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Budget [1990] (2 of 2) [7]

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PROGRESSIVITY:

AN ANALYSIS OF THE WAYS AND MEANS/ CONGRESSIONAL BUDGET OFFICE STUDY

Prepared by the staffs of the Council of Economic Advisers
and the Office of Management and Budget

1) cost of capital

2) job creating aspect

February 1990

SUMMARY

The staff of the House Ways and Means Committee recently prepared a background paper, based on tables compiled by the Congressional Budget Office (CBO), arguing that the U.S. tax system has become significantly more regressive. A striking result of their study, however, is that high-income families are bearing an **increasing** share of the tax burden. Also, the study has numerous serious conceptual problems and methodological flaws.

- An important method for analyzing fairness is to examine how much of the overall tax burden is carried by each income class, rather than tax rates. Even using the Ways and Means tables, despite their flaws, **the share of taxes paid by the highest income quintile of the population is projected to rise between 1980 and 1990 for every tax studied--social insurance taxes, individual income taxes, corporation income taxes, and excise taxes.**
  - The share paid by the highest income quintile of total Federal taxes is projected to rise from 55.7 percent to 58.1 percent, and of social insurance taxes from 38.9 percent to 41.4 percent.
  - For other taxpayers the share of taxes is projected to fall for nearly every other quintile and tax studied. The sole exception is the share of excise taxes paid by the lowest income quintile, which is projected to rise 0.3 percentage points, or roughly $5.

The Ways and Means staff study is incomplete by its nature:

- The study focuses only on taxes, ignoring Government transfer payments. This incomplete view overlooks the highly progressive nature of the Government's tax and transfer system as a whole. The bottom 40 percent of households receive far more in income transfers than they pay in taxes. The tax and transfer system increases the share of income going to the lowest quintile by 3.7 percentage points, and decreases the share of the highest quintile by 6.6 percentage points.

- Increases in Social Security taxes are the primary source of the alleged decrease in progressivity. Yet, even if one were to accept the questionable Ways and Means assumption that workers pay the employer part of the payroll tax, the Social Security program is highly progressive. When taxes are netted against Social Security benefits, Social Security is highly progressive, whether measured for any year, across generations, or for any single generation of beneficiaries.

- o The United States relies far less on payroll and sales taxes than do other large industrial nations. If the United States were to collect taxes in the same manner as most of these other countries, the distribution of income would probably become less equal.

The methodological flaws in the Ways and Means study include:

- o The Ways and Means staff chose a poor base year--1980--for its comparison. Largely as a result of inflation-induced bracket creep, 1980 had unusually high effective income tax rates, particularly on middle and high income individuals. The tax rate reductions of the 1980s were partly a response to these unlegislated increases in tax rates.

- o The 1990 figures are estimates based on a projection. To arrive at this projection, CBO had to estimate the effects of the dramatic Tax Reform Act of 1986, since no data yet exist reflecting its full implementation. A more accurate comparison would not extend beyond the most recent year for which data are available (currently 1987).

- o The study computes **percent** changes in effective tax rates that are already expressed in percentage terms, a method that is well known to be flawed because it places undue significance on small changes. The Ways and Means study acknowledges this bias only when the movement is toward **increased** progressivity.

  - For example, the effective excise tax rate for the top 5 percent of the population is projected to have decreased 11.7 percent from 1980 to 1990, even though the rate is reported as 0.4 percent in both years. The estimated effective tax rate must have changed by only hundredths of a percentage point.

  - In the same table, the effective individual income tax rate for the lowest quintile is projected to fall from -0.4 to -1.5 percent. Using the same questionable methodology this is a decrease of 275 percent, yet the Ways and Means staff does not report it.

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INTRODUCTION

Using tables prepared by the Congressional Budget Office (CBO), the staff of the House Ways and Means Committee has prepared a background paper arguing that the U.S. tax system became significantly more regressive during the 1980s. According to this study, the essential source of the reduced progressivity was increases in payroll taxes for social insurance.

The study has many shortcomings that lead one to doubt the basic conclusion. There are methodological flaws in the construction of the tables, and even more in the interpretation of the tables by the Committee staff. The study is too narrowly focused. It concentrates on changes in effective tax rates despite the fact that their own tables show that <u>the share of taxes paid by higher income taxpayers rose in the 1980s while the share paid by lower income taxpayers fell</u>. Most importantly, it fails to integrate Federal transfer payments with Federal taxes. A complete analysis of how the Government affects income distribution must consider the entire set of tax and transfer programs. Any such analysis reveals that the full set of Federal Government taxes and transfers is highly progressive and has remained so even as increased incomes for retired Americans have moved Social Security recipients higher on the income scale.

METHODOLOGICAL PROBLEMS WITH THE WAYS AND MEANS STUDY

Base Year Choice

The first problem is that the base year chosen for comparison by the Ways and Means staff, 1980, is a poor choice. Largely as a result of inflation-induced bracket creep, 1980 had unusually high effective income tax rates, particularly on middle and high income individuals. During the late 1970s, high inflation overwhelmed the practice of legislating periodic inflation corrections to the tax code. The result was increased tax rates for most taxpayers. From 1977 to 1981, the average marginal tax rate faced by individuals rose from 28.1 percent to 32.5 percent (using shares of adjusted gross income as weights). Reflecting this bracket creep, average income taxes also rose. In fiscal year 1980, individual income taxes were 9.1 percent of GNP compared with 8.2 percent on average for fiscal years 1971 through 1979.

These increases in tax rates did not represent deliberate policy changes. Indeed, these factors were a major impetus for the tax reforms of the 1980s. Income tax rates were lowered in 1981 and inflation-indexed beginning in 1985 precisely to offset this bracket creep. In the 1986 Tax Reform Act, the standard deduction and personal exemption were increased and 4.3 million low income taxpayers were removed from the tax rolls.

<u>Mixing Fact with Projection</u>

A second problem with the study is the mix of actual data with projections concerning the future path of effective tax rates. The 1990 figures cited in the Ways and Means tables are based on a forecast. Like most economic forecasts, these are subject to uncertainty. This forecast, however, is especially problematic. To produce the forecast, CBO <u>estimated</u> the effects of the dramatic Tax Reform Act of 1986. There are, as yet, <u>no</u> data that reflect full implementation of tax reform, so the forecast reflects a judgment of how the reform will work out.

Correctly measuring the impact of the 1986 reform is particularly important for judging the progressivity of the tax system. The reform made the tax system more progressive by removing 4.3 million taxpayers from the tax rolls, expanding the alternative minimum tax, and increasing the corporate tax burden. The latter falls more heavily on upper income groups. The Ways and Means tables show a shift towards more progressivity between 1985 and 1990, but given the uncertainties, the shift could be larger or smaller than anticipated in the tables.

It would be far preferable simply to restrict the analysis to actual data. If it is desired to show how tax burdens have changed over a 10-year interval, it would be better to compare 1977 with 1987--the most recent year with complete data--than 1980 with projected 1990.

Importance of Endpoints

The tables in the Ways and Means study show how sensitive comparisons are to the choice of endpoints. Table 1 demonstrates that between 1977 and 1980, as also between 1985 and 1990, taxes became more progressive.

Table 1

Percentage Point Changes in Effective Tax Rates for All Families between Selected Years

Quintile	Actual 1977-1980	Projected 1980-1990	Projected 1985-1990
Lowest	-1.1	1.3	-0.9
Second	0.1	1.0	0.6
Third	0.4	0.3	1.0
Fourth	1.1	-0.5	0.8
Highest	0.2	-1.5	1.8

Source: Ways and Means (1990)

Identifying the Rich

Another difficulty is that the highest income quintile is hardly "super rich"--it begins at a family income of just $50,400. A finer breakdown of the upper income category would be needed to identify the taxes paid by those who might be thought of as truly wealthy.

Quintile	1988 Family Income		
1st	0	to	$10,370
2nd	$10,370	to	$20,530
3rd	$20,530	to	$32,580
4th	$32,580	to	$50,400
5th		above	$50,400

Source: CBO (1987)

<u>Incidence Assumptions</u>

In order to measure income and taxes paid, CBO must make assumptions about the "incidence" of each tax and, in effect, allocate the taxes paid to families' incomes. The most important incidence assumption in the study is that <u>all</u> payroll taxes are paid by workers. This assumption is the root source of much of the alleged change in progressivity. It is controversial. The Social Security payroll tax is divided evenly between employees and employers, with each paying one-half of the tax. CBO assumes that the employer half is borne by employees in the form of lower wages. The employer component could instead be borne by the businesses paying the tax--or capital more generally--or passed on to consumers via higher prices. <u>CBO itself</u> estimates that for any reasonable change in the incidence assumption, the effective tax rate for higher income families would be raised. If the Social Security payroll tax were more progressive than shown in the tables, then the increase in payroll taxes since 1977 would have contributed a much smaller reduction in the progressivity of the tax system.

A second incidence issue concerns the corporation income tax. The Ways and Means study allocates corporate income taxes equally to labor earnings and capital income. Although much-debated, there is no firm consensus on the incidence of the corporate income tax. Many people believe that the tax is almost exclusively borne by shareholders of corporations, or by owners of capital more generally. The use of this more standard assumption would lead to increased progressivity of the tax system.

Percents of Percents

Another set of methodological issues concerns the presentation of the results in the Ways and Means study. Computing **percent** changes in effective tax rates (that are already expressed in percentage terms) places undue significance on small changes. For example, the effective excise tax rate for the top 5 percent of the population is shown to have decreased 11.7 percent from 1980 to 1990, even though it was reported as 0.4 percent in both years. The reported 11.7 percent decrease is highly misleading. In fact, the effective tax rate must have changed by only hundredths of a percentage point.

In addition, these questionable methods are used selectively. In the same table, the effective individual income tax rate for the lowest quintile falls from -0.4 to -1.5. Using the same questionable methodology, this is a decrease of 275 percent. Instead of reporting this number, the Ways and Means staff states, "since the denominator for this calculation is very close to zero, this figure is meaningless." They fail to note that the denominator for the calculated decline in the effective excise tax rate is just as close to zero.

A more conventional approach would simply compare percentage point changes in effective tax rates (as in Table 1 of this report).

A Flawed Income Measure

Flaws in the measure of income used by CBO likely lead to an understatement of the progressivity of the tax system each year (the effect on the estimated change in progressivity between two years is uncertain). First, the CBO measure does not include non-cash income, thus excluding such important government transfers as Medicare, Medicaid, Food Stamps, and public housing and employer-provided nonwage compensation such as health and life insurance. Non-cash government transfers are heavily progressive. Neglecting them leads to an understatement of low incomes, an overstatement of effective tax rates for lower incomes, and biases the results against progressivity.

In addition, the CBO measure of cash income excludes losses due to partnerships and rentals--ostensibly to eliminate tax-induced paper losses, but some real economic losses are excluded as well--leading to overstated higher incomes where these losses are concentrated. Further, the cash income measure includes an imputed value for realized capital gains that suffers from two problems. First, although realized capital gains are part of the tax base, they bear little relation to the change in the value of assets, but rather reflect a change in the composition of assets. A better way to measure income for this purpose would be to allocate both corporate income taxes (as CBO does) and retained corporate profits to households directly. Further, CBO imputes realizations as a fixed share of national income, apparently to mitigate tax-induced bunching of realizations. For the years in the tables, however, realizations varied greatly as a share of national income without any changes in the tax treatment of capital gains from the previous year. In these ways, the CBO cash income likely overstates high incomes, understating the effective tax rate, and again biases down the measured progressivity.

ALTERNATIVE WAYS OF VIEWING PROGRESSIVITY

Effective tax rates are difficult to measure correctly and are not the only way or the best way to evaluate the fairness of the tax system. Indeed, one of the main goals of the 1981 tax changes was to lower inefficiently high marginal tax rates that were costing the Government revenue by encouraging high income taxpayers to shelter their incomes to avoid taxes.

<u>Share of Taxes Paid</u>

Another way to look at fairness is to examine how much of the overall tax burden is carried by the different income classes. **By this measure, the tax system has become more progressive.** Other tables in the Ways and Means study show that the <u>share</u> of taxes paid by the highest income quintile of the population is projected to rise between 1980 and 1990 for <u>every</u> tax studied: individual income taxes, corporation income taxes, social insurance taxes, and excise taxes. The share of total federal taxes paid by the highest income quintile rose by 2.4 percentage points, while their share of social insurance taxes rose by 2.5 percentage points (see Tables 2 and 3).

For other taxpayers, the share of taxes is projected to fall for nearly every other quintile and tax studied. The **sole** exception is the share of excise taxes paid by the lowest income quintile, which is projected to rise by a slight 0.3 percentage points, an increase of roughly $5 in 1990.

<u>International Comparisons</u>

The attention devoted to payroll taxes in the U.S. tax structure may leave the impression that payroll taxes are unusually high in the United States. In fact, the United States relies far less on payroll and sales taxes to finance Government programs than do other large industrialized nations except Japan (see Table 4). If the United States were to collect taxes in the same manner

Table 2

Share of Taxes Paid by All Families
(in percent)

	Actual 1980	Projected 1990
Lowest 20 Percent	1.6	1.6
Second 20 Percent	7.0	6.6
Third 20 Percent	13.4	12.6
Fourth 20 Percent	22.2	21.0
Highest 20 Percent	55.7	58.1
Total	100.0	100.0

Table 3

Share of Social Insurance Taxes Paid by All Families
(in percent)

	Actual 1980	Projected 1990
Lowest 20 Percent	3.4	3.3
Second 20 Percent	11.5	10.8
Third 20 Percent	18.8	17.9
Fourth 20 Percent	27.2	26.5
Highest 20 Percent	38.9	41.4
Total	100.0	100.0

Source: Ways and Means (1990)

as most of these other countries, the distribution of income would probably become less equal.

Table 4

Share of Total Tax Revenue Raised
(in percent)

	Personal, Corporate, and Property Taxes	Social Security Contributions, Sales, and Payroll Taxes
Japan	58.2	41.5
U.S.	54.5	45.5
U.K.	50.9	49.5
Italy	39.4	60.7
W. Germany	37.2	62.7
France	22.6	74.2

Source: H. Aaron, Wall Street Journal, February 14, 1990.

LOOKING AT THE WHOLE PICTURE: TAXES AND TRANSFERS

The Ways and Means study not only has significant flaws in design and execution, it is by nature incomplete. Its myopic focus on the tax system ignores the highly progressive nature of the Government's tax and transfer system taken as a whole.

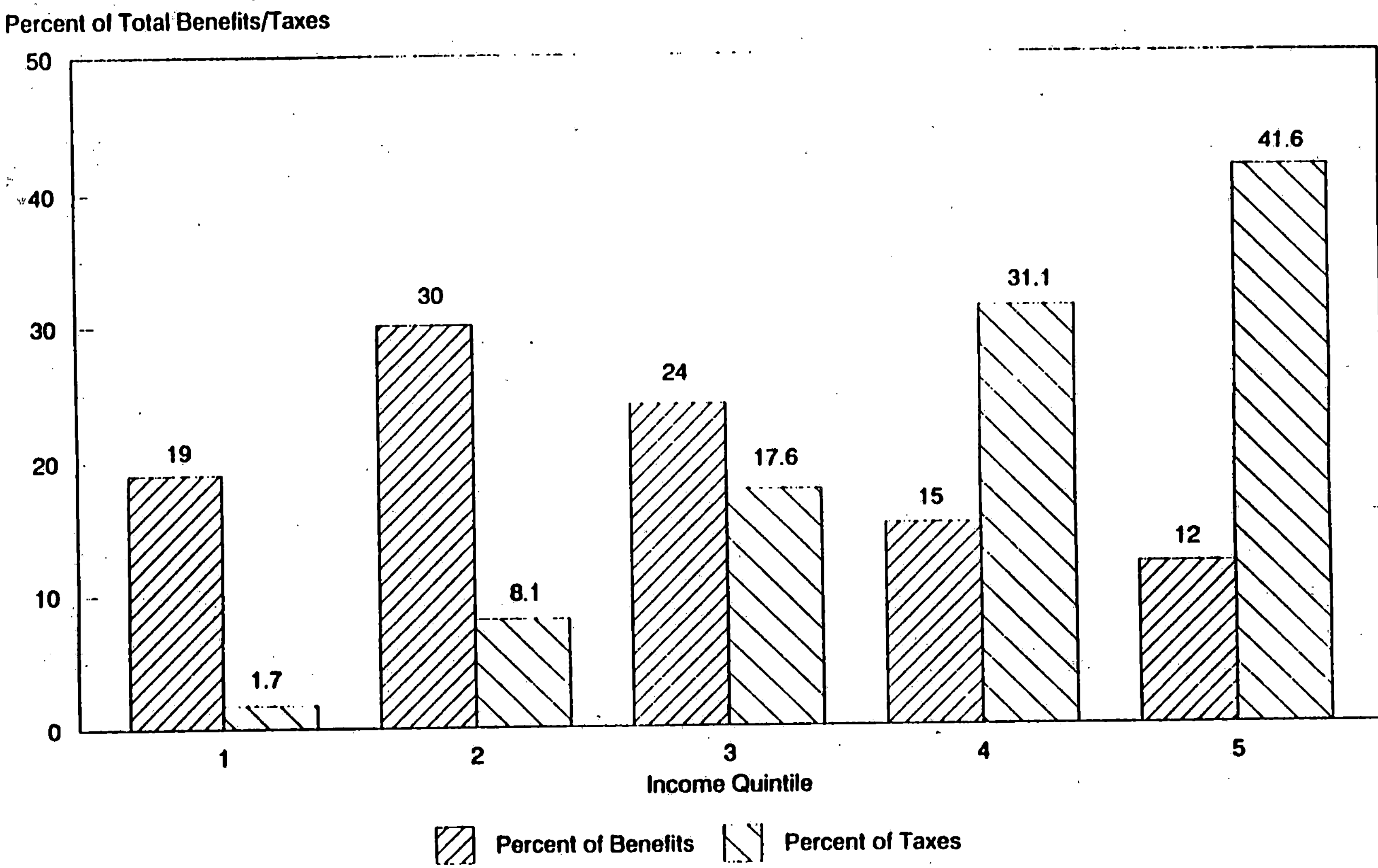
Progressivity of Social Security

When the overall structure of payroll taxes and benefits is examined, Social Security is found to be one of the most progressive of Government programs. Chart 1 shows the highly progressive nature of Social Security when payroll taxes are netted against Social Security benefits. (The chart shows taxes and benefits by income group, not taxes and benefits for individual

CHART 1

Share of Social Security Benefits Received and Taxes Paid by Income Quintile

1987



Source: Social Security Administration

Notes: (1) Quintiles are based on Census money income and are not directly comparable to CBO quintiles.

(2) Benefits and taxes are shown for quintiles and do not necessarily represent payments and receipts for each family.

families.) At any point in time, lower income groups receive much more back in benefits than they pay out, while the reverse is true at the upper end of the spectrum.

For individuals, as opposed to income groups, Social Security is also progressive because low-income individuals receive proportionally more Social Security benefits relative to their contributions than do high-income beneficiaries. Also, historically Social Security has provided benefits that have permitted older generations to share in the growth of real incomes occurring after their retirement, producing a progressive impact across generations.

Growth of Government Transfers

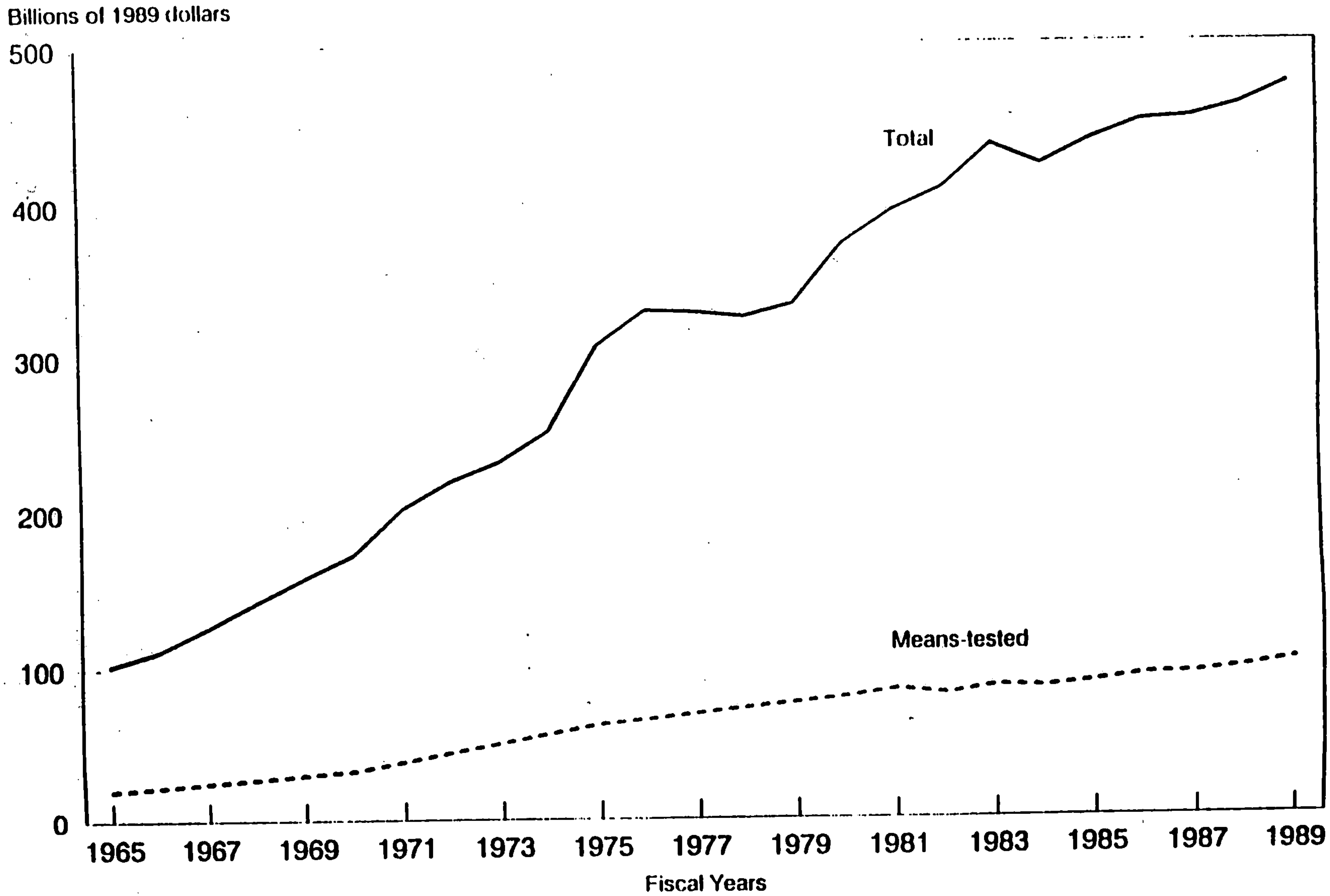
The role of Government transfers extends far beyond Social Security. Substantial growth in the size of Government transfer payments continued during the 1980s, raising living standards of low-income families. As shown in Chart 2, the real value of Federal transfer payments--both total and means-tested--rose 28 percent between 1980 and 1989.

Overall Progressivity of Taxes and Transfers

The Federal tax and transfer system is highly progressive. The total effect of taxes and transfers in 1987 was to reduce overall income inequality substantially, as measured by the most commonly used index of income

CHART 2

Real Federal Transfer Payments



Source: Office of Management and Budget.

concentration. For the lowest quintile, taxes and transfers increased their share of total cash and noncash income by 3.7 percentage points, from 1.0 percent to 4.7 percent (Table 5). For the top quintile, taxes and transfers reduced their income share by 6.6 percentage points. While income and payroll taxes reduce income inequality, Government transfers have produced the bulk of the reduction in income inequality, again measured using the most common index of income inequality.

While it would be useful to compare 1987 with earlier years to gauge how the tax and transfer system has affected the income distribution over time, data are not published in a comparable form for all noncash transfers in years prior to 1986. Even if it were possible to extend the comparisons, year-to-year variations in the measured progressivity of the tax and transfer system should be viewed with caution. These changes are not necessarily the result of changes in policy, but also reflect the influences of recessions, changing family structures, inflation, and other factors. In general, in recent years, changes in the distributional effect of the Federal Government tax and transfer system have been negligible compared with the large, progressive nature of the basic system itself.

Table 5

Income Distribution Before and After Taxes and Transfers
1987

Income Quintile[a]	(1) Income Excluding Transfers[b]	(2) Income After Taxes[c]	(3) After-Tax Income plus Transfers[d]	(4) Net Impact[e]
	-------- percent	---------		percentage points
1	1.0	1.2	4.7	3.7
2	7.6	8.5	10.6	3.0
3	15.2	15.8	16.1	0.9
4	24.3	24.8	23.2	-1.1
5	52.0	48.5	45.4	-6.6

[a] Quintiles of households, defined using income definition in each column.
[b] Money income plus capital gains and health insurance, less government transfers.
[c] Income as in b, less Federal and state income taxes and employee social security payroll taxes.
[d] Income as in c, plus cash and non-cash government transfers.
[e] Net impact of taxes and transfers on the share of after-tax income; column (3) minus column (1).

Source: Bureau of the Census (1989)

REFERENCES

H. Aaron, Wall Street Journal, February 14, 1990.

Committee on Ways and Means, U.S. House of Representatives, Background Materials on Federal Budget and Tax Policy for Fiscal Year 1991 and Beyond, February 1990.

Congressional Budget Office, The Changing Distribution of Federal Taxes: 1975-1990, October 1987.

Congressional Budget Office, The Changing Distribution of Federal Taxes: A Closer Look at 1980, July 1988.

PRELIMINARY DRAFT

REVENUE OPTIONS

AS SUGGESTED BY VARIOUS PARTIES

NOTE: INCLUSION OF AN OPTION

DOES <u>NOT</u> 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

<u>Possible expenditure offsets to 5a or b:</u>

* 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

X-7 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. <u>33% top rate</u>: 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. <u>35% top rate</u>: 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.

	Current Tax	Proposal
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.

	Current Tax	Proposal
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:

	Tax	Current price	Implicit Rates
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:

	Tax	Current price
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:

	Current tax	Option	
6 pack of beer	$ .16	$ .72	+.56
Bottle of table wine	$ .03	$ .90	+.87
Bottle of distilled spirits	$2.00	$2.56	+.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:

	Current tax	Option
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:

	Current tax	Option
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:

	Current tax	Option (1991)
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 threshholds:
- Automobiles - $25,000
  Boats and yachts - $25,000
  Furs - $500
  Private aircraft - no threshhold.

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 threshholds:
  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

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

Top End

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 <u>or</u> 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 <u>and</u> 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 (<u>i.e.</u>, maximum exclusion, 35%) <u>or</u> 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. <u>IRA/FSA Combination</u>:

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 <u>or</u>

* 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 <u>or</u>

* 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 (<u>i.e.</u>, restore pre-1986 law) <u>or</u>

* $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

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&E allocation rules.

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

g. R&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&E allocation rules.

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

g. R&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

DEBATE

Drop the push for capital gains tax cut

For two years, President Bush and Congress have been telling us we've got to do something about the budget deficit.

They're doing something all right. They're watching it grow: from $68 billion to $232 billion just this year.

Right now, they may be closer than ever to putting together a combination of spending cuts and tax hikes that would reduce the crippling federal budget deficits.

But President Bush, as you can read in the column across this page, insists on cutting the capital gains tax, the tax on investment profits, as part of any deficit-reduction package.

Never mind that no one has put together a formula yet that would do much to erase the budget deficit.

Never mind that cutting the tax could make the deficit worse, not better.

And never mind that economists disagree whether a capital gains tax cut really would stimulate the economy.

Of eight analyses of lower capital gains taxes reviewed by the Congressional Budget Office, five concluded it is not likely to increase savings or investments very much.

President Bush ought to drop the proposal. It's an issue for another day. Right now, it is holding up progress while the meter keeps running up higher budget deficits.

The president has been crusading to cut the tax for 25 years — since he was a young congressman from Texas.

Now, that crusade could sink the budget summit with congressional leaders that the president called in May.

If we can negotiate an arms reduction with Mikhail Gorbachev, then our president and our Congress ought to be able to negotiate a deficit reduction.

They can't expect average income people to pay higher taxes for energy, air travel, alcohol, and tobacco, then go along with tax giveaways to the wealthy.

The deficit is pushing the country toward a recession. And keeping interest rates so high that people can't buy homes, or cars. Banks are falling into financial trouble. The cost of bailing out the savings and loans is going up.

In 11 days, severe across-the-board budget cuts kick in.

Somebody has to take charge. Somebody needs to lead.

Federal Reserve Chairman Alan Greenspan says interests rates would fall if the president and members of Congress could agree on a real deficit-reduction package soon. That could boost housing construction and revive the stock market and even increase exports.

President Bush and Congress must come up with a comprehensive, fair plan that balances spending cuts and tax increases, including the upper rates of the income tax, to stop these deficits from destroying our economy.

Curtailing deficit spending won't be easy now, with the economy so weak, the expense of keeping peace in the Mideast and oil prices rising. Not to mention the congressional elections just around the corner.

There may be economic reasons for granting tax breaks for profits on the sale of stocks and bonds. But it should never be done for political reasons.

The budget deficit meter has to be stopped. It's hurting us all, rich and poor.

Forget about cutting taxes for the wealthy and get on with cutting the deficit for us all.

LAWRENCE B. LINDSEY

An opposing view

Let's push now for capital gains tax cut

WASHINGTON — We must cut the capital gains rate now to stimulate economic growth, job creation, capital formation and technological innovation, and to enhance America's competitive position in the world.

A capital gains tax cut will provide growth insurance against a possible recession in the near term.

History has shown that when capital gains taxes are high — and they have never been higher in America than they are right now — potential sellers hang onto their assets and potential buyers are discouraged from investing.

The result is depressed real estate prices and a sluggish stock market, something the USA can't afford.

Lawrence B. Lindsey is special assistant to President Bush for policy development.

Further, a capital gains rate cut would be particularly beneficial to small businesses and start-up companies because they rely heavily on high-risk equity capital.

Large established firms have access to bond markets and bank loans which aren't particularly affected by a capital gains rate cut.

America's new companies and small firms are the future strength of the USA. They represent the emerging growth industries that will provide the high-paying jobs that we will need in the 1990s and the competitive muscle the USA will need to stay on top in the 21st century. Let's not hobble their future growth by starving them of capital today.

While the Congress debates whether the capital gains rate should stay at 28% or be cut to 15%, the rate levied by our most competitive trading partners is zero.

The tax rate is zero in Korea, Taiwan, Hong Kong, and Singapore.

Japan had a zero capital gains rate during most of its post-war economic boom. Even today in Japan an investor in a successful new firm pays an effective rate of only 1% or 2%.

Germany has a zero capital gains tax rate on corporate stock.

These low rates have provided a powerful advantage for foreign businesses against whom U.S. workers must compete.

The USA cut its capital gains rate in 1978 and again in 1981. Both times the government collected more revenue from the extra trading activity.

We raised rates in 1986 and revenue fell as investors went to the sidelines.

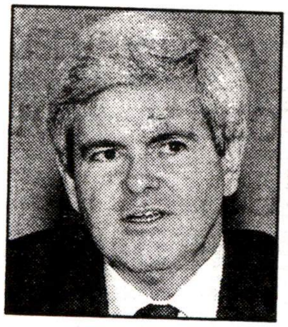
Everyone wins from a capital gains tax cut — senior citizens who pay a disproportionate share of capital gains taxes, investors, businesses, workers, taxpayers — and the U.S. Treasury.

America deserves a capital gains tax rate cut now.

1st of 2 pages

USA TODAY: FRIDAY, SEPT. 21, 1990--CAPITAL GAINS TAX CUT

VOICES/Should the capital gains tax be cut?



Newt Gingrich, 47
U.S. congressman
Jonesboro, Ga.

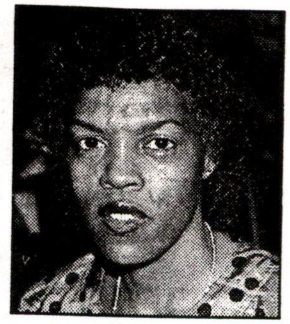
As the economy weakens, it is vital that any deficit reduction package includes initiatives to make the economy grow and create new jobs. The Republican jobs initiative would create 500,000 jobs in the first year, and 2.5 million over the next five years. The Democrat proposal offers no initiative to create jobs.

Barbara Crowley, 45
Marketing executive
Sausalito, Calif.

No. I would love to have my investments at a lower tax rate, but right now, that just flies in the face of reason. We have a deficit that is unbelievable, and to think of having any kind of a tax cut right now is insane, especially at the same time that we're putting extra taxes on the elderly for Medicare.

J. David Pena, 30
Lawyer
Miami, Fla.

Yes. I firmly support President Bush's plan for a reduction in the capital gains tax. Areas such as South Florida, which are traditionally growth areas, are starting to feel the pinch of the recession. Reducing the capital gains tax is one of the ways that I believe the economy will get a kick start.

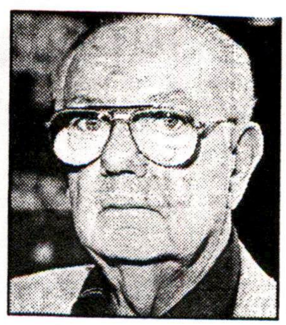


Pearl C. Bullock, 40
Nurse
Durham, N.C.

The way I look at things, the middle and lower classes always come up with the short end of the stick. There's no way around it. And the people who can afford to pay more taxes always get a break. When they start talking about tax cuts, they're always thinking about how the top people will get ahead.

Sandra Harriman, 39
Director of development
Laurel, Md.

I support the president's position on a capital gains tax cut. The wealthy do reinvest their money, and it does seem to stimulate the economy. At the same time, I'm also concerned about the deficit. I feel strongly that both parties need to work out a compromise to solve the problem to benefit everyone.



Hugh Whitmore, 77
Retired engineer
Huron, S.D.

No. I don't think it's the right thing to do right now. I have a little stock, but I don't believe that I'd make much money on it if I sold it. And I don't believe that the people who have a lot of investments — the ones who will benefit the most from a tax cut — are going to rush out and sell just because of it.

2nd of 2 pages

PRELIMINARY DRAFT

REVENUE OPTIONS

AS SUGGESTED BY VARIOUS PARTIES

NOTE: INCLUSION OF AN OPTION

DOES <u>NOT</u> 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

<u>Possible expenditure offsets to 5a or b:</u>

* 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. <u>33% top rate</u>: 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. <u>35% top rate</u>: 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.

	Current Tax	Proposal
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.

	Current Tax	Proposal
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:

	Tax	Current price	Implicit Rates
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:

	Tax	Current price
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:

	Current tax	Option
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:

	Current tax	Option
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:

	Current tax	Option
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:

	Current tax	Option (1991)
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 threshholds:
Automobiles - $25,000
Boats and yachts - $25,000
Furs - $500
Private aircraft - no threshhold.

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 threshholds:
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

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 <u>or</u> 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 <u>and</u> 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 (<u>i.e.</u>, maximum exclusion, 35%) <u>or</u> 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. <u>IRA/FSA Combination</u>:

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 <u>or</u>

* 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 <u>or</u>

* 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 (<u>i.e.</u>, restore pre-1986 law) <u>or</u>

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

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

[illegible]

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

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&E allocation rules.

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

g. R&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&E allocation rules.

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

g. R&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&E allocation rules.

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

g. R&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