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THE WHITE HOUSE  
WASHINGTON

3/10/92

Clayton returned this today.

*File*

March 6, 1992

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

FROM: SAMUEL K. SKINNER *SK*

SUBJECT: MEETING WITH THE PRESIDENT

The President wishes to discuss with you on Monday the following questions:

1. What is the current status of the intangible drilling costs issues as it relates to AMT preferences?
2. What is the status of the AMT provision as it relates to our capital gains proposal?
3. He wishes to discuss our provision for credit unions and thrifts and why there is so much resistance to it.
4. The President would like to know the costs related to an extension of the time period for our investment tax allowance.
5. What would be the costs of taking our \$5,000 credit and allowing the purchaser to take it up front?
6. What are the cost differences between our passive loss provisions and those contained in H.R. 1414?
7. The President wishes a detailed analysis of the logic behind our proposed tax treatment of annuities.
8. The President would also like to have a paper on the reasons for our proposal regarding the market-to-market proposals for the securities industry.

You should be prepared to discuss these with the President on Monday. Thank you.

PACKAGE 1

(Dollars in Billions)

<b>A. Jobs/Investments</b>				<b>B. Homebuyers/Families/Savings</b>			
	1992	1993	'92-'97		1992	1993	'92-'97
	<u>Cost</u>	<u>Cost</u>	<u>Cost</u>		<u>Cost</u>	<u>Cost</u>	<u>Cost</u>
Capital Gains (President's Plan)	0.5	3.1	9.0	Flexible IRA -- (rollover provision)	*	*	(\$4.4)
Passive Loss Rules for Active Investors	(0.2)	(0.5)	(2.8)	Penalty Free IRA for First-Time Homebuyers	*	(0.1)	(0.4)
Increase Depreciation Expensing by 10% for 1 year	(4.2)	(2.3)	(2.0)	\$2,000 First-Time Homebuyers Credit for			
Liberalize AMT Depreciation	(0.1)	(0.4)	(1.5)	<i>purchase of a newly constructed home (1yr)</i>	*	(0.3)	(0.3)
Extend R&D Tax Credit and Allocation Rules (1 1/2 yrs)	(0.4)	(1.3)	(2.6)	Mortgage Revenue Bonds (1 1/2 yrs)	*	*	(0.3)
Low Income Housing Credit (1 1/2 yrs)	*	(0.2)	(1.7)	Permit losses to carry over to new basis in			
Extend Targeted Jobs Tax Credit (1 1/2 yrs)	(0.1)	(0.2)	(0.5)	principal residence	*	*	*
Farmer Bonds (1 1/2 yrs)	*	*	*	Total	\$0.0	(\$0.4)	(\$5.4)
Enterprise Zones (President's Plan)	*	(0.1)	(1.9)				
Repeal Boat and Airplane Luxury Tax	*	*	(0.2)				
Total w/o Capital Gains	(\$5.0)	(\$5.0)	(\$13.2)				
<b>Revenue Losers</b>				<b>Revenue Gainers</b>			
	1992	1993	'92-'97		1992	1993	'92-'97
	<u>Cost</u>	<u>Cost</u>	<u>Cost</u>		<u>Gain</u>	<u>Gain</u>	<u>Gain</u>
A. Jobs/Investments	(\$5.0)	(\$5.0)	(\$13.2)	Compliance Raisers:			
B. Homebuyers/Families	0.0	(0.4)	(5.4)	-- Withholding of 10% on taxable pension distrib.	\$1.8	\$1.8	\$6.2
Subtotal	(\$5.0)	(\$5.4)	(\$18.6)	-- Charities to report gifts in excess of \$500	*	0.1	0.9
				-- 45-day processing rule for all returns	*	0.1	0.7
<b>Miscellaneous</b>				Total Compliance Raisers	1.8	2.0	7.8
Charities (Appreciated Property--AMT)	*	*	(0.6)	Disallow Interest Deductions on Corporate			
Business Energy Credit (1 1/2 yrs)	*	*	(0.1)	Owned Life Insurance (COLI) Loans	0.1	0.2	2.7
Orphan Drug Credit (Permanent)	*	*	*	Mark to Market--Securities, 4yr phase-in	0.8	1.4	7.0
Special Needs Adoption	*	*	*	Prohibit Double Dipping by Thrifts	1.1	0.3	1.5
Tax Simplification (Revenue Neutral)	*	*	*	Treat Large Credit Unions as Thrifts for Taxes	0.1	0.2	0.8
Total	(\$5.0)	(\$5.4)	(\$19.3)	Tax Annuities for a term certain	*	0.1	1.9
				Repeal Diesel fuel exemption for boats	*	*	0.1
				Expand 3% communications tax	*	0.2	1.2
				Subtotal	\$3.9	\$4.4	\$23.0
				Capital Gains (President's Plan)	0.5	3.1	9.0
				Total	\$4.4	\$7.5	\$32.0
				Revenue Surplus/(Shortfall) wo/ cap. gains	(\$1.1)	(\$1.0)	\$3.7
				Revenue Surplus/(Shortfall) w/ cap. gains	(\$0.6)	\$2.1	\$12.7

PACKAGE 2

(Dollars in Billions)

<b>A. Jobs/Investments</b>			<b>B. Homebuyers/Families/Savings</b>				
1992	1993	'92-'97	1992	1993	'92-'97		
Cost	Cost	Cost	Cost	Cost	Cost		
Capital Gains (President's Plan)	0.5	3.1	9.0	Flexible IRA -- (rollover provision)	*	*	(\$4.4)
Passive Loss Rules for Active Investors	(0.2)	(0.5)	(2.8)	Penalty Free IRA for First-Time Homebuyers	*	(0.1)	(0.4)
<b>Increase Depreciation by 20% for 1 year (or equivalent capital expense)</b>	<b>(9.4)</b>	<b>(4.8)</b>	<b>(4.1)</b>	Mortgage Revenue Bonds (1 1/2 yrs)	*	*	(0.3)
Liberalize AMT Depreciation	(0.1)	(0.4)	(1.5)	Permit losses to carry over to new basis in principal residence	*	*	*
Extend R&D Tax Credit and Allocation Rules (1 1/2 yrs)	(0.4)	(1.3)	(2.6)	<b>\$5,000 First-Time Homebuyers Credit for purchase of any first home -- (1 year)</b>	<b>(0.6)</b>	<b>(5.3)</b>	<b>(5.0)</b>
Low Income Housing Credit (1 1/2 yrs)	*	(0.2)	(1.7)	Casualty Loss on Sale of Personal Residence	*	(0.4)	(1.9)
Extend Targeted Jobs Tax Credit (1 1/2 yrs)	(0.1)	(0.2)	(0.5)	Permit Deduction of Student Loan Interest	<b>(0.3)</b>	<b>(0.5)</b>	<b>(2.1)</b>
Farmer Bonds (1 1/2 yrs)	*	*	*	Total	(\$0.9)	(\$6.3)	(\$14.1)
Enterprise Zones (President's Plan)	*	(0.1)	(1.9)				
Repeal Boat and Airplane Luxury Tax	*	*	(0.2)				
Total w/o Capital Gains	(\$10.2)	(\$7.5)	(\$15.3)				
<b>Revenue Losers</b>			<b>Revenue Gainers</b>				
1992	1993	'92-'97	1992	1993	'92-'97		
Cost	Cost	Cost	Gain	Gain	Gain		
A. Jobs/Investments	(\$10.2)	(\$7.5)	(\$15.3)	Compliance Raisers	\$1.8	\$2.0	\$7.8
B. Homebuyers/Families	(0.9)	(6.3)	(14.1)	<b>Mark to Market -- Securities, 10yr phase-in</b>	<b>0.3</b>	<b>0.6</b>	<b>4.0</b>
Subtotal	(\$11.1)	(\$13.8)	(\$29.4)	Disallow Interest Deductions on Corporate Owned Life Insurance (COLI) Loans	0.1	0.2	2.7
Miscellaneous				Prohibit Double Dipping by Thrifts	1.1	0.3	1.5
Charities (Appreciated Property -- AMT)	*	*	(0.6)	Treat Large Credit Unions as Thrifts for Taxes	0.1	0.2	0.8
Business Energy Credit (1 1/2 yrs)	*	*	(0.1)	Tax Annuities for a term certain	*	0.1	1.9
Orphan Drug Credit (Permanent)	*	*	*	Repeal Diesel fuel exemption for boats	*	*	0.1
Special Needs Adoption	*	*	*	Expand 3% communications tax	*	0.2	1.2
Tax Simplification (Revenue Neutral)	*	*	*	Subtotal	\$3.4	\$3.6	\$20.0
Total	(\$11.1)	(\$13.8)	(\$30.1)	<b>Reduced Spending (Plug)</b>	<b>7.0</b>	<b>7.0</b>	<b>14.0</b>
				Capital Gains (President's Plan)	0.5	3.1	9.0
				Total	\$10.9	\$13.7	\$43.0
				Revenue Surplus/(Shortfall) wo/ cap. gains	(\$0.7)	(\$3.2)	\$3.9
				Revenue Surplus/(Shortfall) w/ cap. gains	(\$0.2)	(\$0.1)	\$12.9

PACKAGE 3

(Dollars in Billions)

<b>A. Jobs/Investments</b>				<b>B. Homebuyers/Families/Savings</b>			
	1992	1993	'92-'97		1992	1993	'92-'97
	<u>Cost</u>	<u>Cost</u>	<u>Cost</u>		<u>Cost</u>	<u>Cost</u>	<u>Cost</u>
Capital Gains (President's Plan)	0.5	3.1	9.0	Flexible IRA -- (rollover provision)	*	*	(\$4.4)
Passive Loss Rules for Active Investors	(0.2)	(0.5)	(2.8)	Penalty Free IRA for First-Time Homebuyers	*	(0.1)	(0.4)
<b>Increase Depreciation Expensing by 10% for 1 year</b>	<b>(4.2)</b>	<b>(2.3)</b>	<b>(2.0)</b>	Mortgage Revenue Bonds (1 1/2 yrs)	*	*	(0.3)
Liberalize AMT Depreciation	(0.1)	(0.4)	(1.5)	Permit losses to carry over to new basis in principal residence	*	*	*
Extend R&D Tax Credit and Allocation Rules (1 1/2 yrs)	(0.4)	(1.3)	(2.6)	<b>Middle Income Tax Relief (\$1,200 personal exemption per child -- 1 yr) or (alternatively \$1,000 exemption per return -- 1 yr, would score similarly) (Est.)</b>	<b>(7.5)</b>	<b>(3.2)</b>	<b>(10.7)</b>
Low Income Housing Credit (1 1/2 yrs)	*	(0.2)	(1.7)	Total	(\$7.5)	(\$3.3)	(\$15.8)
Extend Targeted Jobs Tax Credit (1 1/2 yrs)	(0.1)	(0.2)	(0.5)				
Farmer Bonds (1 1/2 yrs)	*	*	*				
Enterprise Zones (President's Plan)	*	(0.1)	(1.9)				
Repeal Boat and Airplane Luxury Tax	*	*	(0.2)				
Total w/o Capital Gains	(\$5.0)	(\$5.0)	(\$13.2)				
<b>Revenue Losers</b>				<b>Revenue Gainers</b>			
	1992	1993	'92-'97		1992	1993	'92-'97
	<u>Cost</u>	<u>Cost</u>	<u>Cost</u>		<u>Gain</u>	<u>Gain</u>	<u>Gain</u>
A. Jobs/Investments	(\$5.0)	(\$5.0)	(\$13.2)	Compliance Raisers	\$1.8	\$2.0	\$7.8
B. Homebuyers/Families	(7.5)	(3.3)	(15.8)	<b>Mark to Market -- Securities, 10yr phase-in</b>	<b>0.3</b>	<b>0.6</b>	<b>4.0</b>
Subtotal	(\$12.5)	(\$8.3)	(\$29.0)	Disallow Interest Deductions on Corporate Owned Life Insurance (COLI) Loans	0.1	0.2	2.7
Miscellaneous				Prohibit Double Dipping by Thrifts	1.1	0.3	1.5
Charities (Appreciated Property -- AMT)	*	*	(0.6)	Treat Large Credit Unions as Thrifts for Taxes	0.1	0.2	0.8
Business Energy Credit (1 1/2 yrs)	*	*	(0.1)	Tax Annuities for a term certain	*	0.1	1.9
Orphan Drug Credit (Permanent)	*	*	*	Repeal Diesel fuel exemption for boats	*	*	0.1
Special Needs Adoption	*	*	*	Expand 3% communications tax	*	0.2	1.2
Tax Simplification (Revenue Neutral)	*	*	*	Subtotal	\$3.4	\$3.6	\$20.0
Total	(\$12.5)	(\$8.3)	(\$29.7)	<b>Reduced Spending (Plug)</b>	<b>7.0</b>	<b>7.0</b>	<b>14.0</b>
				Capital Gains (President's Plan)	0.5	3.1	9.0
				Total	\$10.9	\$13.7	\$43.0
				<b>Revenue Surplus/(Shortfall) wo/ cap. gains</b>	<b>(\$2.1)</b>	<b>\$2.3</b>	<b>\$4.3</b>
				<b>Revenue Surplus/(Shortfall) w/ cap. gains</b>	<b>(\$1.6)</b>	<b>\$5.4</b>	<b>\$13.3</b>

PACKAGE 4

(Dollars in Billions)

A. Jobs/Investments	1992	1993	'92-'97	B. Homebuyers/Families/Savings	1992	1993	'92-'97
	Cost	Cost	Cost		Cost	Cost	Cost
Capital Gains (President's Plan)	0.5	3.1	9.0	Flexible IRA -- (rollover provision)	*	*	(\$4.4)
Passive Loss Rules for Active Investors	(0.2)	(0.5)	(2.8)	Penalty Free IRA for First-Time Homebuyers	*	(0.1)	(0.4)
<b>Investment Tax Credit 8% 1992 only</b>	<b>(13.3)</b>	<b>(11.2)</b>	<b>(27.2)</b>	\$2,000 First-Time Homebuyers Credit for			
Liberalize AMT Depreciation	(0.1)	(0.4)	(1.5)	<i>purchase of a newly constructed home (1yr)</i>	*	(0.3)	(0.3)
Extend R&D Tax Credit and Allocation Rules (1 1/2 yrs)	(0.4)	(1.3)	(2.6)	Mortgage Revenue Bonds (1 1/2 yrs)	*	*	(0.3)
Low Income Housing Credit (1 1/2 yrs)	*	(0.2)	(1.7)	Permit losses to carry over to new basis in			
Extend Targeted Jobs Tax Credit (1 1/2 yrs)	(0.1)	(0.2)	(0.5)	principal residence	*	*	*
Farmer Bonds (1 1/2 yrs)	*	*	*	<b>Middle Income Tax Relief Plus (Plug)</b>	<b>(17.5)</b>	<b>(22.5)</b>	<b>(43.5)</b>
Enterprise Zones (President's Plan)	*	(0.1)	(1.9)	Total	(\$17.5)	(\$22.9)	(\$48.9)
Repeal Boat and Airplane Luxury Tax	*	*	(0.2)				
Total w/o Capital Gains	(\$14.1)	(\$13.9)	(\$38.4)				

Revenue Losers	1992	1993	'92-'97	Revenue Gainers	1992	1993	'92-'97
	Cost	Cost	Cost		Gain	Gain	Gain
A. Jobs/Investments	(\$14.1)	(\$13.9)	(\$38.4)	Disallow Interest Deductions on Corporate			
B. Homebuyers/Families	(17.5)	(22.9)	(48.9)	Owned Life Insurance (COLI) Loans	0.1	0.2	2.7
Subtotal	(\$31.6)	(\$36.8)	(\$87.3)	Prohibit Double Dipping by Thrifts	1.1	0.3	1.5
Miscellaneous				Tax Annuities for a term certain	*	0.1	1.9
Charities (Appreciated Property--AMT)	*	*	(0.6)	Repeal Diesel fuel exemption for boats	*	*	0.1
Business Energy Credit (1 1/2 yrs)	*	*	(0.1)	Subtotal	\$1.2	\$0.6	\$6.2
Orphan Drug Credit (Permanent)	*	*	*	<b>Reduced Spending (Plug)</b>	<b>7.0</b>	<b>7.0</b>	<b>14.0</b>
Special Needs Adoption	*	*	*	Capital Gains (President's Plan)	0.5	3.1	9.0
Tax Simplification (Revenue Neutral)	*	*	*	Total	\$8.7	\$10.7	\$29.2
Total	(\$31.6)	(\$36.8)	(\$88.0)				

Revenue Surplus/(Shortfall) wo/ cap. gains (\$23.4) (\$29.2) (\$67.8)

### Question 1

What is the current status of the intangible drilling costs issue as it relates to AMT preferences?

### Answer

The Administration is clearly on record supporting changes to the alternative minimum tax (AMT) treatment of intangible drilling costs (IDC's) incurred by independent oil and gas producers ("independents").

- > Speech by President Bush (3/5/92); Letter from Secretary Brady (3/2/92); mark-up statement by Assistant Secretary Goldberg (3/3/92).

We are working with industry representatives to develop a specific proposal. Based on revenue and policy considerations, the proposal:

- > should cover only IDC's;
- > should be limited to independents;
- > should not completely repeal AMT treatment of IDC's.

We must recognize the potential fall-out from any proposal because other industries (e.g., airlines, paper companies, heavy equipment manufacturers, and the automotive and steel industries) are also seeking AMT relief.

The revenue cost of various proposals under consideration ranges from \$300 million to \$1.5 billion through 1997.

## Question 2

What is the status of the AMT provision as it relates to our capital gains proposal?

## Answer

The Administration's proposal would reduce the tax on long-term capital gains to 15.4% -- its lowest rate in 50 years.

The Reagan Administration never proposed a specific capital gains tax cut. During that Administration, the top tax rate on capital gains went from 28% to 20%, and back up to 28%.

Under the Administration's proposal, more than 98% of all taxpayers with capital gains would not pay any AMT.

Unlike prior law and all prior proposals, the Administration's current proposal would expressly exclude certain gains from the AMT.

- > Sales of personal residences, family farms, timber and oil and gas properties, commercial real estate, and small businesses would never be subject to the AMT.

The sales of publicly traded securities could trigger liability for the AMT. However, as a practical matter:

- > Virtually all senior citizens and working families who invest in the stock market would not be subject to the AMT.

Any additional AMT carve-out would be characterized by the Democrats as follows:

- > It would only benefit the super-rich (taxpayers with average incomes over \$300,000);
- > It would benefit wall street traders and corporate raiders.

The revenue cost of an additional carve-out for all gains on assets held for more than 3 years would be \$5.5 billion through 1997. The revenue cost of excluding all capital gains from the AMT would be \$6.2 billion through 1997.

Question 3

What is the basis for our proposal to tax large credit unions and thrifts, and why is there so much resistance to it?

Answer

Our proposal would not change the tax treatment of thrifts and savings and loan associations.

Credit unions engage in the same business activities as thrifts and savings and loan associations.

Credit unions are tax exempt; their direct competitors (primarily, thrifts and banks) are subject to tax.

They all do the same thing -- they should all be taxed the same way.

The Reagan Administration first proposed taxing credit unions like thrifts in 1985.

While credit unions can dress up their claims, they have not challenged our proposal on economic or tax policy grounds. The only real objection is that they like their preferential treatment under current law.

The Administration's proposal would only tax credit unions with more than \$50 million in assets.

> Less than 6% of all credit unions would be subject to tax; more than 94% would still be tax exempt.

We estimate that the proposal would raise approximately \$1.1 billion through 1997.

#### Question 4

What would be the costs related to an extension of the time period for our investment tax allowance?

#### Answer

The investment tax allowance (ITA) proposal covers binding contracts between February 1, 1992 and December 31, 1992, if the property is placed in service by June 30, 1993. The cost of the current proposal is \$2.9 billion through 1997.

If the placed in service date were extended to December 31, 1995, the cost would increase to \$3.7 billion (an increase of \$800 million).

If the placed in service date were extended to December 31, 1997, the cost would increase to \$4.3 billion (an increase of \$1.4 billion).

Factors to keep in mind in considering these changes:

- > The ITA is intended as a short-term, temporary incentive that will accelerate the recovery by encouraging businesses to speed up their investments in capital equipment.
- > Many business taxpayers place a higher priority on other tax law changes (e.g., AMT relief for capital intensive industries; expensing for small business).

### Question 5

What would be the costs of taking our \$5,000 first-time homebuyers' credit and allowing the purchaser to take it up front?

### Answer

The current proposal permits eligible taxpayers to take half the credit on their 1992 returns, and half on their 1993 returns (with the ability to carry forward any unused credit). An alternative would be to permit taxpayers to claim the full credit for 1992 (with the ability to carry forward any unused amount).

The revenue costs of these alternatives are:

Fiscal Year	Credit spread over 1992/93	Full credit during 1992
1992	-0.2	-0.4
1993	-2.1	-3.8
1994	-2.7	-1.5
1995	-0.9	-0.3
1996	-0.1	-*
1997	-*	-0.1
Total	-6.0	-6.1

### Background

It has been suggested that we enhance the proposal by allowing taxpayers to receive the credit at the time they actually purchase their homes. As a practical matter, it would be expensive and difficult for the government to make such payments. We believe that taxpayers can deal with the situation by adjusting their withholding, making temporary withdrawals from savings, and short-term loans.

### Question 6

What are the cost differences between our passive loss provisions and those contained in H.R. 1414?

### Answer

Fiscal Year	Current Administration Proposal	H.R. 1414
1992	-0.1	-0.3
1993	-0.4	-1.0
1994	-0.4	-1.0
1995	-0.4	-1.0
1996	-0.5	-1.0
1997	-0.6	-1.0
Total	-2.5	-5.3

There are two primary differences between the Administration's current proposal and H.R. 1414.

- > Our proposal covers only newly constructed and rehabilitated projects, while H.R. 1414 covers new and existing real estate.
- > Our proposal is limited to taxpayers who are actively engaged in the real estate development business, while H.R. 1414 covers taxpayers involved in any aspect of the real estate industry (most notably, independent realtors, appraisers, accountants and lawyers).

There may be good reasons for extending our proposal to cover existing real estate. The additional cost of that change (above our current proposal) would be \$1.7 billion through 1997.

However, there is no justification for extending the proposal beyond those actively involved in real estate development. As a matter of economic and tax policy, real estate developers should be treated the same way under the passive loss rules as other businesses.

In contrast, there is no economic or tax policy reason for letting certain taxpayers make tax shelter investments simply because they provide services to the real estate industry.

### Question 7

What is the logic behind our proposed tax treatment of annuities?

### Answer

As a preliminary matter, our proposal does not change the long-standing tax law provisions favoring life insurance as an incentive to protect against uncertain life expectancies.

The annuities proposal would simply limit the favorable treatment to true annuities (i.e., annuities with substantial life contingencies).

The so-called annuities that would be affected by our proposal have no substantial life contingency. They are virtually identical to, and are marketed in direct competition with, other savings and investment vehicles which do not enjoy the same favorable tax treatment (e.g., CD's, savings accounts, money market funds).

- > Marketing materials focus primarily on tax benefits relative to other investment vehicles. For example: the after-tax return on so-called annuities is far greater than the after-tax return on CD's, but only because of their favorable tax treatment. Unlike other investments, annuities let the holder decide when to pay taxes. These claims have nothing to do with the traditional purpose for purchasing true annuities.

The so-called annuities that would be affected by our proposal are the same as after-tax IRA's under current law -- except that they circumvent the annual contribution and withdrawal limits.

The industry has argued that annuities are savings vehicles for middle class families. It is important to put these claims in perspective.

- > Most annuity contracts involve initial investments of less than \$30,000.
- > However, the majority of all equity interests in annuities exceed \$500,000.
- > Our proposal could be limited to annual annuity purchases in excess of \$30,000 per year/per person without a substantial impact on the revenue estimate.

We estimate that the annuities proposal would raise approximately \$1.7 billion through 1997.

Question 8

What is the basis for our mark-to-market proposal for securities dealers?

Answer

Under current law, securities dealers can take tax losses on their securities that have declined in value, while not recognizing income on their securities that have gone up in value.

For tax purposes, this gives securities dealers the "best of both worlds" -- they deduct their inventory losses but don't pay tax on their inventory gains.

In contrast, for financial accounting purposes, they are required to reflect economic reality: they mark-to-market all of their securities, thereby recognizing all gains and losses.

The Administration's mark-to-market proposal reflects economic reality and eliminates a tax subsidy that serves no economic or tax policy objective. It does so in a way that is administrable and does not create artificial incentives to hold or sell assets.

We estimate that the mark-to-market proposal would raise approximately \$4.0 billion through 1997.

POSSIBLE OPTIONS

01/23/92  
10:31 AM

Fiscal years

1992 1993 1994 1995 1996 1997 1992-97

(\$ billions)

REVENUE-RAISING PROPOSALS

A. Compliance Raisers (1)

1. Require mandatory withholding of 10% on taxable pension distributions (effective 5/1/92)	1.8	1.8	0.5	0.6	0.7	0.8	6.2
2. Require payor of mortgage interest to an individual to furnish individual's social security number on Schedule A to Form 1040.	*	*	*	*	*	*	0.1 (preliminary)
3. Require charitable institutions to report charitable gifts in excess of \$500 to the IRS. (Schedule A itemization of gifts over \$500 would be required.)	*	0.1	0.2	0.2	0.2	0.2	0.9 ***
4. Expand 45-day processing rule to all returns and refund claims. (Currently, IRS does not pay interest on original income tax returns showing a refund due if it processes the refund within 45 days of receiving the return; the proposal would extend the rule to other taxes and all amended returns and refund claims.)	*	0.1	0.1	0.1	0.2	0.2	0.7

B. Corporate Sector Raisers

1. Reduce deductible percentage of business meals & entertainment expenses from 80% to:							
a. 70%	0.6	1.1	1.2	1.3	1.6	1.9	7.7
b. 65%	1.0	1.8	1.9	2.1	2.5	2.9	12.3
c. 60%	1.5	2.6	2.7	3.0	3.5	3.9	17.2
2. Disallow interest deductions on corporate-owned life insurance (COLI) loans. (Under current law, interest incurred on loans used to purchase tax-exempt investments is not deductible. However, this rule does not apply to life insurance. Corporations have achieved the same result by purchasing policies covering their entire work force then borrowing out the cash value each year. The proposal would treat such plans as equivalent to purchase of a tax-exempt investment but would leave the inside build-up rule for life insurance undisturbed.)	0.1	0.2	0.3	0.5	0.7	0.9	2.7
3. Conform tax accounting for marketable securities to book accounting rule adopted in 1973 (i.e., require marketable securities to be marked-to-market annually rather than reported on lower of cost or market basis). The conforming would be done ratably over 4 years.	0.8	1.4	1.6	1.8	1.0	0.4	7.0
4. Prohibit double dipping by thrifts acquired in 1988 deals, as recommended in 1991 Treasury report (effective 1/1/91)							
a. OTA	1.1	0.3	0.1	-0.0	-0.1	0.2	1.5
b. JCT	0.5	0.3	0.2	0.1	-0.1		1.0

## POSSIBLE OPTIONS

	01/23/92 10:31 AM		Fiscal years					1992-97
	1992	1993	1994	1995	1996	1997		
(\$ billions)								
5. Treat large credit unions as thrifts for tax purposes								
a. Assets greater than \$10 million	0.2	0.3	0.3	0.3	0.3	0.3	1.6	
b. Assets greater than \$100 million	0.1	0.2	0.2	0.2	0.2	0.2	0.8	
C. Individual Raisers								
1. Extend Pease and PEP for 1996 and 1997	--	--	--	--	3.3	6.2	9.5	
2. Tax annuities for a term certain (e.g., 5 yrs. or 10 yrs. without a life contingency) in the same manner as a bond issued for the same period	*	0.1	0.2	0.4	0.5	0.6	1.9	
D. Excise Tax Raisers								
1. Communications (telephone) excise tax modernization - Until recently, it was thought that the telephone excise tax would be phased out; however, Congress has now made the tax permanent. In light of this development, there are gaps in the coverage of the tax that reflect the fact that the tax has not been updated for modern technology and exemptions that have no apparent justification now that the tax has been made permanent.								
a. Extend 3% communications tax to digital transmissions, satellite dishes, earth stations, CPU, and PCX combinations and repeal the exemption for coin-operated telephones.	*	0.2	0.2	0.2	0.2	0.3	1.2	
b. Extend 3% communications tax to cable television	0.2	0.3	0.4	0.4	0.4	0.5	2.2 (JCT)	
c. Extend 3% communications tax to all spectrum (new and old) users not already subject to tax. [Note: The spectrum auction in last year's budget and proposed by Sen. Dole would raise \$1.5 billion but would apply only to NEW spectrum.]	0.9	1.0	1.1	1.2	1.3	1.4	6.8	
2. Repeal diesel fuel exclusion for boats (offsets boat luxury tax repeal)	*	*	*	*	*	*	0.1	
3. Repeal exemption for gasoline used in an off-highway business use including air transportation of persons or property for hire but not noncommercial aviation (effective 7/1/92). [This proposal is being refined to be a possible offset for repeal of the aircraft luxury tax.]	*	0.2	0.2	0.2	0.2	0.3	1.2	
4. Repeal exemption for diesel fuel and special motor fuel sold for use in an off-highway, non-farm business	0.3	1.2	1.2	1.2	1.1	1.1	6.1	
E. Securities transaction excise tax (STET) - .1% rate (excludes trading of Treasury, Federal Agency, and State and Local securities)	2.5	3.6	3.9	4.1	4.3	4.5	22.9	

POSSIBLE OPTIONS

01/23/92  
10:31 AM

1992 1993 Fiscal years 1994 1995 1996 1997 1992-97

(\$ billions)

F. Capital Gains (effective 2/1/92)

1. President's proposal (10%/20%/30%)	0.5	3.1	2.1	1.1	1.2	1.0	9.0
2. Prospective President's proposal (10%/20%/30%) with mark-to-market option (2/1/91 to 12/31/91)	0.4	1.8	-0.9	-1.2	-0.7	-0.8	-1.4
3. Prospective President's proposal (15%/30%/45%) with mark-to-market option (2/1/91 to 12/31/91)	0.7	3.0	-1.7	-2.1	-1.4	-1.5	-2.9 ***
4. Prospective President's proposal (15%/30%/45%), with 20% exclusion for assets held 3+ years, which are sold or marked-to-market between 2/1/91 and 12/31/91	1.0	4.3	-2.1	-2.6	-1.7	-1.6	-2.7 ***
5. President's proposal that applies only to gains reinvested in noncollectible assets within 60 days (IRS could find proposal very difficult to enforce)	0.5	3.1	2.1	1.1	1.2	1.0	9.0 ***
6. Prospective President's proposal (15%/30%/45%) with	0.5	2.2	-1.6	-1.9	-1.3	-1.3	-3.4
a. 20% exclusion for timber held by individuals for at least 3 years	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
b. \$100,000 lifetime exclusion for old assets held at least 3 years	-2.8	-18.0	-12.6	-10.5	-9.5	-8.1	-61.5
TOTAL EFFECT:	-2.4	-15.9	-14.3	-12.5	-10.9	-9.5	-65.5 ***
7. Japanese plan - Taxpayer may pay either tax based on a 35% exclusion or 1% of gross sales price for assets held at least 1 year	-3.7	-25.7	-30.9	-36.4	-41.4	-46.2	-194.2 ***
8. Modified Breaux plan - If President's capital gains cut does not produce targeted revenues in 4 years, provision automatically expires	0.5	3.1	2.1	1.1	1.2	1.0	9.0 ***

## POSSIBLE OPTIONS

	01/23/92 10:31 AM		Fiscal years					1992-97
	1992	1993	1994	1995	1996	1997		
(\$ billions)								
<b>REVENUE LOSERS</b>								
<b>A. Extender List (2)</b>								
<b>1. Research and Development (R&amp;D)</b>								
a. Extend R&D credit								
I. Permanent	-0.2	-0.8	-1.4	-1.6	-1.8	-2.1	-7.8	
II. 1-1/2 years	-0.2	-0.8	-0.5	-0.1	-0.1	-*	-1.7	
b. Extend R&D allocation rules								
I. Permanent	-0.2	-0.5	-0.7	-0.7	-0.7	-0.8	-3.5	
II. 1-1/2 years	-0.2	-0.5	-0.3	--	--	--	-0.9	
c. Extend R&D credit/allocation but require taxpayer to elect one provision or the other effective 1/1/93. (Change thereafter with consent of IRS.)								
I. Permanent	-0.3	-1.1	-1.6	-1.9	-2.2	-2.5	-9.6	
II. 1-1/2 years	-0.3	-0.9	-0.6	-0.2	-0.1	-*	-2.2	
2. Extend small industrial bond exception only for new farmers, keeping limit at \$250,000 per issue (other small issues would expire).								
a. Permanent	-*	-*	-*	-*	-*	-*	-*	
b. 1-1/2 years	-*	-*	-*	-*	-*	-*	-*	
3. Targeted Jobs Tax Credit (TJTC)								
a. Extend TJTC for 1-1/2 years	-0.1	-0.2	-0.2	-0.1	-*	-*	-0.5	
b. Extend TJTC for 1-1/2 years and expand eligible hires to include unemployed who have exhausted a full 26-week entitlement to unemployment (would require rules to prevent fire and hire)	-0.1	-0.3	-0.4	-0.2	-0.1	-0.1	-1.1	
4. Appreciated property - AMT								
a. Expand and extend charitable contributions relief by excluding gifts of appreciated property from AMT tax base	-*	-*	-0.1	-0.1	-0.1	-0.1	-0.4	
b. Allow corporations to treat all charitable contributions as domestic source deductions.	-*	-*	-*	-*	-*	-0.1	-0.2	
5. Mortgage revenue bonds								
a. Permanent	-*	-*	-0.1	-0.1	-0.2	-0.3	-0.7	
b. 1-1/2 years	-*	-*	-0.1	-0.1	-0.1	-0.1	-0.3	
6. Low-income housing credit								
a. Permanent	-*	-0.2	-0.4	-0.7	-1.0	-1.4	-3.6	
b. 1-1/2 years	-*	-0.2	-0.3	-0.4	-0.4	-0.4	-1.7	

## POSSIBLE OPTIONS

	01/23/92 10:31 AM		Fiscal years					1992-97
	1992	1993	1994	1995	1996	1997		
	(\$ billions)							
7. Business energy credits	-*	-*	-*	-0.1	-0.1	-0.1	-0.3	
a. Permanent	-*	-*	-*	-*	*	*	-0.1	
b. 1-1/2 years								
8. Orphan drug credit	-*	-*	-*	-*	-*	-*	-*	
a. Permanent	-*	-*	-*	-*	-*	-*	-*	
b. 1-1/2 years								
SUBTOTAL - PERMANENT EXTENSION OF CERTAIN EXPIRING PROVISIONS (ITEMS 1c, 2a, 3a, 4, 5a-8a)	-0.5	-1.6	-2.4	-2.9	-3.6	-4.4	-15.4	
SUBTOTAL - 1-1/2 YEAR EXTENSION OF CERTAIN EXPIRING PROVISIONS (ITEMS 1a, 1b, 2b, 3a, 4, 5b-8b)	-0.6	-1.8	-1.5	-0.8	-0.7	-0.7	-6.0	
B. Growth Options (other than capital gains)								
1. Real Estate items								
a. Allow penalty-free withdrawals from IRAs for first-time homebuyers (1992 budget proposal)	-*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	
b. Allow 5%-of-purchase-price credit for purchase of a newly-constructed principal residence between 2/1/92 and 10/31/92, limit \$2,000 (similar to section 44 of 1976 Code) - (recapture if sold within 3 years)								
I. Apply to any homebuyer	-0.1	-1.0	*	0.1	0.1	--	-1.0	
II. Limited to first-time homebuyers (have not owned home within last 3 years)	-*	-0.3	*	*	*	--	-0.3	
III. Limited to first-time homebuyer and applies to purchase of any first home	-0.2	-2.1	0.1	0.1	0.1	--	-2.0	
c. Allow 10%-of-purchase-price credit for purchase of a newly-constructed principal residence between 2/1/92 and 10/31/92, limit \$5,000 (similar to section 44 of 1976 Code) - (recapture if sold within 3 years)								
I. Apply to any homebuyer	-0.3	-2.5	0.1	0.2	0.1	--	-2.3	
II. Limited to first-time homebuyers (have not owned home within last 3 years)	-0.1	-0.7	*	*	*	--	-0.7	
III. Limited to first-time homebuyer and applies to purchase of any first home	-0.6	-5.3	0.2	0.3	0.3	--	-5.0	
d. Allow losses on sales of personal residences as casualty losses (i.e., fully deductible to extent in excess of 10% of AGI)	-*	-0.4	-0.4	-0.4	-0.4	-0.3	-1.9	

## POSSIBLE OPTIONS

	01/23/92 10:31 AM		Fiscal years					1992-97
	1992	1993	1994	1995	1996	1997		
								(\$ billions)
<b>e. Revise passive loss rules</b>								
I. Republican Conference proposal (netting allowed if 500 hours and 50% of time spent on real estate)	-0.6	-1.4	-1.0	-1.0	-0.8	-0.8	-5.6	
II. Allow taxpayer to treat all real estate development operations in which he actively participates as a single trade or business (i.e., allows current netting of gains and losses). However, real estate development for this purpose would include only:	-0.2	-0.5	-0.4	-0.5	-0.6	-0.7	-2.8	
i. Construction, renovation, and management of real property								
ii. Lease-up and sale of property in which the taxpayer owns a fee interest equal to 10% or more at all times; and								
iii. Rental of real property developed by the taxpayer.								
f. Allow rollover of full tax basis on sale of home at a loss (Current law restricts rollover to sales proceeds of home sold.)	-*	-*	-*	-*	-*	-*	-*	
<b>2. Savings Incentives</b>								
a. Family Savings Accounts (FSAs) (1992 budget proposal)	-*	-0.2	-0.6	-1.1	-1.5	-2.0	-5.4	
b. Plus rollover option for direct contribution IRA (i.e., no rollover IRAs) -- entire rollover taxed over 4 years	*	*	-0.4	-0.8	-1.3	-2.0	-4.4	
c. FSA proposal as in 1992 budget with rollover and no income limits	*	0.1	-0.4	-1.0	-1.6	-2.5	-5.4	
<b>3. Investment Credits/Expensing</b>								
a. Incremental ITC -- 5% credit on new equipment (other than buildings and their structural components) placed in service after 4/1/92 in excess of base. Base in 1991 is equal to average investment in such property for 1989-91 (in 1991 dollars). Three-year property receives a 3-1/3% credit. Basis would be reduced by credit allowed and subject to general business credit limitations.								
I. 1-year	-1.6	-1.5	-*	-*	*	*	-3.0	
II. 1-year, base in 1991 is not indexed to 1991 dollars	-2.4	-1.8	-*	-*	*	0.1	-4.1 ***	
III. 1-year, base in 1991 equals 90% of 1989-91 average (in 1991 dollars)	-3.7	-3.1	-0.1	-*	0.1	0.1	-6.8	
IV. 1-year. In addition, allow 10% credit for businesses (other than professional service businesses) with gross receipts of less than \$1 million in 1991 (i.e., 15% altogether)	-1.8	-1.7	-*	-*	*	0.1	-3.5 ***	

NOTE: All of these proposals will require difficult-to-administer anti-abuse rules to prevent artificial creation of new entities to claim the credit.



## POSSIBLE OPTIONS

	01/23/92 10:31 AM		Fiscal years					1992-97	
	1992	1993	1994	1995	1996	1997			
(\$ billions)									
e. Allow a deduction for interest of up to \$7500 per return per year, phase-out home equity deductions over 3 years.									
I. Unindexed	-6.8	-11.8	-12.4	-12.9	-13.5	-14.1	-71.5	very preliminary	not available
II. Indexed in years after 1992									
f. Allow up-to \$2,000 deduction on consumer interest (home-equity loans reduced by consumer interest deduction dollar-for-dollar)	-4.8	-8.2	-8.6	-9	-9.4	-9.8	-49.8	very preliminary	
g. Allow up-to \$2,000 deduction on auto-loan interest (home-equity loans reduced by auto-loan interest deduction dollar-for-dollar)	-2.1	-3.6	-3.7	-3.9	-4.1	-4.2	-21.6	very preliminary	
h. Allow interest deduction for auto-loans originated after 2/1/92, \$1,000 limit, (home-equity loan reduced dollar-for-dollar)	-0.2	-0.6	-1.1	-1.4	-1.5	-1.6	-6.4	very preliminary	
i. Allow interest deduction for auto-loans originated between 2/1/92 and 12/31/92, \$1,000 limit (home-equity loan reduced dollar-for-dollar)	-0.2	-0.4	-0.4	-0.3	-0.1	0.0	-1.4	very preliminary	
j. Increase child-care credit \$50 per month (from current \$200) (eff. 1/1/93)	--	-0.2	-0.2	-0.2	-0.2	-0.3	-1.1		
5. Middle-Class Tax Relief									
a. Allow wage earners to exclude 50% of social security taxes paid from taxable income, up to a maximum exclusion of \$1000 per worker. The exclusion is phased-out between \$30,000-\$40,000 (single), \$40,000-\$50,000 (hh), and \$50,000-\$60,000 (joint). There is no refundability feature.									
I. Permanent	-2.2	-4.5	-4.7	-4.8	-4.9	-4.9	-26.1		
II. 1-year	-2.2	-2.2	--	--	--	--	-4.4		
III. 2-year	-2.2	-4.5	-2.3	--	--	--	-9.0		
IV. Permanent, phase-out ranges are \$32,260-\$42,260 (single and married filing separately), \$48,390-\$58,390 (hh), and \$64,520-\$74,520 (joint)	-4.3	-8.8	-9.2	-9.6	-10.0	-10.4	-52.2		
b. Increase personal exemption by \$1,200 per child and change rounding rules to nearest \$10 (Wolf)									
I. 1-year	-7.5	-3.2	--	--	--	--	-10.7		
II. Permanent	-7.5	-10.9	-10.9	-10.8	-12.1	-12.2	-64.4		

## POSSIBLE OPTIONS

01/23/92 10:31 AM	Fiscal years						1992-97
	1992	1993	1994	1995	1996	1997	
	(\$ billions)						
c. Provide non-refundable tax credit of \$300 per child (Bentsen)							
I. 1-year	-8.1	-3.5	--	--	--	--	-11.6
II. Permanent	-8.1	-11.9	-12.1	-12.1	-11.9	-11.9	-68.0
d. Provide refundable credit of 20% of employee-paid social security tax up to \$200 (single) or \$400 (joint)							
I. 2-year credit (Rostenkowski)	-12.2	-22.2	-10.0	--	--	--	-44.4
II. Permanent credit	-12.2	-22.2	-22.3	-22.5	-22.7	-22.9	-124.8
e. Provide one-year exemption of \$1,500 per return (Dole)	-14.7	-9.8	--	--	--	--	-24.5

\* raises less than \$50 million

-\* loses less than \$50 million

-- negligible effect

- (1) Two revenue-raising compliance proposals are not included: (a) withholding on independent contractors (Commissioner Goldberg would include), and (b) business information reporting.
- (2) On the extender list, three items were not included: (a) employer-provided educational assistance, (b) group legal services, and (c) self-employed health insurance (to be included in health package).

PRELIMINARY DRAFT

REVENUE OPTIONS

AS SUGGESTED BY VARIOUS PARTIES

NOTE: INCLUSION OF AN OPTION  
DOES NOT IMPLY SUPPORT BY ANY PARTY

## REVENUE OPTIONS

Revenue estimates are preliminary and subject to change.  
Interaction between proposals if combined may affect estimates.  
Proposals are estimated to be effective 1/1/91  
unless otherwise specified.

### A. Revenue raising items from the Administration Budget.

NOTE: Capital gains proposals are covered in category H.

#### 1. Airport and Airway Trust Fund.

##### a. Continue tax at current levels.

JCT	.9	1.6	1.7	1.8	2.0	--	8.0
OTA	0	0	0	0	0	--	0

For baseline receipts scoring, OMB assumes that the Airport and Airway taxes will be extended without reduction by the trigger. CBO assumes that the trigger will take effect for purposes of determining its baseline. This difference accounts for the difference in scoring.

##### b. Repeal trigger and increase air passenger tax to 10% (from 8%), air freight tax to 6.25% (from 5%), the noncommercial aviation gasoline tax to 15¢/gallon (from 12¢), and the noncommercial jet fuel tax to 17.5¢/gallon (from 14¢).

JCT	1.3	2.3	2.5	2.7	3.0	--	11.8
OTA	.5	.8	.9	.9	1.0	--	4.1

As in 1a, different baseline scoring rules account for the difference in the estimates.

#### 2. a. Require property and casualty companies to utilize estimated salvage in computing losses (Budget proposal). Effective 1/1/90.

JCT	.5	.3	.3	.2	.1	--	1.4
OTA	.5	.3	.3	.2	.1	--	1.4

##### b. Same proposal with fresh start.

JCT	.3	.2	.2	.1	.1	--	.9
OTA	.3	.2	.2	.1	.1	--	.9

3. a. Allow excess pension funds to be used to pay retiree health benefits. (Budget proposal: this proposal is similar to the provision which passed the House last year.)

JCT	.3	.5	.2	*	*	--	1.0
OTA	.3	.6	.3	*	*	--	1.2

- b. Allow transfers from overfunded pension plans for current year retiree health expenditures (provision passed by Senate last year)

JCT	.6	.4	.4	.3	.3	--	2.0
OTA	.4	.2	.1	.1	*	--	.8

NOTE: In addition, there will be staff work on a possible alternative provision.

4. Increase ad valorem fee on shippers (Harbor Maintenance Tax).

JCT	.3	.3	.3	.4	.4	--	1.7
OTA	.3	.3	.3	.4	.4	--	1.7

5. Extend social security to state and local employees.

- a. Budget proposal.

JCT	1.6	2.3	2.4	2.6	2.8	--	11.7
OTA	2.2	2.4	2.5	2.7	2.9	--	12.7

- b. Budget proposal with exclusion for students.

JCT	1.3	1.9	2.1	2.2	2.4	--	9.9
OTA	1.8	2.0	2.1	2.3	2.5	--	10.7

Possible expenditure offsets to 5a or b:

- \* Increase retirement test by \$1,200

JCT  
OTA

- \* Other social security amendments such as those proposed by the Ways and Means Social Security Subcommittee not to exceed \$500 million in cost over 5 years.

6. Extend Medicare tax to all state and local government employees.

JCT	1.7	1.6	1.6	1.6	1.6	--	8.2
OTA	1.7	1.7	1.7	1.7	1.6	--	8.4

NOTE: In addition to the foregoing, the Budget contained the following items:

IRS management reforms

OTA	2.5	1.1	.5	*	-.4	--	3.7
-----	-----	-----	----	---	-----	----	-----

Stabilize payroll tax deposit rules

OTA	.9	2.2	-3.1	*	*	--	*
-----	----	-----	------	---	---	----	---

The payroll tax proposal is important administratively but was not considered for deficit reduction purposes.

7. a. Make telephone excise tax permanent.

JCT	1.5	2.6	2.8	2.9	3.1	--	12.9
OTA	1.5	2.6	2.8	3.0	3.2	--	13.1

- b. Speed up collection

JCT	.1	*	*	*	*	--	.1
OTA	.1	*	*	*	*	--	.1

NOTE: The Senate and House utilize Item 7 for Child-related legislation.

B. Compliance proposals and LUST Fund extension.

8. Impose withholding on pension payments.

JCT	2.4	1.0	1.1	1.2	1.4	--	7.1
OTA	3.1	1.5	1.7	2.1	2.4	--	10.8

9. Improve compliance for employers of household employees.

JCT	*	.1	.1	.1	.1	--	.4
OTA	*	*	*	*	*	--	*

10. Improve reporting by foreign-owned entities with U.S. operations (H.R. 4308 and S. 2410)

a. Extend reporting rules adopted in 1989 (6038A) to open years for corporations and extend rules to branches.

JCT	*	*	.1	.1	.1	--	.3
OTA	*	*	.1	.1	.1	--	.3

b. Allow IRS to extend unilaterally statute of limitations for foreign-owned entities.

JCT	*	*	*	*	*	--	*
OTA	*	*	*	*	*	--	*

11. Extend LUST fund tax. Effective 9/1/90.

a. Permanent extension with no ceiling.

JCT	.1	.1	.1	.1	.1	--	.5
OTA	.1	.1	.1	.1	.1	--	.5

b. 5-year extension with no ceiling.

JCT	.1	.1	.1	.1	.1	--	.5
OTA	.1	.1	.1	.1	.1	--	.5

c. Permanent extension with \$1.5 billion ceiling.

JCT	.1	.1	.1	.1	.1	--	.5
OTA	.1	.1	.1	.1	.1	--	.5

C. Rates.

12. 33% top rate: Eliminate 5% phase-out of 15% bracket and exemptions, create third bracket of 33% at beginning point of current phase-outs, limit capital gains rate to 28%.

JCT	4.0	7.9	9.0	10.2	11.4	--	42.5
OTA	5.7	10.2	10.5	11.0	11.6	--	49.0

13. 35% top rate: Eliminate 5% phase-outs, create third bracket of 33% at beginning point of current phase-out, create fourth bracket of 35% at end point of current phase-out (assuming 2 exemptions for joint and head of household returns), limit capital gains rate to 28%.

JCT	5.8	11.3	12.7	14.6	16.2	--	60.4
OTA	8.0	14.2	14.8	15.5	16.3	--	68.8

14. Repeal 5% phase-out (bubble): Eliminate 5% phase-out, leaving a single top bracket of 28%.

JCT	-4.8	-9.1	-10.2	-11.3	-12.7	--	-48.2
OTA	-4.9	-8.6	-9.6	-10.4	-11.1	--	-44.5

15. Repeal 5% phase-out, modified: Eliminate 5% phase-out, but deny personal and dependency exemptions to taxpayers with AGI in excess of \$113,000 (single) and \$193,400 (joint). These thresholds will be indexed beginning in 1992.

JCT	-3.8	-7.5	-8.4	-9.3	-10.3	--	-39.3
OTA	-3.9	-6.9	-7.7	-8.3	-8.9	--	-35.7

16. 31% top rate: Eliminate 5% phase-out, create third bracket of 31% at beginning point of current phase-out, limit capital gains to 28%.

JCT	.5	1.2	1.4	1.7	2.0	--	6.9
OTA	1.4	2.6	2.5	2.5	2.5	--	11.5

#### D. Energy and Environmental.

17. Increase motor fuel taxes by 15¢ gallon. Effective 10/1/90.

	<u>Current Tax</u>						<u>Proposal</u>
Gallon of gasoline	9¢						24¢
Gallon of diesel	15¢						30¢
JCT	15.0	14.4	14.1	14.4	14.5	--	72.4
OTA	14.1	14.4	14.3	14.1	14.3	--	71.2

18. Increase motor fuels taxes by 10¢ gallon with one-half dedicated to deficit reduction; one-half to trust fund. Effective 10/1/90.

	<u>Current Tax</u>						<u>Proposal</u>
Gallon of gasoline	9¢						19¢
Gallon of diesel	15¢						25¢
JCT	10.1	9.7	9.6	9.8	9.9	--	49.1
OTA	9.5	9.7	9.7	9.6	9.8	--	48.3

Net deficit reduction:

JCT	[Depends on outlays
OTA	from trust fund.]

19. Broad-based energy tax imposed on all fuels including petroleum, natural gas, coal, and electricity generated by hydro-electric and nuclear facilities. Exports of such fuels would be exempt and imports would be taxed. In addition, if the price of a manufactured product reflects energy costs as a major component, consideration will be given to providing that the tax would be partially rebated upon export and an appropriate tax imposed on imports of such product. Fuels used as feedstocks would not be taxed. OTA effective date is 10/1/90; JCT effective date is 1/1/91.

- a. Imposed on a 5% retail price ad valorem basis, using retail price as a base for electricity.

JCT	9.7	14.5	15.4	16.2	17.1	--	72.9
OTA							

- b. Imposed on a 5% retail price ad valorem basis, using fuel prices to utilities as base for electricity.

JCT	8.1	12.1	12.7	13.3	14.0	--	60.2
OTA	10.5	11.4	11.9	12.4	12.9	--	59.0

With anticipated price impact based on OTA estimates:

	<u>Tax</u>	<u>Current price</u>	<u>Implicit Rates</u>
Gasoline (gal.)	\$ .053	\$ 1.067	5%
Heating oil (gal.)	.032	.874	3.7%
Natural gas (000 cf)	.295	5.90	5%
Coal (short ton)	1.65	32.97	5%
Monthly residential electric bill	.82	60.00	1.4%

- c. Imposed on a BTU-equivalent base.

JCT	10.6	15.9	16.0	16.1	16.2	--	74.9
OTA	10.9	11.7	11.9	12.1	12.3	--	59.0

With anticipated price impact based on OTA estimates:

	<u>Tax</u>	<u>Current price</u>
Gasoline (gal.)	\$ .025	\$ 1.067
Heating oil (gal.)	.028	.874
Natural gas	.207	5.90
Coal	4.19	32.97
Monthly residential electric bill	1.90	60.00

- d. Imposed on a modified BTU base (reduced impact on coal).

JCT							
OTA	10.9	11.7	11.9	12.1	12.3	--	59.0

With anticipated price impact based on OTA estimates:

	Tax	Current price
Gasoline (gal.)	\$ .030	\$ 1.067
Heating oil (gal.)	.033	.874
Natural gas	.243	5.90
Coal	1.81	32.97
Monthly residential electric bill	2.23	60.00

20. Impose oil import fee of \$5/barrel with exemption for Canada capped at average imports between 1985-1988.

JCT	6.4	8.3	8.3	8.7	9.3	--	41.0
OTA	6.9	9.0	9.3	9.6	9.8	--	44.6

21. Impose tax on lead. Current price, approximately \$.50/pound. Effective 10/1/90.

- a. \$.50 per pound.

JCT	.6	.9	.8	.7	.6	--	3.6
OTA	.6	.8	.8	.7	.7	--	3.6

- b. \$1.00 per pound.

JCT	1.2	1.7	1.3	1.1	.8	--	6.1
OTA	1.1	1.4	1.2	1.0	.9	--	5.6

- c. \$1.25 per pound.

JCT	1.5	2.0	1.5	1.1	.8	--	6.9
OTA	1.3	1.7	1.4	1.2	1.0	--	6.6

22. Impose \$7 per ton tax on virgin newsprint. Effective 10/1/90.

JCT	*	*	*	*	*	--	*
OTA	*	*	*	*	*	--	*

NOTE: Due to baseline conventions of OMB and CBO, reauthorization of the Superfund will not be scored as raising revenue in the budget period.

NOTE: In addition, staff inquiries are underway to determine whether other chemicals should be added to the CFC excise enacted last year.

E. Other Excise Taxes.

23. Tobacco. Effective 10/1/90.

- a. Double all existing tobacco taxes (e.g., cigarettes from 16¢ to 32¢ per pack).

JCT	2.8	3.0	3.0	2.9	2.9	--	14.6
OTA	2.6	2.8	2.7	2.7	2.7	--	13.5

- b. Double existing tax and index commencing 1992.

JCT	3.0	3.5	3.7	3.9	4.2	--	18.3
OTA	2.7	3.0	3.3	3.6	4.2	--	16.8

- c. Index tobacco taxes from current levels commencing 1991.

JCT	.1	.2	.3	.4	.6	--	1.6
OTA	.1	.2	.2	.2	.3	--	1.0

24. Alcoholic Beverages. Effective 10/1/90.

- a. CBO Report option: increase distilled spirits tax from \$12.50/gallon to \$16/gallon (25 cents/oz.) and impose equivalent tax by alcohol content on beer and wine.

JCT	7.2	7.3	7.4	7.6	7.6	--	37.1
OTA	6.4	6.8	6.9	7.0	7.0	--	34.1

Impact on price of:

	<u>Current tax</u>	<u>Option</u>
6 pack of beer	\$ .16	\$ .72
Bottle of table wine	\$ .03	\$ .90
Bottle of distilled spirits	\$2.00	\$2.56

- b. Increase \$12.50/gallon rate on distilled spirits to \$15.00/gallon (increases tax as if indexed from 1985 when last increased).

JCT	.4	.5	.5	.5	.5	--	2.4
OTA	.5	.5	.5	.6	.6	--	2.7

Impact on price of:

	<u>Current tax</u>	<u>Option</u>
Bottle of distilled spirits	\$2.00	\$2.40

- c. Double current tax on beer and wine.

JCT	1.4	1.5	1.5	1.5	1.5	--	7.4
OTA	1.4	1.5	1.5	1.5	1.5	--	7.4

Impact on price of:

	<u>Current tax</u>	<u>Option</u>
6 pack of beer	\$ .16	\$ .32
Bottle of table wine	\$ .03	\$ .06

- d. Double current tax on beer and wine and index them until they reach level of tax on distilled spirits imposed on an alcohol equivalent basis.

JCT	1.5	1.7	1.8	1.9	2.1	--	9.0
OTA	1.4	1.6	1.7	1.8	1.9	--	8.4

Impact on price of:

	<u>Current tax</u>	<u>Option</u> <u>(1991)</u>
6 pack of beer	\$ .16	\$ .32
Bottle of table wine	\$ .03	\$ .06

25. Impose a securities transfer excise tax (STET). The base proposal would exempt original issues of all securities and Treasury and state and local bonds. Other exemptions for agricultural commodities and short-term money-market instruments are being considered. Effective 10/1/90.

- a. .003 rate

JCT	4.2	6.1	6.4	6.8	7.1	--	30.6
OTA	5.6	7.4	8.2	8.5	9.0	--	38.7

- b. .0015 rate

JCT	2.1	3.1	3.2	3.4	3.6	--	15.4
OTA	3.5	4.9	5.4	5.6	5.9	--	25.3

F. Luxury Excise Taxes. Effective 10/1/90.

26. Tax 10% of the purchase price, net of thresholds:  
 Automobiles - \$25,000  
 Boats and yachts - \$25,000  
 Furs - \$500  
 Private aircraft - no threshold.

JCT	.5	.6	.6	.7	.8	--	3.2
OTA	.5	.6	.6	.7	.7	--	3.1

27. Tax 10% of the purchase price, net of thresholds:  
 Automobiles - \$30,000  
 Boats and yachts - \$30,000  
 Electronics - \$1,000  
 Jewelry - \$1,000  
 Furs - \$500

JCT	1.2	1.9	2.1	2.2	2.2	--	9.6
OTA	1.1	1.8	1.9	2.0	2.1	--	8.9

*W. J. ...* 0.9 1.5 1.7 1.8 1.9 7.4

G. Itemized Deductions.

28. Impose a limit on the amount of deductible state and local income taxes.

a. \$15,000 limit.

JCT	.8	5.4	5.6	6.2	6.8	--	24.8
OTA	1.5	5.0	4.6	5.0	5.4	--	21.5

b. \$10,000 limit.

JCT	1.0	6.6	6.8	7.5	8.3	--	30.1
OTA	1.9	6.5	6.0	6.5	7.0	--	27.9

c. \$5,000 limit.

JCT	1.4	9.4	9.6	10.5	11.6	--	42.5
OTA	3.0	10.1	9.4	10.3	11.3	--	44.1

29. Impose a floor on deduction of state and local income taxes.

a. 1% of adjusted gross income.

JCT	.6	4.1	3.3	3.5	3.8	--	15.2
OTA	1.6	4.8	3.4	3.6	3.8	--	17.2

b. 2% of adjusted gross income.

JCT	1.2	7.8	6.8	7.4	7.9	--	31.0
OTA	3.1	9.7	7.7	8.1	8.5	--	37.1

30. Reduce deduction for total itemized deductions by 10% of modified adjusted gross income (AGI) in excess of \$100,000.

JCT	1.7	11.4	11.7	12.9	14.1	--	51.7
OTA	4.2	15.0	15.0	16.5	17.9	--	68.8

31. Impose a limit on total itemized deductions.

a. \$100,000 limit.

JCT	1.2	7.8	8.3	9.1	9.9	--	36.3
OTA	1.9	6.8	5.7	5.6	5.6	--	25.4

b. \$75,000 limit.

JCT	1.4	9.2	9.8	10.6	11.7	--	42.0
OTA	2.5	8.5	7.6	7.6	7.6	--	33.8

c. \$50,000 limit.

JCT	1.8	11.8	12.7	13.9	15.2	--	55.4
OTA	3.6	12.4	11.2	11.3	11.4	--	50.0

d. \$25,000 limit.

JCT	3.0	19.9	21.1	23.0	25.0	--	92.0
OTA	7.0	24.0	22.1	22.4	22.6	--	98.1

32. Include employer's cost of medical insurance above \$250/\$100 per month cap in income if wages exceed \$100,000.

JCT	.2	.4	.4	.5	.6	--	2.1
OTA	.2	.4	.4	.5	.6	--	2.1

33. Include employer's cost of group term life insurance in income if wages exceed \$100,000.

JCT	.1	.1	.1	.1	.1	--	.5
OTA	.1	.1	.1	.1	.1	--	.5

34. Reduce maximum loan for home equity indebtedness deduction from \$100,000 to \$50,000. Effective 7/16/90. Grandfather existing loans.

JCT	*	.1	.2	.2	.2	--	.7
OTA	*	*	*	.1	.1	--	.3

#### H. Business Deductions.

35. Reduce deduction for business meals and entertainment from 80% to 50% of costs.

JCT	2.0	3.4	3.6	3.9	4.1	--	17.0
OTA	2.1	3.7	3.9	4.2	4.5	--	18.4

36. CBO Advertising option: Require amortization of 20% of advertising costs over 4 years (remaining 80% would continue to be currently deductible).

JCT	2.9	4.8	3.7	2.4	1.5	--	15.3
OTA	3.6	5.1	3.5	2.1	1.2	--	15.5

37. Require life insurance companies to amortize policy acquisition costs over 10 years. 5-year phase-in. (This proposal is sometimes referred to as "deferred acquisition cost" or "DAC".)

JCT	.7	2.0	3.2	4.5	5.7	--	16.1
OTA	.7	1.9	3.1	4.3	5.6	--	15.6

NOTE: The staffs have been directed to make sure that this proposal fairly taxes both segments of the life insurance industry.

#### I. Capital Gains and Other Savings and Investment Proposals (unless otherwise stated, all capital gains proposals are estimated effective 10/1/90).

38. Budget proposal: 30% exclusion for individual assets held 3 years, 20% exclusion for individual assets held 2 years, 10% exclusion for individual assets held 1 year, phased in.

JCT	3.6	-4.2	-3.5	-4.3	-3.1	--	-11.5
OTA	4.9	2.8	1.2	1.7	1.4	--	12.0

39. a. Allow 30% exclusion for individual capital assets held more than 1 year or indexing for inflation after 12/31/90.

JCT	4.1	-2.4	-3.0	-4.9	-5.5	--	-11.7
OTA	3.3	2.3	-.4	-1.9	-2.1	--	1.2

- b. Same exclusion for corporate assets.

JCT	-.9	-1.5	-1.6	-1.6	-1.7	--	-7.3
OTA	-.3	-1.0	-1.4	-1.8	-2.0	--	-6.5

40. a. Allow 30% exclusion for individual capital assets held more than 1 year and indexing for inflation after 12/31/90.

JCT	4.0	-3.3	-4.4	-7.0	-8.2	--	-18.9
OTA	2.2	1.2	-1.6	-5.6	-6.9	--	-10.7

- b. Same exclusion for corporate assets.

JCT	-.9	-1.8	-1.8	-1.9	-2.2	--	-8.6
OTA	-.3	-1.0	-1.9	-2.7	-3.2	--	-9.1

41. a. Allow a 5% exclusion for each year of holding on individually-held capital assets to maximum of 7 years (i.e., maximum exclusion, 35%) or indexing for inflation occurring after 12/31/91 on assets held at least 2 years.

JCT	2.3	-1.2	-1.8	-3.6	-4.4	--	-8.7
OTA	2.2	2.8	1.9	.6	-.1	--	7.4

- b. Allow a 1% rate reduction for corporate assets for each 3 years held to a maximum of 15 years, 5%.

JCT	-.7	-.7	-.8	-.8	-.9	--	-3.9
OTA	-.2	-.3	-.4	-.5	-.5	--	-1.9

42. Allow indexing of basis for inflation occurring after 12/31/91 for individual assets held at least 1 year.

JCT	*	*	-.3	-1.5	-2.7	--	-4.5
OTA	.2	-.1	-1.1	-1.8	-1.9	--	-4.7

43. Allow a 15% exclusion for individual assets held at least 1 year.

JCT	1.3	-.7	-.8	-1.0	-1.2	--	-2.4
OTA	2.2	2.8	1.8	1.4	1.2	--	9.4

44. Allow a 20% exclusion for individual assets held at least 2 years, phased in.

JCT	1.4	-1.0	-1.4	-1.6	-1.6	--	-4.2
OTA	2.2	1.2	1.6	1.1	.9	--	7.0

45. Allow a 30% exclusion for individual assets held at least 3 years, phased in.

JCT							
OTA	3.2	.6	-.1	1.2	.5	--	5.4

46. Allow a 45% exclusion for individual assets held at least 1 year.

JCT	3.7	-3.2	-5.6	-8.1	-8.3	--	-21.5
OTA	3.7	2.3	-.2	-1.9	-3.1	--	.8

47. Allow a lifetime exclusion of \$125,000 in capital gains for assets held at least 3 years (would not affect existing exclusion for residence sales by those over 55).

JCT	-7.5	-5.4	-4.1	-3.6	-3.5	--	-24.1
OTA	-4.7	-14.1	-4.9	-4.8	-4.7	--	-33.1

48. Tax capital gains of foreign shareholders in U.S. corporations with 10% or greater interest (H.R. 4308 and S.2410 provision).

JCT	.1	.2	.2	.2	.1	--	.8
OTA	.1	.2	.2	.2	.1	--	.8

49. Impose a 10% excise tax on gains recognized on securities held less than 30 days, 5% excise tax on gains recognized from securities held 30 days or more days and less than 6 months.

JCT	*	.2	.5	.5	.6	--	1.8
OTA	*	.7	1.1	1.3	1.4	--	4.5

50. Allow IRA contributions of up to \$2,000 per year for those taxpayers currently ineligible of which one-half would be currently deductible. Allow withdrawal without penalty for first-time home purchase or education.

JCT	-1.2	-3.3	-3.8	-4.3	-4.9	--	-17.4
OTA	-.7	-3.4	-3.8	-4.1	-4.5	--	-16.4

51. Administration family savings account proposal: Allow contributions of up to \$2,500 (\$5,000 family) per year for taxpayers with AGI of less than \$120,000 joint, \$100,000 head of household, \$60,000 single. Distributions would be tax-free if held in account for 7 years or more.

JCT	-.2	-.6	-1.0	-1.3	-1.8	--	-5.0
OTA	-.2	-.7	-1.0	-1.3	-1.7	--	-4.9

52. Restore pre-1986 IRAs.

JCT	-2.5	-7.1	-8.0	-9.1	-10.2	--	-36.9
OTA	-1.0	-5.0	-5.9	-6.4	-6.9	--	-25.2

53. Allow withdrawal without penalty from IRAs for first-time home purchase or education.

JCT							
OTA	-.4	-.5	-.5	-.4	-.4	--	-2.2

54. Allow up to \$10,000 withdrawal without penalty from IRA for first-time home purchase if price of home does not exceed median price in area (Budget proposal).

JCT	-.2	-.2	-.2	-.1	-.1	--	-.9
OTA	*	-.1	-.1	-.1	-.1	--	-.4

55. IRA/FSA Combination:

a. Allow taxpayers the option of:

- \* contributing up to \$1,000 annually to an IRA of which 50% would be deductible if above current IRA limits or
- \* contributing up to \$1,250 (\$2,500 family) to a family savings account with the same rules as option 55.

Both alternatives would be available only to taxpayers with AGI of less than \$100,000 joint, \$80,000 head of household, and \$50,000 single.

JCT							
OTA	-.5	-1.2	-1.3	-1.4	-1.6	--	-6.0

b. Allow taxpayers the option of:

\* contributing up to \$2,000 annually to an IRA of which 50% would be currently deductible if above current IRA limits or

\* contributing up to \$2,000 to an FSA (\$4,000 family) of which 50% of interest would be taxable on withdrawal after 7 years.

JCT							
OTA	-.5	-2.5	-2.8	-3.0	-3.3	--	-12.1

c. Allow taxpayers the option of:

\* full deduction for up to \$2,000 contribution to an IRA (i.e., restore pre-1986 law) or

\* \$2,000 contribution to family savings account (\$4,000 family).

JCT							
OTA	-.9	-4.9	-5.4	-5.9	-6.2	--	-23.3

56. Increase current law IRA phase-outs.

a. \$10,000 increase.

JCT	-.3	-.7	-.8	-.8	-.8	--	-3.4
OTA	-.2	-.8	-1.0	-1.0	-1.2	--	-4.2

b. \$25,000 increase.

JCT							
OTA	-.4	-1.9	-2.1	-2.3	-2.3	--	-9.0

57. Enterprise zones: Administration budget proposal.

JCT analysis concluded that the Administration proposal was too unspecified to estimate with confidence.

OTA	-.1	-.2	-.3	-.5	-.8	--	-1.9
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## 58. Enterprise zones: H.R. 5190.

JCT	*	-.2	-.4	-.6	-.8	--	-2.0
OTA	*	-.2	-.4	-.6	-.8	--	-2.0

NOTE: In addition to the foregoing, small business investment incentives (including estate freezes), energy tax incentives, disability provisions, and similar proposals may be considered in the course of the legislative process.

J. Low income relief provisions: To address progressivity concerns, various low-income relief provisions may need to be considered. Since these will have to be tailored to meet an emerging package, specific proposals are not described here but could be expected to include expansions of the earned income tax credit, direct rebates, standard deduction increases, or reductions in low-end thresholds or rates. For illustrative purposes, the EITC provisions of the House and Senate child care bills are included here:

59. House: Under the House proposal, the earned income tax credit (EITC) would be expanded to include adjustments for family size and the presence of young children. Using the present law income breakpoints, the credit rate would be increased according to the number of eligible children in the family as follows:

Number of Children	Credit Percentage	Phaseout Percentage	Projected Maximum Amount
1	17%	12%	\$1,211
2	21%	15%	\$1,496
3	25%	18%	\$1,780

Families would also be entitled to a supplemental credit equal to six percent of earned income (maximum credit: \$427) if they have children under the age of six. The House bill would also phase-out the child and dependent care credit for families with incomes above \$70,000.

## a. EITC - Family Size Adjustment.

JCT	-.3	-2.9	-3.1	-3.4	-3.6	--	-13.3
OTA	-.3	-3.1	-3.3	-3.5	-3.7	--	-14.1

## b. EITC - Young Child Supplement.

JCT	-.1	-1.1	-1.2	-1.3	-1.4	--	-5.2
OTA	-.1	-1.3	-1.4	-1.5	-1.6	--	-6.0

## c. Phase-out Child and Dependent Care.

JCT	.1	.3	.3	.4	.5	--	1.5
OTA	.1	.3	.4	.4	.4	--	1.6

60. Senate: First, a young child supplement would be added to the EITC for families with children under the age of 4 and incomes less than \$15,000 (maximum credit of \$750 if 2 or more children under age 4; \$500 if one child). Second, the child and dependent care credit would be made 90% refundable. Third, families with income less than \$18,000 could be entitled to a 50% credit for health insurance expenditures, up to a maximum credit of \$500.

## a. EITC.

JCT	-.1	-.6	-.7	-.7	-.8	--	-2.8
OTA	-.1	-.8	-.9	-.9	-1.0	--	-3.6

## b. Child and dependent care tax credit.

JCT	-.1	-1.1	-1.1	-1.2	-1.3	--	-4.9
OTA	*	-.9	-1.0	-1.0	-1.0	--	-4.0

## c. Medical insurance credit.

JCT	*	-.6	-.6	-.7	-.8	--	-2.9
OTA	*	-.4	-.5	-.6	-.6	--	-2.2

- K. Expiring provisions. Except for item 65, all restore last year's sequester. Except for the R&E allocation rules, all are effective commencing 1/1/91. The R&E allocation rules are effective for tax years beginning after 8/1/90.

## 61. Permanent extension.

## a. Employer-provided educational assistance.

JCT	-.3	-.3	-.3	-.4	-.4	--	-1.7
OTA	-.3	-.3	-.4	-.4	-.4	--	-1.8

## b. Group legal services.

JCT	-.1	-.1	-.1	-.1	-.1	--	-.5
OTA	-.1	-.1	-.1	-.1	-.1	--	-.5

## c. Health insurance for self-employed.

JCT	-.3	-.3	-.4	-.4	-.5	--	-1.8
OTA	-.2	-.4	-.5	-.5	-.6	--	-2.2

## d. Mortgage revenue bonds.

JCT	*	-.1	-.1	-.2	-.3	--	-.8
OTA	*	-.1	-.1	-.2	-.3	--	-.7

## e. Small-issue manufacturing bonds.

JCT	*	-.1	-.1	-.2	-.3	--	-.6
OTA	*	-.1	-.1	-.2	-.2	--	-.6

## f. R&amp;E allocation rules.

JCT		-.5	-.7	-.8	-.8	-.9	--	3.7
OTA		-.4	-.7	-.8	-.8	-.9	--	-3.6

## g. R&amp;E tax credit.

JCT		-.9	-1.2	-1.3	-1.4	-1.6	--	-6.4
OTA		-.5	-1.0	-1.1	-1.3	-1.6	--	-5.5

## h. Low-income housing credit.

JCT		-.2	-.4	-.7	-1.1	-1.4	--	-3.7
OTA		-.1	-.4	-.7	-1.0	-1.4	--	-3.6

## i. Targeted jobs tax credit.

JCT		-.1	-.2	-.3	-.4	-.4	--	-1.4
OTA		-.1	-.2	-.3	-.3	-.4	--	-1.3

## j. Business energy credits.

JCT		-.1	-.1	*	*	*	--	-.2
OTA		-.1	-.1	*	*	*	--	-.2

## k. Placed-in-service date for nonconventional fuels (section 29).

JCT		*	*	*	*	*	--	*
OTA		*	*	*	*	*	--	-.1

## l. Orphan drug testing credit.

JCT		*	*	*	*	*	--	*
OTA		*	*	*	*	*	--	*

TOTALS:	JCT		-2.2	-3.2	-4.1	-4.9	-5.7	--	-20.3
	OTA		-1.8	-3.4	-4.1	-4.8	-5.9	--	-19.9

## 62. Permanent, no restoration of last year's sequester.

## a. Employer-provided educational assistance.

JCT	-.2	-.3	-.3	-.4	-.4	--	-1.6
OTA	-.2	-.3	-.3	-.4	-.4	--	-1.6

## b. Group legal services.

JCT	-.1	-.1	-.1	-.1	-.1	--	-.5
OTA	-.1	-.1	-.1	-.1	-.1	--	-.5

## c. Health insurance for self-employed.

JCT	-.2	-.3	-.4	-.4	-.5	--	-1.7
OTA	-.1	-.4	-.5	-.5	-.6	--	-2.1

## d. Mortgage revenue bonds.

JCT	*	*	-.1	-.2	-.3	--	-.6
OTA	*	-.1	-.1	-.2	-.3	--	-.7

## e. Small-issue manufacturing bonds.

JCT	*	*	-.1	-.2	-.3	--	-.6
OTA	*	-.1	-.1	-.2	-.2	--	-.6

## f. R&amp;E allocation rules.

JCT	-.5	-.7	-.8	-.8	-.9	--	-3.6
OTA	-.4	-.7	-.8	-.8	-.9	--	-3.6

## g. R&amp;E tax credit.

JCT	-.5	-1.0	-1.2	-1.3	-1.6	--	-5.6
OTA	-.5	-.8	-1.0	-1.3	-1.7	--	-5.3

## h. Low-income housing credit.

JCT	-.1	-.3	-.6	-1.0	-1.3	--	-3.4
OTA	-.1	-.3	-.6	-.9	-1.3	--	-3.2

## i. Targeted jobs tax credit.

JCT	-.1	-.2	-.3	-.4	-.4	--	-1.3
OTA	-.1	-.2	-.3	-.3	-.4	--	-1.3

## j. Business energy credits.

JCT	*	-.1	*	*	*	--	-.2
OTA	*	-.1	*	*	*	--	-.2

k. Placed-in-service date for nonconventional fuels  
(section 29).

JCT	*	*	*	*	*	--	-1
OTA	*	*	*	*	*	--	-1

l. Orphan drug testing credit.

JCT	*	*	*	*	*	--	*
OTA	*	*	*	*	*	--	*

TOTALS:	JCT	-1.4	-2.8	-3.8	-4.7	-5.7	--	-18.6
	OTA	-1.5	-3.1	-3.8	-4.7	-5.9	--	-19.0

63. 3-year extension.

a. Employer-provided educational assistance.

JCT	-3.	-.3	-.3	-.1	*	--	-1.0
OTA	-.3	-.3	-.3	-.1	*	--	-1.0

b. Group legal services.

JCT	-.1	-.1	-.1	*	*	--	-.3
OTA	-.1	-.1	-.1	*	*	--	-.3

c. Health insurance for self-employed.

JCT	-.3	-.3	-.4	-.1	*	--	-1.1
OTA	-.2	-.4	-.5	-.3	*	--	-1.4

d. Mortgage revenue bonds.

JCT	*	*	-.1	-.2	-.1	--	-.4
OTA	*	-.1	-.2	-.1	-.1	--	-.5

e. Small-issue manufacturing bonds.

JCT	*	*	-.1	-.2	-.2	--	-.5
OTA	*	-.1	-.1	-.1	-.1	--	-.4

f. R&E allocation rules.

JCT	-.5	-.7	-.8	-.3	*	--	-2.3
OTA	-.5	-.7	-.8	-.3	*	--	-2.3

g. R&E tax credit

JCT	-.9	-1.2	-1.3	-.7	-.3	--	-4.4
OTA	-.6	-.8	-1.1	-.7	-.3	--	-3.5

## h. Low-income housing credit.

JCT	-.2	-.4	-.7	-1.0	-1.1	--	-3.3
OTA	-.1	-.4	-.7	-1.0	-1.1	--	-3.3

## i. Targeted jobs tax credit.

JCT	-.1	-.2	-.3	-.3	-.2	--	-1.1
OTA	-.1	-.2	-.3	-.2	-.1	--	-.9

## j. Business energy credits.

JCT	-.1	-.1	*	*	*	--	-.2
OTA	-.1	-.1	*	*	*	--	-.2

## k. Placed-in-service date for nonconventional fuels (section 29).

JCT	*	*	*	*	*	--	-.1
OTA	*	*	*	*	*	--	-.1

## l. Orphan drug testing credit.

JCT	*	*	*	*	*	--	*
OTA	*	*	*	*	*	--	*

TOTALS:	JCT	-2.2	-3.1	-4.0	-3.4	-2.8	--	-15.7
	OTA	-2.0	-3.2	-4.1	-2.8	-1.7	--	-13.7

## 64. 5-year extension.

## a. Employer-provided educational assistance.

JCT	-.3	-.3	-.3	-.4	-.4	--	-1.7
OTA	-.3	-.3	-.4	-.4	-.4	--	-1.8

## b. Group legal services.

JCT	-.1	-.1	-.1	-.1	-.1	--	-.5
OTA	-.1	-.1	-.1	-.1	-.1	--	-.5

## c. Health insurance for self-employed.

JCT	-.3	-.3	-.4	-.4	-.5	--	-1.8
OTA	-.2	-.4	-.5	-.5	-.6	--	-2.2

## d. Mortgage revenue bonds.

JCT	*	-.1	-.1	-.2	-.3	--	-.8
OTA	*	-.1	-.1	-.2	-.3	--	-.7

## e. Small-issue manufacturing bonds.

JCT	*	-.1	-.1	-.2	-.3	--	-.6
OTA	*	-.1	-.1	-.2	-.2	--	-.6

## f. R&amp;E allocation rules.

JCT		-.5	-.7	-.8	-.8	-.9	--	3.7
OTA		-.4	-.7	-.8	-.8	-.9	--	-3.6

## g. R&amp;E tax credit.

JCT		-.9	-1.2	-1.3	-1.4	-1.6	--	-6.4
OTA		-.5	-1.0	-1.1	-1.3	-1.6	--	-5.5

## h. Low-income housing credit.

JCT		-.2	-.4	-.7	-1.1	-1.4	--	-3.7
OTA		-.1	-.4	-.7	-1.0	-1.4	--	-3.6

## i. Targeted jobs tax credit.

JCT		-.1	-.2	-.3	-.4	-.4	--	-1.4
OTA		-.1	-.2	-.3	-.3	-.4	--	-1.3

## j. Business energy credits.

JCT		-.1	-.1	*	*	*	--	-.2
OTA		-.1	-.1	*	*	*	--	-.2

## k. Placed-in-service date for nonconventional fuels (section 29).

JCT		*	*	*	*	*	--	*
OTA		*	*	*	*	*	--	-.1

## l. Orphan drug testing credit.

JCT		*	*	*	*	*	--	*
OTA		*	*	*	*	*	--	*

TOTALS:	JCT		-2.2	-3.2	-4.1	-4.9	-5.7	--	-20.3
	OTA		-1.8	-3.4	-4.1	-4.8	-5.9	--	-19.9

## 65. Extend FUTA surtax. Effective 1/1/91.

JCT		.7	1.1	1.1	1.1	1.2	--	5.2
OTA		.8	1.1	1.1	1.2	1.2	--	5.4

TALKING POINTS FOR 3:30 MEETING

1. In putting together the Budget package including both the short-term growth package and long-term incentives (e.g., flexible IRAs, R&D credit, deduction for student loan interest), we
  - Did not want to increase the deficit;
  - Did not want to increase income taxes;
  - Did not want to impose a broad-based tax such as an energy or value-added tax; and
  - Did not want to create tax shelters.
2. We needed some revenue gainers to avoid the charge that the revenue losers were all paid for by "smoke and mirrors" accounting changes.
3. The Budget contained revenue losers totalling \$34 billion (1992-1997) without the family tax allowance.  
The family tax allowance cost about \$24 billion (1992-1997).  
Total revenue losers were approximately \$58 billion.
4. Revenue gainers totalled about \$29 billion (with \$15 billion from capital gains (\$6.9 billion) and HI extension to State and local employees (\$8.1 billion)).  
In picking the other revenue gainers the objective was
  - to select items to promote a level playing field among types of investments and among financial institutions;
  - to avoid broad-based revenue increases.
5. Revenue raising proposals that were taken off the table:
  - A. Individual income tax increases:
    - Tax rate increases;
    - Millionaires surtax;
    - Limit itemized deductions, e.g., home equity interest;
    - Extend PEP and Pease provisions of 1990 Budget Act;
    - Limit other individual deductions, e.g., business meals, club dues, sporting tickets;
    - Withholding on pensions;
    - Withholding on independent contractors;
    - Estate tax increases;
    - Tax capital gains at death.

B. Corporate tax increases:

- Corporate rate increase;
- Reduce deduction for business meals, entertainment expenses, etc.;
- Limit deductions for interest.

C. Excise tax increases:

- Tobacco or alcohol taxes;
- Gasoline or other energy taxes;
- Securities transfer tax;
- Telephone tax increase;
- Airport tax increase.

6. This left targeted tax increases where certain investments or industries enjoy a competitive advantage, for example, securities industry, credit unions, certain life insurance industry products; or compliance measures.
7. The other option was to make deeper cuts in mandatory spending cuts than called for in your budget to pay for the revenue losers, but Congress has been unwilling to endorse even the cuts we have proposed. In addition, we did not want to propose further cuts in Medicare.

THE WHITE HOUSE  
WASHINGTON

DCF HAS S

DATE: 03/21/92

TO: SAMUEL K. SKINNER

FROM: PHILLIP D. BRADY  
Assistant to the President and  
Staff Secretary



**The attached has been forwarded  
to the President**

(The attached was not  
included in the Senior  
Staff's copy of the  
Cabinet Report.)



Dear Mrs. President:

Thank you so much for your very gracious letter inviting me and Rod to spend a day or two at Camp David. Whether or not we are able to arrange our time to accept your splendid

invitation, I wanted you to know how very much we appreciate your thoughtfulness.

Sincerely,

Carla

3-15-92

7  
E. Madigan

#315827

THE OFFICE OF THE SECRETARY  
WASHINGTON

March 17, 1992

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

Dear Mr. President:

This afternoon, I had a press conference to discuss my status as one of the 355 House members who had problems with the Sergeant at Arms Bank.

I discussed this with Boyden Gray before proceeding and have attached a copy of the statement that I made.

I sincerely apologize for any embarrassment that this may bring to you.

Respectfully,



Edward Madigan

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# Statement

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News Division, Office of Public Affairs, Room 404-A, U.S. Department of Agriculture, Washington, D.C. 20250

## STATEMENT OF EDWARD MADIGAN, SECRETARY OF AGRICULTURE

March 17, 1992

None of my bank statements show an overdraft or a negative balance.

Because the statements are no longer considered to be reliable, I have reconstructed my account using the deposit slips and the cancelled checks.

During the 31-month period, 49 checks were held for payment for an average of 2 business days.

During the 31-month period, I made 114 deposits to the House Bank. Here is a breakdown:

--Only 39 were recorded on the day they were made.

--51 were recorded on the next business day.

--15 were recorded after 2 business days.

--6 were recorded after 3 business days.

--1 was recorded after 7 business days.

--1 was recorded after 8 business days.

--1 was recorded after 10 business days.

The largest check was for \$8,618.84 and was written after banking hours on January 23, 1989, for a real estate settlement in the Washington area. I transferred \$9,000 from savings to my checking account on January 24, the same day the check was presented for payment. The check was held until January 25, when the deposit was recorded.

I had more than enough money in checking and savings accounts in four institutions that could have been deposited in the Sergeant-at-Arms account if I had known that checks were being held.


My account was closed in April, 1991, with a balance of \$1,970.28. More attention should have been paid to the workings of this account. Clearly, this is an embarrassment to me, my family and friends.



THE SECRETARY OF VETERANS AFFAIRS

WASHINGTON

March 18, 1992

MEMORANDUM TO: The President  
FROM: Edward J. Derwinski   
SUBJECT: Greek-American Views

I learned the following in recent discussions with leaders of the Greek-American community which may be of interest to you:

1. Cyprus -- There is continued concern regarding Cyprus, especially whether Turkish President Demirel's meeting with you will lead to positive Turkish cooperation with the UN initiative on Cyprus.

2. President Vassiliou -- Cypriot President Vassilleou, who faces a tough election soon, will be in the US from March 26 to April 1. I strongly recommend that you receive him, at least for a brief courtesy call, to show our support for his efforts. Among his opponents is former President Kyprianou, whose election many believe would further degrade the possibility of an agreement on Cyprus.

3. Macedonia -- The Greek-American community is being stirred up to oppose any recognition of independence by the Yugoslav Republic of Macedonia unless the Slavs change their name to something less Hellenic than "Macedonia". Greek Foreign Minister Samaras has been particularly aggressive in alerting the Greek-American community to the "threat" of a "Greater Macedonia", that is, an independent Slavic Macedonian Republic having territorial ambitions in Northern Greece.

4. Paul Tsongas -- Greek-Americans are far less enthusiastic over Paul Tsongas than they were four years ago over the possibility of a Dukakis presidency. Conventional wisdom in the community is that Tsongas will continue to fail. Consequently, pro-Bush forces among Greek-Americans are extremely energetic and positive.

5. Andrew Athens -- Andy Athens, a leading layman in the Greek Orthodox Church, will be the chairman for the Greek-American Bush-Quayle Campaign. Your March 25 meeting with members of the community, to be led by Archbishop Iakovos, might be a good time for you to acknowledge Athens in his campaign role.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
THE SECRETARY  
WASHINGTON, D.C. 20410-0001

March 19, 1992

*(Personal)*

President George Bush  
The White House  
Washington, DC 20500

Dear Mr. President:

I'm pleased to send you copies of two speeches delivered this past week at Harvard University.

The first speech by Ted Forstmann of Forstmann Little, a world class entrepreneur, outlines the compelling need to create incentives for entrepreneurs, risk-takers, and innovators. The second speech represents my efforts to apply your message of economic growth, job creation, and property ownership to the great challenge of fighting poverty and despair in America's inner cities.

As you know, I profoundly share your belief that these issues are vitally important to our Administration, our Party, and our Nation. I hope you can find the opportunity to read both as all of us in your Administration seek better ways to explain our case for entrepreneurial capitalism, growth, and expanding equity in the American Dream.

Respectfully,

*Jack Kemp*

Jack Kemp

*P.S. While our Cabinet meeting, this P.M., was helpful & hopeful, we are missing the opportunity of a lifetime, if we let more static budget projections force us into a compromise on our issues of macro-growth & injecting growth & jobs into our inner cities. Blacks can & will vote for George Bush if we give them hope & equal opportunity.*

REMARKS BY  
SECRETARY JACK KEMP



at the  
HARVARD UNIVERSITY  
JOHN F. KENNEDY SCHOOL OF GOVERNMENT  
CAMBRIDGE, MASSACHUSETTS  
MARCH 18, 1992

Thank you very much, Al Carnesale, for that very kind introduction and thanks for that warm welcome to Harvard's John F. Kennedy School of Government.

It's an honor to return once again to this world-famous forum. And it's a pleasure to return to a state whose Governor says he's a "supply-sider." Bill Weld is turning conventional wisdom on its head. He's responding to Massachusetts' fiscal crisis not by raising taxes but by cutting them; not by redistributing wealth, but by encouraging the creation of new wealth. He wants to turn this entire state into a "free enterprise zone" by phasing out the capital gains tax and helping low-income men and women recapture the American Dream of jobs, homes, equal opportunity, entrepreneurship, and ownership. And thanks to Joe Malone and his new program for homeownership, Massachusetts is on the move.

In other states, governors are dealing with fiscal crises of their own creation with policies that punish poor people. In New Jersey, the Governor is proposing to deny very low-income welfare mothers additional benefits to support newborn children. What a different vision of how to help low-income Americans. Instead of jobs, education, opportunity, and incentives, some on the Left and on the Far Right are advocating -- albeit unwittingly -- 18th Century Social Darwinism ... "survival of the fittest."

When I last spoke here, I explained the Bush Administration's ideas for fighting poverty. Since then, we've extracted from Congress some modest funding to begin a radical redirection of American welfare policy. In the meantime, all across America, a new debate has emerged over welfare policy -- but the debate is not between Republicans and Democrats, or between the President and Congress.

**It wasn't just conservatives who rescued funding for President Bush's HOPE initiative to help low-income people become homeowners -- it never could have happened without Representative Mike Espy, a black, liberal Democratic Congressman from the Mississippi Delta. He said he learned from his mother that whoever controls your home controls your very life.**

**The Bush Administration's favored Enterprise Zone bill in the House wasn't authored by a conservative Republican, but by liberal Congressman Charlie Rangel of Harlem, New York.**

**Today, the fault line and fundamental choice is not between Republican and Democratic proposals but between the old bureaucratic, statist, and elitist welfare model of spending and consumption and the new entrepreneurial and incentive-based model of economic empowerment and access to private property ownership. It's not Left or Right, it's forward or backward.**

**I want to help define that choice here tonight.**

**For years, liberals complained that we spent too much on guns and not enough on butter. Soon we'll be spending about the same relative amount on each. But many Americans are beginning to notice a strange paradox.**

**On the one hand, President Bush has told the American people that by 1996 -- with about three and a half percent of GNP -- the Pentagon will be able to adequately defend America's far-flung interests from the Persian Gulf to the Gulf of Mexico. Thanks to President Bush, Dick Cheney, and Colin Powell, we'll be able to keep Gaddafi in his cage, keep Saddam away from the oil fields and Israel, keep Kim Il Sung above**

the 38th parallel, and then some.

On the other hand, today -- with about the same share of our national wealth -- we can't keep joblessness and despair, or even gunfire, off our streets. We can make the Third World safe for democracy, but we can't keep Third World conditions from showing up in East Harlem or East L.A.

The reason? Well, spending more money is not the solution. Indeed, the way we spend money is the core of the problem.

Since 1965, we've spent more than \$2.5 trillion -- an amount almost equal to our entire national debt -- fighting poverty. Yet there are more people living in poverty now than before, a poverty that is more intractable and durable.

One thing is clear: We haven't failed for lack of trying. We tried UDAG, CETA, and Model Cities ... Urban Renewal, Community Action Agencies, and other Great Society programs. Yet even as new programs were enacted in the late 1960s and early 1970s, the long decline in poverty rates since World War II ended, and was replaced by a more resistant strain of poverty and despair. Instead of a middle class renaissance, we discovered an underclass stuck in poverty. Instead of a welfare system providing temporary assistance, we found perpetual dependence.

The poverty rate began to exhibit a chilling independence from the ebb and flow of the American economy. The economy boomed, and poverty stayed the same. The economy stagnated, and poverty stayed the same.

The tragic fact is this: Today, America has two economies. One is the mainstream economy, which is entrepreneurial-based and democratic capitalist, driven

by incentives for productive work, saving, investment, risk-taking, education, and ownership. A child born into this economy knows that if he or she goes to school, does homework, and follows the rules, he or she can go to college, get a job, start a family, or pursue the vast, boundless universe of American opportunity and upward mobility.

Then there is the second economy which all too often exists in American inner cities. It resembles the "socialist" economies of the Third World and Eastern Europe more than the capitalist economies of the West. In East Harlem, New York, one of America's most notorious ghettos, more than 60 percent of the land is owned by the government. Nearly two-thirds of the community lives in public housing, and, as a consequence, almost a third of the people are dependent upon government support.

In the second economy, all the usual incentives are reversed. For welfare mothers and unemployed fathers, work doesn't pay and saving is prohibited. In many states, an AFDC recipient who manages to save for a child's college education or a new home risks ending up in jail. In this upside-down world of perverse incentives, welfare recipients aren't allowed to save more than \$1,000, on penalty of criminal prosecution.

Last time I was here I think I told the story of Grace Capetillo. She's the young chicano welfare mother in Milwaukee who managed to scrounge together a \$3,000 nest egg for her daughter's college education, before welfare bureaucrats took her to court. A judge initially fined her \$15,000, but relented and settled for the whole \$3,000. Grace Capetillo got the message: Don't save a penny, spend every cent you get.

When President Bush and our Administration first tried to expand homeownership opportunities for the poor, letting residents of public housing own their

own homes, the old-line welfare establishment couldn't believe it. Our critics said the poor didn't want to own private property. One member of Congress even protested that if we let public housing residents own their own homes they might turn around and sell them for a profit ... or worse yet, they might someday leave their homes to their children! Can you imagine how dangerous it would be if poor people actually made a profit selling their homes? Imagine wanting to leave a home to your children. In the first economy, sure. But in the second economy, never!

The first war on poverty failed because its architects forgot the power of incentives, rewards, and values. They forgot the nature and causes of the wealth of nations -- taught to us by Adam Smith -- and the wealth of families. People don't spend their way out of poverty. They escape poverty by working, saving, acquiring property, owning a home, starting a business. That's the classic formula for achieving the American Dream, or, as President Bush called it at the U.N. -- Pax Universalis.

It is also the common-sense principle behind Abraham Lincoln's Homestead Act of 1862, the most successful anti-poverty measure in American history. Lincoln gave government land to any family which pledged to settle the land and make a home. A year later, tens of thousands of homesteaders had claimed a million-and-a-half acres of land. They came from as far away as Europe to stake their claim. People everywhere want the chance to own something, contribute their labor to it, and make it a foundation on which to build a better life. Policies which defy this timeless wisdom are bound to fail.

It's time we Americans returned to our first principles. It's time we remembered

the secrets of our own success.

Some people on the Left and on the Far Right think the poor won't respond to incentives and rewards. Nonsense! They say that the poor don't share our values, that they are mired in a "culture of poverty." I say: It's the welfare bureaucracy whose culture needs to change. To use its own jargon, I say: The real thing that's "dysfunctional" is a welfare policy which sets its sights too low, demeans the poor, and robs America of a vast potential resource.

When the Iron Curtain came down in Eastern Europe, the skeptics said people raised with a "cradle-to-grave" socialist mentality would never embrace free enterprise, private property, and equality of opportunity.

But the opposite has happened. From Berlin to Belarus, they are seizing the chance to own property, start new businesses, and risk capital in pursuit of capital gains. The leader of Czechoslovakia's privatization program -- Dusan Triska -- said recently: "Two months ago, people didn't know or care what it meant to be a shareholder. Now all everyone talks about is investment, shares, and capital gains."

George Mitchell and the liberal Democratic leadership of Congress don't know what to make of that. After all, everyone knows the people of Czechoslovakia aren't rich. They don't own blue chip stocks and bonds. They don't have brokers in Zurich or bankers on Wall Street. Until recently, they couldn't even own private property. Yet today they're discovering the power of investment, entrepreneurship, wealth creation, and capital gains -- the foundations of entrepreneurial capitalism.

There's no place in the old liberal worldview for poor people talking about capital

gains. I still can't get over how confused the editors of the liberal St. Louis Post-Dispatch were when President Bush visited a public housing community in St. Louis last year. When the President called for a capital gains tax cut in his speech, the residents cheered. In their editorial the next day, the editors just couldn't fathom it. But the real surprise would have come if those low-income residents hadn't cheered for removing the barriers to their opportunity to get a piece of the American Dream.

You see, the President wants to cut the capital gains tax to about 15% and eliminate it in the inner city not to help the rich, but to help the poor get rich; not to help the wealthy, but to create new wealth and new capital formation.

I've met with thousands of low-income people and public housing residents all across America. And let me tell you, I have never met a single one who said, "Mr. Kemp, I don't believe in the American Dream. Or, I just want to be a ward of the State, and I want the same thing for my children and my children's children."

It sounds silly, I know. And yet the liberal welfare establishment treats the poor as though that is exactly how poor people think. It is this elitist attitude towards the poor that is hurting the poor and impoverishing America's inner cities.

Low-income Americans are not afraid to throw in their lot with the rest of us and try their hand at competing in the mainstream economy. To a remarkable extent, they still believe that this is a land of opportunity. They have not lost faith in the American Dream, they are being denied access to the American Dream.

And the truth is, America is still the closest thing to a classless society the world has ever known. A few weeks back the New York Times ran a story about how the "top

1%" of Americans got most of the new wealth between 1977 and 1989. What the New York Times neglects to tell us is that the composition of that top 1% bracket is constantly changing.

According to IRS data, between 1985 and 1986, 40% of those in the top 1% fell into a lower income bracket. Over the same period, Census Bureau data show that fully one-third of all Americans moved from one income quintile to another. And income mobility was generally higher during the 1980s than the 1970s, reflecting the new dynamism of the American economy after we cut capital gains taxes in 1978 and 1981. When capital gains taxes are high, wealth becomes locked up as people refrain from investing or risking their wealth. America's class structure becomes more fixed. But when capital gains taxes are low, as they were during the Reagan-Bush recovery, assets are unlocked, income mobility increases, and wealth expands.

But the poorest Americans are still locked out of wealth and opportunity by government-imposed barriers to opportunity. The time has come to lift those barriers. The time has come to empower people, not bureaucracies; to combat poverty, not perpetuate it; and to build a ladder of opportunity, not fill up the safety net. We must discard the old top-down model of government paternalism and rechannel the power of government toward clearing away the mistakes of a welfare policy that perpetuates poverty and dependency.

Some people -- some partisans -- claim the Bush Administration is using welfare reform as a cover for beating up on the poor, or worse, as Governor Cuomo charged, as an excuse for pandering to racists. But we're not attacking the poor, we're attacking the

system which has so misserved them. And incidentally, I don't think class warfare makes good politics, whether it scapegoats the rich or the poor. The American people don't want blame, they want answers.

In his fiscal 1993 budget, President Bush is seeking \$1 billion to help public housing residents become homeowners, through his radical HOPE initiative -- Homeownership and Opportunity for People Everywhere. Once again, the President is also asking Congress to authorize 50 Federal Enterprise Zones, in which the capital gains tax would be eliminated to help give low-income entrepreneurs access to capital.

The President's budget would further permit AFDC recipients to save up to \$10,000, and it would strengthen incentives for long-term AFDC recipients to find employment. Existing rules generally reduce benefits for recipients who join the work force. The Administration proposal would set aside in an escrow account the amount by which a family's benefits are reduced, then pay it out in a lump sum if the family succeeds in working its way off welfare.

Whenever possible, we in the Bush Administration are striving to place real economic power in the hands of individuals, not bureaucracies. Philosophically speaking, for a society which believes -- as Thomas Jefferson did -- that all men and women are created equal, there is no other way. Pragmatically speaking, we've already tried the alternative, and it doesn't work.

In his first inaugural address, Jefferson condemned those nations which "feel power and forget right." Half a century later, Abraham Lincoln expressed a more modern concern. In a speech at Peoria, Illinois, he called slavery "a sad evidence that,

feeling prosperity we forget right."

We are by far the wealthiest nation the world has ever known. But feeling prosperity, we must not forget right. We must not forget the moral obligation -- of which Lincoln often reminded us -- to welcome all Americans of every background and color into what he called "the race of life."

It is not just a moral issue. Our inner cities are overflowing with human capital, an untapped reservoir of human creativity. Bringing millions of low-income Americans back into the mainstream economy will create new wealth for all Americans -- rich and poor, black and white. With the right policies and the right incentives, the 34 million Americans living in poverty will become not a hindrance -- not a drain -- but a source of vast promise and unimagined potential. America can once again be the "city on a hill" -- an example to the "new world" waiting to be created, shaped, and inspired.

Thank you very much, and God Bless America and the cause of freedom.

##

**THEODORE J. FORSTMANN**

Senior Partner

Forstmann Little & Co.

**THE AMERICAN POTENTIAL**

**Restructuring and Renewal of the U.S. Economy**

for the

**HARVARD BUSINESS SCHOOL**

Monday, March 16, 1992

I hope you don't expect to hear anything terribly conventional, because that's really not my style. In fact, the semi-serious joke around Forstmann Little has always been that the main reason I needed to start my own firm was because I was so thoroughly unemployable. Actually, I believe that conventional wisdom is almost always wrong. Sometimes it's the best we have for many ordinary purposes, but it can be kind of dangerous because often it's engaged in fighting the last war.

Therefore, those people who would be our leaders cannot confine themselves to conventional thought. If they don't think and act on the margin, where all change takes place, they don't add to the life of the nation. They should be seeing every day as a new frontier, where life is a risky business, but the key is to know when risk is only perceptual and when it is real.

For a minute or two, permit me to elaborate on the experiences of my firm, Forstmann Little & Co., from 1978 until the present, as an example of the difference between real and perceptual risk; and to put into context the body of this speech -- which will deal with the great possibilities which I believe are on the horizon, on the frontier.

In our first years, the late 1970s and early 1980s, the climate for business was chaotic. Inflation and interest rates were in double digits for the first time in the nation's history, the dollar was gyrating wildly, the price of gold was inching toward \$1,000 an

ounce, and many intelligent people worried that the financial system was headed for a complete breakdown. The wild shifts in monetary policy of the late 1970s and early 1980s, the legacy of the breakdown of the Bretton Woods system, presented such risks to business that the value of traded equity in the American markets had fallen to very low levels. While inflationary growth was possible, real growth was almost nonexistent. There was a very high level of management entrenchment and shareholder disenfranchisement.

Change had occurred so rapidly that conventional wisdom was obsolete and useless, baffled by events and accepting the status quo. Acquisitions were few and far between. A leveraged balance sheet using a capital structure adapted to these changes was unheard of. Productivity stalled, as there was almost no capital available to propel change.

On the frontier at this point, a few financial innovators like Forstmann Little appeared, realizing that because of the years of inflation, many companies could be bought for a fraction of the replacement cost of their assets. During the first half of the 1980s, well-designed leveraged acquisitions increased efficiency and productivity and helped companies grow, as management became significant owners of their own enterprises.

The tax system favored debt over equity, making it possible to purchase undervalued assets with relatively inexpensive credit. As the monetary and tax environment improved through the mid-1980s, the value of our equity rose and we were able to achieve rates of

return hitherto thought impossible. It turned out that investing in a Forstmann Little leveraged buyout was far less risky and far more rewarding than buying shares of General Motors, Citibank or IBM. By the second half of the 1980s, however, the imitators had arrived. Conventional wisdom had made a 180-degree turn, decreeing that credit would expand exponentially without limit and debt had gone from essentially evil to virtually utopian. At this point, scholarly studies appeared, claiming that managements would perform better under a heavy debt load than otherwise. This was a far cry from our original insight, the idea that managements would perform much more effectively as paid up owners of their businesses irrespective of debt levels, and that effort was elastic with respect to reward.

Our continued success in the second half of the decade lay again in rejecting conventional wisdom. As I warned in the late 1980s of the building excesses and their inevitable results, while almost everyone else was buying, we were selling, for incredibly high prices, much of what we had bought earlier. We did not make significant acquisitions until 1990 and 1991, when we bought Gulfstream Aerospace and General Instruments Corp., respectively; a time in which all the imitators had been forced from the scene as their sources for junk financing disappeared.

Currently, conventional thinkers are pretty depressed. We hear a great deal from those who are seeking to lead us about soaring deficits, temporary middle class tax breaks, the inevitability of Japanese and German economic might and the worry that we may become a second class economic entity. It seems that each of our aspiring leaders has a different colored bandaid to apply to our country's broken leg.

Today I would like to turn your attention away from this conventional banality and direct it to the possibilities I see before us and the steps that need to be taken to implement our country's ability to take advantage of these opportunities.

We will soon conclude one of the most turbulent centuries in human experience. Essentially, the 20th century can be seen as the age of failed experiments in socialism -- including its fascist, communist and welfare-statist variants -- in contrast to the 19th century, the age of no-holds-barred entrepreneurial capitalism. As a result of the fall of Soviet communism, the political revolution throughout Eastern Europe and the economic transformation of China, we Americans must rid ourselves of obsolete policies that have built up like so many barnacles during our contest with the socialist experiment, what we have most recently called the Cold War.

As the grip of socialism loosens across the planet, we are seeing some of the world's most backward regions turn into the most dynamic. Mexico, which most considered a

hopeless cause until very recently, has become the fastest-growing economy in this hemisphere. The southern coast of China has become a gigantic enterprise zone, growing so fast that private industry will produce half of China's national product this year. India, with its population of a billion, is opening its economy to the world. No one can predict where Russia's path will lead, but it is wise to remember that Russia was the fastest-growing economy in the world during the two decades before World War I.

In fact, the fall of socialism will set loose entrepreneurial energies that will produce bursts of productivity in places not now predictable. The past few years have produced a change in the way of life for the better for millions of people which they will not easily abandon. The concern we hear expressed about competition from Europe or Japan is really about ten years behind the curve. These are mature economies, known quantities, with problems of their own. It is the chance to take advantage of entrepreneurial capitalism and liberal democracy as they spread around the globe that will present the important opportunities and those who grasp them will produce results that will amaze conventional thinkers.

With this truly splendid view spread before us, why do things feel so bad here in the United States? Never before in our history, perhaps, have we felt a greater disparity between our unchallenged domination of the world political stage and our uneasiness about

our national economic life. Since 1989 we have endured a cumulative rate of growth of zero and a recession that has been the longest, if not the deepest, since World War II.

Needless to say, our position in world affairs will be very dependent upon how we deal with our current domestic economic ills, and I would like to suggest that, while many of the pieces for a robust and growing economy and a just and fair society are in place, some of these pieces need to be rearranged. The fundamental context of economic life has to be restructured. In essence, we need an operation on the broken leg, not a bandaid.

Political philosophers from Aristotle to de Tocqueville have doubted the staying power of democracy, arguing that it must lead to the looting of wealth by the mob. American democracy has survived longer than any form of government in the world primarily because American capitalism has historically provided more opportunities to ordinary people than any other economic system.

But for most of the time since World War II ended, we have drifted further and further from our basic principles. Now America needs economic policies once again that maximize opportunities and therefore draw upon the best in each individual. By denying opportunity, the fair chance to get ahead, we deny people's talent, and by so doing we deny their human worth. Napoleon's quip that every one of his privates carried a marshal's baton in his knapsack applies to Americans like no other people on earth.

Economic policy should give individuals the maximum opportunity to do something new and creative. That is the source of economic welfare. The growth of an economy depends on individual's efforts to rise above their circumstances. It absolutely does not depend upon the routine functioning of mature companies. If we value the potential of the individual, then we must make economic policy accordingly. If we frustrate this potential, we can hardly expect our social institutions to bear the pressure of this frustration. Most Americans working for wages dream of working for themselves. Those who succeed will do so by adding value to our economy to the general benefit. That is what risk-taking is all about, and as I mentioned previously, risk is in the eye of the beholder: you will learn that the world will view as risky some things which appear to be the simplest and most natural transactions in the world to the nonconventional thinker.

But while the task of business is to take risks, the job of government is to be predictable. Government policy must keep the hindrances to enterprise at a minimum and, therefore, the tax penalties for the rewards of risk-taking must be as low as possible. We have lived through two decades of abrupt shifts in monetary policy, arbitrary changes in regulation, and flip-flops in tax policy and none of this has been beneficial to the economic growth or social stability of our society.

As an example, nothing is more disturbing about the present economic environment than the decline of small businesses. You should be aware that small business are responsible for most of the new jobs created in our country -- 20 million during the first half of the 1980s -- while the Fortune 500, in their understandable desire to be efficient, are net job losers. In each successive year since 1986, five years in a row, fewer new businesses have been incorporated in the United States. In all the economic ups and downs this country has had since World War II, nothing like this ever happened before. It is an ominous statistic with predictable results, and because of it, it is no surprise that this recession has lingered far beyond conventional predictions.

All economic activity, obviously including the startup of new businesses, requires both labor and capital. The way to increase the rate of return to labor at the margin is to invest relatively more capital. When capital is relatively abundant, labor is relatively scarce and the return to labor must rise. Today, capital is very scarce. Why?

The value of any capital instrument is determined by expected future earnings, discounted for risk. The biggest risk and depressant upon the rate of capital formation today is the risk of confiscation by the government. I will give you a somewhat extreme example: a couple purchased a representative stock portfolio worth \$10,000 in June 1971, just before the collapse of the Bretton Woods monetary system gave a generation of

inflation. Upon retirement in 1990, the stocks sell for over \$37,000. After inflation, though, the real value of the stocks remains unchanged: the capital value of the stocks buys the same amount of goods in 1990 as in 1971. The couple is liable for tax of more than \$10,000 on an illusory gain due entirely to inflation. This is clearly and obviously a tax on capital, not on capital gains. No other industrial country in the world confiscates the retirement savings of ordinary people in such capricious fashion.

The same calculations figure into the cost of raising capital for any venture, whether it is a taxi medallion in New York City, a significant entry point into capitalism for generations of immigrants, all the way to venture capital for high-tech investments in Silicon Valley. Indeed, there are tens of thousands of research scientists and engineers punching the clock at big corporations, putting in their eight hours, waiting for their pensions, and griping about how their superiors fail to understand the commercial potential of their inventions. Remove the tax penalty on capital formation, and, believe me, capital will search them out. Instead of putting in eight hours a day for wages, they will put in fifteen hours a day for the chance to realize their aspirations.

In fact, we should have an economy where businesses no longer have to build their capital structure upon the shifting sands of inflation expectations, capital formation is not

taxed at all, and legions of tax accountants, lobbyists and lawyers can be released into the world to lead productive lives.

What combination of policies would create such an economic environment and most effectively would provide for American enterprise and well-being? The answer is that the spirit of enterprise inherent in most Americans, which is the foundation on which economic growth depends, will flourish in an economic environment in which there is radical tax simplification and certain and consistent monetary policy.

Our tax system, monster that it is, was born of the needs of war.

Until World War I, no country in the world envisioned marginal tax rates of 50% or even 30%, let alone the application of these rates to working-class incomes. Once in place, the oppressive tax regime of wartime was never dislodged; instead, large numbers of people saw money to be made by becoming appendages of this monstrosity. Various political interests kept adding to the Code to create penalties for certain kinds of behavior and incentives for others. Various economic interests sought and won exceptions. The process created hundreds of thousands of lobbyists, lawyers, tax accountants and politicians who jumped on the bandwagon and turned this system into the largest single service industry in the United States.

Really, we should throw away our 4,000 page Tax Code and start anew. The top tax rate in Hong Kong, the world's fastest-growing economy during the past ten years, is 15%, and it takes less than an hour to fill out your annual tax return. A flat tax of 13% such as Jerry Brown proposes is the kind of plan America will have to adopt by the end of the 1990s if we are to keep pace with a world that has rediscovered entrepreneurial capitalism. Ten years from now, tax courses at Harvard Business School shouldn't even exist or, if they do, should be the least interesting electives in the curriculum.

While drastic tax simplification should be the country's basic goal for the onset of the next century; in the meantime, we need reform that will restore incentives to risk-taking.

First and foremost, as Federal Reserve Board Chairman Alan Greenspan proposes, we should simply abolish the capital gains tax, which should be seen as a tax on capital formation and liquidity.

It seems to me that so much misinformation has been disseminated on this subject that even some of the political proponents of capital gains reduction do not accurately understand the rationale of their position. Conventional wisdom states that this is a tax which fundamentally applies only to the wealthy. Nothing could be further from the truth. By definition, the wealthy already have capital and are not much concerned with capital gains. It is the ordinary person who is penalized, virtually defrauded, by this tax. As my

good friend the economist, Jude Wanniski, pointed out in a brilliant article written last winter, elimination of the tax on capital formation would significantly help labor, minorities, small town America and the elderly, as well as innovators of all sorts.

It will help labor. When you cut tax rates on labor, or ordinary income, more people offer their labor in the market as work becomes more attractive. When this happens, capital becomes relatively scarce. In the 1980s, tax rates on labor were cut sharply and protected against inflation by indexation. Tax rates on capital were cut briefly, but increased again in 1987, and were not protected against inflation. Labor is now plentiful and capital is scarce, the "credit crunch." If capital were taxed at a lower rate, it would become plentiful, and labor would become relatively scarce. If capital were not taxed at all, it would become abundant. It would have to hire everyone in the unemployment lines in order to realize all profit opportunities. It would even pay for capital to improve the quality of their lives and train them, in order to realize profits. This would be especially true for minorities.

For example, when the Negro slaves were freed during the Civil War, they came into the market without a scrap of capital. Race prejudice has kept black Americans starved for capital ever since. They have only essentially been able to use what they

possessed from birth, their labor. No wonder in developing their potential as best they could without capital, they became the best athletes and entertainers in society.

It would help small town America. Land, like labor, is a factor of production. Throughout America's history, with capital taxed lightly or not at all, it spread from capital centers and found its way to profit opportunities throughout the grass roots. However, as capital has become scarce through high taxation, it has become more concentrated at the metropolises, drying up opportunities in the country's small towns. Japan, which taxes capital lightly or not at all, is able to seek profit opportunities far beyond its own shores. Ending the tax on capital gains would make American capital available again and would push much of this Japanese capital in other directions, to Asia, Central and South America.

It would aid the elderly. As most capital assets are owned by people over 55 years, and as the price of these has been exaggerated through the last generation of monetary inflation, seniors are now unable to enjoy the fruits of their past investments without paying exorbitant taxes not on capital gains, but on capital. In the nation as a whole, taking account of inflation, there has been no net increase in the nation's capital this past quarter century. Eliminating the tax on capital gains would permit the seniors to unlock their past investments instead of being forced to pass them, at death, to their heirs. A second way seniors would benefit would be in the future, as rapid economic growth provided the

resources enabling society to take care of the health and retirement needs of an aging population.

It would help innovators. When capital is scarce, it is reserved for the "sure things." The current "credit crunch" simply reflects the difficulty of enterprises that are not established in acquiring capital from the system. Capitalism, like any betting establishment, must provide for large rewards for large risks. Eliminating the capital gains tax entirely will maximize the reward for risk-taking, innovation and enterprise, enabling capital to flow to longshots, because only one need win in order to make the entire portfolio of bets worthwhile.

Under no circumstances, though, should we throw money down the drain of "investment incentives" which subsidize established industries. Tax policy has to distinguish between preserving the rewards to risk-taking, which creates growth, and reducing the risk of investment, which does not. In an appropriate economic environment where risk-taking is prevalent, some failure is always a distinct possibility. But this is really the essence of capitalism. The creative aspect of Joseph Schumpeter's "creative destruction" obviously can't exist without some destruction.

We must focus this policy for capital formation clearly upon the parts of our economy that most need it. We need a special tax regime for the inner cities and other

parts of this country that are desperately short of capital. The health of our economy, as well as the endurance of a national political consensus on behalf of opportunity, demand this.

Finally, we need to rethink the way we have conducted our monetary affairs in the past two decades. Before the end of this decade, I believe, America will have emerged from a long cycle of rising and falling inflation expectations, back to a regime of price stability. This will have profound consequences for enterprise. Profit is the other side of the coin of uncertainty, as Frank Knight argued half a century ago. By "uncertainty," I do not mean sloppy guesswork in business decisions, but rather the kind of insight that sees beyond what the market is able to discount or insure. Investment is uncertain enough without added uncertainty from government monetary policy. A consensus on behalf of certainty in monetary policy has been emerging for some years. Back in 1987, then Treasury Secretary James Baker proposed to use as a yardstick for monetary policy a basket of commodities including gold. More recently, there have been encouraging signs that the Federal Reserve has a growing interest in maintaining price stability in terms of commodities, with enormous implications for reducing the cost of capital in this country.

Essentially, I can envision a different kind of country as the century draws to a close. Rather than dealing with problems such as inflation created by government interference, the

best graduates of this great school should be pitting their skills against technological risk in a new wave of innovation, and against political risk in a world of unparalleled opportunities overseas. The 1990s should not be an age of diminished expectations. Never before have world events presented such an imperative for entrepreneurial capitalism. As much as the early 1980s were a period of growth and opportunity, I believe that the possibilities for the 1990s and beyond should be far greater. Our country can either restructure along the lines I have suggested and lead the way, or heed conventional thinking and risk falling by the competitive wayside. In any event, those of you who can segregate real risk from its perception and who can therefore see further into these trends than others, will do great things. I wish you all the very best of luck.

THE WHITE HOUSE  
WASHINGTON

March 24, 1992

MEMORANDUM FOR KATHY SUPER

FROM: SAMUEL K. SKINNER *SK*

SUBJECT: SCHEDULING ITEMS

Rich Bond talked to the President today about a series of Presidential Trust fundraisers between June and November. The Presidential Trust raises money for the 1992 campaign, and I understand Presidents have done this in the past. We will review details and see how it plays in the schedule.

It is probably time for another "credit crunch" meeting under Secretary Brady/John Robson's auspices. Please make arrangements to set it up.



## Republican National Finance Committee

DOROTHY M. MOLEY  
Deputy Director

### PRESIDENTIAL TRUST 1988

#### MAJOR EVENTS:

LA, DC, NY, CHICAGO, DALLAS

#### SMALLER EVENTS: (approximately 12 or so)

ie Detroit, Cleveland, Omaha, San Francisco,  
Boston, Miami, Denver, Kansas City, St. Louis  
etc...

Additionally this was a round of events with surrogates.  
I don't have the precise number.

Official goal is 11 million = 733 members @\$15,000 \* *u*

3/24/92  
 Yes -- it's doable -- goal was 8.3 --  
 '88 - 633 Full trustees at \$10,000  
 -- raised the balance through direct mail  
 and "bundlers" (\$1,000 trusts in clumps).  
 FROM DOROTHY MOLEY  
 TO RNB  
 Chairman  
 RICHARD N. BOND  
 Republican National Committee




Internal goal is  
 15,000,000 = 1000  
 members @ \$15,000

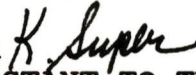
THE PRESIDENT HAS SEEN  
3/30/92 SHOW  
POTUS

THE WHITE HOUSE  
WASHINGTON

March 27, 1992

MEMORANDUM FOR THE CHIEF OF STAFF

THROUGH HENSON MOORE   
DEPUTY CHIEF OF STAFF

FROM KATHY SUPER   
DEPUTY ASSISTANT TO THE PRESIDENT  
FOR APPOINTMENTS AND SCHEDULING

SUBJECT PROPOSED DATES FOR BUSH-QUAYLE FUNDRAISERS

Listed below are recommended dates for the upcoming Bush-Quayle Fundraisers. These dates would best accommodate events already scheduled for the President. The campaign would like to precede with these dates once approved.

APRIL 27

Charlotte, North Carolina - Fundraising Dinner  
(on return from Miami commencement address)

APRIL 30

- ✓ Pittsburgh, Pennsylvania - Fundraising Lunch
- ✓ Columbus, Ohio - Address the Ohio Association of Broadcasters
- ✓ Columbus, Ohio - Fundraising Dinner

MAY 5

New Jersey - Fundraising Dinner

MAY 7

- ✓ Atlanta, Georgia - Fundraising Dinner

MAY 12

- ✓ Philadelphia, Pennsylvania - Fundraising Dinner

MAY 15

- ✓ Cincinnati, Ohio - Fundraising Lunch  
(on the way to Houston, Texas)

MAY 21

- ✓ Greenwich, Connecticut - Fundraising Dinner

THE WHITE HOUSE  
WASHINGTON

March 31, 1992

MEMORANDUM FOR SAM SKINNER

FROM: EDE HOLIDAY *EH*

SUBJECT: United Mine Workers of America (UMWA) Retiree  
Benefits Issue

Attached is a memorandum detailing the background and status of the UMWA retiree health benefits issue as well as a brief description of Senator Rockefeller's "Coal Industry Retiree Health Benefit Act of 1991."

Attachment

*File*

## **Summary & Status of UMWA Retiree Health Benefits Issue**

### **Background:**

The United Mine Workers of America (UMWA) and the Bituminous Coal Operators Association (BCOA) have been providing health benefits to retired UMWA miners and their dependents since the 1950's. The UMWA Health Benefit Funds provide very generous benefits to their members, 83% of whom also participate in Medicare. The benefits are financed through contributions made by members of the BCOA -- companies that are signatories to the National Bituminous Coal Wage Agreement (NBCWA). Pittston Coal Company pulled out of the BCOA precipitating a strike by the UMWA in 1989. Then-Secretary of Labor Dole appointed a mediator, Former Secretary of Labor Bill Usery, to resolve the strike. The strike was resolved but without reaching agreement on one of the most contentious issue -- the provision of health benefits to retired UMWA miners. Instead, a Commission was appointed in March 1990 to study the issue and make recommendations.

The Commission reached consensus on a number of items but was unable to agree on a new structure or financing mechanism for the funds. The Rockefeller legislation is modelled on the recommendations put forth by UMWA President Richard Trumka and then-BCOA President Robert Quenon, then-Chairman of Peabody Coal Company.

### **The Issue:**

The financial problems currently confronting the UMWA Health Benefit Funds (Funds) are attributable to various factors. First, the number of companies making contributions to the Funds has declined from 80 percent of the industry in 1950 to 30 percent in 1990. Second, over the past ten years, the cost of providing health care to retired miners has doubled from \$117 million to \$245 million. Third, there has been an increase in the number of "orphan" retirees -- retired coal miners covered by the Fund whose employer is no longer in business or no longer contributes to the Fund. Currently 75 percent of the 120,000 beneficiaries of the Funds are orphan retirees. These factors have contributed to the Funds' current deficit of approximately \$100 million.

### **The Bill:**

Senator Rockefeller introduced the "Coal Industry Retiree Health Benefit Act of 1991" (S. 1989) on November 13, 1991. The bill would mandate a new entitlement program supported by industry-wide taxes on domestic and imported coal. At the same time it would do virtually nothing to increase health care program efficiency or reduce medical costs. It would create a Federal corporation to pay and guarantee health care benefits for retirees covered by the Funds whose last employer is no longer in

business or no longer makes contributions to the Funds. The Corporation would be financed by an industry-wide tax and could increase employer taxes to cover its expenses, without Congressional approval.

The bill would also assess "premiums" against companies who were former signatories to the National Bituminous Coal Wage Agreement but have since gone out of business or ceased to make contributions to the Funds. In addition, the bill provides for a transfer of excess assets from the miners 1950 UMWA Pension Fund to cover a portion of the deficit.

#### DOL's Position

The Department opposed S. 1989 and recommended a veto because the bill:

- \* subsidizes the privately negotiated health benefits of a single industry and creates a dangerous precedent for other industries that may seek similar subsidies;
- \* prohibits significant cost sharing and cost containment measures to control rising health care costs;
- \* taxes industry competitors who were never a party to the agreement to pay UMWA retiree benefits;
- \* creates a new government corporation to administer the program. The Corporation would not be subject to substantial Congressional or Administration oversight, and it could raise taxes without Congressional approval.

We believe that the tax is unnecessary because:

- \* The U. S. District Court for the District of Columbia recently ruled that former signatories to the National Bituminous Coal Wage Agreement are obligated to continue to contribute to the Funds on behalf of their retirees. This ruling requires those companies to pay retroactive contributions, interest and liquidated damages. This finding could result in the Funds receiving over \$50 million in retroactive payments.
- \* A reasonable transfer of excess pension assets would be acceptable as long as protections are in place to assure that sufficient assets remain in the Pension Plan so that pension benefits are properly protected. Based on the Funds' most recent actuarial evaluation, this transfer could add over \$150 million to the health benefit fund.
- \* Cost sharing and cost containment measures could be implemented. Savings from these measures, along with the increased contributions from former signatories and the transfer of excess pension assets to the Funds would

substantially contribute to the solvency of the Funds.

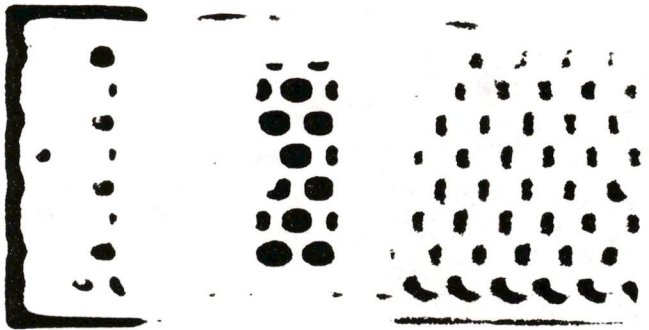
The Administration would not oppose limited legislative action, such as the transfer of excess pension assets. This action could ensure that benefits continue to be paid for the duration of the collective bargaining agreement. We believe that the solution to this problem rests with the parties that promised the benefits, rather than through the creation of new federal taxes and entitlement programs.

### Status

The Rockefeller legislation, with modifications that exempted certain types of coal from the tax, was included in the Democratic tax bill vetoed by the President.

Senator Rockefeller has said that he will attempt to attach this bill to any new tax vehicle that becomes available. There is a possibility that some minor tax bills may surface later this year.

The Department has received at least 500 letters from miners requesting our support of the bill. The majority of the letters are form letters that we believe were provided by the UMWA.



SAM SKINNER

3/24/92

Edde

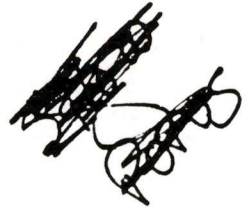
Have someone  
Prepare body  
of this case  
and arrange  
proposal including  
costs to fix it  
Sam





DCF HAS SEEN

STATE OF WEST VIRGINIA  
OFFICE OF THE GOVERNOR  
CHARLESTON 25305



GASTON CAPERTON  
GOVERNOR

March 18, 1992

The Honorable Samuel K. Skinner  
Chief of Staff  
The White House  
Washington, D.C. 20500

Dear Sam:

This is a follow up to earlier conversations I've had with you concerning the role of your office in preventing a major health care and economic crisis in this country.

Over the years coal miner issues have been contentious between the miners, the coal companies and the United States Government. Usually the cause of the problem between the companies and the miners has festered for a long time, and the White House has ignored the problem until a true crisis, often with violence, emerges. Then the White House or the Labor Department has become directly involved in settling the issue. The loss of coal retiree health benefits will reach a critical stage this year unless a legislative solution is found soon. Major labor strife in the coal fields could cause the economic recovery to stall in the Midwest.


While Judge Williams's decision yesterday temporarily prevents a cutoff of benefits, it does nothing to solve the problem of averting a crisis this summer. He also recognized that only legislation can prevent a loss of benefits.

In spite of Secretary Martin's recommendation to the President, I urge you to follow the advice of Senator Simpson who "pledges to work with him (Senator Rockefeller) and see if we can resolve it in a way that none of us are ever going to watch these people lose their coverage." Arguments that collective bargaining can solve the problem are specious.

Mr. Samuel Skinner  
March 18, 1992  
Page Two

I hope that you will encourage a legislative solution because only federal action can prevent the loss of health care benefits to orphaned miners.

Very truly yours,

  
Gaston Caperton  
Governor

GC/lc

SAM SKINNER

3/24/92

Ede

Have someone

Prepare budget

of this issue

and arrange

proposal including

costs to fix it

Sam



DCF HAS SEEN

STATE OF WEST VIRGINIA  
OFFICE OF THE GOVERNOR  
CHARLESTON 25305



GASTON CAPERTON  
GOVERNOR

March 18, 1992

The Honorable Samuel K. Skinner  
Chief of Staff  
The White House  
Washington, D.C. 20500

Dear Sam:

This is a follow up to earlier conversations I've had with you concerning the role of your office in preventing a major health care and economic crisis in this country.

Over the years coal miner issues have been contentious between the miners, the coal companies and the United States Government. Usually the cause of the problem between the companies and the miners has festered for a long time, and the White House has ignored the problem until a true crisis, often with violence, emerges. Then the White House or the Labor Department has become directly involved in settling the issue. The loss of coal retiree health benefits will reach a critical stage this year unless a legislative solution is found soon. Major labor strife in the coal fields could cause the economic recovery to stall in the Midwest.

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OFFICE OF THE GOVERNOR

Mr. Samuel Skinner  
March 18, 1992  
Page Two

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Very truly yours,

  
Gaston Caperton  
Governor

GC/lc



THE SECRETARY OF VETERANS AFFAIRS  
WASHINGTON

March 6, 1992

*Call*

*FYI*

MEMORANDUM FOR SAMUEL K. SKINNER  
CHIEF OF STAFF TO THE PRESIDENT

FROM: EDWARD J. DERWINSKI  
SUBJECT: Andrew A. Athens' Request

Attached is a copy of a letter from Andrew A. Athens requesting a meeting with the President for himself and His Eminence Archbishop Iakovos.

It is my understanding the President is tentatively scheduled to meet with Archbishop Iakovos sometime between March 23-25, 1992. I would strongly recommend that priority be given to Mr. Athens' request for a meeting with the President.

Thank you.

Attachment

*Edward J. Derwinski*

# COPY



400 North Franklin Street  
Suite 215  
Chicago, Illinois 60610-4403  
(312) 822-9888  
Fax (312) 822-0890

March 4, 1992

The Honorable George Bush  
President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

I was extremely disappointed to learn of the virtual breakdown of the Cyprus settlement talks following the United Nations negotiators' trip to Turkey, which occurred subsequent to your meeting with Turkish Prime Minister Suleyman Demirel. Greek-Americans all across the United States, particularly our most consequential national leaders, are stunned by Mr. Demirel's lack of responsiveness to your requests.

To pull back from his earlier positions on Cyprus was extremely injurious to the good work you have done on the Cyprus settlement, but to refuse to even meet with U.N. negotiators and instead to pass them off to lower-level people is an insult to what you have done for his country. The many millions of dollars Turkey spends each year on Washington consulting keeps them up to the minute on policy and political developments in America. Their insensitivity at this crucial moment in the Cyprus issue and in your presidency should not be tolerated.

At this juncture in the Cyprus settlement issue, I think it is very important that His Eminence Archbishop Iakovos and I meet with you at your earliest convenience, no matter where you may be in the United States, to share with you some ideas about this matter. I would further encourage that we meet as soon as possible, for a number of reasons.

I know how busy you are these days, but I feel that this is an important matter from a number of perspectives.

Warm personal regards.

Sincerely,

Andrew A. Athens

DCF HAS SEEN

*file*

## MEMORANDUM

**TO:** ✓ Samuel K. Skinner, Chief of Staff  
Robert M. Teeter, Campaign Chairman  
Frederic V. Malek, Campaign Manager

**FROM:** C. Boyden Gray, Counsel to the President *ohg*  
Bobby R. Burchfield, General Counsel *BRB*

**DATE:** March 10, 1992

**RE:** Guidelines for Avoiding the Appearance  
of Conflicts of Interest By Senior  
Bush-Quayle 92 Officials

=====

We are attaching guidelines for avoiding the appearance of conflicts of interest by senior Bush-Quayle officials. These guidelines go well beyond the legal requirements for avoiding conflicts of interest, and if followed will in our view enable the campaign to avoid even the appearance of impropriety. Please distribute these guidelines to all affected persons.

Should you have any questions about these guidelines, please do not hesitate to contact either of us.

**GUIDELINES FOR AVOIDING THE  
APPEARANCE OF CONFLICTS OF INTEREST BY  
SENIOR BUSH-QUAYLE 92 OFFICIALS**

1. The White House Counsel's office has determined that senior campaign officials are private citizens, not federal employees, and are not subject to federal conflict of interest laws.

2. Policymaking is the province of the Administration. Campaign officials do not make government policy. To assure that campaign officials do not appear to be making Administration policy or supervising Administration action, all contacts between the campaign and the Executive Branch must be cleared by the White House Chief of Staff, as was done in the 1984 campaign.

3. To avoid even the appearance of impropriety, certain senior campaign officials who may have contacts with the Administration concerning substantive policy matters have volunteered to disclose their financial and business interests to the White House Counsel's Office, the Office of the Chief of Staff, and the Campaign General Counsel, and each has done so.


4. Campaign officials will not participate on behalf of Bush-Quayle 92 in discussions with Administration personnel of a specific issue affecting an identifiable client or fiduciary of that campaign official if the campaign official is currently or has in the past year been personally involved with that issue on behalf of that client or fiduciary.

THE WHITE HOUSE  
WASHINGTON

DCF HAS SEEN

March 10, 1992

MEMORANDUM FOR SAM SKINNER

FROM: EDE HOLIDAY   
SUBJECT: Personal Leave



I plan to be out of town on personal and family business beginning at 12 Noon on Thursday, March 12 through mid-afternoon on Monday, March 16, 1992. My office and SIGNAL will know how to reach me by telephone.

During my absence, Gary Blumenthal will be available to handle any matters which do not require my personal attention.

Please let me know if you see any problem with this.

DCF HAS SEEN

THE WHITE HOUSE  
WASHINGTON

March 11, 1992

MEMORANDUM FOR SAM SKINNER

FROM: EDE HOLIDAY *EH*

SUBJECT: "Prime Time LIVE" Segment on Meat Inspection

*file*

ABC's "Prime Time LIVE" is preparing a story that will be highly critical of the Department of Agriculture's (USDA) Streamlined Inspection System (SIS) for cattle and the safety of the nation's beef supply. USDA Food Safety and Inspection Service (FSIS) Administrator Dr. H. Russell Cross, a food scientist in his third week on the job, was interviewed for the segment by "Prime Time LIVE" reporter John Quinones. It is believed that the segment will air during "sweeps week" in May, although it could air any Thursday between tomorrow and then.

SIS was proposed in 1988 to modernize traditional inspection at cattle processing plants. Pilot testing of SIS continues today in five plants. Opponents, including labor interests and some members of Congress, claim the system allows unsafe meat to be sold to American consumers. While SIS will reduce the number of inspectors in beef processing plants, the system is based on science, and is currently being evaluated for larger scale usage.

ABC used hidden cameras to obtain incriminating footage inside SIS plants, which they will use in the segment. Some of the allegations in the interview included findings of buckshot, plastic shavings, and fecal matter in USDA-approved beef; poor plant conditions; and purported evidence of a six-year old girl dying as the result of eating contaminated beef inspected by USDA. In USDA's candid view, given the overall tenor of Quinones' questions and evidence, it is likely that "Prime Time" will edit the Cross interview to portray a "worst case scenario." Cross' performance is believed to be less than optimum.

America's beef supply is believed to be the safest in the world. Data compiled by the Centers for Disease Control indicate that cases and outbreaks of illnesses as a result of eating contaminated beef are down about 75% from ten years ago. USDA inspects five billion pounds of beef annually, however, and no system is perfect. In addition, after beef leaves a packing house, it may be processed further through a distributor, a grocer or butcher, and the consumer.

Recognizing consumer concerns about the safety of the food

supply, Secretary Madigan began reviewing meat and poultry inspection systems early in his tenure at USDA. Later today, the department will commission a panel of independent experts to review the operation of SIS plants and reaffirm, within 60 days, the safety of the beef processed there. The department will also announce establishment of a national microbiological data base so that new standards can be set.

cc: M. Fitzwater