senate proposal does provide exemptions for some individuals, the ultimate cost to taxpayers should include the time, exasperation and, in some cases, anguish of people getting exemption forms, filling them out, verifying the information and finally getting them approved. For instance, exempt individuals over 65 must have income tax liabilities for the preceding year of no more than $1,500, or $2,500 on a joint return. Corporations are also exempt among a large number of other organizations and government entities. It is clearly a proposal aimed at individuals.

THE cost to the consumer must also include the hardship that overwithholding will impose on millions in moderate circumstances or dependent on interest income. Taxpayers in general overpay taxes to the Federal Government every year. Refunds on 1981 taxes, for example, amounted to $47 billion, or 18 percent of total personal income taxes withheld. Although the intent of the bill is to improve taxpayer compliance in reporting interest and dividend income and paying taxes on that income, some of that unreported income goes to people who would be exempt anyway due to their nontaxable status.

There are many, particularly individual elderly people, who simply do not have to report their interest and dividend income. On the other hand, those who deliberatly cheat on their tax payments will surely find new ways of continuing that practice.

The net of all this is that to try and capture some tax evaders, the Government will extract an additional cost from all savers and investors.

There must be a better way. Interest and dividend-paying companies now file reports with the Internal Revenue Service on how much they pay individuals, using Social Security numbers to identify the recipient. Broadened reporting of this type, coupled with greater and more effective use of this information by the I.R.S. to increase tax compliance, would yield more revenue with proportionately less cost than withholding taxes.

How much revenue the Treasury will ultimately capture is only an estimate. That estimate is probably equaled by the direct expense to consumers plus the time and exasperation the lower-income elderly will spend in getting exemptions. The entire proposal may look promising to the Government with a large deficit to cover, but from the point of view of the taxpayers, it is not worth the cost. Cuts in Government spending would be better. ■

Leif H. Olsen is chairman of the Economic Policy Committee at Citibank.

1982

THE WALL STREET JOURNAL, TUESDAY, JULY 13, 1982

Getting the Drift of Mr. Reagan's Economic Policy

By Paul Craig Roberts

When I resigned as assistant secretary of the treasury for economic policy earlier this year, the New York Times asked me if I resigned over a policy disagreement. I replied that it isn't possible to disagree with the unknown and that no one any longer knew what the administration's economic policy was or what direction it was going.

Six senior economic policy positions have been resigned: the under secretary and assistant secretary of state, the under secretary and assistant secretary of the treasury, the domestic policy adviser to the president and a member of the Council of Economic Advisers. Only one of these positions has been filled. Two of these positions have been vacant for months, and no nominations have been sent to the Senate for any of the posts. This suggests either that the administration is unsure about its policy direction or that the White House staff intends to make economic policy and has no interest in the posts beyond perhaps using them to reward cronies.

In spite of the drift, likely policy directions can be discerned. Start with the box in which the administration has placed itself. At a time when the economy is in a serious recession, the administration has made its main economic goal a reduction in the budget deficit. Normally in a recession policy focuses on recovery, and the recovery automatically reduces the deficit.

The administration, however, has convinced itself that there can be no recovery unless the projected budget deficits for 1983-85 are reduced.

That means higher taxes (or different economic assumptions). Already the administration has agreed to a $100 billion tax increase. There are clear indications that David Stockman, the OMB director, sees this as a first installment and intends to propose yet higher taxes in the 1984 budget. Mr. Stockman has let it be known that he believes that federal spending is locked in at 23% of GNP indefinitely. With 1982 tax revenues at around 20% of GNP, hefty tax increases seem to be in store.

On the monetary policy front the administration has found that neither tight money nor loose money lowers interest rates, because people don't know in which direction policy is going next. Several months ago when I was still in the administration, senior White House staff was talking about legislating lower interest rates. More recently Ed Meese said that if interest rates didn't come down, the administration would resort to "other measures."

Talk about credit controls in the west wing of the White House has been loud enough that the Cabinet Council on Economic Affairs recently took a position against controls. And the Treasury has sent a letter opposing controls to Senate Majority leader Howard Baker. Obviously, the Treasury would not be fighting off a policy that was not being floated.

It was Secretary of State-designate George Shultz who, as treasury secretary, carried out the Nixon wage and price controls. He may be joining this administration in time to live through a second Republican experiment with controls. The economy cannot indefinitely experience st[illegible] interest rates and falling inflation without Washington succumbing to the temptation to resort to controls.

As long as the markets expect Reaganomics to unravel and the policy roller coaster to return, long-term rates will stay high. And as long as there is a liquidity problem in the private sector, short-term rates will stay high. The large tax increases, which the administration believes will lower interest rates by reducing the deficit, may actually keep them high. It certainly looks like a policy unraveling when the administration proposes tax increases even before its tax cuts go into effect. And tax increases will not help anyone's liquidity but the government's.

The administration talked itself into a series of policy mistakes that have left it in a policy box. Monetarists argued that interest rates would fall if the administration used its forecast to send the financial market signals of tight money and low inflation. However, the tight money and low inflation assumptions caused the nominal GNP projections and tax revenues to collapse, thus sending signals of large deficits. The market saw the deficit projections in conflict with the inflation and interest rate projections and decided to believe the deficits.

Another strategic error was made when the White House excused the Fed from responsibility and blamed the deficit on the president's budget instead of on the recession. The White House wanted Congress to deal with the deficit by cutting spending and raising taxes, and not by pressuring the Fed to reflate. But the consequence was to shift the blame for the recession from the Fed to the president's economic program.

Yet another error was made when the administration was convinced by OMB that $100 billion in higher taxes was a reasonable price for a budget resolution that would lower interest rates. However, instead of reassuring the markets about the deficit, the tax increase confirmed the fears that the president's program was unraveling, and that kept interest rates high.

The administration brought on its woes when it failed to match tighter monetary policy with tax cuts in order to keep demand from falling and avoid a recession. The tax cuts had two purposes: One was to lower tax rates and improve incentives, and the other was to prevent a reduction in money growth from causing a drop in demand and a recession. A reduction in the growth of federal spending and/or increase in saving would ease pressures on the deficit.

However, the tax cuts were put on the back burner for 18 months, leaving last year's tight money to bring on a recession. The recession made large deficits inevitable, and the administration is responding to the deficits with higher taxes.

It isn't certain what the combination of controls and higher taxes would do to a recessionary economy. But if the 1930s are a guide, the administration's budding new economic policy is indeed a riverboat gamble.

Mr. Roberts is the William E. Simon professor of political economy at the Center for Strategic and International Studies, Georgetown University.

WASHINGTON POST, JULY 24, 1982

Businessmen Take Dim View Of Tax Bill Passed by Senate

By Mark Potts
Washington Post Staff Writer

Businessmen are taking a dim view of the tax package passed by the Senate last Friday. They say the measure's restrictions on depreciation and investment-tax credits could have a chilling effect on corporate capital spending over the next few years.

Some companies complained that the changes in the "safe harbor" tax-leasing provision make that concept virtually useless to financially troubled companies that have been counting on it.

And business leaders warned yesterday that the changes in tax law approved by the Senate, many of which rolled back advantages given to business a year ago, could put a damper on economic recovery."

"It's all negative," said Theodore Eck, chief economist for Standard Oil Co. (Indiana). "The original intent of the 1981 tax code was to provide corporations some incentives with regard to their capital expenditures. ... This is really taking back a fair amount of what corporations were originally provided."

"We're concerned about the extent to which they're cutting back on the incentives to business investment," said Paul Huard, vice president for taxation and fiscal policy at the National Association of Manufacturers.

"It's certainly going to reduce investment," said Richard Rahn, an economist at the Chamber of Commerce of the United States. "Taxes reach such a high point that they become a disincentive. You have to reduce those disincentives."

The provisions in the Senate-approved tax bill causing the deepest concern within the business community are:

- A reduction in the tax break resulting from the 10 percent investment tax credit. At present, firms get the credit, normally 10 percent of the cost of an acquisition, and can depreciate the full value of the cost of the purchase. The Senate measure would reduce the depreciation to 95 percent of the cost of the purchase. This would save $152 million in 1983, rising to $259 million in 1984.
- Accelerations of the depreciation schedule that are supposed to go into effect in 1985 and 1986 would be eliminated. In 1985, this will mean the loss to business of $1.6 billion, rising rapidly to $10.2 billion in 1986 and to $18.8 billion in 1987.
- Corporate tax-leasing—the sale of tax breaks by nontaxpaying firms to taxable firms—would be severely restricted. If enacted, this provision will cost the business community $1.1 billion in 1983, rising progressively to $7.2 billion by 1987.

In addition, the legislation has provisions accelerating corporate income-tax payments, eliminating tax breaks available to companies involved in mergers and restricting tax deferrals for multiyear contractors, particularly those in the defense and aerospace industries.

Edward G. Jefferson, chairman of E.I. du Pont de Nemours & Co. Inc., which will spend about $3.2 billion this year on new plant and equipment, said the proposed limits to depreciation could force his company to reevaluate its capital spending plans in coming years. "It certainly is an important consideration [because] it impacts on cash flow," he said.

Jefferson said the more negative effects of the proposed changes in tax law would not become apparent until mid-decade. "When I add [the changes] up in our own case, they're

See COMPANIES, D10, Col. 3

Treasury Bill Rates Slip to 7-Month Low

Associated Press

Yields on short-term Treasury securities dropped for the fourth straight week in yesterday's auctions, falling to the lowest level in more than seven months, officials said.

About $5.5 billion in six-month T-bills were auctioned at an average discount rate of 11.378 percent, down from the 11.441 percent of last Monday.

The government also sold about $5.5 billion in three-month bills at an average rate of 10.559 percent, down from 11.14 percent.

The yields, a measure of the cost of government borrowing from the public, were the lowest since the Dec. 7 levels of 10.772 percent for six-month bills and 10.404 percent for three-month bills.

Beginning today banks and savings and loan association may pay as much as 12.19 percent interest on $10,000-minimum six-month money market certificates, down from 12.7 percent.

S&Ls may pay as much as 10.559 percent and commercial banks as much as 10.309 percent interest on $7,500-mimimum three-month certificates, down from last week's 11.14 percent and 10.89 percent.

Tax Package Concerns Businessmen

COMPANIES, From D7

quite substantial, particularly when you get into 1985 and 1986, in their impact," he said.

Other business officials also said that the proposed changes could cause changes in their spending plans. But some pointed out that there were other forces involved in capital expenditure plans than tax considerations. Competitive situations and regulatory requirements are also factors in spending decisions.

"You don't have a chief executive coming into a board meeting trying to sell a capital investment on the basis of taxes," said Jack Albertine, executive director of the American Business Conference, a group representing midsize corporations. "The tax bill, in itself, in my judgment, is not big enough to have a substantial effect in terms of capital spending.

"Absent a cut in interest rates, you won't have any capital spending," he added.

But other business executives warned that the proposed changes themselves would have a detrimental effect on the economic recovery. Rahn predicted that the tax proposal would cut gross national product growth by as much as 1 percent a year in the next two years and reduce the number of jobs created by 700,000 a year in 1983 and 1984.

Eck said the reversal of last year's tax cuts appeared to undermine the aim of supply-side economics for the sake of reducing budget deficits. "The whole idea of supply-side was to increase investment for the whole decade," he said. "Unfortunately, this is a little backsliding."

TWO POST COLUMNISTS LOOK AT THE RECORD-BREAKING, $99 BILLION TAX PACKAGE

Soaking the rich is rooted in a slander

By PATRICK J. BUCHANAN

THE Reagan-Dole tax bill, the largest nominal tax increase in peace-time history at $99 billion, is a triumph of the GOP's "old time religion," grounded in the political-theological doctrine of salvation through suffering.

While budget-balancing is the economic rationale, "fairness" is the political justification, according to Sen. Robert Dole and his admirers at The New Republic. It is time to force the "fat cats" to carry their "fair share" of supporting the system from which they benefit so mightily.

Now a little Jacksonian populism — whether targeted at limousine liberals or yacht basin Republicans — adds spice to the democratic dialogue. But rhetoric, customarily, should bear some relation to reality; and, even by the standards of genteel demagoguery, the accusation should contain an element of truth.

Where is the truth in the generalized slander that the well-to-do in the U.S. are not carrying a "fair share" of the federal tax burden?

According to the Tax Foundation, drawing on numbers provided by the Treasury:

- The top 10 per cent of taxpayers already carry more of the total tax burden than the remaining 90 per cent. (The nine million taxpayers who earned more than $32,100 in 1980 paid 52 per cent of the federal income tax bill; the 85 million who earned less paid the remaining 48 per cent.)
- The top 25 per cent of U.S. taxpayers, who footed two-thirds of the total income tax bill in 1975, are now paying more than three-fourths — 77 per cent.
- The top half of Americans in income, those above the median, paid 94 per cent of all federal income taxes in 1980; the lower half paid only 6 per cent.
- The working class and working poor — the lowest 25 per cent in taxable income — bear a minuscule three-tenths of 1 per cent of the total tax burden.

For every single dollar in income tax paid by these working folk, the *average* taxpayer in the top 10 per cent shelled out $458.

To assert, then, that the affluent in America are evading their tax responsibility, sloughing it off on the middle class and the poor, is not only propagandistic; it is a bald-faced lie, a lie advanced by people who know better for reasons, ideological and political. Like the Wasps (White Anglo-Saxon Protestants), the well-to-do appear to be one of the few minority groups in the U.S. it is acceptable to slander.

Thomas Babington Macaulay, a wise old Brit, saw it coming. Writing a friend before the Civil War, he envisioned a future legislature in America:

"On the one side," he said, would be "a statesman preaching patience, respect for vested rights, strict observance of public faith. On the other . . . a demagogue, ranting about the tyranny of capitalists and usurers, and asking why anybody should be permitted to drink champagne and to ride in a carriage, while thousands of honest folks are in want . . .

"I seriously apprehend," he warned, "that you will, in some such season of adversity as I have described, do things which will prevent prosperity from returning; that you will act like people who . . . in a year of scarcity, devour all the seed corn and thus make the next year a year, not of scarcity, but of absolute famine. The spoliation will increase the distress. The distress will produce fresh spoliation. There is nothing to stop you. Your Constitution is all sail and no anchor."

Lord Macaulay, meet Bob Dole.

LORD MACAULAY
Saw it coming.

JUDGING from the sounds of anguish, the threatened curtailment of taxpayer-subsidized three-martini lunches is driving corporate eminences and some of their journalistic brethren to desperate drink, as if each swallow might be their last. That Ronald Reagan is apparently tolerating the deprivation has intensified the moaning at the bar.

It is all reminiscent of the interval when the politically departed Jimmy Carter briefly sponsored this revolution in the American way of life but soon retreated under congressional fire with a bad case of shakes. There may be a comparable loss of nerves when this provision of the Senate-approved tax bill is reviewed by the House.

The "three-martini-lunch" is, of course, cultural short-hand for what long ago became established as the ritual of tax-deductible "entertainment." Actually the Senate version is a half-way measure. Under existing law and lore, companies are allowed to deduct from tax obligations the total costs of "business meals" and other related amenities. The Senate would still permit 50 per cent of the tariff to be written off for tax purposes. It would also maintain the present giveaway spirit for all overnight, out-of-town expenditures.

Thus the tax-free expense account will scarce-

R. Emmett Tyrrell Jr.

The Great GOP Tax Increase

KITTY HAWK, N.C.—The water here is luminously clear. It is also calm. And to those of us who would deny life, liberty and the pursuit of happiness to the fish along North Carolina's Outer Banks, this is bad news. At the famed Kitty Hawk Pier, the assembled sages have been in prolonged confabulation for months, speculating on how they might activate the fishing. Perhaps they should call in Sen. Robert Dole, chairman of the Senate Finance Committee. He would doubtless advise that they levy a thumping tax on fishermen. The more productive the fisherman, the heavier Dole would tax him. Surely that would activate the fishing.

Does Dole's reasoning sound implausible? Well, it convinced many of the assistant presidents around Ronald Reagan. They have moved in a matter of months from being champions of the largest tax cut in American history to being champions of the largest peacetime tax increase in history. I should like to see these bright fellows in action on the Kitty Hawk Pier. One day they would be casting mightily. The next day they would be in with the fish. They have no constancy because they have no ideas.

The only man in the White House who has ideas, ideas about the purpose and worth of government, is Ronald Reagan, and apparently he who once counseled with men like Milton Friedman and William F. Buckley Jr. is now allowing himself to be governed by the successors to Haldeman & Ehrlichman, Powell & Jordan. Such *philosophes*, of course, have no conception of what affairs of state might be. They are the political tacticians, the bright boys who convince politicians that they know how to keep their man in office. Alas, the record of this species of Machiavel over the past three presidential administrations has not been awe-inspiring.

Today Ronald Reagan is under the professional care of Baker & Darman, who believe that they can remain in power even longer than Ehrlichman & Haldeman or Powell & Jordan. Dole has convinced them that interest rates will drop if the federal deficit is narrowed by higher taxes. There is no economic evidence to support this conclusion. In fact, President Carter followed this policy during the last futile presidential administration. He raised taxes some $300 billion. When he left office, interest rates had jumped and so had the deficit. Our recent deficits have come from economic decline, and one major cause of that decline is the burdensome taxation weighing down upon productive Americans to pay for Tip O'Neill's Good Fairy Politique.

In a word, Americans are over-taxed. This message, however, does not get to Washington, where high taxes always mean flush times for bureaucrats and pols alike. Washington is the land of spenders and taxers. It is not a land of producers. Few of our noble political leaders have ever produced anything, aside from hot air and paper work. What do they know about the fabled bottom line? Their economic knowledge at best consists of hunches, and the hunches are usually wrong. Some weeks ago, they insisted that a budget resolution was a matter of utmost urgency if Wall Street was to lower interest rates. The resolution passed on a Thursday. On Monday, Citibank raised its prime interest rate. The stock market swooned. The pols plodded on.

Republican congressional leaders, aided and abetted by the White House Machiavels, induced House Republicans to vote for that budget resolution by telling them it was the only way to pry spending cuts from their opponents in the Party of the Good Fairy. Now, six weeks later, the spending cuts amount to less than one-third of the cuts promised, and the tax increase to be slammed down on us during these recessionary times grows daily. Still, the pols plod on. Once again the saps of the GOP are becoming willing tax collectors for Democratic spending programs, and even out of power the Democrats are successfully managing to spend still more.

Last December, a very shrewd Republican declared that "the only proper way to balance the budget is through control of government spending and increasing prosperity and productivity for all." This is shrewd politics and also sound economics. The speaker was Ronald Reagan.

What has happened to the Ronald Reagan who told us on April 1 that "you don't raise taxes in a recession"? What has happened to the Ronald Reagan who last December insisted that such taxation amounted to "robbing the people"? Apparently he has handed himself over to Baker & Darman. They now guard the palace with the same steely vigilance that characterized the stupendous performances of their predecessors, Powell & Jordan, Haldeman & Ehrlichman. They control what the president reads and whom he sees. They have apparently overwhelmed him and muzzled all his embarrassing talk about lower taxes and lower spending. They have won the battle for the president's ear.

This fall they will watch proudly as the Republicans march off to battle beneath the banner, "We Raised Your Taxes." I should like to have been in the Oval Office to hear how they sold this particular piece of idiocy to Ronald Reagan, whose earlier tax cuts represented Washington's only serious attempt to control government spending, to revive American prosperity and to make Republicans the majority party.

Rowland Evans
And Robert Novak

Washington Post
July 26, 1982

McGovern Would Be Proud

The transformation of Ronald Reagan into a tax reformer capable of converting George McGovern's dreams into reality was beyond doubt at 10:15 a.m. last Thursday when Republican senator Robert W. Kasten Jr. was summoned to the Oval Office to face the great communicator.

Using all his magnetism, the president pleaded with Kasten, a 40-year-old Wisconsin conservative elected in the 1980 Reagan sweep, to withdraw his amendment to the tax bill. That amendment would have stripped the bill of a proviso to withhold taxes on dividends and interest, long the far-out dream of tax reformers now becoming reality under Reagan.

Kasten refused. But under the White House whip, 24 Republican senators who sponsored a 1980 resolution opposing a similar withholding scheme by President Carter voted for it in the Senate Thursday night as it passed, 50 to 47. One word from the president could have chilled the amendment and the bill.

Instead, the famed anti-taxer pushed for a tax increase that is not only one of the largest in history but that contains a generation worth of accumulated tax reform debris geared to higher revenue and soaking the rich. The late edition even includes Jimmy Carter's notorious attack on the three-martini businessman's lunch. Alternative explanations of Reagan's conduct are equally damning: that in his rush for revenue, he either did not understand or did not care.

As a result, liberal Democrats won the best of two worlds: a bill that achieves McGovern-Carter tax reform beyond their wildest dreams but that bears a Republican label. Only two other freshman senators, Florida's Paula Hawkins and Georgia's Mack Mattingly, joined Kasten to break Republican ranks on final passage. Smirking Democrats to a man voted against it, not wishing to be saddled with increasing taxes in an election-recession year.

Some administration officials who understand the debacle blamed the Treasury for giving Sen. Robert Dole a free hand in writing the 700-page bill in his Finance Committee. "We let Dole run loose, just when he was launching his campaign for president," one official told us.

But that lets the Treasury off too easily. In truth, the Dole bill emerged from the catacombs of the Treasury where holdover bureaucrats in the Tax Division unearthed their hoary "loophole-closing" schemes last September when White House chief of staff James Baker began his drive for more revenue. Their boss, Assistant Secretary Buck Chapoton, is a Houston tax lawyer congenial to cleaning up the tax code at the expense of the taxpayers.

The two main supply-side economists at Treasury, Under Secretary Norman Ture and Assistant Secretary Paul Craig Roberts, protested futilely and finally resigned. Secretary Donald T. Regan allowed himself to be swept along by the tide. On the day the bill was brought up in the Senate, Regan was oblivious to private protests from Pepsico chief Don Kendall and economist Walter Williams.

There was no voice in the administration to echo Sen. Kasten's plea that "we Republicans were not elected to raise taxes on savings and investment." Instead, Don Regan was pumping the telephone to support the interest and dividend withholding provision.

The rationale for the president to swallow a McGovernite tax bill is his belief, mocked by sophisticated opinion, that the bill will make markets soar and interest rates fall. Despite a lifetime of sermonizing against liberal tax policy, he swallowed the Dole bill as effortlessly as he had massive tax increases as governor of California.

Speaker Thomas P. O'Neill, a last remaining political asset for the Republicans, nearly saved the GOP as the Senate bill was passing by insisting that anti-oil taxes be added in the House. Majority Leader Jim Wright, understanding that the bill must retain its Republican label, quickly repaired the damage.

That leaves the fate of the bill squarely in Republican hands. "In this bill, we alienate the last constituency that has any use for the Reagan administration—business," one key House Republican leader told us. He is hard at work to expunge the anti-business provisions from the bill but retain the $99 billion in extra revenue

However, that would mean still higher taxes for ordinary Americans. Norman Ture believes that, whatever the merit of one or two of the bill's provisions, no tax increase should be passed in today's economic climate. That credo is shared by Reaganites such as Rep. Jack Kemp of New York on the leadership and Reps. Phil Crane of Illinois and John Rousselot of California on the Ways and Means Committee. It is surely a Reaganite credo, even though Reagan himself has chosen to borrow the worst of George McGovern and Herbert Hoover by pushing revenue-raising tax reform amidst an economic agony.

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The Washington Times 7-23-82

$99 billion tax package flayed by conservatives

By George Archibald
WASHINGTON TIMES STAFF

As the Senate moved toward a final vote on a Republican plan to raise $99 billion in additional taxes over the next three years, conservative leaders yesterday denounced the administration-backed tax package as a repudiation of President Reagan's economic program.

"The last thing in the world we should be doing right now is raising taxes," said Norman B. Ture, former Treasury undersecretary for tax and economic policy, in an interview with The Washington Times.

"It's just incredible to me how anybody can believe that in the neighborhood of $100 billion of additional taxes over three years — the overwhelming majority of which will come from returns on investment — can be perceived as encouraging the business community to undertake expanded capital activities," said Ture, who was chief architect of the Reagan tax-cut program enacted by Congress last year to bolster business expansion and jobs production.

A coalition of 42 conservative leaders also issued a statement blasting the tax increase plan, saying, "The president's abandonment of tax and spending cuts means the Reagan administration has sadly slipped into the familiar Washington pattern of spend more, tax more."

Among those signing the joint statement were Howard Phillips, national

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From page one

director of the Conservative Caucus; Idaho State Rep. Tom W. Stivers, chairman of the American Lgislative Exchange Council; Ron Godwin, vice president of the Moral Majority; Richard Viguerie, publisher of the Conservative Digest; and Jude Wanniski, a leading supply-side economist and president of Polyconomics, Inc.

The conservative leaders charged that Reagan's support for the tax hikes drafted by Sen. Robert Dole, R-Kan., and other Senate Finance Committee Republicans "undermines his original economic recovery plan and reneges on his pledge not to balance the budget on the backs of the American taxpayer."

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

Ture said the administration sought since he beginning of Reagan's presidency "an extended vigorous (economic) recovery based primarily and dealt primarily by a big expansion of business capital formation.

"I don't see how we can expect to get it when the Congress, at the administration's prodding, is about to impose one of the biggest tax increases on business outside of war that I can think of."

The conservative opposition may have come too late to have a major impact on the bill's chances. But the White House and Senate GOP leaders were leaving nothing to chance with last-minute lobbying since most Democrats were expected to vote against the GOP package and the votes of almost all Republicans would be needed for final passage. Several conservative Republican senators yesterday were talking of opposing the bill on the final vote.

The Senate worked late into the night yesterday to finish action on the measure, following three full days of considering amendments that failed to appreciably alter the package's 26 revenue-raising items.

The most significant vote was on a move by Sens. Ernest Hollings, D-S.C., and Robert Kasten, R-Wis., to knock out the 10 percent withholding requirement for interest and dividend income. The amendment was rejected 50-47. Vice President George Bush, the Senate president, had flown back from campaigning in Nebraska in case his vote was needed to break a tie.

The withholding provision is expected to raise $4.2 billion next year and $11.6 billion through 1985. However, opponents of the requirement argue that it would impose an onerous paperwork burden on financial institutions and brokerage houses, the cost of which would outweight the revenue gain to the Treasury.

In other action, the Senate agreed 64-32 to an amendment offered by Sen. William Armstrong, R-Colo., allowing taxpayers to index capital gains so that taxes will be paid only on real gains after compensating for inflation since purchase.

More than four hours was spent debating a proposed doubling of federal cigarette taxes. By vote of 72-24, the Senate defeated a move by a coalition of tobacco state senators led by Sen. Wendell Ford, D-Ky., to eliminate any increase. Then, by vote of 60-37, a compromise offered by Sen. Jesse Helms was accepted to return the new 16-cent per pack federal tax back to 8 cents on Oct. 1, 1985.

A 72-74 vote defeated an attempt by Sen. Thomas Eagleton, D-Mo., to reduce the value of tax deductions now allowed major oil companies for labor, supplies and other "intangible drilling costs," in exchange for dropping the bill's doubling of federal telephone excise taxes.

Under the bill, the 1 percent tax would go to 2 percent next year, to 3 percent in 1984 and 1985 and back to 2 percent in 1986 and beyond.

Also included in the bill are provisions imposing a new form of minimum tax on corporations and individuals scaling back last year's "safe harbor" leasing provision that allows profitable businesses to buy tax breaks from money-losing companies speeding up tax payments by large corporations with taxable income above $1 million in any of the three previous tax years and increasing taxes on aviation fuel and airline tickets.

Other provisions of the omnibus tax bill would revamp tax treatment of corporate mergers and acquisitions require construction firms building nonresidential buildings to amortize over 10 years interest and taxes incurred during construction reduce business depreciation write-offs enacted last year by Congress for plant and equipment investment severely restrict the practice of allowing contractors to defer tax on income from long-term contracts until the project is completed and reduce tax preferences for corporate pension contributions.

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In Our Opinion

A Bitter Pill

After voting last year to provide taxpayers much-needed relief with a record tax cut, the Senate has approved a bill calling for a record tax increase — a bitter pill to take.

There is no way this legislation can be popular with hard-pressed Americans already beset on every side with recession, inflation and unemployment. Ostensibly, the reason for the latest tax increase is to lift the nation out of the economic doldrums.

It is doubtful if that will happen. What most North Carolinians are concerned with is the fact that the new tax legislation will double the tax on cigarettes, a move many observers believe will hurt tobacco, a major industry in this state.

And what surprised many North Carolina citizens is the fact that Sens. Jesse Helms and John East both switched their votes to help pass this tax increase.

Helms said he did not want to support the tax-increase bill backed by President Reagan but added, "I realized if I didn't switch and John didn't switch the bill would go down."

This bill should have gone down; it calls for a $99 billion tax increase over the next three years. Helms and East will have a lot of explaining to do if and when they campaign for re-election.

No doubt they had what they believe to be sound reasons for supporting the tax increase. But it will be difficult to convey those reasons to their constituents back home — particularly farmers.

The bill would boost taxes on cigarettes, telephone service and families with large medical expenses; impose a 10-percent withholding tax on interest and dividends; and take back more than one-third of the record tax cut that Congress voted for business last year.

The measure also would cut about $17.5 billion over the next three years from federal spending for Medicaid, Medicare and aid to the needy.

The bill keeps intact Reagan's three-year, across-the-board personal tax cut, although it takes back a big part of the 1981 business reduction.

The bill passed by the Senate still must get through the House, and Democratic leaders say they are not sure such a bill will be approved in an election year.

Certainly, a number of Democratic congressmen from North Carolina will not vote for it.

Tarboro Sale Of Tobacco Averages 1.66

The third day of the carry-over tobacco sale last week culminated with the Tarboro market selling $218,406.02 for an average of $1.66 per pound.

The sale at Tarboro, as well as two last week at Rocky Mount's six warehouses, was a first for the area and also for the tobacco market in North Carolina, as well as Virginia and South Carolina.

Rocky Mount warehouses totaled $1,156,003.92 for two-day sale, for an average of $1.70. The Wednesday average was $1.71, one cent below the Eastern Belt figure.

The sale of the certified, carry-over tobacco resulted in "happy" results, according to earlier reports, which indicated there was "nobody complaining."

Tomorrow will mark the official opening day of the great Eastern Belt and the Telegram will carry complete results as the tobacco selling season progresses.

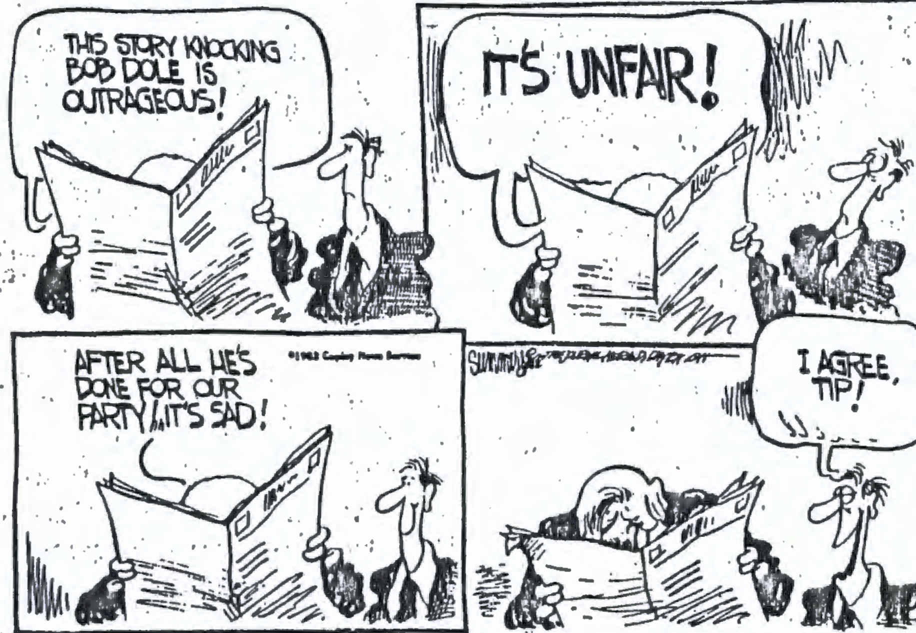
Dole's Taxes Betray Reaganism

Patrick J. Buchanan

Eighteen months into the Reagan Revolution, and here is where we stand. Our last best hope of preventing the largest tax increase in history from being imposed on us by the Republican Party rests with the son of the Kingfish, Sen. Russell B. Long of Louisiana.

That's right. Only the skill, resourcefulness and tenacity of the Louisiana Democrat can prevent Senate Republicans from voting $98 billion new taxes over the next three years. The tax bill was crafted by Robert Dole of Kansas, chairman of Senate Finance, with the backstage support of the Reagan White House.

Among the two dozen new taxes in the Dole-Reagan bill: 1) an automatic 10 percent withholding newly imposed on interest and dividend income, which will reduce the return on, and attractiveness, of savings, and deal a body blow to the S&Ls; 2) a sharp reduction in the medical expenses and casualty losses you can deduct on your income tax; 3) a crackdown on restaurants and other businesses whose employees receive tips, in the hope of extracting $17 billion in revenue for the IRS over the next three years from waiters, waitresses, etc.; 4) a doubling of the federal tax on each pack of cigarettes to 16 cents, which means another $60 in added federal taxes each for the two-pack-a-day men; 5) an increase from 5 percent to 8 percent on airline tickets.



This $98 billion tax bill, $21 billion of which would come due in the fiscal year beginning October, is in a fine old tradition—i.e., crafted by "responsible" Republicans to force taxpayers to foot the bill for programs crafted, by and large, by liberal Democrats.

The near unanimous Republican support raises a question as to what, precisely, the party of Ronald Reagan stands for.

Last summer it seemed clear. The central economic problem of the '70s, according to Candidate Reagan, was that federal regulation, federal controls, federal overtaxation had spiked the wheels of the great locomotive of democratic capitalism. If the engine could be unleashed, it would begin the long pull toward economic prosperity for all. The dream was embodied in Reagan-Kemp-Roth, the tax rate reductions of 1981, the great Republican triumph.

The idea behind Sen. Dole's double-dozen new taxes is the opposite. The Reagan idea was that you cut taxes to stimulate the economy, which eventually produces the revenues to balance the budget. The Dole idea is that you raise taxes to balance the budget. The Dole bill, fundamentally, accepts the liberal argument that Ronald Reagan, in 1981, gave away too much of the government's money to business and individuals—and now the government has got to get it back.

Does Mr. Reagan believe that? Does Mr. Reagan believe that the answer to an economic recession—caused by Jimmy Carter's high tax policy—is a Republican high tax policy?

The New York Times and Washington Post surely do. The former has cheered the senator's leadership; the latter has editorialized on behalf of the Dole taxes twice within the last eight days. "If you trace the paternity of that bill," an elated Democratic staffer on Ways and Means told The Wall Street Journal, "you will find it's damn near a Democratic bill."

The National Review, whose history of support for Mr. Reagan is a little less uneven than that of the Times or Post, terms the Dole bill a "disaster, even on grounds of sheer politics, quite aside from all questions of principle."

Even in the depths of recession, the Republican Party had an opportunity this fall. It could, rightly, blame the present economic stagnation on the 25 percent inflation of Carter's final two years, the 20 percent interest rates Carter first introduced to the economy. It could posit as alternatives the Republican Party answer of lower taxes, less spending, smaller government and the Democratic philosophy of higher taxes, more government, continued spending. But how does the party credibly make that argument when the Conservative Republicans are trying to roll Sen. Long and the Democrats and add $98 billion to the tax load on private enterprise?

The Dole taxes contradict and distort the message of Reaganism; they compromise the principles, betray the promise and muddy the banner. Can it be within the next fortnight we shall see Mr. Reagan publicly opposing his oldest friends by fighting on the side of new taxes in the wisdom of which he cannot conceivably believe?

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Meal Tax Bill Fought By Union

7-27-82

By EDWARD COWAN

Special to The New York Times

WASHINGTON, July 26 — A labor union that represents some 450,000 restaurant employees turned to the House of Representatives today in an effort to block tax legislation adopted by the Senate that the union contends would destroy jobs.

The Hotel Employees and Restaurant Employees International Union, A.F.L.-C.I.O., sent to all 35 members of the Ways and Means Committee a "fact sheet" attacking an amendment, written into the Senate tax bill last Friday with virtually no debate, that would allow tax deductions for only 50 percent of the cost of business meals that are not part of an overnight business trip away from home.

Calling this "a tax on business-related meals," the union contended that it would cause spending for ex-...

Continued on Page D15

Restaurant Union Fights Senate Meal Tax Bill

Continued From First Business Page

pense account meals to drop by 2 to 5 percent and kill between 55,000 and 150,000 jobs.

"I don't think that's likely to happen," replied an aide to Senator Bob Dole, the Kansas Republican who is the chairman of the Senate Finance Committee and whose offer of the amendment on the Senate floor at 4 A.M. last Friday was unexpected.

"We have not seen anything to indicate that," the aide added. The amendment, adopted by 57 to 40, would take effect on Jan. 1, 1983.

Senator Dole offered the amendment, which he said would raise $2.8 billion of revenue over three years, after the Senate had rejected, by a vote of 70 to 25, a provision concerning the reporting of tips. The restaurant employees union had successfully opposed the provision, which would have required restaurants that employ more than 10 persons receiving tips to allocate among them as tips a sum equal to 7 percent of gross receipts.

Senator Dole told the Senate the provision was an attempt to collect more income taxes from waiters, waitresses and other employees of restaurants and bars. He said the Internal Revenue Service estimated that such workers paid only 16 percent of the taxes that they owed.

"They have absolutely zero justification" for that estimate, the union's legislative representative, Robert E. Juliano, said in an interview. He contended that the I.R.S. had reached that conclusion by comparing reported tips with figures from the Commerce Department on "gross sales."

Mr. Juliano was asked what was wrong with that estimate inasmuch as most restaurant customers base the tip they leave, if any, on the size of their check. "I guess nothing," Mr. Juliano replied, "and I guess there's nothing wrong with pulling figures out of the air, either."

Senator David Pryor, Democrat of Arkansas, who offered the amendment that struck the tips provision, contended that the allocation of tips among waiters, busboys, bartenders, parking attendants, checkroom attendants and others would be an impossible task for restaurant managers.

The Secretary of the Treasury, Donald T. Regan, implied on Sunday that acceptance of the tip-reporting provision in the House would be one way to kill the Senate provision on business meals.

Mr. Juliano also sent to members of the Ways and Means Committee a memorandum entitled: "Additional tax reporting on tips — an unsupportable, impractical and unfair burden for employers and workers alike." A Senate Finance Committee aide said that the opponents exaggerated the difficulty of allocating tips among employees.

Members of the Ways and Means Committee may meet on Tuesday, perhaps informally, to decide whether to try to write a tax bill of their own or whether they want the House to go to conference with the Senate with no House bill. There have been indications that the conference course is the more likely.

Mr. Juliano has at least one known ally on the Ways and Means panel, its chairman, Dan Rostenkowski, Democrat of Illinois. Mr Rostenkowski has close ties to the union's Chicago local, which has 16,000 members. Mr. Juliano said the union's total membership was 450,000, including 55,000 in New York City's Local 6. In 1978, Mr. Rostenkowski actively opposed President Carter's proposal to disallow half of all entertainment expenses, a proposal that died in committee.

Mr. Juliano contended that the allocation by an employer inevitably would assign to some employees more tips than they actually received, and they would have to pay taxes on income they had not enjoyed.

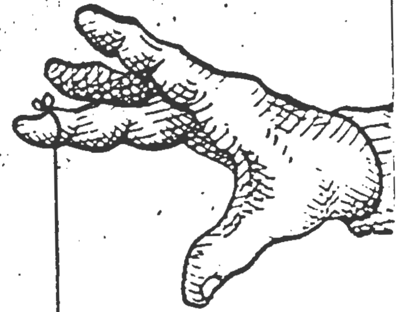
Cutbacks in Zimbabwe

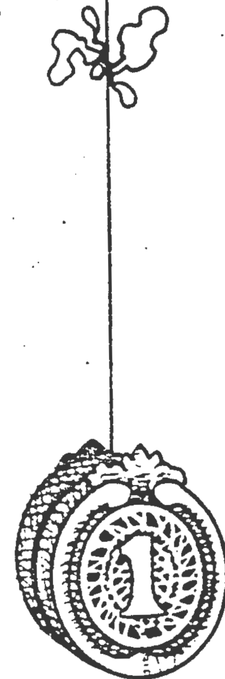
HARARE, Zimbabwe, July 26 (AP) — The state-controlled Zimbabwe Iron and Steel Company may have to close, and Zimbabwe Alloys, a ferrochrome producer, will reduce its operations, corporate officials said today. The recession has depressed demand for Zimbabwe's metals.

Washington Post 7/30/82

Robert W. Kasten Jr.

Withholding Would Hurt





By P. Kolsti

The IRS proposal for withholding on interest and dividends has been haunting Capitol Hill since 1941.

Congress has already voted against it seven times, but the proposal never seems to go away. It's almost as if, somewhere, deep in the bowels of the Treasury building, there's a troll who keeps the withholding idea alive to bubble up again any time an administration decides it needs to raise more tax revenue.

Last week, the Senate came within four votes of handing the IRS its eighth withholding defeat. Now the battle shifts to the House, where the Treasury Department will try to convince a majority of congressmen that the proposal is better this time around. It is not. After 41 years, the problems with withholding still remain. It would still discourage savings and investment, penalize the elderly and create an administrative nightmare.

The American people now save less than any other people in the Western world—5.6 percent of their income, compared with 14 percent in West Germany and 24 percent in Japan. Savings and investment are the keys to economic growth, and one of the best ways to turn our economy around would be to provide additional incentives for Americans to save. Instead, we are being asked to literally rob the saver of the benefits of interest compounding and automatic dividend reinvestment by removing 10 percent of the funds in the U.S. savings pool each year.

The Treasury Department expects to raise $4.3 billion from withholding in fiscal year 1983. Only about $1.3 billion of that comes from increased taxpayer compliance—people paying taxes they should have been paying all along. The rest is, in reality, an interest-free loan from the American people to Uncle Sam. Instead of having that money in your saving account all year working for you, it will be sent off to the federal government. In other words, in order to get at the small percentage of taxpayers who fail to report their interest and dividend income, we are being asked to penalize nearly 90 percent of American taxpayers who have honestly paid their taxes all along.

And as a result, $3 billion will be taken out of the private capital market and will no longer be available for home mortgage loans, job creation or capital formation.

Withholding would hurt the low-income elderly most. Older Americans receive much of the dividend and interest income paid out to individuals in this country, but many rely on this money to make it from day to day—to pay for food, heat, medical care, shelter. Losing 10 percent of their dividend and interest each month could force a noticeable change in the quality of their lives.

The Treasury Department has attempted to get around this problem by proposing an exemption procedure for the elderly and others who expect to have little tax liability. But it would be up to the individual to get hold of the exemption certificates and deliver them to his source of dividend or interest income. And every time he buys a piece of stock, opens a new savings account or puts his money in a new money market fund, an additional form would be required.

The American Association of Retired Persons strongly opposes withholding because, as they argue, "We fear the exemption process will frequently fail to operate properly and a serious overwithholding problem will result." They also point out that, by placing the burden on the individual to exempt himself, withholding would force many elderly people into the taxpaying system who have not been required to file for years.

Withholding would also create an administrative nightmare for banks, credit unions, savings and loans, brokerage firms and corporations nationwide. It would take at least nine months for those who have computers to do the reprogramming necessary, the start-up and operating costs would be huge, and no one is quite sure how to handle the more than 200 million exemption certificates that could be filed. Small banks may be exempted for a year or two as well—so they can set up the necessary paper work by hand—but no one has addressed the competitive disadvantage that would be created when one bank in town starts taking money out of people's savings accounts and the other bank does not.

Now Congress is being asked to ignore all of this and vote withholding into law because "we need the revenue." That's the same argument Jimmy Carter used two years ago. It didn't work then, and it shouldn't work today.

The House of Representatives may not get a vote on withholding until the tax bill conference report comes up for final passage. But the American people will not be fooled by election-year attempts to shift the blame. They will remember that, in 1980, they voted to cut the taxes on savings and investment and to get big government off their backs. Support for a bill that undermines those principles by requiring withholding will be hard to explain.

In the 41 years Congress has debated withholding, the inherent problems with the proposal have never been resolved. It's time for a vote that sends withholding back to the IRS graveyard, once and for all.

The writer, a Republican senator from Wisconsin, is a member of the Senate Budget Committee

Helms and East's tax

Jesse Helms and John East now know how Robert Morgan must have felt.

The state's two Republican senators found themselves faced with one of the horrors of legislating the other day: On a party line vote, they were forced to vote *against* a bill eliminating a doubling of the tax on tobacco. Thus, both Helms and East were put in the posture of favoring an increase in the tobacco tax from 8 cents to 16 cents per pack.

It all came about when Democratic Sen. Bill Bradley tried to kill President Reagan's $20 billion tax increase bill, which included the cigarette tax hike, by putting off the third year of the President's tax cut for those who make more than $78,000. Republicans stuck with their President — and Helms and East went along, too, voting down Bradley's bill.

The two conservatives, who are the strongest pro-tobacco members in the Senate, may be hearing about that vote, even though they later tried — unsuccessfully of course — to kill the tobacco tax increase outright. They also voted for the bill, including the tobacco tax, on final passage.

In fact, Democrats may start using that vote against the two. If that sounds like an unfair tactic, it's precisely the sort of weapon Helms and East used to defeat Democratic Sen. Robert Morgan two years ago.

East, with the help of Helms' National Congressional Club, mounted a massive TV advertising campaign accusing Morgan of voting against the B-1 bomber. In truth, Morgan had been a faithful supporter of the B-1, voting for it every time it came up in Congress — until President Carter dropped it from his budget. At that point, Morgan went along with the party line and, in one last debate, voted against restoring the B-1 to the budget.

Still, in Helms' and East's eyes, that made him a foe of the B-1. So no one should be surprised if ads appear in the next few political campaigns that tell how Jesse Helms and John East voted for a 100 percent increase in federal cigarette taxes.

Just as in the 1980 race, it'll be the truth. But it won't be the whole truth.

7/25/82 Greensboro Daily
p. 2

A26

The Washington Post 7-30-82

'An Untried Economic Policy'

The Post has been declaring supply-side economics a failure for 18 months—ever since President Reagan came into office. Now The Post has chosen the month that the first 10 percent reduction in personal income tax rates begins to take effect to ask "What Comes After Reaganomics?" [editorial, July 20]. The Post justifies its haste to discard an untried economic policy by claiming that the supply-siders were relying on anticipations of a tax cut to create a boom in advance.

As a supply-sider who has been labeled by Post reporters and columnists as an "ardent" "true-believer," I am entitled to a word on the matter.

The supply-side position is the opposite of what The Post claims. Anticipation of a future tax cut effects the economy adversely. Income-earning activities are delayed until the lower rates actually are in effect, and tax exemptions and credits are shifted to the present to take advantage of the current higher tax rate. Both actions have adverse effects on the current economy and budget deficit.

It was Martin Feldstein who argued that people would produce a higher gross national product in anticipation of a tax cut. I criticized this view and argued that it was incorrect.

I was not the only supply-sider to have made this point. The economic forecasting firm of H. C. Wainwright made a similar argument and indeed predicted the current recession once it was known that the tax cuts would be delayed.

PAUL CRAIG ROBERTS
William E. Simon Professor of Political Economy,
Georgetown University

Washington

5.

Helms, East Under Fire On Votes For Tax Boost

Hickory Record 7-24-82 (P-1)

RALEIGH (AP) — Sen. Jesse Helms, R-N.C., on Friday defended votes cast by he and Sen. John East, R-N.C., that supported a major tax-increase package, including an 8-cent-per-pack cigarette tax boost.

Helms said they switched their votes to save the bill from defeat. The switch allowed the bill to pass the Senate on a 50-47 vote.

The bill raises federal cigarette taxes from 8 cents to 16 cents for three years and would raise $99 billion during the next three years.

In North Carolina, the largest producer of flue-cured tobacco and where cigarettes are a major industry, reaction was critical.

"I find it quite ironic that they would switch their votes in order to save from defeat the largest tax increase in the history of this nation," said Brent Hackney, deputy press secretary to Gov. Jim Hunt.

Helms was awakened Friday morning by a telephone call from President Reagan aboard Air Force One thanking him for his vote for the tax increases. Reagan had supported the measure.

"My intent had been not to support it because of the increase in taxes over the three-year period," Helms said Friday. "I think that's the wrong way to go."

Helms said both he and East first voted against the measure on the roll call vote, resulting in a 49-47 vote to defeat the bill, but he changed his vote after the roll call.

"There's some good features in the bill," he said. "We did some surgery on it and made it somewhat more palatable during the long night. If the bill had been defeated . . they would have had to start all over again and (have) a delay in any action by Congress that would have been harmful to any hopes for reviving the economy. So I switched my vote and John East switched his."

Harrison Schmitt, R-N.M., also switched and voted for the bill, Helms said.

East could not be reached for comment and his press secretary, Jerry Woodruff, did not return two telephone calls from reporters.

Hackney said Hunt was "surprised" by their votes.

"He would hope and expect North Carolina's senators would vote to protect the interests of North Carolina tobacco farmers," Hackney said. "However, Senators Helms and East will have to speak for themselves."

State Sen. Russell Walker of Asheboro, state Democratic Party chairman, released a prepared statement criticizing the senators, saying their votes "speak a lot louder than their empty rhetoric."

Walker said the senators earlier voted to defeat an amendment sponsored [illegible] Democrats that would have eliminated the cigarette tax and made other changes in the GOP tax package.

However, they supported other moves to delete the tobacco tax increase, including a successful amendment that causes the increase to expire in three years.

"So our two senators are [illegible] undeniably on record as having voted to double the cigarette tax, a tax that could mean the loss of thousands of jobs in the state they purport to represent," Walker said.

The bill now heads to the House where Rep. Charles Rose, D-N.C., is a leading tobacco advocate. He said he'd oppose the tax increase but added, "I'm not very optimistic."

"There's a pretty big head of steam behind this thing as far as the administration is concerned," Rose said.

SEN. JESSE HELMS
Defends Vote Switch

SEN. JOHN EAST
Votes For Tax Increase

East: Reagan Appealed For Tax Vote

RALEIGH (AP) — The chairman of the North Carolina Republican Party said Monday he was surprised that GOP Sens. Jesse Helms and John East cast crucial votes for a bill doubling federal cigarette taxes and increasing other taxes.

"I would not have supported the tax bill," said David Flaherty, state GOP chairman. "I'm surprised, but I'm sure they may have many reasons."

After first voting against the bill, Helms and East changed their votes Friday and supported the bill raising $99 billion in taxes over three years, including a doubling of cigarette taxes from 8 cents to 16 cents per pack. Their votes allowed the bill to pass 50-47.

East, after being unavailable for comment Friday, released a terse, one-paragraph statement Monday saying he voted for the increased taxes because of a personal appeal by President Reagan. The president supported the tax-increase package.

"President Reagan called me and made a personal appeal for the tax bill," East said. "Although it was an extremely difficult decision, the president felt that he should be given an opportunity for his economic program to work."

East said because of that appeal, it was "only fair to give him my support."

East was unavailable for further comment, however. His press secretary, Jerry Woodruff, did not return a reporter's telephone calls Friday and Monday.

Helms, in an interview Friday, said he reluctantly voted for the tax increase bill to prevent a defeat that would have required the Senate Finance Committee to begin drafting a new bill.

Flaherty, in an interview, said he wanted to talk with Helms and East about their votes.

"Obviously I was surprised and quite frankly feel like they must know something I don't," Flaherty said. "I'll be anxious to find out when I have a chance to talk with them about why they took the action they did."

Flaherty said he didn't know whether the votes would cause political problems for the senators or other Republicans in North Carolina, where tobacco is the major cash crop.

Other state Republican leaders also reacted with surprise. Sen. Don Kincaid, R-Caldwell, minority leader in the state Senate, said he was disappointed by the senators' votes and predicted they would hurt Republicans at least in the eastern part of the state.

"The people of the state I know are not in a mood for more taxes," he said. "With that in mind, I'd have to say it would hurt some."

Sen. Cass Ballenger, R-Catawba, the GOP's joint caucus leader in the Legislature, said he saw little impact in the west and Piedmont but some damage to Republicans in the tobacco-dependent east.

"There may be all kinds of fires burning down east," he said.

But Ballenger defended the votes as helping the Reagan administration. "I admire his guts for doing it," Ballenger said of Helms.

Democrats continued to criticize the two senators.

"They thought they could vote against it and it would still pass, but it didn't and their true colors came out," said former Democratic Sen. Robert Morgan, defeated by East in 1980.

"But it's not surprising because I don't think either one has ever fully understood the importance of tobacco to North Carolina and philosophically agreed with the program," Morgan said.

Gary Pearce, press secretary to Gov. Jim Hunt, called the votes "potentially suicidal" and questioned whether Helms and East had exchanged their votes for something else.

"I suspect it'll be the Panama Canal of 1984 and 1986," he said, referring to the issue East stressed heavily in his election campaign and the upcoming re-election years for the two senators. "It's turned around on them. That's what happens when you're the party in power."

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WSJ

1982 Tax Bill

REVIEW & OUTLOOK

Bulls, Bears and Taxes

We see that Senator Bob Dole was pontificating yesterday on the collapsing stock market, saying that share prices are falling because his tax bill is in trouble. At least the senator is consistent. Believing that higher taxes are good for the economy, he has been especially beneficent to business by letting it bear 60% of the burden. So if the tax boosts spark a recovery in the economy, they ought to set off an even bigger bull market.

There is, however, another way of looking at this. The Dow Jones industrials peaked at 833 on July 20, and closed at 832 July 22, the day the Senate stayed up all night to pass Mr. Dole's tax bill. They have been sliding ever since, except for a sharp rally on August 2, the day of a prime rate cut (and also the day a lot of people started to recognize the seriousness of Rep. Jack Kemp's efforts to defeat the tax bill). The big plunge, to 780 yesterday from 822 a week earlier, coincided with Ronald Reagan's digging himself progressively deeper into support of the tax increase.

Now, we would not want to stretch this too far, for often markets know things mortals like ourselves and Senator Dole do not. But choosing between the theory that the market is falling because the tax bill may fail, and the theory that the market is falling because the tax bill may pass, we will say this: The one thing that the Dole bill is most sure to produce is lower cash flow as more of business pays more taxes. Until yesterday, we were unaware of any investment theory holding that the prospect of lower cash flows leads to higher share prices. But then, until recently, we were unaware of any economic theory holding that tax increases cure recessions.

We have our own fear in all of this, and we suspect it may be one that markets share—at least it is one we pick up wandering along Wall Street. This has to do not with short-term cash flows, but with long-term political movements. The fear is that last week Ronald Reagan threw in the towel on basic political change.

Along Wall Street you can of course find those fixated on the government deficit. A correct interest rate prediction is money in the bank, and government demand on the credit markets is clearly one factor in the equation. This truism has been enshrined in a cult called flow of funds analysis, the calculations of supply and demand in the credit markets that Henry Kaufman of Salomon Bros. has made famous. This week Barron's did Mr. Kaufman the disservice of reviewing his 1982 predictions. It turns out that interest rates are more complicated than he thought, perhaps because the big factor is inflationary expectations simple supply-and-demand calculations do not capture.

In any event, the flow of funds never was *the* Wall Street view. In fact, there is no one Wall Street view, since for every buyer there has to be a seller. But in our experience, the predominant macroeconomic approach concentrates not on the deficit but on government expenditures. The economy's structural problem is not an immutable deficit but a steadily swelling level of expenditure.

In this view the Reagan tax cuts might help economic growth along supply-side lines, but their more important purpose was as a club to force a reduction in expenditures. This has not happened. This year government spending will soar to 24.1% of GNP, compared to 21.9% in our last recession during fiscal 1975, and to 22.5% in the last year of the Carter administration. (For that matter, at 20.5% of GNP, taxes are higher today than the 18.9% in 1975 or 20.1% in 1980—so much for the "failure" of supply-side "stimulus.")

Now Mr. Reagan is backing away from tax cuts, and the political logic of his retreat seems certain to drive him further and further from his original position. We already hear talk of his winning Democratic votes with the "sweetener" of backing away from spending cuts. There is a strong chance that the whole Reagan experiment will be lost, and at least in our guess, this is why shares are worth a lot less than they were a week ago.

1982 Tax Bill

The Largest Tax Increase In History

By M. STANTON EVANS

For the past 12 months the Reagan Administration and the Republican party have been claiming credit for "the largest tax cut" in American history.

By the time November's election rolls around, they could be running on—or from—another platform: not the largest tax cut in history, but the largest tax increase. Such will be the reality if Congress adopts the tax package created by Sen. Robert Dole (R.-Kan.) and the Republicans on the Senate Finance Committee—with the all-out backing of the Reagan Administration.

The package is usually discussed as a $98-billion tax hike. Actually, it is more than twice that. Over the next five years the Dole–Administration package would raise our federal taxes by a staggering total of $227 billion. This is done by hole-in-corner methods, in ways the average citizen can't readily observe, but the tremendous totals are attested by the Dole committee itself.

Printed on this page is the summary of the revenue effects of the package in millions provided by the Finance Committee.

Provision	Fiscal Year—				
	1983	1984	1985	1986	1987
Individual income tax provisions	240	2,984	3,251	3,548	3,856
Provisions primarily relating to business	5,927	12,755	18,162	30,559	42,262
Compliance provisions	6,698	7,056	8,646	10,115	11,112
Pension provisions	211	588	673	762	848
Life insurance and annuities	1,487	1,510	2,183	2,935	3,167
Employment taxes	1,814	3,104	3,869	4,012	3,862
Excise tax provisions	2,509	3,847	4,734	4,873	4,929
Miscellaneous provisions	−38	−37	−34	−32	−30
Revenue gain from additional IRS enforcement personnel	2,100	2,400	2,400	1,300	600
Grand Total, All Provisions	20,948	34,207	43,894	58,072	70,606

Add up the bottom line for 1983 through 1987, and you get a not-so-grand grand total of $227.7 billion in added tax collections.

The rationale for this enormous tax hike is the new conventional wisdom in the Capital: In order to stop the crowding out of savings, investment and businesses by federal deficits, we must vastly increase federal taxes on savers, investors and businessmen. We will thus embark on a novel venture in economic theory—attempting to cure a recession by raising people's taxes.

Among the features of this huge although subliminal tax hike are provisions withholding taxes on savings interest and dividends, a doubling of the cigarette tax, travel taxes, taxes on tips, telephone calls, etc. The idea is to stitch together lots of "little" taxes in out-of-the-way places that won't be readily visible to the public.

This was in fact the very argument used by the White House in trying to explain the program to recalcitrant members of Congress—we can't raise taxes in ways that people will understand. The motives are obviously political, not economic: trying to whittle down the deficit while seeming to stick by Reagan's opposition to high taxes, rather than trying to generate incentives by easing economic burdens on the taxpayer.

While Dole is the major architect of this tax hike, Administration lobbyists fought hard for its adoption, and cut some deals to keep it flying. One of the most notable of these concerns the withholding of interest on savings. The banks were reportedly persuaded to go along by a 30-day "float" on the withheld money—in essence, an interest-free loan at the expense of their depositors.

All of this signals a virtual abandonment of Reaganite philosophy on taxes, which held that the American people were paying way too much to Uncle Sam and needed a reduction, which would in turn spur new growth in the economy. It was on that basis that last year's rate rollbacks were enacted, returning a portion of the money taken from us by built-in, automatic tax hikes.

If the Reagan program had stayed put, U.S. taxpayers would have come out approximately even. The rate reductions would have canceled constant hikes imposed by "bracket creep" and legislated increases for Social Security. Now, instead of that small solace, they will get $227 billion in brand new taxes in the next five years.

Dole and Co. argue that such increases are required to minimize the deficit and bring the budget into balance. These are desirable objectives, but the Reaganite way of getting to them was supposed to be restraint on spending, not gigantic tax hikes. And despite the publicity on this subject, federal spending has not been cut, nor is it likely that it will be.

Everyone who follows the issue knows the problem with the budget is runaway spending for "entitlements." But neither the Administration nor the Congress seems to have any stomach for tackling them. The Senate Finance Committee report that tells us we are to have $227 billion in added taxes also informs us we are to have all of $22 billion in entitlement cuts—a 10-to-1 ratio in favor of new taxes.

If this package is adopted, the folks who tell us Reaganomics doesn't work will turn out to be right. It can't possibly work if it's never put into practice.

.982
Tax bill

Chamber of Commerce of the United States of America
Washington

BUDGET PROCESS IN HOUSE LEADS TO ONLY 16¢ OF OUTLAY SAVINGS FOR EVERY $1.00 OF TAX INCREASE

Confronted earlier this year with the prospect of exceptionally high deficits over the next several years, Congress and the Administration accepted the need for tax increases as a necessary precondition for getting the spending cuts to limit the growth in outlays. Some segments of the business community supported this approach to deficit reduction under the assumption that tax increases had to be accepted in order to achieve substantial reductions in the growth of entitlement spending.

As the budget process has progressed in the House, however, it is becoming increasingly apparent that many of the outlay savings mandated in the budget resolution are being disregarded by several of the committees. As a consequence, it is estimated that less than half of the assumed savings have been made by the House committees.

Minority staff of the House Budget Committee estimates that only $15 billion of the required $27.1 billion in reconciliation savings will be made by the committees. Almost no action has been taken on the $13.6 billion in non-reconciliation savings assumed in the budget resolution.

The table below, prepared by minority staff of the House Budget Committee using CBO estimates*, details the savings shortfall in the House.

	FY 83	FY 84	FY 85	3-YEAR TOTALS
TOTAL DIFFERENCE BETWEEN SAVINGS ASSUMED IN THE BUDGET RESOLUTION AND LEGISLATIVE ACTION				
Budget Resolution Assumptions	9,699	14,142	16,935	40,776
Action to Date	4,116	5,755	5,810	15,681
Difference	-5,583	-8,387	-11,125	-25,095

*OMB estimates used for Banking Committee

Chamber of Commerce of the United States

1615 H STREET, N.W.
WASHINGTON, D.C. 20062

TAX POLICY CENTER

463-4520

Impact of Senate Finance Committee Bill on Savings and Investment

The Senate Finance Committee bill would gravely undermine the incentives to capital formation enacted last year as part of the Economic Recovery Tax Act (ERTA). That law for the first time gave companies substantial relief from excessive taxes on investment, by instituting the accelerated cost recovery system (ACRS) of faster and simpler depreciation, a tax credit for research and development, higher credits for some equipment and rehabilitation of structures, and liberalized leasing rules to extend these benefits to economically sound but temporarily unprofitable firms.

All of those gains have been rolled back by the Senate Finance bill. ACRS suffered the heaviest attack, as taxpayers would be required to adjust their basis for depreciation by one-half the amount of tax credits claimed. Thus investors in equipment would get to depreciate only 95 percent of the value, and investors in historic structures only 87.5 percent. The further acceleration in depreciation schedules for equipment due to occur in 1985 and 1986 would be repealed. "Safe-harbor" leasing would be drastically cut back and would be eliminated after September 30, 1985. More than a dozen other provisions would reduce corporate funds available for investment.

In fact, the business tax increases in this year's bill would cancel out more than two-thirds of the business tax relief provided under ERTA in fiscal 1983-85. Many firms would actually be worse off than before ERTA was passed. In contrast, the changes affecting individuals amount to less than 10 percent of the tax cuts they will receive under ERTA. Stated another way, businesses received less than 20 percent of the total tax relief under ERTA for 1983-85. But they would have to absorb nearly 60 percent of the tax increases for those years under the Senate Finance bill.

The Senate Finance bill also is a step backward for savers. The bill would require dividend and interest payors to withhold 10 percent from all individual recipients except those elderly and nontaxable persons who file exemption certificates. Although this measure is advertised as a compliance step, much of the revenue gain would come from speeding up collections from savers who are already in compliance. Many of these taxpayers would be overwithheld as a result of the provision.

Dividend and interest recipients would be hurt by two other parts of the bill as well. As of January 1, 1983, the new tax deferral for dividends reinvested by public utility stockholders would be repealed. And a new alternative minimum tax on individuals for the first time would tax interest from tax-exempt bonds, plus the excluded portion of dividend income. These changes effectively increase the double taxation of corporate income, one of the worst inequities in the tax code.

Another anti-saving provision is the pension "reform" section. The three-year revenue gain listed for this measure is only $1.5 billion. But the reduced contribution limits and additional expense imposed on pension plans by the bill may to depress retirement savings more than this revenue estimate suggests.

Only two aspects of the bill offer modest relief to savers: a reduction in the holding period for long-term capital gains and losses from one year to six months, and an increase in the contribution limits for Keogh plans from $15,000 to $30,000 over three years. Moreover, the latter change benefits only self-employed individuals making more than $100,000, since only 15 percent of self-employment income may be invested in a Keogh plan.

BUSINESS CONFIDENCE SURVEY July 28, 1982

Survey Research Center, Economic Policy Division
U.S. Chamber of Commerce

Thinking of the federal deficit, which of the following would you favor -- raising taxes, reducing spending, both raising taxes and reducing spending, or doing neither and leaving the deficit as it is?

	Raising taxes	Reducing spending	Doing both	Neither; leave deficit as it is	No response
TOTAL	2%	62%	29%	4%	3%
By region					
New England	5	58	30	6	1
Middle Atlantic	3	56	35	4	4
North East Central	2	66	25	5	4
West North Central	4	65	25	3	4
South Atlantic	2	64	29	4	2
East South Central	3	60	31	3	3
West South Central	1	70	21	3	5
Mountain	3	67	27	1	2
Pacific	2	58	33	4	3
By industry					
Agriculture	1	66	28	3	3
Mining, Extractive	*	67	29	2	2
Construction	3	65	25	5	3
Manufacturing	2	62	33	1	2
Transportation, Communications, Utilities	1	69	32	5	4
Wholesale, Retail Trade	2	62	28	4	4
Finance, Insurance, Real Estate	5	52	39	2	2
Services	3	62	28	4	4
By size(# of employees)					
Small (99 or less)	3	66	23	5	3
Medium (100-499)	2	55	36	3	4
Large (500 +)	2	60	35	1	3

*Less than 0.5 percent.
Totals may not sum to 100 because of rounding.

There were 2,473 respondents, a 41 percent response rate, to the mail survey of a sample of 6,024 top executives, representing a scientific cross-section of U.S. business, by industry, size of firm, and geographical region. The survey was conducted by mail during the period June 4 - July 14, 1982.

1615 H STREET, N.W.
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Chamber of Commerce of the United States

TAX POLICY CENTER

July 21, 1982

202/463-5620

Partial List of Tax Issues in Which the
U.S. Chamber Has an Interest

o ACRS/ITC: Maintain the full accelerated cost recovery system (ACRS) and investment tax credit (ITC). These provisions are essential for investment to encourage economic recovery. At present interest rates, they are not a subsidy; cutting them back would leave many firms worse off than under prior law.

o Safe-harbor leasing: Modify to correct specific abuses but do not repeal or severely curtail; make closely held companies eligible to be lessors. Leasing is necessary to enable viable but temporarily unprofitable fimrs to receive same benefit from ACRS as profitable companies.

o Individual income tax: Keep the third-year rate cut as scheduled without delay or scaling back. Do not impose a surcharge or higher minimum tax. The full three-year rate cut is needed to reduce burdens below 1981's record levels; otherwise inflation, "bracket creep" and social security tax increases will leave most taxpayers worse off.

o Corporate minimum tax or surcharge: Reject. These proposals all discriminate among companies within an industry or between industries by singling out certain legitimate deductions as preferences. If Congress finds any of these are not working as intended, they should be subject to hearings and, if necessary, cut back directly instead of through an across-the-board tax.

o Withholding on dividends and interest: Oppose. This approach is burdensome for 60 million taxpayers who report their dividends and interest and would have to file exemption certificates, adjust wage withholding or claim refunds. It would cost payors up to a billion dollars to implement and maintain. Much of the revenue can be gained through improved reporting, matching, and enforcement, which we support.

o Completed contract method of accounting: Support Rep. Holland's approach. This would make needed corrections while still keeping the method viable for contractors. The Treasury's proposals, in contrast, are far too drastic.

o Mergers and acquisitions: Do not overturn longstanding law in this complex area without more thorough study of the tax policy issues involved. As drafted, the bill is a barrier to mergers and acquisitions, especially of small, closely held companies.

o DISC: Preserve. Domestic international sales corporations (DISC's) have a proven value in encouraging exports and jobs. Cutting back DISC through a minimum tax, preference treatment or other changes would be counterproductive and may actually cost the Treasury revenue.

Chamber of Commerce of the United States of America

Washington

INTEREST AND DIVIDEND WITHHOLDING IS A
COSTLY WAY TO ENSURE TAXPAYER COMPLIANCE

The proposal to withhold 10 percent of dividend and interest earnings represents a costly and cumbersome way to improve taxpayer compliance. This proposal would entail a heavy paperwork burden for the vast majority of honest taxpayers, and impose high administrative costs on financial institutions and corporations.

There are over 60 million taxpayers who have dividend or interest income. The vast majority of them would be overwithheld by this proposal, or else they would be forced to: (1) file exemption certificates for each savings account and dividend (an average of more than five per taxpayer), (2) reduce their estimated tax payments, or (3) reduce their wage withholding.

The elderly especially would be burdened by this scheme. Over 90 percent of taxpayers 65 or older have income from interest or dividends. Nearly all of them would qualify for exemption and would have to file certificates or else be overwithheld on what may be their principal income source.

More than 50,000 banks, savings and loans, credit unions, mutual funds, brokers, insurance companies, and dividend-paying corporations would incur very heavy start-up costs and significant annual operating expenses to implement the system. These expenses would be heaviest for small payors, which typically do not have as high a degree of automation to handle the necessary competitors.

Proponents of withholding often gloss over these costs by pointing out that payors must already furnish Form 1099 information returns. But withholding, as proposed, entails far more than deducting 10 percent of the annual payment. Every depositor or shareholder will have to be notified of the grounds for exemption and given a certificate or application to return. Many individuals will need assistance in understanding whether they qualify or in filling out the forms. Computing and accounting systems must be modified to deduct 10 percent of each payment (daily, monthly, or quarterly) only from accounts of individuals who have not filed certificates and who are expected to receive over $100 annually. Payors must combine payments to individuals with multiple accounts to see if they exceed the $100 floor and must provide exemptions to accounts held by corporations, government agencies, nonprofit organizations, individuals with less than $600 of tax liability, couples with less than $100 of liability, elderly individuals with less than $1500, and elderly couples with less than $2500. No wonder the costs for payors have been estimated at over $1 billion to start and $1 billion per year to administer! Those costs, plus the interest lost by individuals who are overwithheld, amount to a very high fraction of the anticipated revenue gain, making this a very inefficient way to collect taxes.

The tragedy is that the compliance gain can be accomplished without withholding and without burdening the 50-million-plus recipients who are in compliance. Compliance can be improved by: (1) giving the IRS more computer resources and personnel to use available information, (2) requiring Treasury and other payors not currently subject to reporting to file information returns, (3) requiring that more reports be in machine-processable format, and (4) imposing stiffer penalties or withholding on individuals who provide false or no information.

Chamber of Commerce of the United States of America
Washington

TAX INCREASE WILL DELAY RECOVERY AND WIDEN DEFICIT

The economic recovery, which began in April, appears to have faltered in June and early July as sales, new orders, leading indicators and housing starts all reversed their early spring growth trends. While the causes of this setback are uncertain, it is clear that the economy is not as robust as we earlier believed, and that exceptional care must be taken so as not to diminish the emerging positive influences needed to sustain a stable and strong recovery.

Along with the recent successes in reducing interest rates, the key positive influence on the recovery will continue to be the substantial tax cuts enacted in 1981. In particular, the July 1 cut in personal taxes should have a powerful influence in stimulating the household sector.

But while the household sector has improved and should continue to make gains over the near term, a completely different situation characterizes the business community. Corporate liquidity is the lowest it has been in the postwar era, before tax profits are down 30 percent since last year, and business failures are running at the highest rate since the Great Depression.

Despite the serious weaknesses within the business sector, and the precarious condition of the current recovery, Congress is on the verge of enacting into law the largest peacetime tax increase. As now structured, this tax increase bears disproportionately on the beleaguered business community. Business, which received only 19 percent of the ERTA tax cut, will lose 70 percent of this modest share if the Senate Finance Committee's bill is enacted. With profits down, these tax increases will further erode corporate liquidity, diminish investment and delay the time when the business sector can contribute to the economic recovery that is now taking its first, faltering steps.

Although basic economic principles, whether those of the Keynesians or the supply-siders, argue forcefully against raising taxes in a recession, the proponents of the massive tax increase counter this with a new logic based on the illusory connection between deficits and interest rates. Despite the fact that there is no evidence to indicate that high deficits lead to high interest rates, our politicians persist in insisting that such a relationship exists, and are willing to gamble our economic well being in their fruitless attempts to prove it. Tragically, what they may end up proving is what we already know -- tax increases are harmful, especially in a recession.

Last week, the CBO projected that the FY 1983 deficit will be $30 to $40 billion higher than planned because a weak recovery will lead to lower than expected tax revenues. Interestingly, in the aftermath of this announcement, T-bill rates fell below double-digit levels for the first time since spring of 1980. If a weak recovery is the major cause of an expanding deficit, by what sort of twisted logic can our leaders insist that it can be cured by acts that will further depress business activity?

Chamber of Commerce of the United States of America
Washington

HISTORY OF TAX INCREASES DEMONSTRATES THEIR DEPRESSING EFFECT ON ECONOMIC ACTIVITY AND GOVERNMENT REVENUES

The history of tax increases in this country and abroad offers a clear demonstration of the depressing impact such increases have on economic growth and revenue collection.

To cite just a few examples: Rate reductions in the U.S. in the 1920's 1946, 1948, 1964-65, and 1978 (for capital gains) all led to dramatic growth in revenues. Conversely, rate increases in 1916-20, 1932, and 1968-69 were quickly followed by sharp drops in reported income, tax collections, and economic activity. Rate reductions in Germany in 1948, Japan in 1950, and Puerto Rico in 1977-79 were followed by steep upturns in economic growth and tax receipts.

The most egregious instance, which is somewhat similar to today's circumstances, occurred in 1932. Then, as today, the economy was in a slump, and the deficit was growing. The Hoover Administration and Congress agreed to raise taxes by $900 million, or nearly 30 percent of the 1931 level. However, receipts actually fell by $1.2 billion in 1932, the deficit widened from $0.5 billion to $2.7 billion, and a severe recession turned into the Great Depression.

Rate changes have a proven effect on personal savings rates. From 1963 to 1965, when tax rates were reduced an average of 19 percent, the personal savings rate rose 31 percent. It continued to rise through 1967, for a total gain of 50 percent in 4 years. Then a 10 percent tax surcharge was imposed in 1968 and 1969, and the savings rate dropped by 21 percent. When the surcharge was removed in 1970 and 1971, the savings rate climbed 26 percent. Each time, the savings rate changed by 2 to 3 times as much as the tax rate change. Such a savings rate change in response to the rate cuts enacted last year would lead to an increase in savings of roughly $100 billion by 1984.

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Office of the Republican Leader

United States House of Representatives
Washington, D.C. 20515

July 27, 1982

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House
H-204, the Capitol
Washington, D.C. 20515

Dear Mr. Speaker:

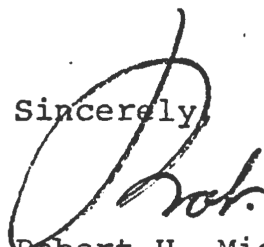
While many of the decisions relevant to the handling of reconciliation are still up in the air, there should be no doubt that we will consider spending issues prior to tax issues, or in the case of Ways and Means jurisdiction, at the same time.

We believe that the first responsibility of the House is the reduction in spending growth and then, and only then, an increase in revenues.

That is a high priority on our side and we will not allow ourselves to be put in the position of enacting revenue raisers only to see our efforts to curtail spending undermined.

I hope you can appreciate our concern and accept this approach.

Sincerely,



Robert H. Michel
Republican Leader

RHM:bkp

cc Senator Howard Baker