Originally Processed With FOIA(s):
1998-0004-F[1]; 1998-0251-F

FOIA Number:
1998-0004-F[1]; 1998-0251-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files

OA/ID Number: 29138
Folder ID Number: 29138-003

Folder Title:
Budget Summit [1990] [1]

Stack:	Row:	Section:	Shelf:	Position:
G	10	18	3	2

Real · Honest · Credible

Tax, Indiv — Defense · Auto tax ↑ out

~~Cap gains~~ ↑B · Good pack → Best can get — 6th to zero —

Politics · Pres · The sole effort ...

BUDGET SUMMIT AGREEMENT

September 30, 1990

I. Summary Tables

A. Deficit Reduction 1
B. Deficit Targets and Proposed Savings 2
C. Baseline Amounts and Reductions by Category 3

II. Agreement by Major Category

A. Discretionary Programs 4
B. Mandatory/Entitlements/User Fees -- OMB and CBO Scoring 5
C. Tax and Receipt Changes 17

III. Budget Process Reform and Enforcement 36

IV. Agreement Concerning Enactment 41

V. Note on Economic Assumptions and Major Technical Revisions

A. Economic Assumptions 44
B. Major Technical Revisions 45

VI. Miscellaneous Additional Understandings 46

— Credible · Works

Auto tax on sequester · pers. tax ↑

The vote for first time · This is presidential vote

Defense Gutting

TEFRA

30-Sep-90
08:55 AM

TABLE I.A.--DEFICIT REDUCTION
(in billions of dollars)

	1991	1992	1993	1994	1995	91-95
Discretionary:						
Domestic	--	--	-- }			
International	--	--	-- }	53.2	62.0	182.4
Defense	9.8	22.6	34.8 }			
Mandatory	12.1	20.9	23.9	28.8	33.3	119.0
Tax and receipt measures	16.2	26.7	27.0	32.1	31.8	133.8
Interest	2.0	6.5	12.2	18.4	25.7	64.8
Total deficit reduction	40.1	76.7	97.9	132.5	152.8	500.0

30-Sep-90
10:09 AM

TABLE I.B.--DEFICIT TARGETS AND PROPOSED SAVINGS
(in billions of dollars)

	1991	1992	1993	1994	1995	91-95
Mid-Session baseline consolidated deficit	231.4	205.0	135.2	79.6	76.8	728.0
Adjustments for:						
Economics	30.4	58.4	54.4	35.8	19.3	198.3
Technical changes	31.2	41.5	37.1	0.1	-12.0	97.9
Enacted legislation and regulations	0.7	1.2	0.6	0.3	0.4	3.2
Subtotal, adjustments	62.3	101.1	92.1	36.2	7.7	299.4
Current baseline consolidated deficits	293.7	306.1	227.3	115.8	84.5	1027.4
Proposed savings	-40.1	-76.7	-97.9	-132.5	-152.8	-500.0
Agreement consolidated deficits (+) or surplus (-)	253.6	229.4	129.4	-16.7	-68.3	527.4
Agreement GRH deficits (excludes deposit insurance and social security)	205.0	197.1	168.6	111.6	63.3	745.6
Revised GRH targets	205.0	197.1	168.6	111.6	63.3	745.6

30-Sep-90

TABLE I.C.--BASELINE AMOUNTS AND REDUCTIONS BY CATEGORY
(in billions of dollars)

	1991	1992	1993	1994	1995	91-95
Total Discretionary						
Adjusted baseline	522.9	546.1	567.4	588.0	602.8	2827.2
Savings	-9.8	-22.6	-34.8	-53.2	-62.0	-182.4
Agreed Level	513.1	523.5	532.6	534.8	540.8	2644.8
Mandatory						
Adjusted baseline	664.8	692.7	678.5	651.1	703.8	3390.9
Savings	-12.1	-20.9	-23.9	-28.8	-33.3	-119.0
Agreed level	652.7	671.8	654.6	622.3	670.5	3271.9
Interest						
Adjusted baseline	197.0	203.0	205.6	204.0	199.8	1009.4
Savings (includes revenues)	-2.0	-6.5	-12.2	-18.4	-25.7	-64.8
Agreed level	195.0	196.5	193.4	185.6	174.1	944.6
Total Outlays						
Adjusted baseline	1384.7	1441.8	1451.5	1443.1	1506.4	7227.5
Savings	-23.9	-50.0	-70.9	-100.4	-121.0	-366.2
Agreed level	1360.8	1391.8	1380.6	1342.7	1385.4	6861.3
Tax and Receipt Measures						
Adjusted baseline	1121.4	1194.2	1278.6	1363.0	1441.1	6398.3
Savings	16.2	26.7	27.0	32.1	31.8	133.8
Agreed level	1137.6	1220.9	1305.6	1395.1	1472.9	6532.1
Revised Economic Assumptions						
Adjusted baseline/Agreed level	30.4	58.4	54.4	35.8	19.3	198.3
Consolidated Deficit						
Adjusted baseline	293.7	306.1	227.3	115.8	84.5	1027.4
Savings	-40.1	-76.7	-97.9	-132.5	-152.8	-500.0
Agreed level	253.6	229.4	129.4	-16.7	-68.3	527.4
GRH Deficit (excludes deposit insurance and social security)						
Adjusted baseline	243.1	271.7	264.2	241.7	213.6	1234.3
Savings	-38.1	-74.5	-95.5	-130.0	-150.1	-488.2
Agreed level	205.0	197.2	168.7	111.7	63.5	746.1
ADDENDUM (Agreed Level)						
Social security operating surpluses	48.7	47.3	60.2	74.6	86.8	317.6
Deposit insurance	97.3	79.6	21.0	-53.6	-44.8	99.5

30-Sep-90
09:50 AM

TABLE II.A.--DISCRETIONARY PROGRAMS
(in billions of dollars)

	1991		1992		1993		1994		1995		1991-1995	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Defense:												
Baseline 1/	313.6	306.2	326.0	316.9	338.3	326.1						
Savings	-25.1	-9.8	-35.1	-22.6	-47.2	-34.8						
Agreed level 2/	288.5	296.4	290.9	294.3	291.1	291.3						
International:												
Adjusted baseline 3/	20.1	18.6	20.5	19.1	21.4	19.6						
Savings	--	--	--	--	--	--						
Agreed level	20.1	18.6	20.5	19.1	21.4	19.6						
Domestic:												
Adjusted baseline 3/	182.7	198.1	191.3	210.1	198.3	221.7						
Savings	--	--	--	--	--	--						
Agreed level	182.7	198.1	191.3	210.1	198.3	221.7						
TOTAL DISCRETIONARY:												
Adjusted baseline	516.4	522.9	537.8	546.1	558.0	567.4	570.1	588.0	588.0	602.8	2770.3	2827.2
Savings	-25.1	-9.8	-35.1	-22.6	-47.2	-34.8	-58.6	-53.2	-69.6	-62.0	-235.6	-182.4
Agreed level	491.3	513.1	502.7	523.5	510.8	532.6	511.5	534.8	518.4	540.8	2534.7	2644.8

1/ The adjustments for revised economics for defense accounts will be made in March, 1991.

2/ Agreed Level:

Defense discretionary	288.5	296.4	290.9	294.3	291.1	291.3
Defense mandatory	0.6	0.6	0.7	0.7	0.7	0.7
Total defense	289.1	297.0	291.6	295.0	291.8	292.0

3/ Adjustments for anomalies to the GRH baseline include subsidized housing contract renewels and revised scoring of certain lease purchase contracts.

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	CBO Savings		OMB Savings		CBO less OMB	
	1991	91-95	1991	91-95	1991	91-95

The Summit negotiators agreed to total savings in the amounts listed below (under OMB scoring) for the programs indicated. Except where specifically noted, the policies described are illustrative only. The committees of jurisdiction retain the right to achieve the savings required through alternative policies. However, the President and the Bipartisan Leadership have pledged their best efforts to deliver a legislative package that fully reflects the Summit Agreement, as is noted specifically in Part IV, "Agreement Concerning Enactment."

MANDATORY/ENTITLEMENTS

	CBO 1991	CBO 91-95	OMB 1991	OMB 91-95	CBO less OMB 1991	CBO less OMB 91-95
1 Agriculture CCC	1,300	13,000	1,300	13,000	---	---

It is presumed that these savings would be achieved through a combination of target price and/or base acre reduction programs (potentially including the "triple base" approach). "Triple base" means that acres which become ineligible for deficiency payments could be planted to any crop. The following provides OMB scoring of several possible options:

	FY91	FY91-95
2% per year target price cut and 3% per year base acre reduction	500	12,400
One time 2% target price cut and one-time 15% "triple base" cut:	1,000	12,200
One-time 25% "triple base" cut (no target price reduction):	1,100	13,800

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	CBO Savings		OMB Savings		CBO less OMB	
	1991	91-95	1991	91-95	1991	91-95
2 Medicare......................................	4,600	60,000	4,850	59,911	-250	89

	FY91	FY91-95
Medicare Beneficiaries:		
Deductible/Premium/Coinsurance*		
CBO	1,725 *	27,775 *
OMB	1,750 *	29,911 *

Policy agreement assumes a) $100, $125, $150, $150, $150 ('91-'95) deductible, b) 20% clinical lab coinsurance and c) a Part B premium of 30%.

	FY91	FY91-95
Providers		
CBO	*	*
OMB	*	*

* Scoring has varied between CBO/OMB and estimates are subject to change. Agreement assumes this beneficiary policy and that the total Medicare savings will be a minimum of $4.6 b ('91) and $60.0 b ('91-'95). This difference between the beneficiary total and the overall target will be met with reductions in reimbursement to providers (approx. $30-35 b over 5 years).

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	CBO Savings		OMB Savings		CBO less OMB	
	1991	91-95	1991	91-95	1991	91-95

Specific policies have not been identified, but the following policy changes would produce savings beyond those needed to meet these assumptions:

Part A: MBI at 4.1% in FY91; MBI -.75% in FY92; capital at 85% (continuation of current law); indirect medical education at 6.0% [Total: 2.2/16.3]

Part B: Reduce payment for overpriced procedures; update primary care services only; reduce payment for overpriced localities; cap technical copayment of diagnostic tests; extend payment limit on new physicians; limit radiology to 90% and limit technical reimbursement; limit anesthesiology to 90%; limit supervised anesthesia payments; reform assistant at surgery payments; limit surgical global fee payment; ESRD secondary payor identification; outpatient capital at 85%, effective FY92; Durable medical equipment payment reforms; reform clinical lab payments [Total: 1.3/12.5]

Other: Medicare secondary payor policies (continuation of current law); eliminate return on equity for SNFs [Total: .1/6.1]

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	CBO Savings		OMB Savings		CBO less OMB	
	1991	91-95	1991	91-95	1991	91-95
3 Eliminate lump sum Civil Service Retirement	1,000	8,100	1,000	8,100	0	0

Federal employees currently may withdraw a portion of their pension funds in lump sum at retirement. Current law, through FY90, allows this lump sum to be paid in 2 annual installments. This will eliminate the lump sum option, effective 11/1/90 (1 month after announcement of agreement).

	CBO Savings		OMB Savings		CBO less OMB	
4 Other Post Office/Govt. Affairs	935	6,300	935	6,300	0	0

Although the agreement does not identify specific policies, it is assumed the following options or options substantially similar will be used to meet the savings total:

	FY91	FY91-95
Postal Service Reform/FEHB funding		
CBO	689	4,200
OMB	689	4,200

Requires Postal service to pick up the employer health care premium component of its annuitants who retired between 1971 and 1986. The employer portion of these benefits is now paid from general revenues. This was expected to be part of OBRA '89, but postal reforms were not included in Reconciliation/ USPS off budget package.

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

		FY91	FY91-95					
			CBO Savings		OMB Savings		CBO less OMB	
			1991	91-95	1991	91-95	1991	91-95
Extend Medicare limits to 65+ FEHB								
(mand)	CBO	250	1,080					
(mand)	OMB	185	1,195					
[Disc Memo / CBO]		[0]	[810]					
[Disc Memo / OMB]		[185]	[1,195]					

Includes the 1% of 65+ population not covered by Medicare (pre - 1984 civil service retirees still under FEHB) under the Medicare payment limits. Holds physician payments to Medicare rates and should actually reduce beneficiary premium costs.

	FY91	FY91-95
Increase Postal Service Contributions to CSRS		
CBO	0	1,187
OMB	0	1,187

Beginning in 1994, the Postal Service would increase contributions to the Civil Service Retirement Fund to pay for annuity COLA benefits that current Postal Service employees will receive after they retire. The new rate applies only to Postal Service employees covered by the CSRS.

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	CBO Savings		OMB Savings		CBO less OMB	
	1991	91-95	1991	91-95	1991	91-95
5 Unspecified Energy & Commerce/Finance	220	2,600	220	2,600	0	0

A combination of the following Medicaid proposals are presumed to make up these savings:

	FY91	FY91-95
Prudent Pharmaceutical Purchasing		
CBO	220	1,611
OMB	220	1,611

Manufacturers of the multiple source (generic) drugs with the highest Medicaid volume would bid to become sole source providers for individual Medicaid drugs in each State. For single source drugs (patented), manufacturers would be limited to charging Medicaid the best price given any bulk purchaser in State, subject to a maximum discount (20% in '91) and a minimum discount (10%), with savings returned to Medicaid through quarterly rebate. Numerous drug companies have recently proposed similar packages. VA and DOD already receive such discounts. Savings will be tied to the Medicaid baseline through a year-end reconciliation with state programs to assure achievement of baseline savings.

Pay employee health premium, if cost effective		
CBO	120	1,090
OMB	110	1,100

Many Medicaid beneficiaries have parents or spouses who have employer health coverage that could cover family members. This would allow states to opt for payment of private insurance premiums for qualified family members if those premiums are if cheaper than Medicaid coverage. Many states already do so.

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	CBO Savings		OMB Savings		CBO less OMB	
	1991	91-95	1991	91-95	1991	91-95
6 GSL reforms	0	2,000	0	2,000	0	0
7 Fund rail pension liability	25	200	25	200	0	0
8 Social Security Overpayments	26	160	26	160	0	0

6 GSL reforms

Reform GSL by identifying for disqualification proceedings the worst high default schools, with special provisions to help protect good schools with high rates; improve guarantee agency oversight and financial strength; protect students and reduce program abuses.

7 Fund rail pension liability

Railroads did not accrue retirement payments sufficient to meet systems obligations. Pension fund has $34 billion unfunded liability. This proposal funds only a small portion of the underfunding (approx. 1/20) Scoring assumes a .40% increase on the RRB wage base payroll (capped at $38,100). Alternative policy would use recalculation at current rates, but attributing employer contributions on a rolling 10 yr. base to account for reduced number of rail employees and thus greatly reduced contribution by some railroads.

8 Social Security Overpayments

Collect outstanding social security overpayments by withholding the amount due from Federal income tax refunds. Use tax refund offsets only for amounts owed by former beneficiaries, and only when benefit adjustments or direct payments by the overpaid individual have not been successful.

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

		CBO Savings		OMB Savings		CBO less OMB	
		1991	91-95	1991	91-95	1991	91-95
9	FHA Assignment	193	965	193	965	0	0
	This proposal would offer a cash settlement to lenders not to assign eligible section 221(g)(4) mortgages to HUD's FHA.						
10	Other FHA Reforms	200	2,500	200	2,500	0	0
	Assumes the elimination of distributive shares and the retention of current loan limits. Also assumes enactment of S.566 or similar reforms necessary to restore actuarial soundness. Per the agreement, it is understood that any proposals must include an aggregate increase in the actuarial soundness of the FHA loan program.						
11	Unemployment Insurance	0	4,600	0	3,165	0	1,435
	States would not pay employment benefits for the first two weeks after job separation. 41 states currently have a one week delay.						
12	Tongass Forest	28	204	28	204	0	0
	Elimination of permanent appropriation for Tongass timber fund.						

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	CBO Savings 1991	CBO Savings 91-95	OMB Savings 1991	OMB Savings 91-95	CBO less OMB 1991	CBO less OMB 91-95
13 Unspecified Veterans	500	2,700	500	2,700	0	0

Specific policies have not been identified. However, the following proposals have been discussed and would meet these savings totals:

- — Expand and improve third party recoveries in medical care;
- — in the loan guaranty program, include resale losses in net-value and allow eligibility for only 10 years after service;
- — in compensation and pensions, limit inheritance of remote heirs and do not pay compensation for secondary effects of willful misconduct; and verify pension eligibility as well as revise eligibility for veterans over age 65.

	CBO Savings 1991	CBO Savings 91-95	OMB Savings 1991	OMB Savings 91-95	CBO less OMB 1991	CBO less OMB 91-95
14 Miscellaneous Other Mandatory Entitlements/Fees	600	3,000	600	3,000	0	0

Specific selection of this set of mandatory savings is to be determined by the summit negotiators prior to enactment of the reconciliation bill.

	CBO Savings 1991	CBO Savings 91-95	OMB Savings 1991	OMB Savings 91-95	CBO less OMB 1991	CBO less OMB 91-95
Subtotal, Mandatory/Entitlements	9,627	106,329	9,877	104,805	-250	1,524

30-Sep-90
10:43 AM

TABLE II.B.--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(Outlay savings in millions of dollars)

	CBO Scoring		OMB Scoring		CBO less OMB	
	1991	1991-1995	1991	1991-1995	1991	1991-1995
MANDATORY/USER FEES						
1 Animal and plant health inspection........................	79	433	79	433	--	--
Establish a fee that would recover the cost of certain veterinary diagnostic services, import-export inspections, and agricultural quarantine inspections at ports of entry.						
2 Bank Insurance Fund assessment increase...........	999	4,045	999	4,045	--	--
The Bank Insurance Fund fee increase is consistent with legislation recently proposed by Gonzalez, Riegle, and the Administration. The legislation would remove restrictions on FDIC's ability to raise rates. The estimates assume that, if the legislation passes, rates will increase from .15 percent of deposits to .195 percent in FY 1991 and to .23 percent thereafter.						
3 Coast Guard: $25 annual decal...........................	200	1,077	200	1,077	--	--
Charge each recreational and commercial boater using waterways patrolled by the Coast Guard $25 annually for a decal, and charge direct fees for specific Coast Guard services, such as licensing and inspections.						
4 Corps of Engineers recreational fee......................	20	100	20	100	--	--
Establish fees at developed recreational sites administered by the Corps. Receipts would be used to expand operation and maintenance activities at the recreational sites beginning in 1992.						
5 Customs passenger and merchandise processing..	291	2,256	--	2,823	291	-567
Extend the merchandise and passenger processing fees. The proposal should be structured to ensure that the higher target and equivalent deficit reduction are accomplished.						
6 EPA permit, certification, and registration fees......	18	134	31	155	-13	-21
Establish fees on EPA-issued water permits, auto fuel and certification tests, radon proficiency ratings, and pesticide registrations.						

30-Sep-90
10:43 AM

TABLE II.B.--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(Outlay savings in millions of dollars)

		CBO Scoring		OMB Scoring		CBO less OMB	
		1991	1991-1995	1991	1991-1995	1991	1991-1995
7	FEMA flood and crime insurance..........................	14	833	14	224	--	609
	For FEMA flood insurance, increase fees on policy holders to recover the cost of administering the program; and establish a student registration fee of $25 per week or any part of a week for State and local officials attending training sessions at the Emergency Management Institute or the National Fire Academy. The Democratic estimates include savings from reauthorization of the existing program. These should not be counted as savings, since the baseline assumes the program continues.						
8	Forest Service recreational fee............................	8	40	8	40	1	1
	Broaden the type of existing fees that may be charged at Forest Service recreation facilities, with increased receipts funding the cost of associated recreation operation and maintenance beginning in 1992.						
9	Hardrock mining claim holding fee........................	--	120	78	390	-78	-270
	Establish an annual fee of $100 per claim to keep mining claims on public lands active, replacing the current Federal requirement that claimholders spend at least $100 per year on development of the claim.						
10	NOAA weather service..	5	25	5	25	--	--
	Establish fees to recover NOAA costs associated with providing weather data and information.						
11	Nuclear Regulatory Commission...........................	299	1,661	296	1,646	3	15
	Increase existing fees to recover 100 percent of the NRC's costs incurred in regulating nuclear power plants.						

30-Sep-90
10:43 AM

TABLE II.B.--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(Outlay savings in millions of dollars)

	CBO Scoring		OMB Scoring		CBO less OMB	
	1991	1991-1995	1991	1991-1995	1991	1991-1995
12 OSHA/MSHA fees..	95	1,130	95	1,130	--	--
Increase the penalties for not complying with the law. For OSHA, the maximum fine for non-serious violations would increase from $1,000 to $5,000 per violation. For serious violations, the maximum OSHA fine would increase from $10,000 to $50,000; and for MSHA, from $10,000 to $30,000.						
13 Patent and trademark..	100	540	100	540	--	--
This increase would fully fund the program in 1991; all applicants would be required to pay a fee; and public search rooms would be operated on a fee basis.						
14 Pension Benefit Guaranty Corporation (PBGC)......	120	640	120	640		
Amend ERISA to raise the basic PBGC insurance premium rate, the maximum variable rate portion of the premium, and the assessment per $1,000 of unfunded vested benefits.						
15 Railroad safety inspections..................................	20	170	20	170	--	--
Establish a fee, to be phased in over two years, to cover the cost of the railroad safety program.						
16 U.S. Travel and Tourism Administration (USTTA).	7	43	7	63	--	-20
Establish a fee to be assessed on commercial airlines and cruise ship carriers to recover the full cost of USTTA operations. Under the proposal, USTTA would still require an annual appropriation.						
17 Veterans fees (unspecified).................................	120	650	120	650	--	--
Subtotal, Mandatory/User Fees..................................	2,395	13,897	2,192	14,152	203	-255
TOTAL MANDATORY..	12,308	120,226	12,069	118,957	239	1,269

#90-3 231
PRELIMINARY
30-Sep-90

II.C. TAX AND RECEIPT TABLES

- BUDGET SUMMIT AGREEMENT -

Fiscal Years 1991-1995

[Billions of Dollars]

Item		Effective	1991	1992	1993	1994	1995	1991-95
A. Budget Outlays								
State and local Social Security offset:								
a. Social Security package [target]		--	-0.5	-0.3	-0.4	-0.4	-0.4	-2.0
b. Medicaid package [target]		--	-0.5	-0.4	-0.4	-0.4	-0.4	-2.0
B. Revenue-Losing Provisions								
1. Enterprise zones [target]		1/1/91	--	-0.1	-0.2	-0.3	-0.4	-1.0
2. Energy incentives [target]		1/1/91	-0.4	-0.6	-0.9	-1.0	-1.1	-4.0
3. Extend certain expiring provisions through 12/31/91:								
a. R&E credit (1)		--	-0.6	-0.4	-0.1	-0.1	(2)	-1.2
b. Low-income housing credit		--	-0.2	-0.3	-0.4	-0.4	-0.4	-1.7
4. Additional growth incentives for certain small businesses:								
a. Minimum basis		10/1/91	0.2	-0.1	-0.2	-0.3	-0.3	-0.7
b. Research and development credit of 30% (1 year)		1/1/91	-0.1	-0.2	-0.1	(2)	(2)	-0.4
c. Deduction for stock purchases (25%)	(3)	1/1/91	-0.4	-1.0	-1.4	-1.9	-2.6	-7.3
d. Indexing of common stock	(4)	1/1/92	(2)	(2)	-0.1	-0.1	-0.2	-0.4
e. 2-year expansion of expensing		1/1/91	-2.8	-3.4	0.7	2.1	1.5	-1.9
f. Additional expensing for scientific equipment		1/1/91	-0.5	-0.6	0.1	0.4	0.3	-0.3
g. Reduce corporate phaseout rate from 5% to 2-1/2%		1/1/91	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
h. Additional growth incentives subject to mutual agreement [target]		--	(2)	-0.1	-0.1	-0.2	-0.2	-0.6
5. Increase EITC (5) [target]		1/1/91	-0.1	-1.1	-1.2	-1.3	-1.3	-5.0
Subtotals, Revenue-Losing Provisions			***-5.0***	***-8.0***	***-4.0***	***-3.2***	***-4.8***	***-25.0***

Item		Effective	1991	1992	1993	1994	1995	1991-95
C. Revenue-Raising Provisions								
1. Energy taxes:								
a. Motor fuels tax (5 cents; 10 cents after 7/1/91)(6)		12/1/90	5.4	10.1	9.8	9.9	9.9	45.0
b. 2-cent petroleum tax, (6)		1/1/91	1.4	2.4	2.5	2.7	2.9	11.8
2. Increase tobacco taxes by 4 cents per pack in 1991 and by 4 cents per pack in 1993		1/1/91	0.6	0.8	1.5	1.5	1.5	5.9
3. Beer, wine, and distilled spirits taxes		1/1/91	1.5	2.1	2.1	2.1	2.2	10.0
4. 10% luxury excise tax (7)		1/1/91	0.2	0.3	0.4	0.5	0.5	1.9
5. Ozone-depleting chemical excise tax		1/1/91	0.1	0.1	0.1	0.1	0.1	0.5
6. Loss deductions and salvage values for insurance companies		1/1/90	0.3	0.2	0.2	0.2	0.2	1.1
7. Adopt foreign compliance provisions including certain provisions from H.R. 4308 and S. 2410		3/20/90	(8)	(8)	0.1	0.1	0.1	0.3
8. Amortize insurance policy deferred acquisition expenses (DAC)		9/30/90	1.5	1.7	1.7	1.6	1.5	8.0
9. Leaking underground storage tank (LUST) trust fund (5 years)		10/1/90	0.1	0.1	0.1	0.1	0.1	0.6
10. Increase Airport Trust Fund aviation excise taxes (5 years) (9)	(10)	1/1/91	1.3	2.3	2.5	2.7	3.0	11.8
11. Increase harbor maintenance tax (9)	(11)	1/1/91	0.3	0.3	0.4	0.4	0.4	1.8
12. IRS enforcement initiatives [target]	(11)	--	3.0	1.8	1.8	1.5	1.2	9.4
13. Retiree health with reversion compromise increase [target]		1/1/91	0.5	0.2	0.2	0.1	0.1	1.0
14. State and local HI (12) [target]		1/1/92	--	0.7	1.4	1.6	1.6	5.2
15. Corporate interest deduction partial disallowance [target]		1/1/91	1.4	0.7	0.6	0.4	0.6	3.9
16. Certain business tax provisions [target]		--	0.2	0.3	0.4	0.5	0.6	2.0
17. Limitation on itemized deductions (13) [target]		1/1/91	0.5	4.1	4.0	4.5	4.9	18.0
18. Increase HI wage cap to $73,000 [target]		1/1/91	0.9	2.8	2.9	3.1	3.3	13.0

Item		Effective	1991	1992	1993	1994	1995	1991-95
19. State and local social security (OASDI)	(14)	--	2.0	2.2	2.4	2.5	2.7	11.7
20. Payroll tax deposit stabilization		--	1.0	2.2	-3.2	--	--	--
Subtotals, Revenue-Raising Provisions			*22.2*	*35.4*	*31.8*	*36.1*	*37.4*	*162.9*
Net Deficit Reduction			16.2	26.7	27.0	32.1	31.8	133.8

Joint Committee on Taxation

NOTES: Details may not add to totals due to rounding.
Interaction between or among items has not been taken into account for the purpose of this table.

(1) Base limitation is retained at current level of 50%.
(2) Loss of less than $50 million.
(3) For small business equity deduction, preference included in minimum tax, recapture deduction as ordinary income, and 25% on annual deduction per taxpayer of $50,000.
(4) For stock of small business corporations purchased after date of Summit agreement, allow indexing of basis for inflation occurring after 12/31/90, sold after 12/31/91, and held for at least one year.
(5) Amount does not correspond to that used in the accompanying distributional analysis.
(6) Each State to receive Highway account apportionments and allocations equal to at least 95% of its contribution attributable to increased revenue; 50% of tax on gasoline to trust fund.
(7) Tax applies to specific newly-manufactured items with retail prices above the following thresholds: automobiles--$30,000; private boats and yachts--$100,000; jewelry--$5,000; and furs--$5,000. Tax is 10% of purchase price in excess of thresholds.
(8) Gain of less than $50 million.
(9) Estimate is net of income tax offset.
(10) This estimate is presented relative to the CBO baseline which assumes extension of the Airport and Airway Trust Fund (AATF) taxes with the trigger in effect. The estimate reflects the effects both of removing the trigger and of increasing the rates of certain of the AATF taxes as proposed in the President's budget. Increased revenue to be dedicated to deficit reduction.
(11) Estimate to be provided by the Congressional Budget Office (CBO).
(12) Rate = 0.8% in 1992, 1.35% in 1993, 1.45% in 1994 and thereafter.
(13) Disallow itemized deductions in an amount equal to 3% of AGI in excess of $100,000 for single returns, $100,000 for joint returns, and $100,000 for head of household returns. Proposal does not apply to medical expenses or investment interest. Disallowance under the proposal cannot exceed 80% of otherwise deductible itemized deductions subject to the proposal.
(14) See related outlay offset in Section A.

(Revenue-Losing Provisions in Billions of Dollars)

The Summit negotiators agreed to total savings in the amounts listed below (under OMB scoring) for the programs indicated. Except where specifically noted, the policies described are illustrative only. The committees of jurisdiction retain the right to achieve the savings required through alternative policies. However, the President and the Bipartisan Leadership have pledged their best efforts to deliver a legislative package that fully reflects the Summit Agreement, as is noted specifically in Part IV, "Agreement Concerning Enactment."

	1991	1991-1995
B.1. Enterprise Zones	0.0	-1.0

Provisions, designed to provide tax incentives to specially-designated areas in need of economic assistance, similar to those described in H.R. 4993 and H.R. 5190, as mutually agreed will be adopted with a total revenue cost over the five-year budget period of $1.0 billion.

	1991	1991-1995
B.2. Energy Incentives	-0.4	-4.0

Tax incentives would be provided to enhance energy security, including incentives for oil and gas exploration, production from marginal properties and enhanced oil recovery. In addition, section 29 will be made permanent and extended to tight sands gas. Incentives for ethanol will be modified and extended. The total of energy security incentives including the foregoing will not exceed $4.0 billion over the five-year budget period.

B.3 Extension of Expiring Provisions

Under the agreement, the following provisions would be extended through December 31, 1991:

	1991	1991-1995
a. Research and experimentation credit. The 25% reduction enacted for 1990 will be restored.	-0.6	-1.2

(Revenue-Losing Provisions in Billions of Dollars)

	1991	1991-1995
b. Low-income housing credit. The low-income housing credit allocation limit would also be restored to $1.25 per State resident for 1990 and would be continued at that limit in 1991.	-0.2	-1.7

B.4. Provisions relating to qualified small corporations

Definition of qualified small corporation -- Qualified small corporations are domestic subchapter C corporations with paid-in capital and retained earnings of less than $50 million. Such corporations must be engaged in an active trade or business for at least 5 years (or, if shorter, the period of their existence), and substantially all of the corporation's assets must be used in active trades or businesses. Among the types of corporations that would be excluded are: banks, savings and loan associations, insurance companies, finance companies, securities holding and management corporations, real estate holding and management companies, personal service corporations, regulated investment companies, real estate investment trusts, and cooperatives.

B.4.a. Basis Adjustment for Qualified Small Corporations	0.2	-0.7

An individual who sells common stock of a qualified small corporation acquired after September 30, 1990, and before December 31, 1995 and held for at least five years would be entitled to claim a tax basis in such stock equal to the greater of (i) his adjusted stock basis or (ii) 50% of the sales price. This rule would be available only if such corporation was a qualified small corporation at any time during the two years immediately preceding the date of the stock sale.

B.4.b. 30% research and experimentation credit for qualified small corporations	-0.1	-0.4

Qualified small corporations would be entitled to an additional 10% credit for research and experimentation expenses (resulting in a total credit of 30%) during 1991.

(Revenue-Losing Provisions in Billions of Dollars)

	1991	1991-1995
B.4.c. Deduction for investment in qualified small corporations	-0.4	-7.3

Individuals would be allowed to deduct 25 percent of the purchase price of "qualified small business stock" purchased after December 31, 1990. The amount of the deduction for each individual per year would be limited to $50,000. The individual would reduce the basis of such stock by the amount of the deduction.

"Qualified small business stock" would be defined as common stock of a qualified small corporation originally issued to an individual (either directly or through an underwriter) for money or other property (including debt, but not including stock of the corporation). It would not include stock transferred in exchange for services or issued in redemption of (or otherwise in exchange for) stock or any other equity interest that was issued prior to the effective date.

The deduction would be recaptured as ordinary income in the same manner as depreciation recapture. In addition, any of four other events would trigger recapture of an individual's deduction: (i) the death of the individual within 2 years of purchasing the stock (to prevent deathbed transfers for stock that receives a step-up in basis at death); (ii) transfer by the individual to an IRA or other benefit plan; (iii) transfer to a charity (the recapture is accomplished by denying a charitable deduction for the amount of the deduction allowed for qualified business stock), or (iv) failure of the corporation to continue to meet the definition of "qualified small corporation" for reasons other than growth of the corporation or participation in a tax-free reorganization transaction.

Individuals would be allowed to claim deductions only for amounts that they are "at-risk" with respect to the investment. The deduction would not be allowed in computing

(Revenue-Losing Provisions in Billions of Dollars)

	1991	1991-1995

the alternative minimum tax. If the individual is subject to the alternative minimum tax, he would not have to reduce his basis in the stock by the amount of the deduction. The deduction would not be allowed to trusts, estates, or dependent children.

To prevent abuse, an excise tax would be imposed on corporations that during the 2 years after issuing the qualified business stock either (i) failed to satisfy the active trade or business requirement, or (ii) redeemed a substantial amount of stock without a good business purpose for the redemption. The amount of the tax would be equal to 5 percent of the fair market value of qualified business stock issued during the 2-year period.

	1991	1991-1995
B.4.d. Indexing investment in common stock	---	-0.4

Individuals would increase the tax basis of common stock of a qualified small corporation, whether or not newly issued, acquired after September 30, 1990 and held for at least one year to reflect inflation occurring after December 31, 1991. The provision would expire December 31, 1995.

	1991	1991-1995
B.4.f. Expand election to expense certain depreciable business property	-0.5	-0.3

Corporations with total assets of not more than $50 million would be allowed to elect to expense certain amounts in excess of current law limits set forth in section 179. Additional expensing may be provided for certain research and experimentation equipment. Revenue cost over the budget period will not exceed $2.2 billion.

(Revenue-Losing Provisions in Billions of Dollars)

	1991	1991-1995
B.4.g. Reduce corporate tax rate phase-out of benefit of lower tax brackets	-0.1	-0.5

For corporations with taxable income in excess of $100,000, the amount of tax would be increased by the lesser of 2.5 percent of such excess or $11,750. Thus, a corporation would not be subject to the flat income tax rate of 34 percent until the corporation has taxable income of $570,000 or more.

B.4.h. Additional incentives to promote growth	---	-0.6

In addition to the foregoing, the Agreement includes additional growth incentives as may be mutually agreed with a revenue cost of $600 million over the 5-year budget period.

B.5. Earned Income Tax Credit	-0.1	-5.0

Under the agreement, the earned income tax credit would be increased at a revenue cost of $5 billion during the period 1991-1995. (This amount is in addition to any increases in the earned income tax credit under child care legislation.)

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995
C.1.a. Motor Fuels Taxes	5.4	45.0

Increase the excise taxes on gasoline, diesel, and special motor fuels by 5 cents per gallon effective on December 1, 1990, and 10 cents per gallon effective on July 1, 1991 with floor stocks taxes being imposed.

Each State is to receive highway account apportionments and allocations equal to at least 95 percent of its contribution attributable to increased revenue.

C.1.b. Tax on Certain Refined Petroleum Products	1.4	11.8

Effective January 1, 1991, a tax would be imposed at a 2 cent per gallon rate on refined petroleum products including gasoline, diesel fuel, aviation gasoline and jet fuel kerosene and residual fuel oil. Products not used as fuel, such as asphalt, lubricants, waxes and feedstocks, would not be taxed. A floor stocks tax will be imposed.

In general, taxes would be paid by refiners of refined petroleum products and importers. Imported fuels are taxed, and exported fuels are exempt from tax.

Fuels sold for use in manufacturing (including agriculture) would be exempt from tax. Manufacturing would be defined to include all steps in the processing, conversion, or fabrication of raw, unfinished, or semifinished materials into a packaged and finished article of tangible personal property. The exemption would not apply to such things as transportation (including transportation in connection with manufacturing or agriculture), construction, retail trade, wholesale trade, or financial or other services.

C.2. Tobacco Excise Taxes	0.6	5.9

The agreement would increase by 25 percent the current excise taxes on all tobacco products, including cigarettes, cigars, chewing tobacco, snuff, and pipe tobacco (e.g., increase the tax on a pack of 20 small cigarettes from 16 cents to 20 cents per pack), effective January 1, 1991. Further, the agreement would increase by the same dollar amount as the previous 25-percent increase the excise taxes on all tobacco products (e.g., increase the tax on a pack of 20 small cigarettes from 20 cents to 24 cents per pack), effective January 1, 1993. Finally, the agreement would impose floor stocks taxes at the time of each rate increase.

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995
C.3. Increase Excise Taxes on Distilled Spirits, Beer, and Wine...	1.5	10.0

In developing the $10 billion target, the Summit leadership contemplated a distribution of tax changes, effective January 1, 1991, roughly as follows:

(1) The distilled spirits tax rate by $1.50 per proof gallon, from $12.50 per proof gallon to $14.00 per proof gallon.

(2) The tax rate on beer from $9.00 per barrel (16 cents per six pack) to $18.00 per barrel (32 cents per six pack).

(3) The tax rate on wine will generally be increased by 22 cents per bottle as follows:

(a) Wine with up to 14 percent alcohol content (commonly referred to as table wine) from $0.17 per wine gallon (3 cents on a 750-milliliter bottle) to $1.77 per wine gallon (25 cents on a 750-milliliter bottle).

(b) Wine with 14 to 21 percent alcohol content (commonly referred to as fortified wine) from $0.67 per wine gallon (13 cents on a 750-milliliter bottle) to $1.77 per wine gallon (35 cents on a 750-milliliter bottle).

(c) Wine with 21 to 24 percent alcohol content from $2.25 per wine gallon (45 cents on a 750-milliliter bottle) to $3.35 per wine gallon (67 cents on a 750-milliliter bottle).

(d) Artificially carbonated wine from $2.40 per wine gallon (48 cents on a 750-milliliter bottle) to $3.50 per wine gallon (70 cents on a 750-milliliter bottle).

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

A domestic small producer exemption from the above rate increases (i.e., present law rates would remain in effect with respect to such producers) would apply to the first 100,000 gallons of wine produced by wineries with total production for the calendar year not exceeding 200,000 gallons and to the first 30,000 barrels of beer produced by breweries with total production for the calendar year not exceeding 60,000 barrels. Additional changes will be made to reach a revenue target of $10 billion over the period 1991-1995. Appropriate floor stocks taxes will be imposed.

	1991	1991-1995
C.4. Luxury Excise Tax	0.2	1.9

Impose a 10-percent excise tax on the portion of the retail price of the following items that exceeds the thresholds specified below.

(1) Automobiles above $30,000 -- An automobile is any passenger automobile manufactured primarily for use on public streets, roads, and highways that is rated at 6,000 pounds unloaded gross vehicle weight or less. This includes trucks and vans, except that only trucks and vans with a loaded gross vehicle weight of 6,000 pounds or less are subject to this tax. (No weight limitation applies to limousines.) Also, the tax does not apply to the sale of any passenger vehicle for use by the purchaser exclusively in the active conduct of a trade or business of transporting persons or property for compensation or hire.

(2) Private boats and yachts above $100,000 -- Boats and yachts that are used exclusively in a trade or business (except for leasing, rental, business entertainment or other recreational purposes) are exempt from this tax.

(3) Jewelry above $5,000 -- The tax applies on a item-by-item basis. Custom fabrication of jewelry also is subject to this tax. Watches are included as jewelry.

(4) Furs above $5,000 -- The tax applies to items made from fur or in which fur is a major component. It does not apply to leather or to artificial fur.

This tax applies only to the first retail sale of newly manufactured items subject to the tax occurring on or after January 1, 1991. This tax would apply to these items upon their importation into the United States, unless the item is being imported by someone in

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

the trade or business for subsequent retail sale (in which instance the subsequent retail sale would be subject to tax). This tax does not apply to exported items.

Exemptions - The tax on automobiles and boats would not apply to the sale of those items to a State or local government for use exclusively in police or other law enforcement activities or to any person for use exclusively in providing emergency medical services.

C.5. Ozone Depleting Chemical Excise Tax	0.1	0.5

In June of 1990, the Montreal Protocol on Substances that Deplete the Ozone Layer was amended to expand the list of controlled chemicals and to make other changes. The list of controlled chemicals was expanded to include carbon tetrachloride and methyl chloroform, among others. Under the amendments to the protocol, consumption and production controls are not applicable to carbon tetrachloride prior to January 1, 1995; consumption and production controls are not applicable to methyl chloroform prior to January 1, 1993; and consumption and production controls are not applicable to CFC-13, CFC-111, CFC-112, CFC-211, CFC-212, CFC-213, CFC-214, CFC-215, CFC-216, and CFC-217 prior to January 1, 1993.

The agreement would add carbon tetrachloride, methyl chloroform, CFC-13, CFC-111, CFC-112, CFC-211, CFC-212, CFC-213, CFC-214, CFC-215, CFC-216, and CFC-217 to the list of taxed chemicals, effective January 1, 1991.

C.6 Loss Deductions and Salvage Values for Insurance Companies	0.3	1.1

The agreement would reduce the deduction allowed to property and casualty insurance companies for losses incurred, both paid and unpaid, by estimated recoveries of salvage (including subrogation claims) attributable to such losses, whether or not the salvage is treated as an asset for statutory purposes. The provision would apply to taxable years beginning after December 31, 1989. (The change would be treated as a change in the taxpayer's method of accounting requiring a spread of the adjustment over a period not to

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

exceed eight years. The amount of the adjustment is the difference between the amount of unreduced loss reserves at the end of the taxable year immediately preceding the first taxable year beginning after December 31, 1989, and the amount of the reduced loss reserve determined under this proposal as of the beginning of the first taxable year beginning after December 31, 1989.)

	1991	1991-1995
C.7. Foreign Compliance Provisions: Information Reporting and Related Provisions of the Foreign Tax Equity Act (H.R.4308/S.2410)	---	0.3

The agreement includes two provisions from the Foreign Tax Equity Act of 1990, which is pending in the House as H.R. 4308 and in the Senate as S. 2410.

a. Apply the information reporting and related provisions of section 6038A, as amended in 1989, to any action the time for performance of which is after the date of enactment of the agreement, without regard to the tax year involved. The 1989 amendments to section 6038A expanded the scope of reporting requirements applicable to any foreign-owned domestic corporation (as well as any foreign-owned foreign corporation that conducts a trade or business in the United States) with respect to transactions with related parties, added a recordkeeping requirement with respect to such transactions, increased monetary penalties related to such requirements, and enhanced the enforceability of IRS summonses pertaining to such transactions (by, among other things, adding a special noncompliance rule applicable to such summonses). Under the agreement, the increased monetary penalties apply only to noncompliance that occurs or continues after enactment, and the special noncompliance rule applies only with respect to summonses that are issued after enactment. In addition, the new recordkeeping requirement only applies to records that were in existence on March 20, 1990.

b. Apply the information reporting and related provisions of section 6038A, as amended in 1989, to any foreign corporation that conducts a trade or business in the United States, and extend the application of those provisions to all tax-related items, not only transactions with related parties. Under the agreement, the extended scope of those provisions applies to any act in the time for performance of which is after the date of enactment, without regard to the tax year involved.

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

The agreement includes the following additional provisions:

a. Statute of limitations: The statute of limitations would be extended in certain situations where the IRS has issued a special summons to any corporation. The statute of limitations would in addition be tolled if the Justice Department has sought to enforce the summons in court or the taxpayer has moved to quash the summons. Only one summons issued during an examination may trigger such extension and tolling.

b. Penalty: The current law overvaluation penalty would be broadened to cover large understatements (as well as large overstatements) in valuation, and also would be applicable to services. In addition, the overvaluation penalty would be revised to cover large section 482 adjustments (those in excess of $10 million per taxable year). As under present law, the reasonable cause exception would continue to apply.

c. Section 6103: Clarify that current restrictions against disclosure of taxpayer information by IRS employees and agents cover people (such as experts) who provide services to the IRS.

d. The Treasury Department and GAO would be required to study various issues relating to transfer pricing and compliance.

e. The IRS would be required to revise certain procedures to ensure effective handling of section 482 cases.

	1991	1991-1995
C.8. Amortize Policy Acquisition Expenses of Insurance Companies	1.5	8.0

Effective September 30, 1990, insurance companies would be required to amortize policy acquisition expenses on a straight-line basis over a period of 10 years. Policy acquisition expenses would be defined for each category of insurance contract as a percentage of total premiums (net of reinsurance premiums) for that category of contract. Separate categories are provided for annuity contracts, group life insurance contracts, and for all other life insurance contracts and noncancelable or guaranteed renewable accident and health insurance contracts. Reinsurance contracts are included in each

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

category. Contracts entered into under qualified pension plans are generally excluded from the provision.

Acquisition expenses subject to amortization are deemed percentages of total premiums according to the following schedule:

Group Life..	1.65%
Annuities..	1.40%
Other Life and Noncancelable or Guaranteed Renewable Accident & Health..........................	6.25%

For cancelable accident and health insurance contracts and other similar contracts, the reserves of life insurance companies for unearned premiums and for premiums received in advance (a) would be reduced by 20 percent, and (b) would include in income over a 6-year period 20 percent of such reserves as of the last day of the first taxable year ending on or after September 29, 1990. For noncancelable or guaranteed renewable accident and health insurance contracts, clarify that the reserves of property and casualty insurance companies are to be determined under the present-law rules applicable to life insurance companies. The special treatment of acquisition expenses of life insurance companies under the adjusted current earnings provision of the corporate alternative minimum tax would be repealed.

For a taxable year that includes September 30, 1990, the agreement would apply the amortization requirement only with respect to the portion of premiums deemed attributable on a pro rata basis to the portion of the taxable year that occurs after September 29, 1990. The agreement would not treat the amortization of acquisition costs as a change in a method of accounting. The provisions relating to reserves and the provision relating to the alternative minimum tax would apply to taxable years beginning after September 29, 1990.

	1991	1991-1995
C.9. Leaking Underground Storage Tank (LUST) Trust Fund . .	0.1	0.6

Beginning October 1, 1990, extend the Leaking Underground Storage Tank Trust Fund taxes for five years with no Trust Fund revenue ceiling. As under present law, excise taxes of 0.1 cent per gallon will be imposed on gasoline, diesel fuel, aviation, special

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

motor fuels, and fuel used on inland waterways. Receipts from the taxes will be deposited in the Leaking Underground Storage Tank Trust Fund.

	1991	1991-1995
C.10. Increase Airport and Airway Trust Fund Excise Taxes. . .	1.3	11.8

Effective January 1, 1991, increase the following Airport and Airway Trust Fund excise taxes: air passenger ticket tax from 8 percent to 10 percent; domestic air cargo tax from 5 percent to 6.25 percent; noncommercial aviation gasoline tax from 12 cents per gallon to 15 cents per gallon; noncommercial aviation jet fuel tax from 14 cents per gallon to 17.5 cents per gallon. (The international departure tax would remain at $6 per person.) The tax reduction trigger would be repealed.

Revenues from the current aviation tax rates would continue to go to the Airport and Airway Trust Fund. Revenues from the increased tax rates (but not the extension) would go to the General Fund.

	1991	1991-1995
C.11. Increase Harbor Maintenance Excise Tax	0.3	1.8

Increase the harbor maintenance excise tax from 0.04 percent to 0.125 percent, effective January 1, 1991. As under present law, the tax will be imposed on the value of commercial cargo loaded or unloaded at U.S. ports and on commercial ship passenger fares. Revenues from the tax will continue to be transferred to the Harbor Maintenance Trust Fund.

	1991	1991-1995
C.12. IRS enforcement initiatives	3.0	9.4

The agreement would require IRS management reforms and provide additional funding for IRS audit and collection efforts to meet a revenue target of $9.4 billion for the 5-year budget period. The agreement anticipates specific appropriations to meet the revenue target.

	1991	1991-1995
C.13. Reversions of Excess Pension Assets	0.5	1.0

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

1. General Rule. The current law 15% excise tax on reversions of excess pension assets to the employer would be raised to 20%. In addition, the employer would be required to transfer a cushion equal to 20% of the excess to a new retirement plan. If the employer fails to establish any new plan, then an additional excise tax equal to 20% of the excess would be applied (this additional 20% excise tax would not apply if the employer is in bankruptcy liquidation). (Retirees are not treated as pension plan participants.)

2. Special Rule to Encourage Provision of Additional Benefits to Retirees. If the employer provides benefit increases to retirees as a part of the plan termination transaction, then the 20% cushion would be reduced to 15%.

Allow certain limited annual transfers of assets from ongoing pension plans to pay for retiree health benefits subject to certain conditions:

-- Transfers could not reduce pension plan assets below the level specified in the current law full funding limitations (i.e., below the point where further pension contributions are not permitted). Transfers could in no event reduce plan assets below the greater of 125% of current liability or projected benefit obligations.

-- All participants in the ongoing plan are immediately vested in 100% of their benefits.

-- The employer could not decrease expenditures on retiree health expenses for a period of 5 years.

-- The transfer could not be for the benefit of key employees of the employer.

-- Advance notice of the transfer would have to be given to the Federal government and to affected participants.

-- Conforming ERISA changes would be made.

C.14. Extend Medicare to State and Local Employees	0.0	5.2

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

Extend coverage under the Medicare system to all employees of State and local governments not currently covered under the system. Effective January 1, 1992, subject the wages of such employees to the Medicare (HI) portion of tax under the Federal Insurance Contributions Act phased-in to raise revenues of $5.2 billion over the 5-year budget period.

	1991	1991-1995
C.15. Deny Deduction for Interest Paid by Corporations to the IRS on Tax Obligations	1.4	3.9

Deny a deduction for interest paid by a corporation to the IRS on underpayments relating to Federal income tax (and, if necessary to meet the revenue target, other types of Federal tax). The provisions would be effective for payments made, in the case of a cash basis taxpayer, or interest accrued, in the case of an accrual basis taxpayer, on or after January 1, 1991, regardless of the taxable period (if any) to which the interest payment may relate. The present-law procedures permitting a taxpayer to make a payment of contested tax and interest thereon after a deficiency notice has been mailed, while continuing to contest the asserted deficiency in Tax Court, would not be changed. Provided the revenue target can be satisfied, consideration will be given to providing appropriate relief in cases in which there has been an extraordinary delay in the issuance of a statutory notice of deficiency or assessment beyond the control of the taxpayer.

	1991	1991-1995
C.16. Certain business revisions.	0.2	2.0

The agreement provides for the inclusion of certain revisions in business tax provisions as may be mutually agreed upon to raise approximately $2 billion during the period 1991-1995.

	1991	1991-1995
C.17. Limitation on Itemized Deductions.	0.5	18.0

Effective January 1, 1991, reduce total otherwise allowable itemized deductions (other than medical expenses and investment interest expense) by an amount equal to three percent of the amount of a taxpayer's adjusted gross income (AGI) in excess of $100,000. In no event, however, would total otherwise allowable itemized deductions (excluding medical expenses and investment interest) be reduced by more than 80 percent.

(Revenue-Raising Provisions in Billions of Dollars)

	1991	1991-1995

In computing the amount of the reduction of total itemized deductions under the proposal, all present-law limitations applicable to such deductions first would be applied and the otherwise allowable total amount of deductions would then be reduced until this rule. An appropriate adjustment will be provided for alternative minimum tax purposes.

		1991	1991-1995
C.18.	Increase the Cap on Wages Subject to the Medicare Hospital Insurance Payroll Tax.	0.9	13.0

Effective January 1, 1991, the agreement would increase to $73,000 the cap on wages and self-employment income considered in calculating the tax liability for the Medicare hospital insurance (HI). In 1990, the HI tax is 1.45 percent of the first $51,300 of wages and is paid by both the employer and the employee.

		1991	1991-1995
C.19.	Extend social security (OASDI) coverage to certain State and local employees.	2.0	11.7

Effective January 1, 1991, OASDI coverage would be mandatory for State and local government employees not participating in a public employee retirement system in conjunction with their current State or local employment.

		1991	1991-1995
C.20.	Stabilize Payroll Tax Deposit Rules	1.0	0.0

Under the Omnibus Budget Reconciliation Act of 1989, employers who have accumulated $100,000 or more of withheld employee taxes must deposit these taxes by the close of the next working day in 1990, 1993, and 1994. The employer must make the deposit within 2 days in 1991, and within three days in 1992. The agreement would make the deposit requirements consistent for all years by requiring that the deposit be made by the close of the next working day.

Note: Child care provisions (to be offset by extension of the telephone excise tax) to be included separately and subject to a subsequent authorization bill.

III. BUDGET PROCESS REFORM AND ENFORCEMENT

- Extend the G-R-H sequester system with new deficit targets for five years, and a deficit reduction path intended to reach zero (balance) by 1996.

- Pay-as-you-go for entitlements and revenues. All entitlement or revenue legislation passed by Congress after adoption of this Summit Agreement must be deficit neutral. This will prevent entitlement or revenue policy actions from causing a sequester on discretionary accounts.

- Require reconciliation instructions to cover five years.

- Discretionary caps on budget authority and outlays for each year, 1991-1993, for each of the following three categories: defense; international; and domestic. Combine defense, international, and domestic discretionary into one category in '94 and '95 with one cap on budget authority and outlays in each of these years.

- Automatic across-the-board offset triggered within each of the categories (defense; domestic discretionary; international discretionary) to the extent any appropriation bill (including supplementals) violates either the budget authority or outlay cap for that category (trigger 15 days after enactment if bill enacted before July 1, lookback if after July 1).

  -- For a Presidentially-declared emergency request in supplementals or regular appropriations bills, this across-the-board offset would not apply to the extent of the funds requested by the President (only if the Congress agreed in the Act that it was for an emergency). If Congress proposes and the President requests new items or additional amounts for the supplemental, the offset would not apply to the items or additions.

- Add categorical sequester for mandatories; add reconciliation for revenues:

  -- Mandatory: Automatic across-the-board offset within mandatory category triggered to the extent any legislation is enacted that adds mandatory spending that is not fully offset. Change limits on sequester for existing mandatory sequester base from two percent to four percent. The offsets are triggered 15 days after enactment if the bill is enacted before July 1; look back sequester is triggered if bill is enacted after July 1.

-- Revenues: If revenue decreases are not offset, then automatic reconciliation instruction by Budget Committee to Ways and Means, Finance, or relevant offending committee to provide offset.

  -- Sixty vote point of order would apply to all revenue losing bills.

o Include social security in the consolidated budget, but remove social security operating surplus from G-R-H baseline, which will prevent technical or economic changes in social security estimates from causing a sequester on discretionary accounts.

o Include all deposit insurance accounts in the consolidated budget, but remove those accounts from G-R-H baseline, which will prevent technical or economic changes in deposit insurance accounts from causing a sequester on discretionary accounts. (Deposit insurance accounted for an estimated 99.6% of the net mandatory technical changes in 1990.)

o Two revisions of economic assumptions:

-- Update assumptions at the time of the Summit Agreement, thus holding appropriations harmless for 1991.

-- Update assumptions at the end of March 1991. The end of March economic assumptions will be used in calculating the sequester in '92, thus holding appropriations harmless for economic changes in FY 1992.

o Credit reform:

-- Begin in '92 thus holding harmless discretionary accounts for the new scoring method in '91.

-- Adjust discretionary caps for current service credit levels scored under credit reform in '92 and '93, thus holding harmless discretionary accounts to changes in scoring in these years.

-- Hold adjusted baseline harmless for revisions in credit reform subsidy estimates in '92 and '93.

- Hold cap harmless for IMF.
- Hold cap harmless for Egyptian debt forgiveness (See Section VI).
- Hold harmless for Desert Shield funding requirements (see Section VI).
- Hold cap harmless for contributions to DoD.
- Sixty vote points of order would apply to budget resolution and to appropriation bills that exceed caps.
- Sections 302 and 311 points of order would be extended to out-years.
- Budget authority and outlays caps for 1991-1995 (see Table 2A).
- New methods to protect discretionary appropriations from sequester:

-- In 1991, discretionary appropriations held completely harmless for technical and economic adjustments.

-- In 1992, discretionary appropriations held completely harmless for economic adjustments, and held harmless for technical reestimates for caps in the outlay amounts of:

-- $2.5 billion for domestic;

-- $1.5 billion for international; and

-- $2.5 billion for defense.

The G-R-H cushion will be $15.0 billion less any of the above amounts that are used.

-- Aggregate budget authority for the three categories for 1991, 1992, and 1993 (together) may exceed the caps by not more than 0.4 percent, provided that not more than 0.2 percent may be applied to any one category.

-- In calendar 1993, a meeting will be convened of the two Budget Committee Chairmen and Ranking Members, the two Appropriations Chairmen and Ranking Members, the Chairmen of Ways and Means Committee and the Senate Finance Committee and their Ranking Members, the Speaker, House and Senate leaders and the Director of the Office of Management and Budget, the Secretary of the Treasury and the Chief of Staff of the White House. They will review technical and economic assumptions for fiscal 1994. Any adjustments the group unanimously agrees upon will be legislatively pursued jointly and expeditiously. In 1994, and 1995, baseline held completely harmless for economic and technical adjustments enacted in accordance with unanimous leadership group recommendations. Additionally, technicals adjusted for 1993 so that they do not cause or contribute to a 1993 sequester.

-- In 1993, 1994, and 1995, discretionary appropriations held harmless for technical estimates for caps in the outlay amounts of:

  -- \$2.5 billion for domestic;

  -- \$1.5 billion for international; and

  -- \$2.5 billion for defense.

  The G-R-H cushion will be \$15.0 billion less any of the above amounts that are used.

-- In all years, 1991 through 1995, discretionary appropriations held harmless for new or expanded mandatory spending by categorical sequester on mandatories and for new revenue losing measures by pay-as-you-go and automatic reconciliation instructions to provide offset.

o Cancellation of the FY 1991 sequester order will be accomplished when a reconciliation bill and appropriations bills reflecting agreement are enacted (as stated in section IV, Agreement Concerning Enactment).

o Protect Social Security by establishing, in the House, a point of order against legislation that would violate either the 5-year or 75-year actuarial balance of the funds and, in the Senate, by establishing a 60 vote point of order against legislation that would violate the 5-year actuarial balance. In addition, a study must be submitted by the Finance Committee on the 75-year actuarial balance effect. A feedback mechanism would also apply to such legislation.

- GSEs: Treasury shall submit a report and proposed legislation to Congress on the financial soundness of Government-sponsored enterprises. CBO will also prepare a report on the types of risks that each GSE assumes. The appropriate committees will study GSE proposals and report legislation ensuring GSEs financial soundness by September 15, 1991. If such legislation is not reported, the leadership of the House and Senate commit to provide for the consideration of Administration proposals by the end of the first session of the 102nd Congress.

- Scorekeeping -- adopt scorekeeping guidelines to be included in report entitled "Scorekeeping Guidelines for 1991."

- Extend statutory limit on the public debt for 5 years.

- The credit reform provisions of the Budget Summit Agreement include:

  - Makes the subsidy component of Federal direct and guaranteed loans the focus of credit budgeting.

  - Defines the subsidy to be the cost to the Government of a direct loan or loan guarantee.

  - Except for entitlements, subsidy budget authority will be controlled by appropriations.

  - Treats the non-subsidy cash flows as a means-of-financing the deficit and excludes them from the calculation of the budget deficit.

  - Provides for adjustment of budget baselines and allocations to reflect changes in accounting.

  - Prohibits Federal agencies from making or modifying a direct or guaranteed loan unless budget authority is appropriated for subsidy associated with the loan, guarantee, or modification.

IV. AGREEMENT CONCERNING ENACTMENT

UNDERSTANDING RE: TIMING & PROCESS FOR ENACTMENT
BUDGET SUMMIT AGREEMENT -- 9/30/90

The President and the Bipartisan Congressional Leadership (The Speaker of the House, the Senate Majority Leader, the Senate Republican Leader, the President Pro Tempore of the Senate, the House Majority Leader, and the House Republican Leader) agree to the following undertakings. These represent commitments to good faith efforts; they do not purport to amend or suspend rules of the House or Senate; nor do they in any way affect Constitutional powers and prerogatives of the parties.

(1) The President and the Bipartisan Congressional Leadership agree to engage in a coordinated bipartisan effort seeking to enact the Budget Summit Agreement by Friday, October 19, 1990.

(2) Their coordinated effort shall seek to produce support for the Agreement by a majority of both Democrats and Republicans in both the House and the Senate.

(3) Joint announcement of the Agreement shall occur on September 30th.

(4) Immediately following joint announcement, a continuing resolution authorizing appropriations through October 5, and suspending sequester through October 5, shall be made in order in both houses of Congress -- with a view toward its prompt enactment.

(5) The Appropriations Committees shall revise their 302(b) allocations to be consistent with the Budget Summit Agreement as reflected in the budget resolution by October 10.

(6) Prior to the expiration of the continuing resolution on October 5, both houses shall pass the 1991 budget resolution with detailed reconciliation instructions fully reflecting the Budget Summit Agreement and no other matters. Such budget resolution shall be voted upon prior to the expiration of the continuing resolution on October 5. Such budget resolution shall instruct appropriate Committees to report, with or without a recommendation, all legislation necessary to implement fully the Budget Summit Agreement (except appropriations) by October 12.

(7) The President has stated that his intention is that no further continuing resolution (beyond October 5) shall be signed until a budget resolution with reconciliation instructions fully reflecting the Budget Summit Agreement shall have passed both houses of Congress.

(8) Upon passage of a budget resolution fully reflecting the Budget Summit Agreement, a second continuing resolution -- authorizing appropriations until October 19 and suspending sequester until October 19 -- shall be voted in both Houses.

(9) The Budget Summit Agreement shall be fully legislated (except for appropriations) through a Reconciliation bill.

(10) Throughout the conference, the reconciliation Conference report shall be reviewed by the parties to this Agreement to assure its consistency with the Budget Summit Agreement. If it is deemed to be inconsistent, remedial efforts shall be made by all parties to assure consistency. Such efforts shall include bi-partisan leadership amendments as necessary.

(11) On or before October 19, 1990, a Conference Report on the reconciliation bill that fully reflects the Budget Summit Agreement shall be voted in both houses of Congress.

(12) The parties to this Agreement shall work together to support all amendments and provisions consistent with the Budget Summit Agreement and to oppose all amendments and provisions inconsistent with, or unrelated to, the Budget Summit Agreement.

(13) Conference reports on all appropriations bills consistent with the Budget Summit Agreement shall be voted in both houses by October 19.

(14) The President has stated that it is his intention that no bill suspending sequester beyond October 19 shall be signed until the following have occurred: a) a reconciliation conference report on a bill fully reflecting the Budget Summit Agreement has been passed by both houses of Congress; and b) a reconciliation bill and all 13 appropriations bills consistent with the Budget Summit Agreement have been presented to the President.

(15) To the maximum extent possible, all parties shall employ "Scorekeeping Guidelines for FY'91" (included as part of this Agreement). Nonetheless, all scoring issues related to this agreement shall be determined by OMB for the Executive Branch and by the Budget Committees for the Congress -- with the understanding that parties from each branch shall respect the appropriateness of the other's using its own scoring conventions and scoring organizations for interpretation of consistency with this Agreement. In no case will payment timing shifts or other artificial savings measures be deemed acceptable for deficit reduction scoring unless they have been specifically approved by <u>all</u> parties to this Agreement.

(16) The parties to this Agreement shall, in their respective areas of jurisdiction, support waiving points of order that might impede the implementation of this Agreement.

30-Sep-90
06:24 AM

TABLE V.A.--ECONOMIC ASSUMPTIONS
(calendar years)

	1989	1990	1991	1992	1993	1994	1995
Nominal GNP:							
Level ($ billions)	5201	5486	5807	6199	6670	7141	7607
Percent change, 4th/4th	5.4	6.0	6.0	7.3	7.5	6.8	6.4
Real GNP, percent change, 4th/4th	1.6	0.7	1.3	3.8	4.1	3.7	3.5
GNP deflator, percent change, 4th/4th	3.8	5.2	4.6	3.4	3.2	3.0	2.8
Unemployment rate	5.2	5.6	6.1	6.4	5.6	5.3	5.1
Interest rates:							
91-day Treasury bills	8.1	7.7	7.2	5.7	4.9	4.4	4.2
10-year Treasury notes	8.5	8.7	8.3	7.1	6.1	5.6	5.3
Domestic oil prices ($/bbl)	17.88	21.15	24.15	21.10	21.79	22.41	23.02

TABLE V.B.--MAJOR TECHNICAL REVISIONS
(outlays in billions)

	1991	1992	1993	1994	1995
Bank Insurance Fund	3.7	4.5	1.8	0.5	0.8
Resolution Trust Corporation	25.9	29.5	18.8	-14.2	-25.9
Credit Reform;					
International Discretionary:					
BA	--	-0.1	-0.1	-0.2	-0.2
Outlays	--	0.3	-0.2	-0.1	0.0
Domestic Discretionary:					
BA	--	1.6	1.7	1.7	1.8
Outlays	--	1.1	1.3	1.3	1.3
Mandatory:					
BA	--	1.5	-0.3	-1.1	-4.3
Outlays	--	3.5	2.2	-0.2	0.6
Interest (BA & Outlays)	--	0.2	0.5	0.6	0.6

VI. MISCELLANEOUS ADDITIONAL UNDERSTANDINGS

- Scorekeeping guidelines reflecting general budget accounting conventions that will be used in measuring compliance with the Budget Agreement will be included in the reports accompanying the budget resolution presenting this agreement. Attached to the scorekeeping guidelines will be a complete listing of budget accounts included within each budget agreement category.

- Additional funding for losses and working capital requirements of the Resolution Trust Corporation are included in this agreement and displayed on-budget. However, GRH baselines will be held harmless for these requirements to remove uncontrollable mandatory spending from sequester calculations.

- International discretionary spending will be held harmless for the periodic assessment to the International Monetary Fund (IMF). The U.S. and other IMF countries have agreed to a 50% increase in special drawing rights (SDR). The U.S. participation will require budget authority in 1992, but will not result in outlays. Budget authority will be exchanged for SDRs of the IMF, a monetary asset of equal value.

- Baselines will be held harmless for Egyptian debt forgiveness. International discretionary budget authority and outlays will be adjusted for not more than the amounts specified below as a result of debt relief proposed by the President and approved by the Congress. New scoring procedures will be developed by OMB and CBO that reflect the real value of debt relief proposals. These procedures will be developed for use at least in time for the FY '92 budget.

($ billions)

	FY '91	FY '92	FY '93	FY '94	FY '94
BA...........	.157	.177	.205	.246	.300
Outlays......	.207	.294	.361	.446	.522

o Treatment of Desert Shield Supplemental:

-- The amount of the presumed level in the absence of hostilities is $15 billion. This amount is in addition to the total Defense level proposed by Senator Nunn.

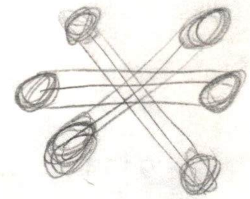
-- It is assumed that half of the proposed supplemental will be financed by contributions from other countries.

-- It is assumed that the remainder of this proposed supplemental will not require offsets because the Summit Agreement takes into account the supplemental costs. This supplemental will have no matters extraneous to the President's request. All matters must pertain solely to Desert Shield.

-- In the event of hostilities, the President may submit a dire emergency request for supplemental funding for Desert Shield purposes that will not be required to be offset. This supplemental, if needed, will contain no matters extraneous to the President's request. All matters must pertain to Desert Shield.

Defense (Function 050) Budget Levels

	1991		1992		1993	
	BA	Outlays	BA	Outlays	BA	Outlays
Nunn levels................	289.1	297.0	291.6	295.0	291.8	292.0
Desert Shield Supplemental Total......	15.0	11.5	--	2.8	--	0.6
Less: Contributions from other countries......	- 7.5	- 5.8	--	- 1.4	--	- 0.3
Net Supplemental...........	7.5	5.7	--	1.4	--	0.3
Additional Desert Shield Supplemental in the Event of Hostilities.....	?	?	?	?	?	?



"It's time we put the interest of the United States of America first."

-- President George Bush, September 30, 1990
<u>Announcing the Bipartisan Budget Agreement</u>

FACT SHEET

We must stop mortgaging the future of our children and their children. America **needs** a budget agreement. The public **demands** it. And, as President Bush said, this compromise meets the challenge **of putting America first.**

The five-year bipartisan budget compromise will boost America's long-term economic vitality. It will give small and medium-size business **a shot in the arm, creating jobs.** It will cut the projected federal deficit by half-a-trillion dollars. This will mean **real and lasting spending cuts.** And it will not raise **individual income-tax rates**, supporting **future economic growth.**

Our nation's economic problems are everyone's concern. So this agreement is, above all, **fair.** Everyone will have to make a sacrifice, but no one will have to bear the burden alone.

- Social Security will not be touched.
- Although the defense budget is cut by $67 billion over three years (and more over five years), our men and women serving in the Persian Gulf region will still get **the backing they deserve** to defend themselves and accomplish their mission.
- The agreement's new incentives for economic growth include:

  -- New incentives to increase domestic exploration and development of oil and gas resources -- **to free America from dependence on foreign oil.**

  -- New tax incentives for the development of enterprise zones -- **to create jobs and opportunity for those who need it the most.**

  -- Extension of the research and development tax credit, **so America can continue to lead in science and industry.**

  -- And an increase in the earned-income tax credit.

- The agreement will give a shot in the arm to America's job-generating small and mid-size companies:

  -- A thirty percent research and experimentation credit for small businesses.

  -- An adjustment in the tax basis for individuals who buy stock in small businesses.

  -- A tax deduction for investment in small businesses.

  -- An expanded ability for small businesses to expense certain depreciable business property.

- The budget plan will also cut $120 billion in government spending on entitlement and mandatory programs. Unlike other such agreements in the past, this is the first time **such cuts will be guaranteed in law. No more smoke and mirrors.** Savings will include:

  -- $60 billion from Medicare.
  -- $13 billion from Agricultural payments.
  -- $4.2 billion in Postal-service reform.

- The agreement will also produce $182 billion in discretionary program savings, including cuts in defense outlays of $67 billion over three years.

- Again, these cuts were made without **caving in on raising individual income-tax rates.** The agreement calls for raising $134 billion in five years. And we can raise this tax-revenue with these measures:

  -- A phased-in increase in the gasoline tax -- five cents a gallon the first year and another five cents the next year. This one measure alone will produce the greatest revenues.

  -- Increased taxes on alcohol and cigarettes, as well as selected luxury items.

- The budget discipline of Gramm-Rudman will be extended for five years and the agreement includes substantial budget-process reform:

  -- Any new entitlement programs must meet hard and fast "pay as you go" provisions. This means that Congress will have to raise funds for any future entitlement, or cut an existing program.

-- All discretionary spending by Congress is capped for the next five years. If Congress spends money it doesn't have -- a **"mini-sequester" will cut it for them.** These cuts will **last,** because for the first time these **cuts have teeth.**

-- Any new tax cuts have to be matched by an equal increase in revenues.

-- This package will reform past credit programs that ignored huge liabilities to the American treasury; programs like S&L deposit insurance, student loan guarantees and HUD loan programs.

- According to the terms of the agreement, the Congress has until October 19, 1990, to pass government appropriations bills consistent with the accord.

Congress must act, and act soon. We need measures to boost economic growth, and solve long-term problems. Most of all, this is our **last best chance to get the federal budget deficit under control.** We can meet the challenge through bipartisan leadership and quick and decisive action. No one will agree with all measures, but everyone will benefit in the long-run. We owe this much to our country, and to generations of Americans to come.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

AC/ER

October 3, 1990

MEMORANDUM FOR GOVERNOR JOHN SUNUNU

FROM: MICHAEL BOSKIN mjb

RE: Prominent Economists Working with the Media and/or Available for Members of Congress to Contact

Over the last several days I have made phone calls and sent the forty-seven page document as well as the fact sheet to several prominent economists asking for their assistance to gather public support for the Budget Agreement.

The following have contributed or are willing to contribute either by writing op-ed pieces or appearing on televison:

Alan Blinder, Princeton (liberal)
Martin Feldstein, Former CEA Chairman (conservative)
Benjamin Friedman, Harvard (liberal)
Manley Johnson, Former Fed Vice-Chairman (financial market type)
Tom Sargent, Stanford/Hoover (conservative)
Charles Schultze, Former CEA Chairman (liberal)
Paul Volcker, Former Fed Chairman (financial market type)

From the list above, the following can be used as resources for Members of Congress to contact (because they can speak in a non-technical manner):

(I have been referring the media to these people.)

Professor Alan Blinder
Department of Economics
Princeton University
Princeton, New Jersey 08544-1201
Tel. (609) 258-4010

The Honorable Martin Feldstein
President and CEO
National Bureau of Economic Research, Inc.
1050 Massachusetts Avenue
Cambridge, Massachusetts 02138
Tel. (617) 868-3905

Professor Benjamin Friedman
Department of Economics
Littauer Center, Room 127
Harvard University
Cambridge, Massachusetts 02138
Tel. (617) 495-4246

The Honorable Manuel Johnson
Johnson, Smick, Medley
Suite 1220
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036
Tel. (202) 861-0770

The Honorable Charles Schultze
The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036
Tel. (202) 797-6000

The Honorable Paul A. Volcker
Chairman, James D. Wolfensohn, Inc.
599 Lexington Avenue, 40th Floor
New York, New York 10022
Tel. (212) 909-8173

BACKGROUND ON THE BIPARTISAN BUDGET AGREEMENT

90 OCT -2 PM 9:27

CONTENTS

* OVERVIEW
* ECONOMIC CONSEQUENCES IF CONGRESS FAILS TO ADOPT AGREEMENT
* STRENGTHENING THE ECONOMY
* ENCOURAGING SMALL BUSINESS AND CREATING NEW JOBS
* REFORMING THE BUDGET PROCESS
* ACHIEVING REAL SAVINGS
* RAISING REVENUES, BUT HOLDING THE LINE ON INCOME TAX RATES
* PROVIDING OPPORTUNITY AND EMPOWERING LOW INCOME AMERICANS
* KEEPING OUR COMMITMENTS TO SENIOR CITIZENS
* PRESERVING GOVERNMENT SERVICES
* MEDICARE PREMIUMS
* LOW INCOME AND ENTITLEMENT PROGRAMS NOT AFFECTED BY THE BUDGET SUMMIT AGREEMENT
* WHAT THE BIPARTISAN BUDGET AGREEMENT WON'T DO
* ENERGY TAX INCENTIVES
* LIMITS ON ITEMIZED DEDUCTIONS WOULD NOT AFFECT INCENTIVES FOR CHARITABLE GIVING
* THE NEED FOR ACTION

OVERVIEW

"It's time we put the interest of the United States of America first."

-- President George Bush, September 30, 1990
Announcing the Bipartisan Budget Agreement

We must stop mortgaging the future of our children and their children. America **needs** a budget agreement. The public **demands** it. And, as President Bush said, this agreement meets the challenge **of putting America first.**

The five-year bipartisan budget plan will enhance America's long-term economic vitality. It will give small and medium-size business **a shot in the arm, creating jobs**. It will cut the projected federal deficit by half-a-trillion dollars **-- the single biggest cut ever.**

This will mean **real and lasting spending cuts. And it will not** raise **individual income-tax rates**. The plan will support **future economic growth.**

Our nation's economic problems are everyone's concern. So this agreement is, above all, **fair**. Everyone will have to make a sacrifice, but no one will have to bear the burden alone.

ECONOMIC CONSEQUENCES IF CONGRESS FAILS TO ADOPT BI-PARTISAN BUDGET AGREEMENT

- Bigger budget deficits -- soaring to $300 billion per year.

Interest Rates Go Up

- Interest rates 1-1/2 percentage point (or more) higher than if the budget agreement is passed.
  - **Worsening outlook for the already weak/soft** housing and automobile sectors of the economy.
  - Major **increases in mortgage payments** for American families: an increase of $110 on a typical adjustable rate mortgage.
  - A $350 **increase in the interest cost** over the life of a $10,000 car loan.
  - About $30 billion more over the next three years in interest costs to the Federal Government -- ultimately the tax payer -- funds available either for deficit reduction or worthy spending programs.

Growth Slows: Recession Risk Rises

- Slower economic growth, meaning hundreds of billions less in income to American families in the coming decade.
- Reduced entrepreneurial incentives, meaning foregone opportunities for new industries and new jobs.

STRENGTHENING THE ECONOMY

Interest Rates

- The most pronounced effect is the expected reduction in interest rates as a result of the $500 billion deficit reduction plan. By drastically reducing the Federal Government's drain on the Nation's scarce supply of private saving, the budget agreement would substantially reduce interest rates, spur investment, and create jobs.

  - -- Long-term interest rates have fallen by 1/3 percentage point since the middle of last week, largely because of the agreement.

  - -- Using conventional assumptions, long-run interest rates will decline by approximately 1-1/2 percentage points from what they would have been in the absence of an agreement.

- Lower interest rates mean:
  - -- More job-creating investment in both business and housing:

    - Between 100,000-150,000 more housing starts in the year following the lower interest rates.

    - About 750,000 more auto sales in the year following the lower interest rates.

    - A 1.8 percent increase in business equipment investment and a 1 percent rise in investment in business structures over what there would have been without an agreement.

  - -- A reduction of about $110 per month in payments on a mortgage on a typical home.

  - -- A savings of $350 of interest over the life of a $10,000 auto loan.

Increased Growth

- Real GNP will increase 2-1/2 percent by the year 2000 as a result of more saving and investment and lower interest costs.

- By the end of the decade, GNP will cumulatively total more than $1 trillion more than if interest rates did not fall.

- A lower deficit will provide an added safeguard against inflation.

ENCOURAGING SMALL BUSINESS AND CREATING NEW JOBS

- A package of <u>incentives for small businesses</u> will substantially reduce their cost of capital and stimulate investment in new and growing enterprises.

  -- Currently, about 2.3 million corporations would qualify, almost two-thirds of all U.S. corporations.

  -- According to the SBA, nearly 70 percent of new jobs come from small businesses ($50 million or less).

  -- As the Vice Chairman of the American Business Conference (ABC) -- the CEOs of the country's fastest growing midsize companies -- put it, "the growth initiatives in the package will spur creation of a whole new generation of ABC-like companies. These are the entrepreneurs that will be generating much of the new employment in the next decade."

    - <u>Deduction for Investment</u>. Individuals can invest up to $200,000 per year in small companies and receive a tax deduction worth 25 percent of their investment. In effect, the company can raise each $1 in funds at a cost to the investor of only 93 cents. The deduction is provided "going in", at the time of the stock purchase.

    - <u>Indexing</u>. New stock purchases in these firms qualify for indexing for the next 5 years. For example, if inflation averages 4 percent and the total return over 5 years is 50 percent, indexing is equivalent to a 44 percent exclusion on the nominal gain.

    - <u>Basis Adjustment</u>. This allows investors, particularly entrepreneurs and others who invest at a company's inception, to limit their effective capital gains tax. "Zero basis" stock receives an effective 50 percent capital gains exclusion (a 14 percent effective rate for those in the 28 percent bracket.) Individuals whose investments have tripled receive a 25 percent capital gains exclusion (for a 21 percent effective rate).

- <u>Research and Experimentation Credit</u>. This important revision of the tax law expired on September 30. If not extended, companies with rapidly growing research programs would pay much more tax, which would discourage the research necessary to maintain American competitiveness in world markets. The agreement would increase the credit from 20 percent to 30 percent for small firms.

-- <u>Expensing</u> -- or first-year write-off of some investment --increases the value of the tax savings from depreciating new equipment by 23 percent. Additional expending is provided for scientific equipment. This is roughly equivalent to an 8 percent reduction in the the cost of the equipment and will stimulate equipment purchases by these companies.

-- <u>Corporate Rate Change</u>. This will effectively lower the corporate tax rate from 39 percent to 36.5 percent for most small corporations. For example, a company with taxable profits of $300,000 will save $5,000 in taxes from this provision. Large corporations with profits over $750,000 will be unaffected by this provision.

o Other growth incentives include enterprise zones, energy production incentives, and user fees for infrastructure and patent production.

-- <u>Enterprise zones</u> would be established to create jobs and develop business in specially designed urban and rural areas in need of economic assistance. A package of tax incentives would be provided to encourage starting businesses and hiring workers.

-- <u>Energy incentives</u> would encourage exploration for oil and gas, production from marginal properties, and enhanced oil recovery. In addition, Section 29 would be made permanent and extended to tight sands gas, and incentives for ethanol would be modified and extended. These provisions would not only improve our energy security, but would provide jobs, increase business, and help to constrain energy prices.

REFORMING THE BUDGET PROCESS

- The budget discipline of Gramm-Rudman will be extended for five years and the agreement includes substantial **budget-process reform:**

  - -- Any new entitlement programs must meet hard and fast "pay as you go" provisions. This means that Congress will have to raise funds for any future entitlement, or cut an existing program.

  - -- All discretionary spending by Congress is capped for the next five years. If Congress spends money it doesn't have **-- a "mini-sequester" will cut it for them.** These cuts will **last,** because for the first time these **cuts have teeth.**

  - -- Any new tax cuts have to be matched by an equal increase in revenues.

  - -- This package will reform past credit programs that ignored huge liabilities to the American treasury: programs such as S&L deposit insurance, student loan guarantees and HUD loan programs.

- According to the terms of the agreement, the Congress has until October 19, 1990, to pass government appropriations bills consistent with the accord.

ACHIEVING REAL SAVINGS

- The agreement represents **the biggest deficit-reduction package in American history.**

- The budget plan will cut $120 billion in government spending on entitlement and mandatory programs **-- the largest such savings ever produced.** These programs have been the biggest single source of growth in government spending. This is the first time **such cuts will be guaranteed in law. No more smoke and mirrors.** Savings will include:

  - -- $60 billion from Medicare
  - -- $13 billion from Agricultural payments
  - -- $4.2 billion in Postal Service reform

- The agreement will also produce $182 billion in discretionary program savings, including cuts in defense outlays of $67 billion over three years.

RAISING REVENUES, BUT HOLDING THE LINE ON INCOME TAX RATES

- Again, these cuts were made without **caving in on raising individual income-tax rates.** The agreement calls for raising $134 billion in five years. And we can raise this tax-revenue with these measures:

  - -- A phased-in increase in the gasoline tax -- five cents a gallon the first year and another five cents the next year. This measure will produce the greatest revenues.

  - -- Increased taxes on alcohol and cigarettes, as well as selected luxury items.

- The agreement does **not affect the deductibility of state and local income taxes.**

PROVIDING OPPORTUNITY AND EMPOWERING LOW-INCOME AMERICANS

- Lower interest rates will help working Americans by **cutting mortgage payments.**

- The plan makes an historic breakthrough by providing federal tax incentives for the development of enterprise zones -- **to create jobs and opportunity for those who need it the most.** Enterprise zones will foster new businesses in depressed urban and rural areas and give poor people a better chance to work toward the American dream.

- The agreement lends a hand to the working poor through **an increase in the earned-income tax credit.**

- No one below the poverty line will have to pay for a Medicare premium increase. Medicaid will pay.

- The budget preserves programs for low-income Americans, such as:

  - Aid to Families with Dependent Children.

  - Food Stamps.

  - Medicaid.

- Above all, the plan provides for strong economic growth. The best way to expand opportunity for lower-income Americans is to increase the number of jobs in the private sector.

KEEPING OUR COMMITMENTS TO SENIOR CITIZENS

- **The plan does not touch Social Security cost-of-living increases.**

- The plan does **not** touch **military or federal retirement.**

- The plan does **not** increase taxes on Social Security beneficiaries.

- By helping prevent a return of high inflation, the plan will provide a special benefit to senior citizens on fixed incomes, who suffered most during the disastrous price increases of the late 1970s.

PRESERVING GOVERNMENT SERVICES

- Although the defense budget is cut by $67 billion over three years (and more over five years), our men and women serving in the Persian Gulf region will still get **the backing they deserve** to defend themselves and accomplish their mission.

  - -- The budget plan provides important supplemental funds for Operation Desert Shield.

- The agreement prevents deeper defense cuts that might have reduced America's military readiness and placed further strains on our brave men and women in uniform.

- Enactment of the bipartisan budget plan will **prevent a sequestration that would cut into important government services such as:**

  - -- **Drug enforcement**
  - -- **Crime control and prison management**
  - -- **Air traffic control**
  - -- **Meat and poultry inspections**
  - -- **Inspection of blood banks**

MEDICARE PREMIUMS

(Dollars in Billions)

	FY91	FY92	FY93	FY94	FY95	Total
Pre-Summit Medicare	$116	$130	$145	$161	$179	$730
Pre-Summit Growth Rate	11%	12%	12%	11%	11%	
Summit Savings	-$5	-$9	-$12	-$15	-$19	-$60
Post-Summit Medicare	$111	$121	$133	$146	$160	$670
Post-Summit Growth Rate		6%	9%	10%	10%	10%

Overview

- The $60 billion in Summit Agreement savings is derived equally from slower growth in provider payments, and increased beneficiary payments (substituting for general taxpayer financing).

- After the Summit Agreement, Medicare provider payments will grow at 10% per year for FY91-95 -- only slightly less than the 11.5% average annual growth rate projected without the Summit.

- After the Summit Agreement, general taxpayer support of Medicare (70% portion of cost) increases faster than beneficiary premiums and other payments.

- Over the FY91-95 period, the Summit Agreement's proposals result in a net out-of-pocket increase in monthly payments by the average Medicare beneficiary (premiums, co-payments, and deductibles) of $2.55, $5.34, $6.69, $7.44, and $7.92/month respectively.

Provider Savings (Doctors and Hospitals)

- The Summit Agreement first-year provider savings of $3.1 billion are comparable to those achieved in the past.

  -- The 1989 reconciliation bill reduced FY90 provider payments by $2.9 billion; total provider payments still grew by 11% over FY89-FY90.

  -- The 1987 reconciliation bill reduced FY88 provider payments by $2.1 billion; total provider payments still grew by 7% over FY87-FY88.

- The Summit Agreement contains real savings for each of the five years -- unlike prior years, where Congress opted for one-year proposals which expired the next year.

Beneficiaries: Low-Income Protections

- After the Summit Agreement, low-income Medicare beneficiaries will continue to pay nothing for Medicare coverage.

  -- Medicaid will pay these individuals' premiums, co-payments, and deductibles.

  -- The Summit Agreement specifically set aside additional funds ($2 billion Federal matched by $1.6 State) to expand the number of beneficiaries whose Medicare costs are paid entirely by Medicaid.

- After the Summit Agreement, the remaining beneficiaries will incur slightly higher out-of-pocket costs for Medicare coverage.

  -- However, compared to the original structure of the Medicare program, these beneficiaries incur much lower out-of-pocket costs

  Premiums:

  -- As enacted in 1965, Medicare beneficiaries paid a premium for Part B insurance (primarily physician services) set to cover 50% of the cost of the program.

  -- Beginning in 1973, Congress capped premium increases so that by 1990, Part B premiums covered only 25% of the program -- with the remainder financed by general taxpayer revenues.

  -- The Summit Agreement's 30% premium still requires a 70% subsidy from wage-earner's taxes.

  Deductible:

  -- In 1965, Medicare required beneficiaries to pay a $50 deductible. This was increased to $60 in 1972 and $75 in 1982. If it had increased to keep pace with program costs, the deductible today would exceed $800.

  -- The Summit Agreement's gradual buildup to a $150 deductible still represents a significant benefit relative to the program's original structure.

LOW INCOME AND ENTITLEMENT PROGRAMS <u>NOT</u> IMPACTED BY BUDGET SUMMIT AGREEMENT

I. **No Social Security Cola Delay or Adjustment**

Numerous Approaches Advocated a COLA Freeze, a Delay of a COLA Increase Below CPI

(Potential Policy savings $15-30B '91-'95)

II. **No Increase in Taxes on Social Security Benefits**

Numerous Approaches Advocated Raising the Taxable Rate on Social Security from 50% to 85%

(Potential Policy Savings $20B '91-'95)

- Under This Package Social Security Grows From $268B to $335B '91-'95

III. **No Medicare Impact on Low Income**

- <u>No Impact on Those Below Poverty Line</u>: They Are Held Harmless for all Increases in Medicare Premiums, Copays and Deductibles 100%. Medicaid Will Pick-Up the New Costs

- <u>What About Those Just Above the Poverty Line</u>?

  $2B Provided in Package to Protect Additional Low Income Above the Poverty Line (Along With the State Share of Medicaid, $3.6B Will Protect These Low Income Beneficiaries)

IV. **No Impact on Other Low Income Programs**

- Aid to Families with Dependent Children	(Grows from $12.7B to $14.0B '91-'95)
- Food Stamps	(Grows from $17B to $20B '91-'95)
- Medicaid	(Grows from $47B to $73B '91-'95)

WHAT THE BIPARTISAN BUDGET AGREEMENT WON'T DO

- It will not raise individual income tax rates.
- It does not touch Social Security Cost of Living Increases, nor does it increase taxes on Social Security beneficiaries.
- It does not touch federal or military retirement.
- It does not affect Operation Desert Shield -- our men and women will still get the backing they deserve.
- It has no impact on families participating in low income programs such as Aid to Families with Dependent Children, Medicaid, WIC, and food stamps.

ENERGY TAX INCENTIVES

Proposed Tax Incentives

Tax incentives to enhance energy security include:

- -- incentives for new oil and gas exploration
- -- incentives to continue production from marginal properties
- -- incentives for enhanced oil recovery from existing fields
- -- an extension of current incentives for production of non-conventional fuels (Section 29), with inclusion of tight sands gas
- -- extension and modification of ethanol tax credits.

Total revenue loss from the incentives will be $0.4 billion in FY 1991 and $4.0 billion over the 5 year period FY 91-95.

Rationale

- o The proposed tax incentives are designed to encourage increased domestic oil, gas and ethanol production, and help reverse the decline in recent years. For example:

  - -- Over the last ten years exploration activity (as measured by the U.S. annual average rotary rig count) has fallen by 77 percent from a high of about 4000 in 1981 to under 1000 in 1989.

  - -- U.S. domestic oil production in 1989 averaged only 9.2 million barrels per day, the lowest in 25 years.

  - -- Because the U.S. is unable to meet its needs from domestic production oil import levels have risen. In 1989 imported oil accounted for 41 percent of our oil use. This increased to over 50 percent earlier this year.

- o Even though current prices are high, they are not stable, and could decline substantially in the coming months. Because of this uncertainty the necessary long-term investments in new domestic oil and gas production may not occur. Although there is a strong relationship between oil prices and domestic exploration activity, other factors such as government tax policy will have a significant impact on domestic oil exploration and future production levels.

- o Historically, oil prices fluctuate widely creating substantial risks for investors in exploration and drilling activities. Oil prices can fall 25 percent to 50 percent between the time an exploration project is financed and drilling actually is completed. This price volatility can make an otherwise risky and costly investment in oil drilling completely uneconomic overnight. Tax credits can reduce these risks, providing investors an incentive to explore.

- <u>Enhanced Oil Recovery Techniques</u> can recover some of the nearly two-thirds of the original oil left in place after conventional production ceases. Because the reserves are established and wells are already in place additional production can be initiated relatively quickly.

- <u>Credits for Marginal Production</u> will ensure that producing wells are not prematurely abandoned. Stripper wells (marginal wells producing less than 10 barrels per day) account for about 15 percent of U.S. production. Over the past 5 years, an average of almost 18,000 wells have been abandoned each year. In addition, another 50,000 wells have been temporarily shut-in. (The average stripper well produces about 3 barrels per day, compared with an average of 2,500 b/d for a well in the Middle East.)

- Credits for <u>new oil and gas exploration</u> would help to reverse the decline in U.S. proven reserves, establishing a reserve base to sustain long-term production.

- The Section 29 <u>non-conventional fuels tax credit</u> will help stimulate additional production from a vast resource base of non-conventional fuels, including tar sands, coal bed methane and tight sands gas. Production of tight sands gas accounts for about 10 percent of U.S. natural gas production.

- Extension and modification of the <u>ethanol credits</u> will provide both energy security as well as environmental benefits. Current U.S. ethanol production represents the equivalent of about 1 percent of U.S. gasoline demand. In addition, ethanol is an important component of the clean fuels programs contained in the pending clean air act.

LIMITS ON ITEMIZED DEDUCTIONS WOULD NOT AFFECT INCENTIVES FOR CHARITABLE GIVING

Under the budget agreement, taxpayers with Adjusted Gross Income (AGI) over $100,000 would have their itemized deductions reduced by three percent of the amount their AGI exceeded $100,000. This would increase their taxable income and the taxes paid.

-- **Example** A taxpayer has $250,000 of AGI and $50,000 of itemized deductions. The taxpayer's itemized deductions would be reduced by $4,500: three percent of the $150,000 by which AGI exceeded $100,000. The taxpayer would thus be able to claim itemized deductions of $45,500.

The incentive to contribute more to charity would be unaffected. Additional contributions to charity would still be fully deductible.

-- **Example** Assume our hypothetical taxpayer gave $10,000 more to charity, raising his itemized deductions to $60,000. The amount of disallowed deductions would remain unchanged at $4,500. The taxpayer's allowed itemized deductions would rise by the full amount of his charitable contribution.

Very few taxpayers would lose the tax deduction for their existing charitable contributions.

-- Analysis of data from actual tax returns indicates that only 15,000 taxpayers out of the 4,000,000 affected by this provision (0.4 percent) would lose the itemized deduction for their charitable contribution. The total giving of these people amounted to just 0.1 percent of total personal giving.

THE NEED FOR ACTION

- Congress must act, and act soon. We need measures to boost economic growth, and solve long-term problems.
- We can meet the challenge through bipartisan leadership and quick and decisive action.
- No one will agree with all measures, but everyone will benefit in the long run.
- If we do not reform entitlements to control their growth -- as this agreement provides -- America may never be able to solve its deficit problem.
- Most of all, this is our **last best chance to get the federal budget deficit under control.** We owe this much to our country, and to generations of Americans to come.

Democratic Offer #4

1. FY 1991 savings of $50+ billion and FY 1991 - FY 1995 savings of $500+ billion.

2. Five year <u>net</u> non-defense spending savings totaling $100 billion.

3. FY 1991 non-defense discretionary outlays at baseline.

4. FY 1992 non-defense discretionary outlays above baseline.

5. This offer contingent on:

   a) One year military spending and non-defense discretionary caps,

   b) Enforcement of the agreement based on deficit reduction amounts rather than deficit levels.

6. Five year savings of $330+ from military spending and/or taxes.

DEMOCRATIC OFFER #4

This offer is entirely contingent on one year caps (1991) on military spending and non-defense spending and the use of deficit reduction targets rather than deficit levels in enforcing the agreement.

NON-DEFENSE SPENDING:		-100
Mandatory reductions	-135.4	
~~Discretionary reductions~~	~~-13.7~~	
Non-defense initiatives	+49.0	
TAXES AND MILITARY SPENDING *		-330
DEBT SERVICE		-70
		-500

* Does not include the net incremental costs of "Desert Shield," which are unknown at this time.

Democratic Offer #5

1. FY 1991 savings of $50+ billion and FY 1991 - FY 1995 savings of $503+ billion.

2. Five year net nondefense spending savings totaling $103 billion. Additional savings to Democratic Offer #4 in Agriculture of $3 billion contingent on CBO scoring of OMB "trigger" proposal.

3. FY 1991 nondefense discretionary outlays at baseline and FY 91 BA at Senate 302 levels.

4. FY 1992 nondefense discretionary outlays at baseline plus $5.0 billion (reflecting continuation of Senate 302 BA levels for FY 1991).

5. Caps for FY 91 and FY 92 on military spending and non-defense discretionary spending.

6. FY 93 - FY 95 discretionary caps at 302(a) levels.

7. Defense savings of $200 billion, FY 91 - FY 95. "Desert Shield" net incremental costs not included.

8. Revenue increases of $130.3 billion (net), FY 91 - FY 95. See attachment.

9. This offer contingent on enforcement of the agreement based on deficit reduction amounts rather than deficit levels.

DEM5

DEMOCRATIC OFFER #5

This offer is entirely contingent on caps for FY 1991 and FY 1992 on military spending and non-defense discretionary spending and the use of deficit reduction targets rather than deficit levels in enforcing this deficit reduction agreement.

NON-DEFENSE SPENDING:		-103.0
Mandatory reductions	~~-140.4~~ 138.4	
Discretionary reductions	- 13.7	
Initiatives	+ 49.0	
MILITARY SPENDING: *		-200.0
TAXES:		-130.3
DEBT SERVICE: *		-70.0
		503.3

* Does not include the incremental costs of Desert Shield, which are unknowable at this time.

DEMOCRATIC OFFER #6

1. FY 1991 savings of over $50 billion and FY 1991 - FY 1995 savings of over $500 billion.

2. Five year <u>net</u> mandatory spending savings totaling $120 billion.

3. No new entitlement or tax spending initiatives, including capital gains tax cuts, IRAs, and extenders.

4. This offer entirely contingent upon no capital gains tax cut.

5. FY 1991 non-military discretionary outlays at baseline.

6. FY 1992 non-military discretionary outlays at baseline plus $5.0 billion.

7. Caps for FY 1991 and FY 1992 on military spending and non-military discretionary spending.

8. FY 1993 - FY 1995 discretionary caps at 302(a) levels.

9. "Desert Shield" net incremental costs to be covered by separate supplementals.

10. Revenue increases of $130 billion (net), FY 1991 - FY 1995.

11. This offer contingent on enforcement of the agreement based on deficit reduction amounts enforced through categorical sequestration.

    o Adjustments to hold discretionary appropriations harmless for credit reform, forgiveness of Egyptian debt, and changed scorekeeping concepts.

    o Upward adjustments of discretionary appropriations for IRS enforcement initiatives and inflation increases above baseline.

12. Revenue and entitlement initiatives funded on a pay-as-you-go basis.

13. Remove Social Security from deficit calculations.

14. Include savings and loan bailout costs of the RTC on budget.

000

DEMOCRATIC OFFER #6

	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	5-yr Total
SPENDING......................	-22.6	-38.6	-55.7	-75.8	-101.9	-294.6
Military w/o Desert Shield.	-10.0	-23.2	na	na	na	
Non-defense discretionary..	0.0	5.0	na	na	na	
Total Appropriations...	-10.0	-18.2	-30.5	-46.2	-69.8	-174.6
Mandatory programs:						
Reductions.............	-12.9	-20.7	-25.4	-29.6	-32.1	-120.6
Initiatives............	(All initiatives will be PAY-AS-YOU-GO)					0.0
Pay offset.................	0.3	0.2	0.1	0.0	-0.1	0.6
REVENUES......................	-25.1	-29.4	-23.7	-25.3	-26.6	-130.1
IRS TAX COMPLIANCE............	-3.0	-1.8	-1.8	-1.5	-1.2	-9.4
TOTAL POLICY CHANGES..........	-50.7	-69.9	-81.2	-102.6	-129.8	-434.1
DEBT SERVICE..................	-2.0	-7.0	-13.1	-20.3	-29.3	-71.7
TOTAL deficit reduction.......	-52.7	-76.8	-94.3	-122.9	-159.1	-505.7

May not add due to rounding.

MEMORANDUM:						
CHILD CARE (Net).............	-1.3	0.3	0.3	0.2	0.4	-0.1

S91-LP16

Joint Committee on Taxation
September 5, 1990
JCX-2-90 Revised

ESTIMATED REVENUE EFFECTS OF EXTENDING EXPIRING PROVISIONS PERMANENTLY
Provisions with Negative Revenue Effects

Fiscal Years 1991-1995
[Millions of Dollars]

Provision	Expiration Date		1991	1992	1993	1994	1995	1991-95
1. Foreign allocation of R&D	8/1/90	(1)	-503	-708	-772	-837	-903	-3,723
2. Research and experimentation credit (2)	12/31/90	(3)	-602	-841	-1,064	-1,354	-1,657	-5,518
3. Employer-provided educational assistance	9/30/90		-255	-331	-345	-358	-372	-1,661
4. Group legal services	9/30/90		-80	-108	-113	-120	-125	-546
5. Targeted jobs tax credit	9/30/90		-110	-214	-302	-360	-412	-1,398
6. Business energy credits (solar, geothermal, and ocean thermal property)	9/30/90		-55	-54	-41	-42	-45	-237
7. Low-income housing credit	12/31/90	(3)	-150	-394	-725	-1,067	-1,407	-3,743
8. Mortgage revenue bonds and mortgage credit certificates	9/30/90		-10	-50	-140	-240	-330	-770
9. Qualified small-issue manufacturing bonds	9/30/90		-10	-50	-120	-190	-260	-630
10. Health insurance for self-employed	12/31/90	(3)	-253	-317	-359	-407	-461	-1,797
11. Orphan drug credit	12/31/90		-4	-7	-7	-7	-7	-32
12. Placed-in-service date for nonconventional fuels production credit	12/31/90		-9	-27	-46	-69	-97	-248
GRAND TOTALS			**-2,041**	**-3,101**	**-4,034**	**-5,051**	**-6,076**	**-20,303**

NOTES: All estimates assume full restoration of tax benefits for 1990, and permanent extension thereafter.
Estimates assume legislation enactment date of October 1, 1990.

---

(1) The Omnibus Budget Reconciliation Act of 1989 extended this provision on a prorated basis for 9 months after start of a firm's first tax year beginning after August 1, 1989.

(2) Base limitation is retained at current level of 50 percent.

(3) The Omnibus Budget Reconciliation Act of 1989 extended these provisions for a 9-month prorated portion of the year.

DISTRIBUTIONAL EFFECT OF A $10,000 CAP ON STATE AND LOCAL INCOME TAX DEDUCTIONS

[1990 Income Levels]

INCOME CLASS (1)	Number of Returns With Tax Change (Thousands)	Percent of Total Returns (2) (Percent)	Average Tax Change (Dollars)	Aggregate Tax Change (Millions of Dollars)	Percent Distribution of Aggregate Tax Change (Percent)
Less than $10,000	--	--	--	--	--
10,000 - 20,000	7	(3)	(4)	$4	0.1%
20,000 - 30,000	4	(3)	$156	1	(3)
30,000 - 40,000	3	(3)	186	(5)	(3)
40,000 - 50,000	9	0.1%	843	8	0.1%
50,000 - 75,000	46	0.4%	580	26	0.5%
75,000 - 100,000	76	2.5%	1,368	104	1.9%
100,000 - 200,000	396	13.7%	1,541	610	11.2%
200,000 and Over	431	43.6%	10,883	4,692	86.2%
TOTALS	**972**	**0.8%**	**$5,603**	**$5,446**	**100.0%**

Joint Committee on Taxation
9-Sep-90

NOTE: Details may not add to totals due to rounding.

---

(1) The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: [1] tax-exempt interest; [2] employer contributions for health plans and life insurance; [3] inside buildup on life insurance; [4] workers' compensation; [5] nontaxable social security benefits; [6] deductible contributions to individual retirement accounts; [7] the minimum tax preferences; and [8] net losses, in excess of minimum tax preference, from passive business activities.

(2) Total returns include filing and nonfiling units. Filing units include all taxable and nontaxable returns. Nonfiling units include individuals with income that is exempt from Federal income taxation (e.g., transfer payments, interest from tax-exempt bonds, etc.). However, individuals who are dependents of other taxpayers are excluded.

(3) Less than 0.05%.

(4) Indeterminate due to small number affected.

(5) Less than $500,000.

DISTRIBUTIONAL EFFECT OF A 45% CAPITAL GAINS EXCLUSION WITH FULL DEPRECIATION RECAPTURE AND AMT PREFERENCE

[1990 Income Levels]

INCOME CLASS (1)	Number of Returns With Tax Change (Thousands)	Percent of Total Returns (2) (Percent)	Average Tax Reduction (3) (Dollars)	Aggregate Tax Reduction (3) (Millions of Dollars)	Percent Distribution of Aggregate Tax Change (Percent)
Less than $10,000	59	0.2%	$-102	$-5	(4)
10,000 - 20,000	640	2.3%	-123	-79	0.4%
20,000 - 30,000	1,376	6.1%	-150	-207	1.1%
30,000 - 40,000	1,823	10.9%	-249	-447	2.3%
40,000 - 50,000	1,506	16.4%	-424	-639	3.4%
50,000 - 75,000	2,434	21.1%	-660	-1,570	8.3%
75,000 - 100,000	987	32.3%	-1,281	-1,223	6.4%
100,000 - 200,000	1,290	44.7%	-3,477	-3,836	20.2%
200,000 and Over	654	66.1%	-26,814	-11,024	57.9%
TOTALS	**10,769**	**8.8%**	**$-2,500**	**$-19,030**	**100.0%**

Joint Committee on Taxation
9-Sep-90

NOTE: Details may not add to totals due to rounding.

---

(1) The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: [1] tax-exempt interest; [2] employer contributions for health plans and life insurance; [3] inside buildup on life insurance; [4] workers' compensation; [5] nontaxable social security benefits; [6] deductible contributions to individual retirement accounts; [7] the minimum tax preferences; and [8] net losses, in excess of minimum tax preference, from passive business activities.

(2) Total returns include filing and nonfiling units. Filing units include all taxable and nontaxable returns. Nonfiling units include individuals with income that is exempt from Federal income taxation (e.g., transfer payments, interest from tax-exempt bonds, etc.). However, individuals who are dependents of other taxpayers are excluded.

(3) The tax reduction reported here assumes no change in taxpayer behavior. Thus, this measure understates the tax benefit received by certain taxpayers.

(4) Less than 0.05%.

DISTRIBUTION EFFECT OF A 45% CAPITAL GAINS EXCLUSION AND LIMITING STATE AND LOCAL TAX DEDUCTIONS TO $10,000

[1990 Income Levels]

INCOME CLASS (1)	Number of Returns With Tax Increase (Thousands)	Percent of Total Returns (2) (Percent)	Average Tax Increase (Dollars)	Aggregate Tax Increase (Millions)	Number of Returns With Tax Decrease (Thousands)	Percent of Total Returns (2) (Percent)	Average Tax Decrease (Dollars)	Aggregate Tax Decrease (Millions)	Aggregate Tax Change (Millions)
Less than $10,000............	--	--	--	--	150	0.5%	$-117	$-17	$-17
10,000 - 20,000............	7	0.0%	(3)	$4	895	3.1%	-153	-137	-133
20,000 - 30,000............	14	0.1%	$75	1	1,411	6.3%	-250	-353	-352
30,000 - 40,000............	4	0.0%	244	1	1,321	7.9%	-442	-584	-583
40,000 - 50,000............	16	0.2%	714	11	966	10.5%	-640	-618	-607
50,000 - 75,000............	72	0.6%	765	55	1,623	14.1%	-922	-1,497	-1,442
75,000 - 100,000............	69	2.3%	1,405	97	656	21.4%	-1,862	-1,222	-1,125
100,000 - 200,000............	341	11.8%	1,373	468	890	30.8%	-4,368	-3,890	-3,422
200,000 and Over............	312	31.5%	9,292	2,903	360	36.4%	-27,338	-9,921	-7,018
TOTALS......................	**836**	**0.7%**	**$4,236**	**$3,541**	**8,275**	**6.8%**	**$-2,204**	**$-18,239**	**$-14,698**

Joint Committee on Taxation
9-Sep-90

NOTE: Details may not add to totals due to rounding.

---

(1) The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: [1] tax-exempt interest; [2] employer contributions for health plans and life insurance; [3] inside buildup on life insurance; [4] workers' compensation; [5] nontaxable social security benefits; [6] deductible contributions to individual retirement accounts; [7] the minimum tax preferences; and [8] net losses, in excess of minimum tax preference, from passive business activities.

(2) Total returns include filing and nonfiling units. Filing units include all taxable and nontaxable returns. Nonfiling units include individuals with income that is exempt from Federal income taxation (e.g., transfer payments, interest from tax-exempt bonds, etc.). However, individuals who are dependents of other taxpayers are excluded.

(3) Indeterminate due to small number affected.

ENTITLEMENT OPTIONS

($ billions)

08:41 PM

	REPUBLICAN OFFE		DEMOCRATIC OF		REPUB VS. DEMO	
	1991	1991-95	1991	1991-95	1991	1991-95
Agriculture	-1.3	-19.3	-1.1	-7.3	-0.2	-12.0
Medicare:						
Providers	-5.3	-39.7	-4.2	-45.2	-1.1	5.5
Beneficiaries	-7.1	-71.9	-3.1	-27.1	-4.0	-44.8
Subtotal Medicare	-12.4	-111.6	-7.3	-72.3	-5.1	-39.3
Civil Service:						
Lump sum	-1.3	-8.5	-1.3	-8.5	0.0	0.0
Postal Service reforms	-0.7	-4.4	---	---	-0.7	-4.4
FEHB	-0.3	-0.9	---	---	-0.3	-0.9
COLAs	-1.4	-15.0	-1.6	-17.1	0.2	2.1
Other	---	---	-0.9	-6.8	0.9	6.8
Subtotal civil service	-3.7	-28.8	-3.8	-32.4	0.1	3.6
Medicaid	-0.2	-8.3	---	---	-0.2	-8.3
Unspecified E&C/Finance	---	---	-0.2	-2.6	0.2	2.6
Military retirement	---	---	---	-3.9	0.0	3.9
Stafford loans (GSLs)	-0.1	-2.9	---	-0.4	-0.1	-2.5
Child nutrition	-0.2	-1.3	---	---	-0.2	-1.3
Unemployment insurance	---	-4.6	---	---	---	-4.6
Rail pension fund liability	-0.1	-1.0	-0.1	-1.0	0.0	0.1
Foster care admin	-0.2	-2.9	---	---	-0.2	-2.9
CSE admin	-0.4	-2.1	---	---	-0.4	-2.1
Single admin grant for AFDC,				---	0.0	0.0
Medicaid, Food Stamps	-0.3	-3.4	---	---	-0.3	-3.4
SSI admin fee	-0.1	-0.7	---	---	-0.1	-0.7
Social security overpmts	---	---	---	-0.2	0.0	0.2
FHA assignment waiver	-0.2	-0.8	-0.2	-1.0	0.0	0.2
Other FHA reforms	---	---	-0.5	-2.1	0.5	2.1
Tongass	0.0	-0.2	0.0	-0.2	---	---
PMA debt payment reform	---	-1.1	---	---	---	-1.1
Veterans	-0.7	-5.0	-0.4	-2.2	-0.3	-2.8
Subtotal entitlements	-19.8	-193.8	-13.6	-125.6	-6.2	-68.2

Prepared by SBC Minority Staff, 10-Sep-90.

User fees:						
OSHA/MSHA	---	---	-0.1	-1.3	0.1	1.3
PBGC	---	---	-0.1	-0.3	0.1	0.3
Flood/crime insurance	---	---	---	-0.8	0.0	0.8
Customs	---	---	-0.6	-3.0	0.6	3.0
NRC	---	---	-0.3	-1.7	0.3	1.7
SEC	---	---	-0.1	-0.1	0.1	0.1
VA	---	---	-0.1	-0.7	0.1	0.7
Patent & Trademark	---	---	-0.1	-0.5	0.1	0.5
Coast Guard	---	---	-0.2	-1.1	0.2	1.1
APHIS	---	---	-0.1	-0.4	0.1	0.4
Subtotal fees	---	---	-1.7	-9.9	1.7	9.9
TOTAL ENTITLEMENTS	-19.8	-193.8	-15.3	-135.5	-4.5	-58.3

Prepared by SBC Minority Staff, 10-Sep-90.

COMPARISON OF CBO/JCT AND OMB SCORING
OF TAX AND USER FEE PROPOSAL #4 -- 9/10/90

TAX MEASURES	CBO/JCT Scoring 1991	CBO/JCT Scoring 1991-95	OMB Scoring 1991	OMB Scoring 1991-95	CBO/JCT Less OMB 1991	CBO/JCT Less OMB 1991-95
I. EXTENDERS						
A. Losers						
1. Health Insurance for self-employed	-0.3	-1.8	-0.2	-2.2	-0.1	+0.4
2. R&E allocation rules	-0.4	-3.6	-0.4	-3.6	--	--
3. R&E credit	-0.5	-5.5	-0.5	-5.5	--	--
B. Gainers						
1. Leaking underground storage tank (LUST trust fund)	0.1	0.6	0.1	0.6	--	--
2. Telephone	1.5	12.9	1.5	13.1	--	-0.2
II. INITIATIVES FOR GROWTH, LOW INCOME, AND UPPER INCOME OFFSET						
A. Low Income						
1. Enterprize Zones (Admin.'s proposal)	-0.1	-1.9	-0.1	-1.9	--	--
2. Child care proposal: Tax receipts	(2)	-0.9	(2)	-0.2	--	-0.7
B. Savings/Investment/Growth						
1. Capital gains (45% excl., individuals only - with AMI and recapture)	3.7	-21.5	3.7	0.8	--	-22.3
2. Family Savings Account (FSA)	-0.2	-5.0	-0.2	-4.9	--	-0.1
3. Energy Security (President's Budget)	-0.3	-2.6	-0.3	-2.5	--	-0.1
C. Upper Income Offset:						
Limit State and local income tax deduction	2.4	31.5	3.4	29.4	-1.0	+2.1
III. REFORMS AND REVENUE RAISERS						
A. Narrowly Focused						
1. IRS Reforms (3)	0.3	4.3	3.0	9.4	-2.7	-5.1
2. Airport/Airway Increase	1.3	11.8	0.5	4.1	+0.8	+7.7
3. State and local HI	1.7	8.2	1.7	8.4	--	-0.2

	CBO/JCT Scoring		OMB Scoring		CBO/JCT Less OMB	
	1991	1991-95	1991	1991-95	1991	1991-95
4. State and local SS	1.6	11.7	2.2	12.7	-0.6	-1.0
5. Shippers increase	0.3	1.7	0.3	1.7	--	--
6. Salvage value/Insurance (with fresh start)	0.3	0.9	0.3	0.9	--	--
7. Pension/retiree health	0.6	2.0	0.4	0.7	+0.2	+1.3
8. DAC - Insurance reform	0.7	16.1	0.7	15.6	--	+0.5
B. Broadly Focused						
Alcohol equalization	4.6	24.5	4.3	22.8	+0.3	+1.7
IV. ADDITIONAL REVENUES PER 9/19/90 OFFER						
1. Luxury excise taxes	1.1	9.0	0.9	7.8	+0.2	+1.2
2. Ozone depleting	0.1	0.5	0.1	0.5	--	--
3. Indexing of excise taxes	1.5	12.9	0.3	8.0	+1.2	+4.9
4. Petroleum fuels tax	0.8	7.0	1.2	8.4	-0.4	-1.4
TOTAL TAX MEASURES	20.6	112.8	22.9	124.1	-2.3	-11.3
USER FEES AND OTHER COLLECTIONS						
User Fees in Republican offer of 9/7 (see attached list)	5.6	30.6	5.6	30.6	--	--
User Fees in Dem offer of 9/10 but not in Rep. Fee Package						
OSHA/MSHA	0.1	1.3	0.1*	1.3*	--	--
PBGC	0.1	0.3	0.1*	0.3*	--	--
Crime (4)	0.0	0.6	0.0*	0.6*	--	--
SEC	0.1	0.1	0.1*	0.1*	--	--
Patents	0.1	0.5	0.1*	0.5*	--	--
TOTAL	0.4	2.8	0.4*	2.8*	--	--
Total User Fees	6.0	33.4	6.0	33.4	--	--
Total Revenues and User Fees	26.6	146.2	28.9	157.5	-2.3	-11.3

*   CBO scoring. OMB scoring not yet available.

NOTES: All estimates for expiring provisions assume full restoration of tax benefits for 1990, and permanent extension thereafter. Estimates for expiring provisions assume legislation enactment date of October 1, 1990.

(1) Administration's proposal not specified at the present time.
(2) Loss of less than $50 million.
(3) Increase in IRS enforcement funding for FY 1991 and IRS management reforms estimated by the Congressional Budget Office.
(4) Democratic offer included both crime and flood insurance. Administration offer included flood insurance only.