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THE WHITE HOUSE
WASHINGTON

September 20, 1989

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: ROGER B. PORTER RBP

SUBJECT: Capital Gains Background Material

To date, the Administration's capital gains arguments have avoided the revenue and distribution issues and focussed on the economic benefits of a capital gains rate cut. In particular, three themes have been used: Economic growth, competitiveness, and opportunity.

Economic Growth. A lower capital gains tax rate would lower the cost of capital to American business. This in turn would spur new investment and a higher capital stock. Long term economic models of the U.S. economy (General Equilibrium Models) estimate that the President's proposal would generate enough new capital to permanently raise the U.S. GNP by between $15 billion and $25 billion in the long run.

Competitiveness. Most of our most successful trading partners have a ZERO capital gains tax rate. The list of zero rate countries includes Germany, Korea, Taiwan, Hong Kong, and Singapore. Japan had a zero rate during its period of rapid economic development. It just began a capital gains tax which would amount to between 1% and 2% for long term investors in new ventures and for entrepreneurs.

Opportunity. America is probably unique in the world in having most of its jobs come from new businesses and small businesses. A lower capital gains tax rate is an important signal to entrepreneurs to get their businesses started now, to provide the jobs we need for the 1990s and the emerging industries we will need in the 21st century.

The Revenue and Distribution Issues

1. The President's proposal and the Jenkins-Archer proposal will raise tax revenue.

The Department of Treasury estimates that the President's plan would increase revenue by $4.8 billion in FY90 and $16.1 billion through 1993. The Jenkins Archer bill will raise $1.8 billion in the next fiscal year and $1.1 billion over the next five years.

2. <u>These revenue estimates, and those of the Joint Committee do not include the extra revenue to be obtained from a higher level of GNP.</u>

We would expect that this extra revenue would amount to about $5 billion per year. Thus, even the Joint Committee's rather pessimistic revenue forecast should actually indicate a positive revenue flow if they took economic growth into account.

3. <u>Regarding distribution, it's very hard to see how a bill which is going to increase revenue is a "tax break".</u>

The Treasury Department estimates for the change in tax liability under the President's plan for FY91 are:

Income Class	Change in Taxes Paid
under $10,000	- $0.2 billion
$10,000 - $20,000	- $0.2 "
$20,000 - $30,000	- $0.1 "
$30,000 - $50,000	+ $0.3 "
$50,000 - $100,000	+ $1.2 "
$100,000 - $200,000	+ $0.5 "
over $200,000	+ $1.5 "
Total Change	+ $3.0 "

Therefore, most of the tax increase is borne by upper income taxpayers. In this regard, the Joint Committee figures do not look at the change in taxes paid, but in something they call "burden". Burden is the economic distortion caused by the tax, not the change in revenue. Philosophically, the Democrat leadership is willing to burden the nation's taxpayers even at the cost of revenue to the government.

4. <u>Some of the distribution estimates also overstate the benefits accruing to upper income taxpayers by including gains in the definition of income.</u>

A small businessman earning $40,000 decides to sell his business and retire to Florida. He gets $250,000 for his business and is suddenly classified as "rich". In fact, if you exclude these one time gains from the definition of income, the distribution of capital gains looks much less skewed to those with high income. Department of Treasury numbers based on 1985 tax returns provide the following distribution of gains:

Income Class	Percent of Capital Gains
under $10,000	19.7%
$10,000 - $20,000	5.9%
$20,000 - $30,000	6.1%
$30,000 - $50,000	12.0%
$50,000 - $100,000	17.5%
$100,000 - $200,000	12.6%
over $200,000	26.2%

AC has seen ✓

9/25

Linda-

This is the follow-up from my note to Andy on Friday. Can you show it to him so he knows I did what I promised? Just hope it had some impact!

See, I just don't bug you guys on the ICC!

Have fun + see you soon

Kip

I called Kip 9/29 to say thank you.

Andy

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Kip Hawley
Vice President
External Relations

September 25, 1989

Mr. Jeff Vogt
Assistant Director of
Public Liaison
129 Old Executive Office
Building
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Jeff:

As a follow-up to our meeting today, enclosed is our revised constituent list for some key votes. We added suggestions for Cabinet officer calls as well as suggestions where Republican Governors might have a press impact with key Members.

I gave David Sloane in Legislative Affairs our report on specific vote information based on our contacts.

Please let me know if we can be helpful in any way.

Sincerely,

Kip

Union Pacific Company a subsidiary of Union Pacific Corporation

Suite 450 West, Columbia Square, 555 Thirteenth Street, N.W., Washington, D.C. 20004 (202) 662-0110

MEMBER	CONSTITUENTS	OTHER CONTACTS
Alexander (AR)	Arkansas State University	
	Sanyo	
	American Greetings Corporation	
	Wolverine World Wide Inc.	
	Emerson Electric Company	
	Halstead Industries Inc.	
Applegate (OH)	Wheeling-Pittsburgh Steel Corporation	
	North American Coal Corporation	
	NCR Corporation	
	Ormet Corporation	
	Consolidated Aluminum Corporation	
Barnard (GA)	University of Georgia	
	University Hospital	
	Western Electric Company Inc.	
	Gracewood State School & Hospital	
	Uniroyal Inc.	
Bevill (AL)	Goodyear Tire & Rubber Company	
	Republic Steel Corporation	
	Cooper Industries Inc.	
	Ten Tom	
Browder (AL)	Auburn University	
	Russell Corporation	
	West Point-Pepperell Inc.	
	Kimberly-Clark Corporation	
	Uniroyal Inc.	
	Ampex Corporation	
Bruce (IL)	University of Illinois	
	General Motors Corporation	
	World Color Press Inc.	
	Mercy Hospital	
Bustamante (TX)	United Services Auto Association	
	Datapoint Corporation	
	Bexar County Hospital District	
	Veterans Administration	
Clement (TN)	Avco Corporation	Skinner
	Newspaper Printing Corporation	
	N.L.T. Corporation	
	St. Thomas Hospital	
	Baptist Hospital Inc.	
	Louisville & Nashville Railroad Company	
	Ford Motor Company Inc.	

MEMBER	CONSTITUENTS	OTHER CONTACTS
Darden (GA)	Lockheed Corporation Riegel Textile Corporation Salem Carpet Mills Inc. Curtis 1000 Inc. Burlington Industries Inc. General Electric Company	
Derrick (SC)	E.I. du Pont de Nemours & Company J.P. Stevens & Company Inc. Alice Mfg. Co. Michelin Tire Corporation Monsanto Company The Singer Company Owens-Corning Fiberglas Corporation	Campbell (Press)
Dicks (WA)	Boeing Tacoma Boatbuilding Company Inc. Joseph Hospital & Health Care Center Inc. Western State Hospital	
Dyson (MD)	Perdue Inc. Preston Trucking Bata Shoe Co. Inc. North American Philips Corp. Penninsula General Hospital & Medical Center Inc.	
Erdreich (AL)	University of Alabama Medical Center American Cast Iron Pipe Hayes International Corporation Stockham Valves & Fittings Inc.	
Glickman (KS)	The Boeing Co. Inc. Beech Aircraft Corporation Cessna Aircraft St. Francis Hospital	Skinner
Gordon (TN)	TRW Inc. Heil-Quaker Corporation National Savings Life Insurance Union Carbide Corporation	
Harris (AL)	The B.F. Goodrich Co. Druid City Hospital Inc.	
Hayes, J. (LA)	Exxon Corporpation Ethyl Corporation East Louisiana State Hospital Central Louisiana State Hospital	

MEMBER	CONSTITUENTS	OTHER CONTACTS
Hefner (NC)	Cannon Mills Company Wiscassett Mills Company Linn-Corriber Corporation Burlington Industries Inc.	Martin (Press)
Hoagland (NE)	Mutual of Omaha Insurance Company Western Electric Company Inc. Union Pacific Railroad Company Inc. Creighton Omaha Regional Health Center	
Hutto (FL)	Monsanto Company B.E. & K. Inc. Baptist Regional Health Service St. Regis Paper Company	Cheney
Johnson, T. (SD)	John Morrell & Company Sioux Valley Hospital Assn. Presentation Sisters Inc. Magnetic Peripherals Inc. Citibank, South Dakota	Mickleson (Press)
Jones, B. (GA)	General Motors Corp. Western Electric Corp. De Kalb County Hospital Authority Hospital Authority of Fulton County	
Lancaster (NC)	Burlington Industries Inc. American Philips Corp. O. Berry Center Scovill Inc. J.P. Stevens & Co. Inc.	Yeutter Martin (Press)
Lloyd (TN)	Union Carbide Corporation Hospital Affiliates International Inc. Chattanooga-Hamilton County Hospital E.I. du Pont de Nemours & Co. Inc.	Cheney
Luken (OH)	Ford Motor Company The Christ Hospital Procter & Gamble Co. Merrell Dow Pharmaceutical Inc. Avon Products Inc.	Skinner
McDermott (WA)	The Boeing Co. Todd Pacific Shipyards Corp. The Swedish Hospital Medical Center Lockheed Shipbuilding & Construction	

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Hefner (NC)	Cannon Mills Company Wiscassett Mills Company Linn-Corriber Corporation Burlington Industries Inc.	Martin (Press)
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Johnson, T. (SD)	John Morrell & Company Sioux Valley Hospital Assn. Presentation Sisters Inc. Magnetic Peripherals Inc. Citibank, South Dakota	Michelson (Press)
Jones, B. (GA)	General Motors Corp. Western Electric Corp. De Kalb County Hospital Authority Hospital Authority of Fulton County	
Lancaster (NC)	Burlington Industries Inc. American Philips Corp. O. Berry Center Scovill Inc. J.P. Stevens & Co. Inc.	Yeutter Martin (Press)
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McDermott (WA)	The Boeing Co. Todd Pacific Shipyards Corp. The Swedish Hospital Medical Center Lockheed Shipbuilding & Construction	

MEMBER	CONSTITUENTS	OTHER CONTACTS
Montgomery (MS)	Bryan Foods Inc. Mississippi State Hospital Universal Mfg. Corp. United Technologies Corp. Masonite Corp.	Cheney
Patterson (SC)	Greenville Hospital System M. Lowenstein Corp. American Hoechst Corp. Union Carbide Corp.	Campbell (Press)
Payne (VA)	Dan River Inc. du Pont de Nemours & Company Bassett Furniture Industries Stanley Industries Corporation Goodyear Tire & Rubber Company	
Price (NC)	Wake County Hospital International Telephone & Telegraph Corp. Northern Telecommunications Inc. Hukla Industries Burlington Industries Inc.	Martin (Press)
Rose (NC)	Kelly-Springfield Tire Co. E.I. du Pont de Nemours Co. Inc. General Electric Co. Inc. Eltra Corp.	Yeutter Martin (Press)
Rowland (GA)	The Fulton De Kalb Hospital Authority Life Insurance Co. of Georgia Trust Company of Georgia Southern Railway Company Cox Enterprises Inc.	
Sarpalius (TX)	Mason & Hanger-Silas Mason Co. Iowa Beef Processors Inc. Atchison Topeka & Santa Fe Railway Co. Diamond Shamrock Corporation	Yeutter
Stallings (ID)	E G & G of Idaho Inc. Westinghouse Electric Corporation Morrison-Knudsen Co. Inc. Ore-Ida Foods Inc.	Bellmon (Press)
Synar (OK)	St. Francis Hospital Inc. The B.F. Goodrich Co. Shell Oil Co. Inc. Williams Bros. Engineering Co.	

MEMBER	CONSTITUENTS	OTHER CONTACTS
Tanner (TN)	Goodyear Tire & Rubber Co. Jackson-Madison County General Hospital Martin Marietta Aluminum Inc. Colt Industries Operating Corp.	
Tauzin (LA)	Ebasco Services Inc. Newpark Resources Inc. Shell Oil Co. Inc. Delta Service Industries	
Valentine (NC)	International Business Machines Corp. Abbott Laboratories Northern Telecommunication Inc. Liggett Group Inc.	Martin (Press)
Volkmer (MO)	Daniel International Corp A.P. Green Refractories Co. Fulton State Hospital Monsanto Company	Yeutter
Watkins (OK)	Uniroyal Inc. Weyerhaeuser Company Blue Bell Inc. Brunswick Corporation	Bellmon (Press)
Wilson (TX)	E.I. du Pont de Nemours & Co. Lufkin Industries Inc. Levington Industries Inc. Kirby Forest	

9/22

Andy -

- Enclosed is the Policy Resolution from the Business Roundtable. Drew is Chairman of the BRT Tax Committee + met with Brady and Darman on this last week.

- Drew has been calling CEO's + we're finding the BRT as an institution is not going to be that effective + our best bet is going after individual companies/individual Members.

- I called last night to offer some volunteer resources -- in the meantime we'll proceed on our own as follows:

- We're cross-referencing the swing votes with companies in their districts -- also I'm using my old Business

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Leaders for Bush list from the campaign + we're getting some useful contacts from that process.

- We'll feed our vote info etc. into the system.

Let me know if we can help in any other way.

Kip

P.S. just heard the Democrats are buying TV time.

STATEMENT ON CAPITAL GAINS

The Business Roundtable supports reduction of the tax burden on capital gains on assets held long term. This would reduce the cost of capital and encourage individual investors to provide the savings needed for continued economic growth and full employment.

At the same time, the Business Roundtable believes that capital gains tax reduction must not jeopardize either the existing stability of the corporate income tax rates or the necessity of the federal budget deficit to meet GRH targets. A low corporate tax rate is the best measure the tax system can offer in the international competition for capital, and raising it would more than defeat the objectives of capital gains reform.

Approved by Business Roundtable
September 14, 1989