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OA/ID Number:	29138
Folder ID Number:	29138-006

Folder Title:
Budget Summit [1990] [4]

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

REVENUES

AGREED #1 45.4 ✓ ✓

IRS 4.3 ✓

RETIREE 2.0 ✓ ✓

S/L HI 6.0 ✓

ALC. 12.

BUSINESS 2.5
S/L SS 11.7
ENERGY 60.

143.9

PAGE R/D. −6.7 ✓

SB. −8. ✓

INDEX. −4.5 ✓ ✓

10% BASE −1.0 ✓
ENT −1.0 ✓
ENERGY. −3.5

−24.7

133.9 133.4
13.21 120
147.11 170
24.7

USER. FEES. 9.21

BANK. 4. .121

13.21

123.4
10
133.4

HI to 100K = ?

TAX PACKAGE

AGREED.	45.4.
IRS.	9.4
RETIREE ~~HEALTH~~	1.3.
STATE & LOCAL. HI	5.2.
ALCOHOL.	12.2.
BUSINESS COOP	2.0
	75.5

S.S *	10.-
PEASE 50K/2 1/2%	15.-
	25.

SUB 100.5.
ENERGY 48.
148.5.

X 3.3

REV. LOSERS.

ENERGY.	3.5.
L.I. HOUSE/RE	2.0.
SMALL BUS.	8.0.
INDEX.	4.5.
	18.0

16-Sep-90 9:00pm

#90-3 117
PRELIMINARY
16-Sep-90
{D=#D90-5 121}

- BUDGET SUMMIT -

Estimated Revenue Effects of a 45% Capital Gains Exclusion and a Cutback on Itemized Deductions for High-Income Taxpayers

Fiscal Years 1991-1995

[Billions of Dollars]

Provision	1991	1992	1993	1994	1995	1991-95
1. 45% capital gains exclusion (15.4% rate)................................	3.7	-3.2	-5.6	-8.1	-8.3	-21.5
2. Disallow 35% of itemized deductions for taxpayers with AGI over $200,000 (joint); $120,000 (single); and $160,000 (head of household) (1)................................	0.7	4.5	4.8	5.6	6.4	21.9
GRAND TOTALS................................	4.4	1.3	-0.8	-2.5	-1.9	0.4

Joint Committee on Taxation

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

(1) Estimate includes interaction with capital gains provision.

9/26
8:56

FULLY IMPLEMENTED → 30% EXCLUSION....

CHARTS A PROBLEM...

INDEXATION A PROBLEM... ADMINISTRATION IS A PROBLEM

"NEW YORK" BAR ASSOCIATION

BOB MICHAEL ARGUES STRONGLY FOR INDEXATION

ALL IN DIFFICULT SITUATION

MITCHELL JUMP START THE ECONOMY

LOOPHOLE PROBLEM... CAPITAL GAINS EXCLUSION

DICK DARMAN PACMAN - STRUCTURAL PROBLEM WITH DEFECIT

IT CAN'T BE CONFINED TO AVERAGE PEOPLE

COMPLEXITIES DON'T ARISE WITH CALCULATION

BACK TO PIERCE THE BUBBLE

"FLATTEN @ 31%....."

"INDEXING IS VERY CRUCIAL TO THE PACKAGE"

BOTH SIDE FEEL BEING TAKEN

"ENTITLEMENTS TOO BIG A CUT.."

THE WHITE HOUSE

WASHINGTON

TO: The Chief of Staff and Senator Dole

FR: Ahdy Card

1 To Follow

202-224-3163

I DO WANT TO CLARIFY ONE POINT THAT SPEAKER FOLEY AND LEADER MITCHELL RAISED. EARLIER TODAY I SAID THE DEMOCRATS HAVE NOT COME FORWARD WITH A PACKAGE. THEY SAY THEY HAVE PUT A PACKAGE, OR AT LEAST A SERIES OF PROPOSALS, ON THE TABLE IN THE PRIVATE NEGOTIATIONS. I ACCEPT THAT IN THE PRIVATE NEGOTIATIONS THERE HAVE BEEN SUCH PROPOSALS. I APOLOGIZE FOR MISSPEAKING ON THAT POINT.

HOWEVER, MY CONCERN REMAINS THAT WE HAVE YET TO SEE FROM THE DEMOCRATS, A <u>COMPREHENSIVE</u> PLAN THAT CONTAINS SERIOUS SPENDING CUTS, NECESSARY BUDGET PROCESS REFORM AND ENFORCEMENT, GROWTH INCENTIVES, AND A SOUND APPROACH TO DEFENSE. I DO HOPE THAT IN THE NEGOTIATIONS TAKING PLACE AS I SPEAK, THAT WE CAN SEE PROGRESS THAT WILL BRING THIS PROCESS TO A CONCLUSION.

MIDNIGHT

ENTITLEMENTS. — MIL. 4. / 2HARK. + NUT. 5.5 } 1.5.

BANK @ 4.

KEEP FEE TOTAL......

TAX.

SMALL SELECT. OF GROWTH	INDEX	-4.5		18B
	SM. B. INCENT	-8		
	E. INCENT	-3.5		
	1 yr. LIH/R.D	-2.		
USING YOU. ~~B~~ MOVE.		-11.2		
		~~8~~.	8	
		-29.2		

PHONE.	PAIR.	13.9
		15.3
	ENERGY.	~~58.1~~
		29.2

60 DAY COLA ~~FREEZE~~ — (-10) +10 { +10

TAX INDEX DELAY

9/27/90 4:40 PM

FOLEY COMMENT PRESSURE ON PRESIDENT

WANT TO PROPOSE FOR OUR CONSIDERATION
32/30/20 CAPITAL GAINS
WANT A 2% AGI ? @ 50K/70K ..... 2% / 50K/70K/100K → $12 B.
TRY

R/E 1 YR. FUELS 8¢ @ 38.4 95%
E. 3.5 -45.4
↑ ETC. -17.7 IRS 9.4
15 28 32 RETIRE 1.3
S/L H 5.2
ALC 12.2
LOOP 2.5
SOC. SEC. 10 +10
PAYROLL SMB.
CAP. GAINS OF FOREIGN NATS. ON U.S. STOCKS.

POSSIBLE COMPROMISE -- 9/25/90 -- 11:00 a.m.

(A) ENTITLEMENTS (detail attached)

(1) Democratic offer of 9/17 modified as here below

(2) Add $1.5 billion to Agriculture savings

(3) Include Administration-proposed GSL reforms

(4) Make child nutrition subsidies more progressive

(5) Include "Harkin" foster care administration reform

(6) Include "Harkin" child support enforcement reform

(7) Delete inequitable civilian and military COLA freezes and substitute 3-month COLA delay for all but means-tested entitlements and veterans compensation.

TOTAL ENTITLEMENT SAVINGS: $112.5 billion

(B) FEES ORDINARILY CLASSIFIED AS NEGATIVE OUTLAYS

TOTAL: $15 billion (from list to be mutually agreed)

NOTE: Domestic discretionary spending increases (TBD) would have to be included in any calculation to determine net domestic spending. Even with fees, net domestic "spending" would not reach $120 billion.

(C) DEFENSE: Nunn adjusted for Desert Shield for 3 years (out-years TBD)

(D) REVENUES (See attached list)

(E) PROCESS REFORM AND ENFORCEMENT (See attached)

POSSIBLE COMPROMISE -- 9/25/90, 11:00 a.m.

		1991-95	
REVENUE MEASURES			
Raisers			
(1)	IRS reforms	4.3	
(2)	Airport/Airway increase	11.8	
(3)	State and local HI - modified	6.0	
(4)	State and local SS	11.7	
(5)	Shippers (Harbor maintenance)	1.7	
(6)	Salvage value/insurance - modified	0.9	
(7)	Pension/retiree health (Senate)	2.0	
(8)	DAC - Insurance reform - modified	10.0	
(9)	Alcohol - modified	12.0	
(10)	Luxury excise taxes	9.0	
(11)	Ozone depleting chemical excise tax	0.5	
(12)	Deny deduction of interest on corporate income tax underpayments	4.5	
(13)	Tobacco	5.9	80.3
(14)	Foreign Compliance	0.3	
(15)	Energy taxes	49.0	
(16)	Delay tax indexing 3 months	14.0 (e)	
(17)	Raise HI threshold by 10,000	7.0	70.3
			150.6
Special Incentives			
(1)	All extenders 1 year (including telephone and LUST)	-2.6	
(2)	Energy production and security	-3.5	
(3)	Enterprize Zones	-1.0	
(4)	Increase R&D credit to 25% (one year)	-0.3	
(5)	Small business investment deduction	-8.0	
(6)	Prospective indexing (all assets)	-4.5	-19.9
			130.7

9/25 12:00 p.m.

ENTITLEMENT OPTIONS

($ billions)

	DEMOCRATIC OFFER 9/10 1991	DEMOCRATIC OFFER 9/10 1991-95	DEMOCRATIC OFFER 9/17 1991	DEMOCRATIC OFFER 9/17 1991-95	POSSIBLE COMPROMISE 9/25 1991	POSSIBLE COMPROMISE 9/25 1991-95
Agriculture/price supports	-1.1	-10.3	-1.3	-11.3	-1.3	-12.8
Crop insurance	---	---	---	-0.5	---	-0.5
Medicare:						
Providers	-3.4	-31.5	-3.1	-30.0	-3.1	-30.0
Deductible/premium/ co-insurance	-3.9	-40.8	-1.5	-22.0	-1.5	-22.0
Subtotal Medicare	-7.3	-72.3	-4.6	-52.0	-4.6	-52.0
Civil Service:						
Lump sum	-1.3	-8.5	-1.3	-8.5	-1.3	-8.5
Postal Service and FEHB reforms	-0.9	-6.8	-0.9	-6.8	-0.9	-6.8
COLA:						
Civilian	-0.7	-9.0	-0.3	-1.5	-3.8	-13.9
Military	-0.9	-12.0	-0.6	-9.2	-0.3	-1.2
Medicaid/employee payor/ pharmaceutical	-0.2	-2.6	-0.2	-2.6	-0.3	-2.6
Stafford loans (GSLs)	---	-0.4	---	-0.7	-0.1	-3.3
Child nutrition	---	---	---	---	---	-0.5
Unemployment insurance	---	---	---	---	---	---
Rail pension fund liability	-0.1	-1.0	-0.1	-0.4	-0.1	-0.4
Foster care admin	---	---	---	---	-0.2	-2.9
CSE admin	---	---	---	---	-0.4	-2.1
Social security overpmts	---	-0.2	---	-0.2	---	-0.2
FHA assignment waiver	-0.2	-1.0	-0.2	-1.0	-0.2	-1.0
Other FHA reforms	-0.5	-2.1	-0.5	-1.3	-0.5	-1.3
Tongass	----	-0.2	---	-0.2	---	-0.2
Veterans	-0.4	-2.2	-0.4	-2.2	-0.4	-2.2
Subtotal entitlements	-13.6	-128.6	-10.4	-98.4	-14.4	-112.4

Stock Expensing Proposal: Five Year Receipts effect ($'s in billions)

Preliminary Estimates

Deduction As A Percentage of Purchase Price

Deduction Limitation	15.00%	20.00%	25.00%	30.00%	35.00%
$30,000	-4.4	-5.4	-5.9	-6.3	-6.3
$40,000	-5.1	-6.2	-6.9	-7.8	-8.1
$50,000	-5.2	-7.1	-8.0	-8.4	-9.7
$60,000	-5.2	-7.2	-9.0	-9.8	-10.1
$70,000	-5.3	-7.2	-9.1	-10.2	-11.5

DELAYS IN COLAS · VS S.S ↑85%

20B VS 60 Day Delay 10.5 ↔ 12.2 · 22.7.

IF NET RESULT IS THAT AT TOP. 21.8

RESPONSE -

AG +1 ⟶ 12.83 — 6.7

9/17 AS IS. —

..... 88.95

CHANGES BANK @ 4.00

MIL. RET. .4

Go to SEN REL.

FHA. 2.02 INDEX −4.5

returns to

GSL. 2.2. 10% OF SALES. −1.0

EITC/ST D 0

FEES @ 9.21.

AGREED ok. 45.4.

INCLUDE NUTR. .5

1.3.

HARKIN REFORMS CHILD 2.9 RETIRE ↑ to 2.0

5.2

FOSTER 2.1 S/L. HI. ↑ 6.0

ALC. ok. 12. —

MEDICARE PHASE IN.

20 B MEANS TEST → 15. BUS. COOP. 2.5

ENERGY. 60. —

S/L. SS. 11.7.

133.76.

— 13. — TO OUR SIDE.

120.+ 133.4

TAX PACKAGE

AGREED	45.4
IRS	9.4
RETIREE HEALTH	1.3
STATE & LOCAL HI	5.2
ALCOHOL	12.2
BUSINESS COOP	2.0
	75.5

S.S *	10.-
PEASE 50K/2½	15.-
	25

SUB	100.5
ENERGY	48
	148.5

X 3.3

REV. LOSERS

ENERGY	3.5
L.I. HOUSE/RE	2.0
SMALL BUS.	8.0
INDEX	4.5
	18.0

TAX PACKAGE

AGREED.	45.4.
IRS.	9.4
~~RETIREE HEALTH~~	1.3.
STATE & LOCAL. H.I	5.2.
ALCOHOL.	12.2.
BUSINESS COOP	2.0
	75.5

S.S *	10.-
PEASE 50K/2 1/2	15.-
	25.

SUB	100.5.
ENERGY	48.
	148.5.

X 3.3

REV. LOSERS.

ENERGY.	3.5.
L.I House/RE	2.0.
SMALL BUS.	8.0.
INDEX.	4.5.
	18.0

TAX PACKAGE

AGREED	45.4
IRS	9.4
~~RETIREE HEALTH~~	1.3
STATE & LOCAL HI	5.2
ALCOHOL	12.2
BUSINESS COOP	2.0
	75.5

S.S *	10.-
PEASE 50K/2½	15.-
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REV. LOSERS

ENERGY	3.5
L.I. HOUSE / RE	2.0
SMALL BUS.	8.0
INDEX	4.5
	18.0

TAX PACKAGE

AGREED.	45.4.
IRS.	9.4
RETIREE HEALTH	1.3.
STATE & LOCAL. HI	5.2.
ALCOHOL.	12.2.
BUSINESS COOP.	2.0
	75.5

S.S *	10. -
PEASE 50K/2 1/2	15. -
	25.

SUB	100.5.
ENERGY	48.
	148.5.

X 3.3

REV. LOSERS.

ENERGY.	3.5.
L.I. HOUSE/RE	2.0.
SMALL BUS.	8.0.
INDEX.	4.5.
	18.0

8:57 9/27

MEDICARE POINT - LOW INCOME PROBLEM.

DON'T HAVE FED GOV. ↗ 100%

IF START WITH [ ] WANT TO SPEND.

TAXES:

2 OPTIONS

FIRST A LOT OF AGREED AREAS:

1) PERLMAN AMT NO S, NO D.

2) 50/70/100 50/100/100 WAS PRICED. WANTS A SINGLE RATE FOR THE WHOLE THING.

3) PEASE + ENERGY -

OPTION 2.

40% EXCLUSION, AMT DOESN'T WORK.

PEASE @ 6% DISTRIBUTION...

15/28/29.5.

LOSES $ 29 B. PEASE RAISE $ 36 B

9/25 DEM.

ENTITLEMENTS

FREEZE COLAS WOUND UP IN PAY RAISE.

"CORE" 88

AG. ~~11.8~~ → 12.

MEDICARE 52 → 58. 30% IN ALL 5 YRS.

P.O. REF. ✓

COLAS START @ MIL. RET. @55. 4.

GSL'S STILL@ 1.

FHA REF. 1.5

BIF 6.–

102.93.

1/2 FOR SS@85%. 10.

FEES 9.21

121

~~119.9~~

LESS 2 PART. PREM. OFFSET

119.

↑ HI TO 90K. 19.2B

S.S. oth 1/2. 10. B.

170.4.

130.5.

REVENUE

LOSERS:

R/D	5.2
PERM. EXT. 20% W.60% & 25%@75%	
L.I. HOUSING	3.7.
NOT TEL/CUST OTH. EXP. 1 YR.	2.6.
ENT. Z.	1.0 B.
SB. EQ.	8. B.
EN. INC.	3.5 B.
INCLUDES. ~~.2~~ .4 TO PANETTA ; TO NUTRITION. BOT. CAT. ↑ EITC. ↑ BEYOND CHILD CARE	15.9 B.
	39.9. B.

RAISER.

95% OF CONTRIB.

50% TO DEF. ↓, 50% TO HIGHWAY FUND/20%

ENERGY, MOTOR F @ 8¢ 38.4 B.

~~HIGHWAY FUND?~~ 3/4¢ 2¢

PETR. REFINED PROD [redacted] 5. B.

AGREED 45.4 B.

IRS. 9.4.

RETIREE HEALTH 1.3

S/L HI 5.2

ALC. 12.2

B. LOOP. 2.5.

Don't Sure. → ~~PAYROLL TAX DEP. STAB~~ 0.

6% OF AGI IN EX. 100K 150K J.

out RATE INCREASE LIMIT ON ITEM. DED. 21.8.

9/25 R.

DARMAN

ENTITLEMENTS

CORE ✓ 88.

AG. 12.8

AG. CROP INS. .5

MEDICARE 58. + 4. (34.). PROVIDERS

SS. @85% (1/2) 10.

GSL'S. 3

COLAS:

3 MONTH. FREEZE 15.1

FHA. 1.5.

BIF 4.

GET 3 NUTRITION .5

HARKIN 1 } 5.

HARKIN 2

+2 BILL (6-4). 0

FEES. @ 9+

127.4.

DEDUCT BYRD

→ 120. NET.

REVENUE -

PERM. EXT. R/D 5. 20/60 25/75. 25/60

LIH. 3.7.

OTHERS 1Y. 2.6

ENT. 1.B.

SB. Eq. 8.

EN. 3.5.

19.B.

2/3 ABOVE SENATE

CHILD CR. 12 8. EITC 10.

INDEXING. 4.5

ENERGY. 50 B. ✓

AGREED 45.4 ✓

IRS 9.4.

TELEPHONE 10.

RETIREE 3

S/L HI 6.

ALC. 12.2.

B. LOOPS. 2.

PAYROLL -
HI
SS..
LIMIT.
0.

SS. 10.

HI ↑ 60K. 5.

6% AGI 0

S/L SS. 11.7.

ENTERPRISE ZONES -1.
ENERGY INCENTIVES -3.5
RED/LIH -2.9
SBV INCENTIVES -10.
17.4

2 YR WINDOW
EXPENSING 40K/130K -2. or -4.?
39 EXPENSING SCIENT. EQUIP .2?
14 35
35. δ TAX RATE -2.2
4.4

R/D. 25 FOR ALL/30 SMALL .2 EXTRA.

~~ROLLOVER @ 50K/3yrs -15.~~
ROLLOVER @ 10K/3YRS. -2.
-2.2

N.Y. TIMES ?

GROWTH, SOCIAL SECURITY, ENTITLEMENTS

① CORE PACKAGE

ENT. ZONE 1.B

ENERGY 3.5 - 4.0

R/D L/I 2.9

R/D 30% FOR SMALL .3

INDEXING (N.Y. TIMES)

CRITERIA SHOULD BE $50,000,000 SHARE-HOLDER EQUITY. 1. X [illegible]

EXPENSING TANGIBLE 40K - 130K 2B.

SCIENTIFIC EQUIP .2

~~CORPORATE EQUITY BUBBLE/RATE~~ $ PHASE OUT AMOUNT - $0 B

11.4
10
21.4

SMALL BUSINESS EQUITY DEDUCTION 10.

30% VS 25% 200000

VS 50,000,000 VS 25,000,000

23.4

~~Dropped ROLLOVER OF ASSETS BY INDIVIDUALS~~

~~recommend. DIVIDEND / ELIMINATE DOUBLE TAX (REPLACE S.B.E.D.) 1.5B~~

$23B + ROLLOVER

	78. –
ENERGY	48
	30
PEASE	12
	18.
ZEBLY	1.
	17.
S/L. SS	11.7
	5.3.
— LUXURY.	9.
	14.3

29-Sep-90 4:03am

#90-3 225
PRELIMINARY
29-Sep-90
{D=#90-5 226}

- DEMOCRATIC SUMMIT PACKAGE -

Fiscal Years 1991-1995

[Billions of Dollars]

Item		Effective	1991	1992	1993	1994	1995	1991-95
A. Revenue-Losing Provisions								
1. Enterprise zones [target]		1/1/91	--	-0.1	-0.2	-0.3	-0.4	-1.0
2. Energy incentives		1/1/91	-0.3	-0.5	-0.8	-0.8	-1.0	~~-3.4~~ -3.5
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 small active corporations		(3)	-0.5	-1.5	-2.1	-2.9	-3.8	-10.7
5. Increase EITC (4) [target]		1/1/91	-0.1	-2.0	-2.2	-2.3	-2.4	-9.0
Subtotals, Revenue-Losing Provisions			***-1.7***	***-4.8***	***-5.8***	***-6.8***	***-8.0***	***-27.~~0~~*** .1
B. Revenue-Raising Provisions								
1. Motor fuels energy tax (9 cents)	(5)	12/1/90	7.6	8.8	8.7	8.9	8.9	43.0
2. Tentatively agreed items (see attached)	(6)	--	4.7	5.9	7.0	7.1	7.3	31.9
3. Additional tentatively agreed items:								
a. IRS management reforms [target]	(7)	--	3.0	1.8	1.8	1.5	1.2	9.4
b. Retiree health with reversion compromise		1/1/91	0.5	0.2	0.1	0.1	(8)	0.9
c. State and local HI (9) [target]		1/1/92	--	0.7	1.4	1.6	1.6	5.2
d. Distilled spirits, beer, wine [target]		1/1/91	1.5	2.1	2.1	2.1	2.2	10.0
e. 10% luxury excise tax		1/1/91	0.2	0.4	0.4	0.5	0.6	2.1
f. Corporate interest deduction		1/1/91	4.2	-0.5	-0.6	0.4	0.5	4.0
4. Limitation on itemized deductions (10) [target]		1/1/91	0.6	5.0	4.9	5.5	6.0	22.0
5. Delay indexing of top bracket (1 year)		1/1/91	0.3	0.5	0.5	0.5	0.5	2.3
6. Increase HI wage cap to $6~~7,5~~00 [target] $69,000		1/1/91	0.7	2.1	2.2	2.4	2.5	10.0 + ?

Item	Effective	1991	1992	1993	1994	1995	1991-95
11. Payroll Tax Speed-up		1.0	2.2	-3.2	--	--	--
10. Business Tax Loopholes		0.2	0.4	0.5	0.6	0.7	2.5
7. State and local social security (OASDI) [target] (Net)	--	0.9	1.4	1.5	1.6	1.8	7.2
8. FUTA 0.2% surtax (Net)	1/1/91	0.7	1.0	1.0	1.0	1.1	4.8
9. Taxation of social security benefits (4)	1/1/91	0.3	1.0	1.1	1.2	1.4	5.0
Subtotals, Revenue-Raising Provisions		*25.2*	*30.4*	*32.1*	*34.4*	*35.6*	~~*157.8*~~ 160.3
Net Deficit Reduction		~~**23.5**~~ 24.7	**25.6**	**26.3**	**27.6**	**27.6**	~~**130.8**~~ 133.3

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, 5-year sunset, and $160,000 annual purchase limit. For newly-issued stock of small business corporations issued after date of Summit agreement, allow indexing of basis for inflation occurring after date of acquisition, sold after 12/31/91, and held for at least one year.
(4) Amount does not correspond to that used in the accompanying distributional analysis.
(5) At least 50% of motor fuels tax increase dedicated to deficit reduction; remainder dedicated to Highway Trust Fund (20% of this portion to be allocated to mass transit account). Each State to receive Highway account apportionments and allocations equal to at least 95% of its contribution attributable to increased revenue.
(6) Excludes distilled spirits, beer, and wine, corporate interest deduction, and luxury excise provisions.
(7) Estimate will be provided by the Congressional Budget Office (CBO).
(8) Gain of less than $50 million.
(9) Rate = 0.8% in 1992, 1.35% in 1993, 1.45% in 1994 and thereafter.
(10) Disallow itemized deductions in an amount equal to 4% 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.

Attachment {Table #90-3 109}

29-Sep-90

#90-3 109
PRELIMINARY
29-Sep-90

- BUDGET SUMMIT -
Tentatively Agreed Items

Fiscal Years 1991-1995
[Billions of Dollars]

Provision	Effective	1991	1992	1993	1994	1995	1991-95
I. Provisions Affecting High Income Individuals							
~~A. Impose 10% luxury excise tax (1)~~	~~1/1/91~~	~~1.0~~	~~1.9~~	~~2.0~~	~~2.0~~	~~2.1~~	~~9.0~~
II. Health and Environment							
A. 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
~~B. Increase taxes for distilled spirits, beer and wine~~	~~1/1/91~~	~~1.8~~	~~2.8~~	~~2.9~~	~~3.0~~	~~3.1~~	~~13.6~~
C. Ozone-depleting chemical excise tax	1/1/91	0.1	0.1	0.1	0.1	0.1	0.5
III. Reforms and Revenue Raisers							
A. Loss deductions and salvage values for insurance companies	1/1/90	0.3	0.2	0.2	0.2	0.2	1.1
~~B. Disallowance of deduction for interest paid on tax obligations~~	~~1/1/91~~	~~4.8~~	~~0.5~~	~~-0.7~~	~~0.5~~	~~0.5~~	~~4.5~~
C. Adopt foreign compliance provisions including certain provisions from H.R. 4308 (S. 2410)	3/20/90	(2)	(2)	0.1	0.1	0.1	0.3
D. Amortize insurance policy deferred acquisition expenses (DAC)	9/12/90	2.0	2.1	2.1	2.0	1.9	10.0

Provision	Effective	1991	1992	1993	1994	1995	1991-95
IV. User Fees							
A. Leaking underground storage tank (LUST) trust fund (5 years)...........	10/1/90	0.1	0.1	0.1	0.1	0.1	0.6
B. Increase Airport Trust Fund aviation excise taxes (5 years) (3).....(4)	1/1/91	1.3	2.3	2.5	2.7	3.0	11.8
C. Increase harbor maintenance tax (3)..(5)	1/1/91	0.3	0.3	0.4	0.4	0.4	1.8
GRAND TOTALS..		12.3	10.1	11.2	12.6	13.0	59.0

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.
Estimates provided are consistent with the Congressional Budget Office (CBO) updated budget baseline. Additional items contained in the President's budget proposal, relating to employment taxes and user fees, are estimated by CBO.

(1) Tax applies to specific newly-manufactured items with retail prices above the following thresholds: automobiles--$30,000; private boats and yachts--$30,000; private aircraft under 5,000 lbs.--no threshold; electronics--$1,000; jewelry--$5,000; and furs--$500. Tax is 10% of purchase price in excess of thresholds.
(2) Gain of less than $50 million.
(3) Estimate is net of income tax offset.
(4) 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.
(5) Estimate provided by CBO.

29-Sep-90 3:58am

#90-5 226
PRELIMINARY
29-Sep-90
{R=#90-3 225}

Democratic Summit Package
Summary of Distributional Effects, by Income Class (1)(2)
(1990 Income Levels)

Income Class (3)	Change in Federal Taxes (1)(4)		Federal Taxes Under Present Law (5)		Federal Taxes Under Proposal (1)(5)		Effective Tax Rates	
							Present Law	Proposal
	Billions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000.....	$0.0	0.0%	$14.2	1.6%	$14.2	1.6%	13.3%	13.3%
10,000 to 20,000.....	-1.5	-2.2%	65.8	7.6%	64.4	7.3%	15.6%	15.2%
20,000 to 30,000.....	2.5	2.4%	102.5	11.9%	105.0	11.9%	18.4%	18.9%
30,000 to 40,000.....	2.9	2.5%	115.8	13.4%	118.7	13.4%	20.0%	20.5%
40,000 to 50,000.....	2.4	2.7%	87.9	10.2%	90.2	10.2%	21.4%	22.0%
50,000 to 75,000.....	3.3	1.9%	172.8	20.0%	176.1	20.0%	24.7%	25.2%
75,000 to 100,000.....	1.7	2.6%	66.5	7.7%	68.2	7.7%	25.8%	26.5%
100,000 to 200,000....	3.4	3.3%	104.4	12.1%	107.8	12.2%	26.2%	27.0%
200,000 and over.......	4.6	3.5%	133.3	15.4%	137.9	15.6%	25.2%	26.0%
Total, All Taxpayers..	**$19.3**	**2.2%**	**$863.2**	**100.0%**	**$882.5**	**100.0%**	**21.8%**	**22.3%**

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(1) Distributional analysis includes effects from beer, wine, and distilled spirits taxes, tobacco tax, energy tax, capital gains indexing, taxation of social security benefits (proposal to hit $20-billion target over FY1991-95 period), increase in HI wage cap, and an increase in the EITC.

(2) This analysis does not take into account additional taxes paid as a result of increased capital gains realizations. (See "Explanation of Methodology Used to Estimate Proposals Affecting the Taxation of Income from Capital Gains," Staff of the Joint Committee on Taxation (JCS-12-90), March 27, 1990, pp. 46-48.)

(3) The income concept used to place tax returns into income classes is adjusted gross income 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 preferences from passive business activities.

(4) Estimates of total tax liability presented in distributions will not match estimated changes in receipts because of differing time periods (CY 1990 vs. FY 1991-95), because of varying patterns of fiscal year receipts, and because changes in taxpayer behavior with respect to capital gains are not reflected in this distribution.

(5) Distributions represent combined effects of individual income taxes, payroll taxes, Federal excise taxes, and estate and gift taxes. For the purpose of distributions, the full burden of payroll taxes is assigned to employees. Excise taxes are assumed to be borne fully by individuals either directly through purchase of the taxed commodity or indirectly through higher prices on all commodities as businesses pass along these added costs. Because of the uncertainty concerning the incidence of the corporate income tax, it is excluded from this table. Information in table excludes individuals who are dependents of other taxpayers.

THE WHITE HOUSE

WASHINGTON

September 27, 1990

Governor,

Newt insisted I let you know the following:

1) If an agreement is reached, he hopes the other summitteers will be informed of it before the President signs off on it; and

2) He says that some reporters are saying that the White House claims he will go along with indexing of cap gains. He wants to be sure you are aware that indexing alone is not enough for him absent some other powerful incentive.

FYI,

Nick

Nick

PRELIMINARY DRAFT

REVENUE OPTIONS

AS SUGGESTED BY VARIOUS PARTIES

NOTE: INCLUSION OF AN OPTION

DOES <u>NOT</u> IMPLY SUPPORT BY ANY PARTY

REVENUE OPTIONS

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

A. Revenue raising items from the Administration Budget.

NOTE: Capital gains proposals are covered in category H.

1. Airport and Airway Trust Fund.

a. Continue tax at current levels.

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

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

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

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

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

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

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

b. Same proposal with fresh start.

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

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

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

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

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

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

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

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

5. Extend social security to state and local employees.

a. Budget proposal.

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

b. Budget proposal with exclusion for students.

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

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

* Increase retirement test by $1,200

  JCT
  OTA

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

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

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

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

IRS management reforms

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

Stabilize payroll tax deposit rules

OTA	.9	2.2	-3.1	*	*	--	*

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

7. a. Make telephone excise tax permanent.

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

b. Speed up collection

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

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

B. Compliance proposals and LUST Fund extension.

8. Impose withholding on pension payments.

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

9. Improve compliance for employers of household employees.

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

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

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

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

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

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

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

a. Permanent extension with no ceiling.

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

b. 5-year extension with no ceiling.

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

c. Permanent extension with $1.5 billion ceiling.

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

C. Rates.

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

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

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

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

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

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

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

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

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

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

D. Energy and Environmental.

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

	Current Tax	Proposal
Gallon of gasoline	9¢	24¢
Gallon of diesel	15¢	30¢

JCT	15.0	14.4	14.1	14.4	14.5	--	72.4
OTA	14.1	14.4	14.3	14.1	14.3	--	71.2

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

	Current Tax	Proposal
Gallon of gasoline	9¢	19¢
Gallon of diesel	15¢	25¢

JCT	10.1	9.7	9.6	9.8	9.9	--	49.1
OTA	9.5	9.7	9.7	9.6	9.8	--	48.3

Net deficit reduction:

JCT	[Depends on outlays
OTA	from trust fund.]

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

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

JCT	9.7	14.5	15.4	16.2	17.1	--	72.9
OTA							

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

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

With anticipated price impact based on OTA estimates:

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

c. Imposed on a BTU-equivalent base.

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

With anticipated price impact based on OTA estimates:

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

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

JCT							
OTA	10.9	11.7	11.9	12.1	12.3	--	59.0

With anticipated price impact based on OTA estimates:

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

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

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

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

a. $.50 per pound.

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

b. $1.00 per pound.

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

c. $1.25 per pound.

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

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

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

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

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

E. Other Excise Taxes.

23. Tobacco. Effective 10/1/90.

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

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

b. Double existing tax and index commencing 1992.

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

c. Index tobacco taxes from current levels commencing 1991.

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

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

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

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

Impact on price of:

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

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

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

Impact on price of:

	Current tax	Option
Bottle of distilled spirits	$2.00	$2.40

c. Double current tax on beer and wine.

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

Impact on price of:

	Current tax	Option
6 pack of beer	$ .16	$ .32
Bottle of table wine	$ .03	$ .06

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

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

Impact on price of:

	Current tax	Option (1991)
6 pack of beer	$ .16	$ .32
Bottle of table wine	$ .03	$ .06

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

a. .003 rate

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

b. .0015 rate

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

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

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

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

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

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

G. Itemized Deductions.

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

a. $15,000 limit.

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

b. $10,000 limit.

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

c. $5,000 limit.

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

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

a. 1% of adjusted gross income.

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

b. 2% of adjusted gross income.

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

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

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

+ 5% add brack.

31. Impose a limit on total itemized deductions.

a. $100,000 limit.

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

b. $75,000 limit.

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

c. $50,000 limit.

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

d. $25,000 limit.

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

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

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

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

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

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

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

H. Business Deductions.

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

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

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

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

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

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

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

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

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

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

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

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

b. Same exclusion for corporate assets.

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

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

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

b. Same exclusion for corporate assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

52. Restore pre-1986 IRAs.

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

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

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

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

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

55. <u>IRA/FSA Combination</u>:

a. Allow taxpayers the option of:

* contributing up to $1,000 annually to an IRA of which 50% would be deductible if above current IRA limits <u>or</u>

* contributing up to $1,250 ($2,500 family) to a family savings account with the same rules as option 55.

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

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

b. Allow taxpayers the option of:

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

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

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

c. Allow taxpayers the option of:

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

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

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

Delay effect eff dates

56. Increase current law IRA phase-outs.

a. $10,000 increase.

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

b. $25,000 increase.

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

57. Enterprise zones: Administration budget proposal.

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

OTA	-.1	-.2	-.3	-.5	-.8	--	-1.9

58. Enterprise zones: H.R. 5190.

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

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

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

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

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

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

a. EITC - Family Size Adjustment.

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

b. EITC - Young Child Supplement.

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

c. Phase-out Child and Dependent Care.

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

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

a. EITC.

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

b. Child and dependent care tax credit.

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

c. Medical insurance credit.

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

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

61. Permanent extension.

a. Employer-provided educational assistance.

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

b. Group legal services.

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

c. Health insurance for self-employed.

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

d. Mortgage revenue bonds.

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

e. Small-issue manufacturing bonds.

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

f. R&E allocation rules.

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

g. R&E tax credit.

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

h. Low-income housing credit.

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

i. Targeted jobs tax credit.

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

j. Business energy credits.

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

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

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

l. Orphan drug testing credit.

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

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

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

a. Employer-provided educational assistance.

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

b. Group legal services.

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

c. Health insurance for self-employed.

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

d. Mortgage revenue bonds.

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

e. Small-issue manufacturing bonds.

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

f. R&E allocation rules.

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

g. R&E tax credit.

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

h. Low-income housing credit.

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

i. Targeted jobs tax credit.

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

j. Business energy credits.

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

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

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

l. Orphan drug testing credit.

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

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

63. 3-year extension.

a. Employer-provided educational assistance.

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

b. Group legal services.

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

c. Health insurance for self-employed.

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

d. Mortgage revenue bonds.

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

e. Small-issue manufacturing bonds.

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

f. R&E allocation rules.

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

g. R&E tax credit

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

h. Low-income housing credit.

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

i. Targeted jobs tax credit.

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

j. Business energy credits.

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

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

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

l. Orphan drug testing credit.

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

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

64. 5-year extension.

a. Employer-provided educational assistance.

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

b. Group legal services.

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

c. Health insurance for self-employed.

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

d. Mortgage revenue bonds.

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

e. Small-issue manufacturing bonds.

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

f. R&E allocation rules.

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

g. R&E tax credit.

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

h. Low-income housing credit.

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

i. Targeted jobs tax credit.

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

j. Business energy credits.

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

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

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

l. Orphan drug testing credit.

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

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

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

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

Proposal 3PM

Rev Raisers:

Agreed	45.4
IRS	9.4
Retiree Health	1.3
State + Local HI	5.2
Alcohol	12.2
Business Loopholes	2.0
	75.5
60 day indep delay	12.2
Limit Deduction 5%	18.0
Energy	42.3
	148.0

Rev Losers:

Energy	3.5
L Inc + RD for 1 yr	2.0
Small Business	8.0
Indexing	4.5
	− 18.0

September 19, 1990

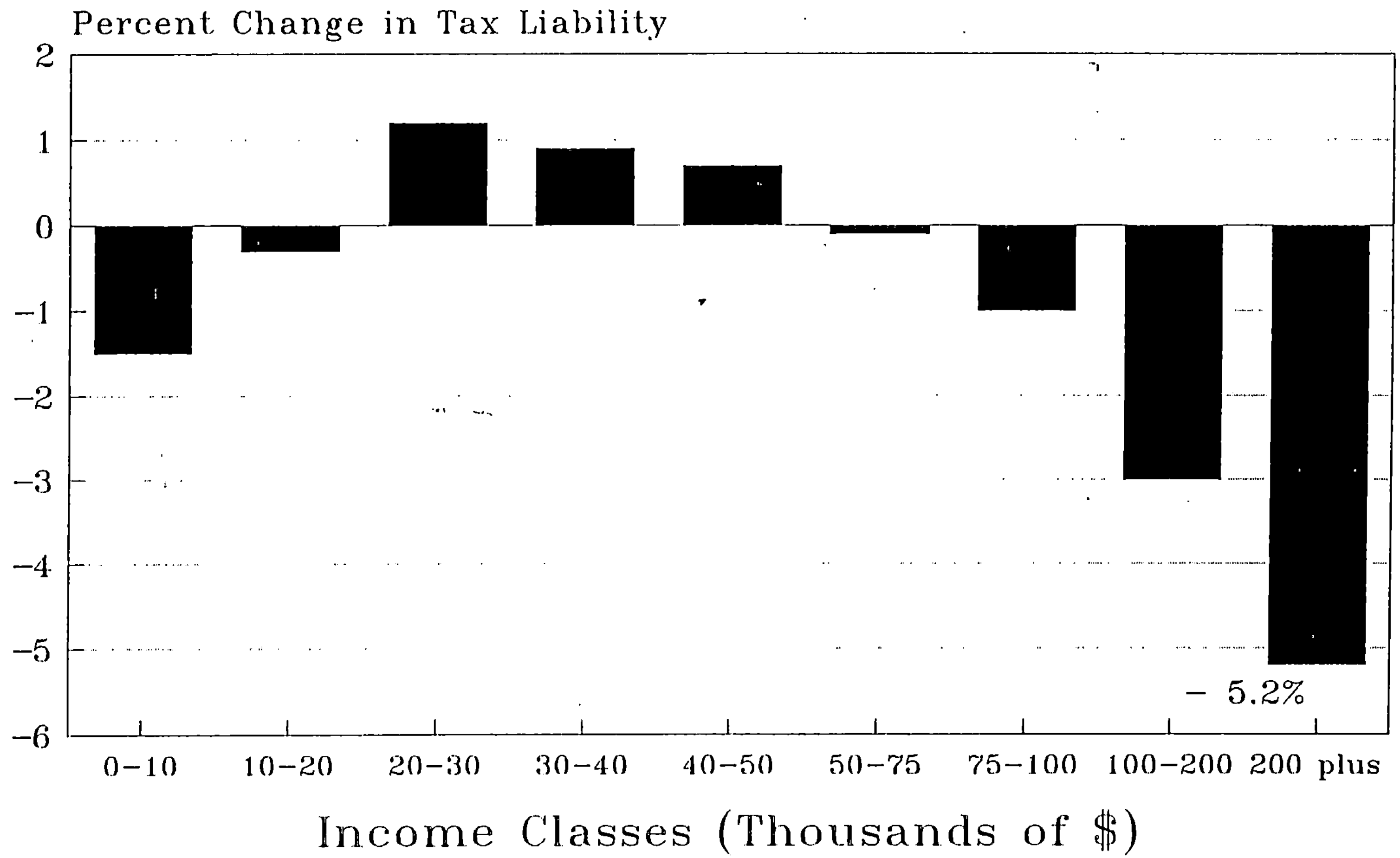
H.R. 3, the Early Childhood Education and Development Act of 1989

Possible offer

(in billions)

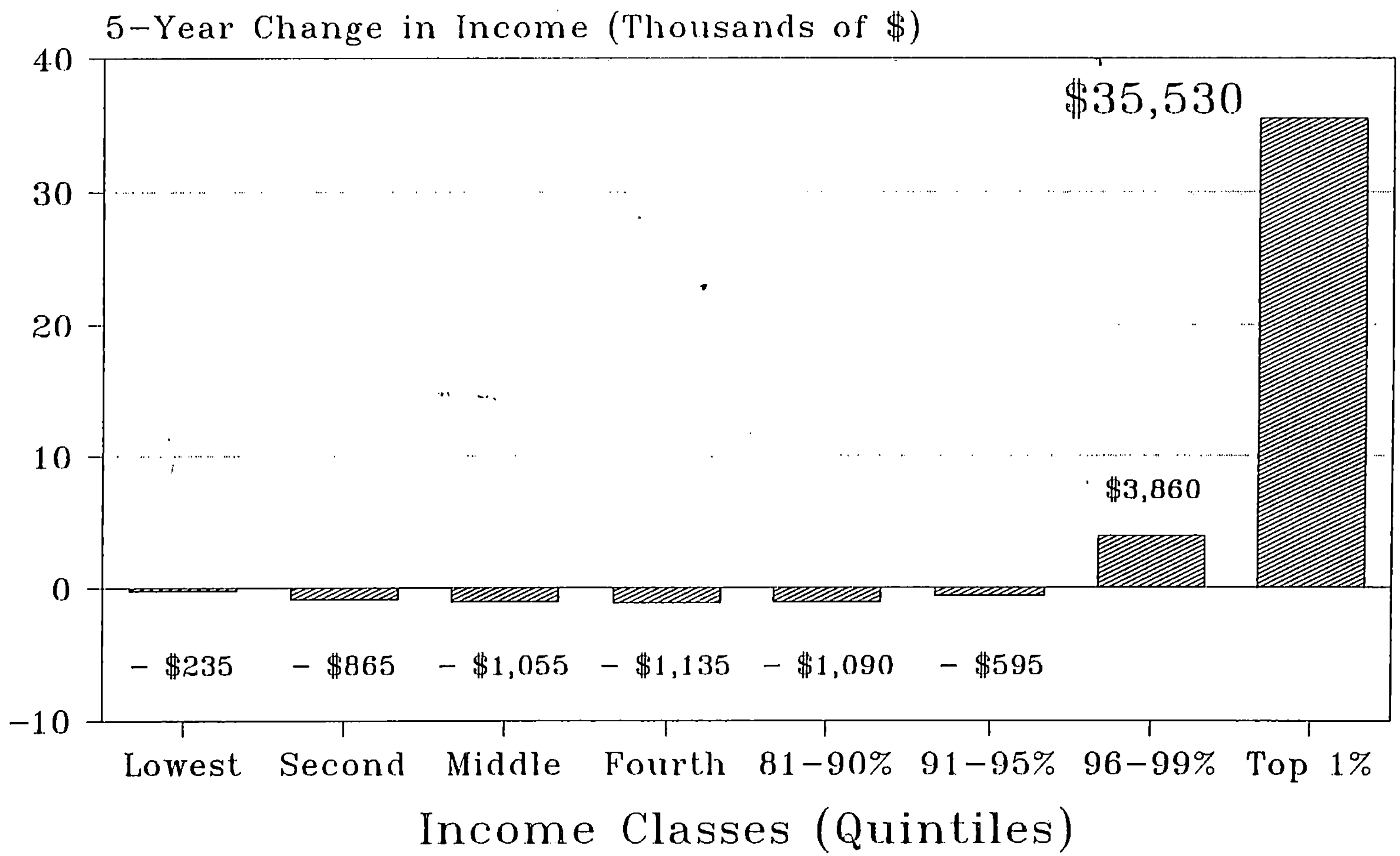
	5-year total
Child Care	
Direct grants for child care (modified Senate offer using Title IV-A in lieu of Title XX)	1.7
Expand EITC and adjust for family size (drop young child supplement)	11.0
Authorize health credit for families with children	1.5
SUBTOTAL	14.2
Extend telephone excise tax	-13.0
Phase out dependent care tax credit and eliminate section 129 exclusion for higher income families	-1.5
SUBTOTAL	-14.5
Social Security	
Subcommittee package (excluding retirement test increase)	0.5
$1,200 increase in retirement test	1.5
Eliminate 7-year rule for disabled widows	negligible
Increase widows' benefits by reducing actuarial reduction	4.0
Increase SSI benefits by $20 for individuals and $30 for couples	4.0
SUBTOTAL	10.0
Cover state and local workers (excluding students) not covered by a public retirement plan	-10.0
SUBTOTAL	-10.0

Distributional Impact
Administration Plan



Source: Joint Committee on Taxation

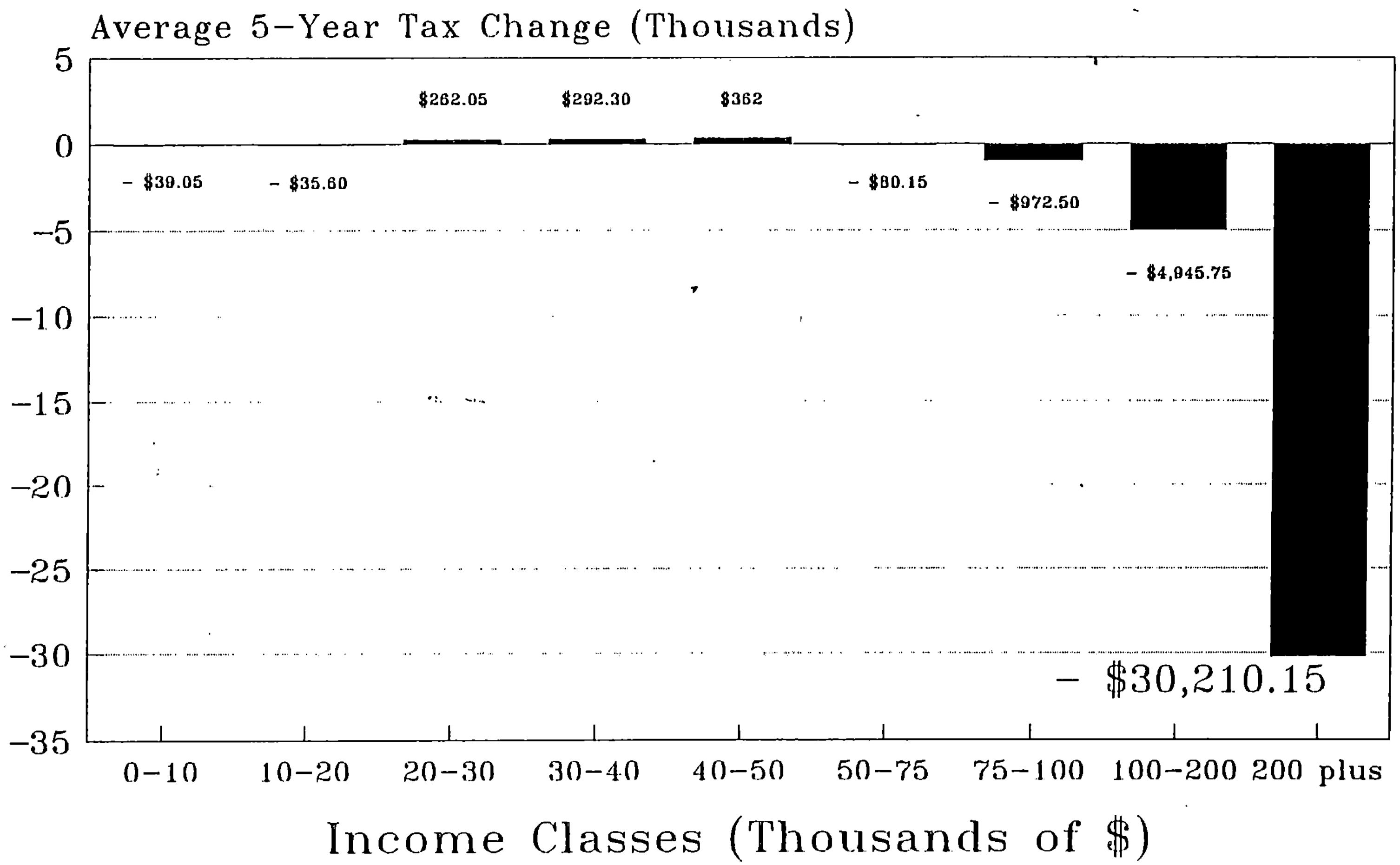
Distributional Impact
Administration Plan



Note: The average income of the top 1% is $428,044

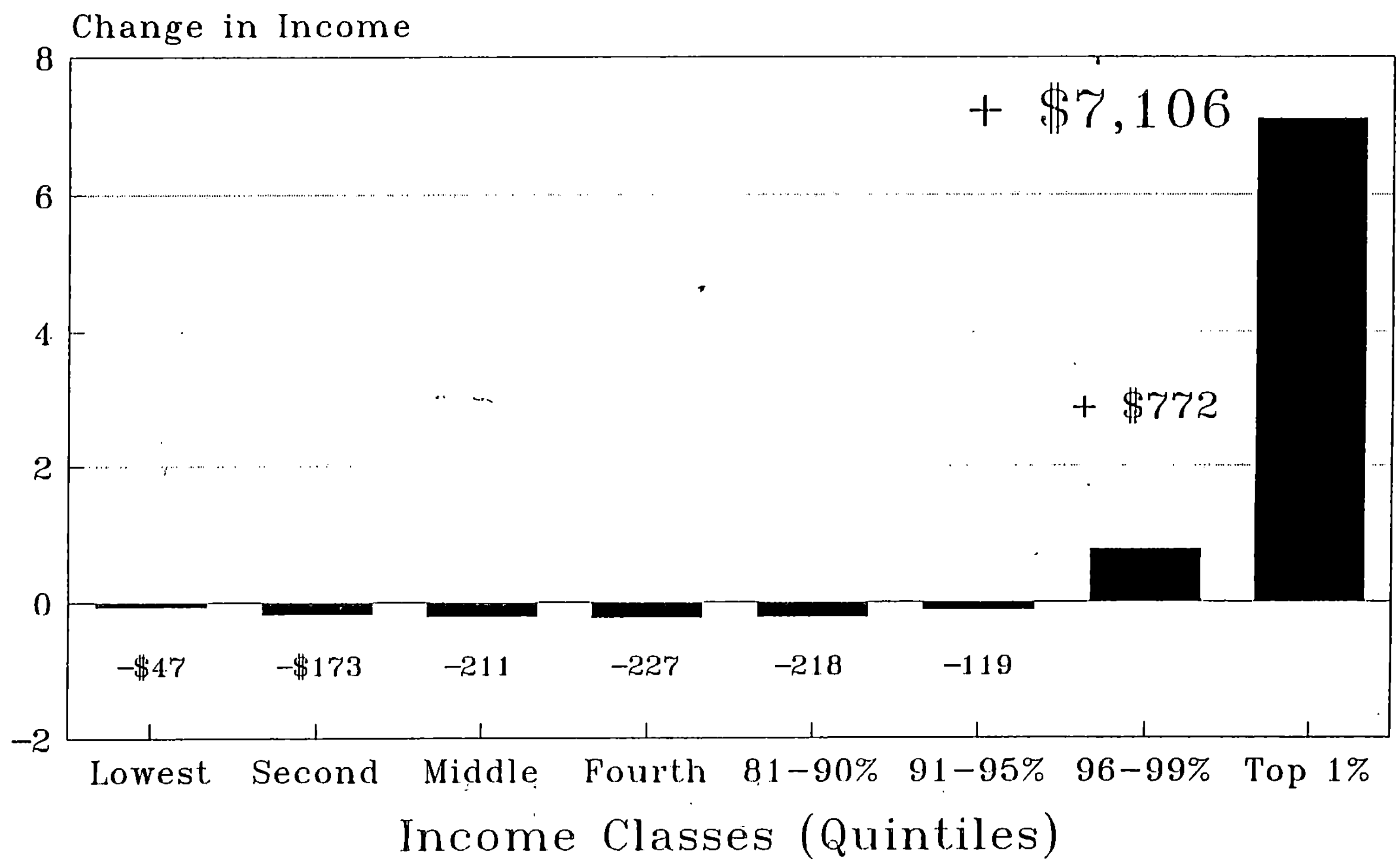
Source: Congressional Budget Office

Distributional Impact
Administration Plan



Distributional Impact

Administration Plan

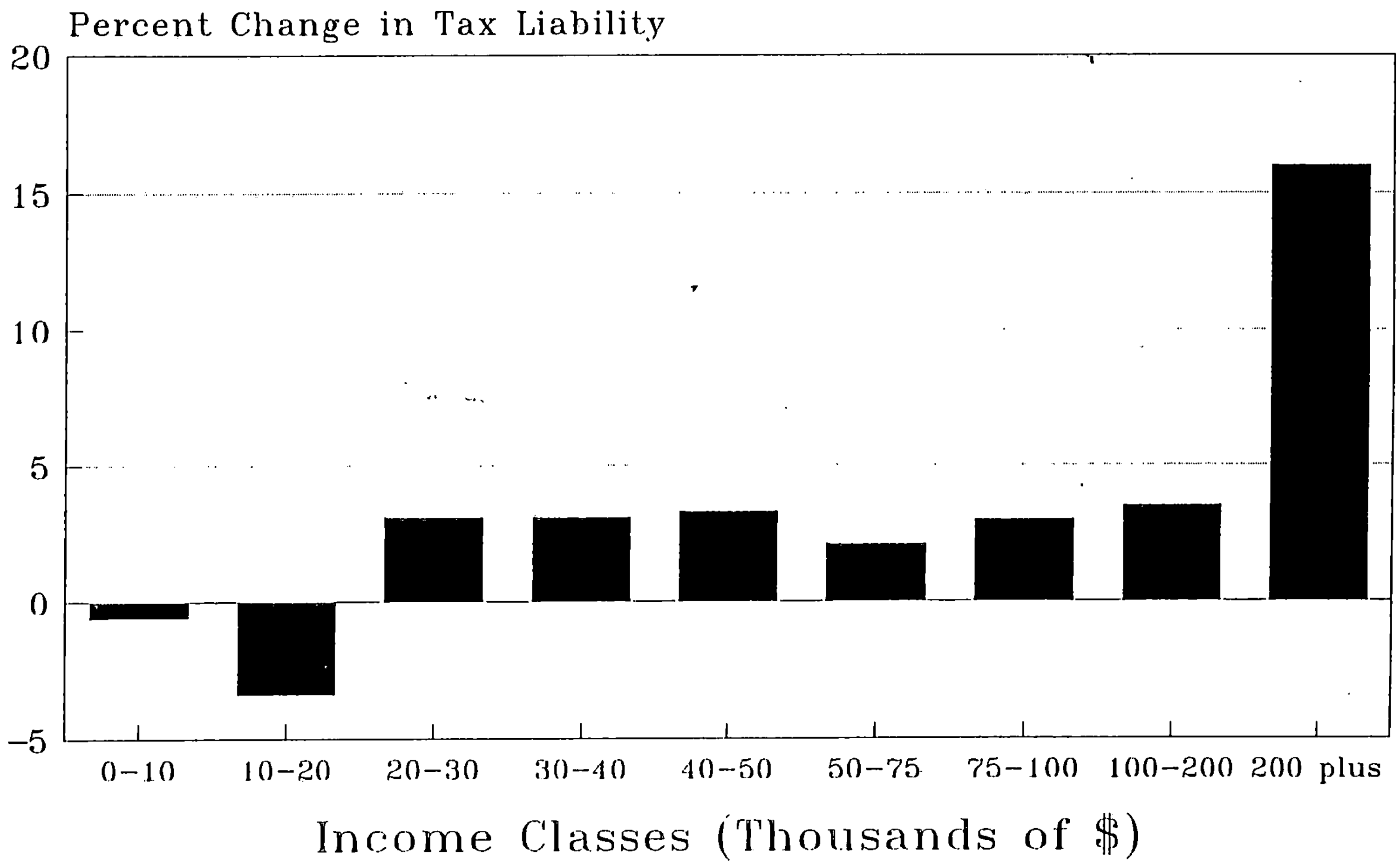


Note: The average income of the top 1% is $428,044

Source: Congressional Budget Office

Distributional Impact

Democratic Plan



Source: Joint Committee on Taxation

Federal Tax Increase Due to a $10,000 Cap on the Deduction for State and Local Income Taxes and Capital Gains Realizations in 1988, Ranked by State

State	Families with Tax Increase from Cap			
	Families with Cap		Tax Increase	
	Number (000)	Percent of Total	Amount ($ M)	Percent of Total
New York..........	268	24.3	1,619	32.7
California........	225	20.4	1,155	23.3
Connecticut.......	32	2.9	227	4.6
New Jersey........	45	4.1	208	4.2
Ohio..............	46	4.2	175	3.5
Massachussetts....	47	4.3	167	3.4
Michigan..........	35	3.2	115	2.3
Maryland..........	32	2.9	95	1.9
Wisconsin.........	30	2.7	90	1.8
Oklahoma..........	14	1.3	89	1.8
North Carolina....	29	2.6	82	1.7
Minnesota.........	35	3.2	82	1.7
Illinois..........	26	2.4	77	1.6
Pennsylvania......	25	2.3	74	1.5
Florida...........	13	1.2	62	1.3
Oregon............	19	1.7	58	1.2
Georgia...........	19	1.7	58	1.2
Kansas............	14	1.3	57	1.2
Virginia..........	15	1.4	54	1.1
D.C...............	7	0.6	32	0.6
South Carolina....	10	0.9	29	0.6
Iowa..............	10	0.9	28	0.6
Arkansas..........	5	0.5	24	0.5
Delaware..........	9	0.8	21	0.4
West Virginia.....	8	0.7	21	0.4
Nebraska..........	5	0.5	20	0.4
Indiana...........	6	0.5	20	0.4
Arizona...........	6	0.5	19	0.4
Missouri..........	6	0.5	19	0.4
Kentucky..........	7	0.6	18	0.4
Alabama...........	7	0.6	18	0.4
Colorado..........	8	0.7	18	0.4
Hawaii............	6	0.5	17	0.3
Rhode Island......	4	0.4	13	0.3
Idaho.............	3	0.3	10	0.2
Louisiana.........	3	0.3	10	0.2
Texas.............	5	0.5	10	0.2
Mississippi.......	4	0.4	9	0.2
Maine.............	3	0.3	9	0.2
Vermont...........	2	0.2	7	0.1
New Mexico........	2	0.2	7	0.1
Montana...........	3	0.3	6	0.1
New Hampshire.....	1	0.1	5	0.1
Washington........	*	0.0	3	0.1
Nevada............	*	0.0	3	0.1
Tennessee.........	1	0.1	3	0.1
Utah..............	1	0.1	2	0.0
Other.............	*	0.0	1	0.0
North Dakota......	*	0.0	1	0.0
Alaska............	*	0.0	*	0.0
Wyoming...........	*	0.0	*	0.0
South Dakota......	*	0.0	*	0.0
Total..........	1,101	100.0	4,947	100.0

State	Capital Gains Realizations in 1988			
	Returns with Gains		Capital Gains	
	Number (000)	Percent of Total	Amount ($ M)	Percent of Total
California........	1,550	12.3	24,806	16.3
New York..........	959	7.6	14,753	9.7
Florida...........	829	6.6	13,466	8.8
Texas.............	717	5.7	8,954	5.9
Illinois..........	603	4.8	7,637	5.0
New Jersey........	472	3.7	7,068	4.6
Pennsylvania......	541	4.3	5,913	3.9
Massachussetts....	328	2.6	4,959	3.3
Ohio..............	475	3.8	3,994	2.6
Virginia..........	302	2.4	3,811	2.5
Connecticut.......	222	1.8	3,751	2.5
Georgia...........	242	1.9	3,398	2.2
Michigan..........	468	3.7	3,306	2.2
North Carolina....	269	2.1	3,207	2.1
Maryland..........	236	1.9	3,125	2.1
Washington........	308	2.4	2,898	1.9
Wisconsin.........	299	2.4	2,700	1.8
Tennessee.........	174	1.4	2,482	1.6
Minnesota.........	291	2.3	2,201	1.4
Arizona...........	207	1.6	2,175	1.4
Missouri..........	273	2.2	2,118	1.4
Colorado..........	220	1.7	1,908	1.3
Indiana...........	237	1.9	1,889	1.2
Nevada............	60	0.5	1,380	0.9
Oregon............	183	1.5	1,348	0.9
Alabama...........	128	1.0	1,289	0.8
Kansas............	147	1.2	1,232	0.8
Kentucky..........	132	1.0	1,226	0.8
New Hampshire.....	64	0.5	1,213	0.8
South Carolina....	121	1.0	1,163	0.8
Other.............	108	0.9	1,135	0.7
Louisiana.........	131	1.0	944	0.6
Iowa..............	187	1.5	941	0.6
Hawaii............	60	0.5	925	0.6
Oklahoma..........	133	1.1	875	0.6
Arkansas..........	95	0.8	798	0.5
Rhode Island......	48	0.4	701	0.5
D.C...............	29	0.2	699	0.5
Maine.............	57	0.5	695	0.5
Nebraska..........	102	0.8	631	0.4
Mississippi.......	68	0.5	566	0.4
New Mexico........	70	0.6	523	0.3
Utah..............	77	0.6	498	0.3
Vermont...........	35	0.3	459	0.3
West Virginia.....	51	0.4	401	0.3
Idaho.............	58	0.5	397	0.3
Delaware..........	34	0.3	365	0.2
Montana...........	60	0.5	349	0.2
South Dakota......	53	0.4	329	0.2
Wyoming...........	28	0.2	240	0.2
North Dakota......	44	0.3	216	0.1
Alaska............	29	0.2	161	0.1
Total..........	12,614	100.0	152,220	100.0

September 15, 1990

* Less than 500 families or returns, or less than $500,000.

Note: Families and returns are shown by state in which return filed.

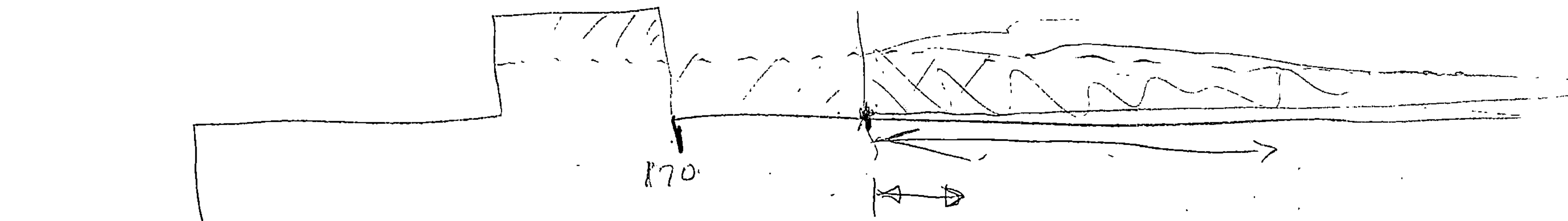
Federal Tax Increase Due to a $10,000 Cap on the Deduction for State and Local Income Taxes
and Capital Gains Realizations in 1988, Ranked by State
(Rank by Capital Gains)

State	Families with Tax Increase from S&L Tax Cap					Capital Gains Realizations in 1988				
	Families with Cap		Federal Tax Increase			Returns with Gains		Capital Gains		
	Number (000)	Percent of Total	Amount ($ M)	Percent of Total	Rank	Number (000)	Percent of Total	Amount ($ M)	Percent of Total	Rank
California........	225	20.4	1,155	23.3	2	1,550	12.3	24,808	16.3	1
New York..........	268	24.3	1,619	32.7	1	959	7.6	14,753	9.7	2
Florida...........	13	1.2	62	1.3	15	829	6.6	13,466	8.8	3
Texas.............	5	0.5	10	0.2	37	717	5.7	8,954	5.9	4
Illinois..........	26	2.4	77	1.6	13	603	4.8	7,637	5.0	5
New Jersey........	45	4.1	208	4.2	4	472	3.7	7,068	4.6	6
Pennsylvania......	25	2.3	74	1.5	14	541	4.3	5,913	3.9	7
Massachussetts....	47	4.3	167	3.4	6	328	2.6	4,959	3.3	8
Ohio..............	46	4.2	175	3.5	5	475	3.8	3,994	2.6	9
Virginia..........	15	1.4	54	1.1	19	302	2.4	3,811	2.5	10
Connecticut.......	32	2.9	227	4.6	3	222	1.8	3,751	2.5	11
Georgia...........	19	1.7	58	1.2	17	242	1.9	3,398	2.2	12
Michigan..........	35	3.2	115	2.3	7	468	3.7	3,306	2.2	13
North Carolina....	29	2.6	82	1.7	11	269	2.1	3,207	2.1	14
Maryland..........	32	2.9	95	1.9	8	236	1.9	3,125	2.1	15
Washington........	*	0.0	3	0.1	44	308	2.4	2,898	1.9	16
Wisconsin.........	30	2.7	90	1.8	9	299	2.4	2,700	1.8	17
Tennessee.........	1	0.1	3	0.1	46	174	1.4	2,482	1.6	18
Minnesota.........	35	3.2	82	1.7	12	291	2.3	2,201	1.4	19
Arizona...........	6	0.5	19	0.4	28	207	1.6	2,175	1.4	20
Missouri..........	6	0.5	19	0.4	29	273	2.2	2,118	1.4	21
Colorado..........	8	0.7	18	0.4	32	220	1.7	1,908	1.3	22
Indiana...........	6	0.5	20	0.4	27	237	1.9	1,889	1.2	23
Nevada............	*	0.0	3	0.1	45	60	0.5	1,380	0.9	24
Oregon............	19	1.7	58	1.2	16	183	1.5	1,348	0.9	25
Alabama...........	7	0.6	18	0.4	31	128	1.0	1,289	0.8	26
Kansas............	14	1.3	57	1.2	18	147	1.2	1,232	0.8	27
Kentucky..........	7	0.6	18	0.4	30	132	1.0	1,226	0.8	28
New Hampshire.....	1	0.1	5	0.1	43	64	0.5	1,213	0.8	29
South Carolina....	10	0.9	29	0.6	21	121	1.0	1,163	0.8	30
Other.............	*	0.0	1	0.0	48	108	0.9	1,135	0.7	31
Louisiana.........	3	0.3	10	0.2	36	131	1.0	944	0.6	32
Iowa..............	10	0.9	28	0.6	22	187	1.5	941	0.6	33
Hawaii............	6	0.5	17	0.3	33	60	0.5	925	0.6	34
Oklahoma..........	14	1.3	89	1.8	10	133	1.1	875	0.6	35
Arkansas..........	5	0.5	24	0.5	23	95	0.8	798	0.5	36
Rhode Island......	4	0.4	13	0.3	34	48	0.4	701	0.5	37
D.C...............	7	0.6	32	0.6	20	29	0.2	699	0.5	38
Maine.............	3	0.3	9	0.2	39	57	0.5	695	0.5	39
Nebraska..........	5	0.5	20	0.4	26	102	0.8	631	0.4	40
Mississippi.......	4	0.4	9	0.2	38	68	0.5	566	0.4	41
New Mexico........	2	0.2	7	0.1	41	70	0.6	523	0.3	42
Utah..............	1	0.1	2	0.0	47	77	0.6	498	0.3	43
Vermont...........	2	0.2	7	0.1	40	35	0.3	459	0.3	44
West Virginia.....	8	0.7	21	0.4	25	51	0.4	401	0.3	45
Idaho.............	3	0.3	10	0.2	35	58	0.5	397	0.3	46
Delaware..........	9	0.8	21	0.4	24	34	0.3	365	0.2	47
Montana...........	3	0.3	6	0.1	42	60	0.5	349	0.2	48
South Dakota......	*	0.0	*	0.0	52	53	0.4	329	0.2	49
Wyoming...........	*	0.0	*	0.0	51	28	0.2	240	0.2	50
North Dakota......	*	0.0	1	0.0	49	44	0.3	216	0.1	51
Alaska............	*	0.0	*	0.0	50	29	0.2	161	0.1	52
Total..........	1,101	100.0	4,947	100.0		12,614	100.0	152,220	100.0	

September 15, 1990

* Less than 500 families or returns, or less than $500,000.

Note: Families and returns are shown by state in which return filed.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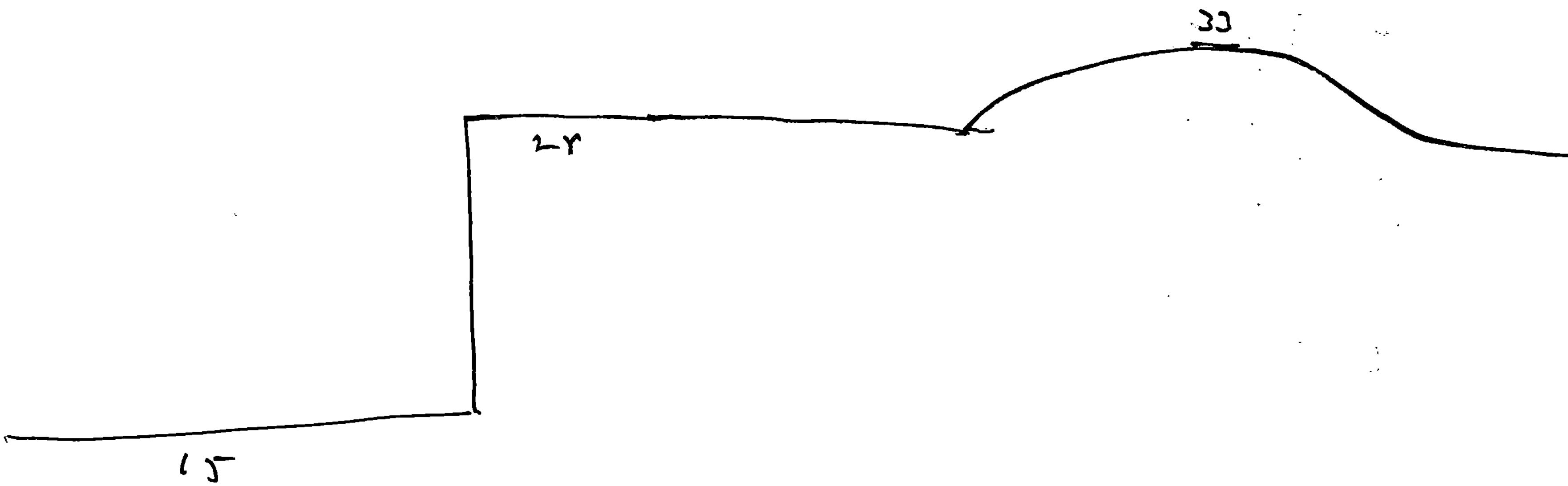
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Federal Tax Increase Due to a $10,000 Cap on the Deduction for State and Local Income Taxes
and Capital Gains Realizations in 1988, Ranked by State
(Rank by Income Tax Cap)

State	Families with Tax Increase from S&L Tax Cap					Capital Gains Realizations in 1988				
	Families with Cap		Federal Tax Increase			Returns with Gains		Capital Gains		
	Number (000)	Percent of Total	Amount ($ M)	Percent of Total	Rank	Number (000)	Percent of Total	Amount ($ M)	Percent of Total	Rank
New York..........	268	24.3	1,619	32.7	1	959	7.6	14,753	9.7	2
California........	225	20.4	1,155	23.3	2	1,550	12.3	24,808	16.3	1
Connecticut.......	32	2.9	227	4.6	3	222	1.8	3,751	2.5	11
New Jersey........	45	4.1	208	4.2	4	472	3.7	7,068	4.6	6
Ohio..............	46	4.2	175	3.5	5	475	3.8	3,994	2.6	9
Massachussetts....	47	4.3	167	3.4	6	328	2.6	4,959	3.3	8
Michigan..........	35	3.2	115	2.3	7	468	3.7	3,306	2.2	13
Maryland..........	32	2.9	95	1.9	8	236	1.9	3,125	2.1	15
Wisconsin.........	30	2.7	90	1.8	9	299	2.4	2,700	1.8	17
Oklahoma..........	14	1.3	89	1.8	10	133	1.1	875	0.6	35
North Carolina....	29	2.6	82	1.7	11	269	2.1	3,207	2.1	14
Minnesota.........	35	3.2	82	1.7	12	291	2.3	2,201	1.4	19
Illinois..........	26	2.4	77	1.6	13	603	4.8	7,637	5.0	5
Pennsylvania......	25	2.3	74	1.5	14	541	4.3	5,913	3.9	7
Florida...........	13	1.2	62	1.3	15	829	6.6	13,466	8.8	3
Oregon............	19	1.7	58	1.2	16	183	1.5	1,348	0.9	25
Georgia...........	19	1.7	58	1.2	17	242	1.9	3,398	2.2	12
Kansas............	14	1.3	57	1.2	18	147	1.2	1,232	0.8	27
Virginia..........	15	1.4	54	1.1	19	302	2.4	3,811	2.5	10
D.C...............	7	0.6	32	0.6	20	29	0.2	699	0.5	38
South Carolina....	10	0.9	29	0.6	21	121	1.0	1,163	0.8	30
Iowa..............	10	0.9	28	0.6	22	187	1.5	941	0.6	33
Arkansas..........	5	0.5	24	0.5	23	95	0.8	798	0.5	36
Delaware..........	9	0.8	21	0.4	24	34	0.3	365	0.2	47
West Virginia.....	8	0.7	21	0.4	25	51	0.4	401	0.3	45
Nebraska..........	5	0.5	20	0.4	26	102	0.8	631	0.4	40
Indiana...........	6	0.5	20	0.4	27	237	1.9	1,889	1.2	23
Arizona...........	6	0.5	19	0.4	28	207	1.6	2,175	1.4	20
Missouri..........	6	0.5	19	0.4	29	273	2.2	2,118	1.4	21
Kentucky..........	7	0.6	18	0.4	30	132	1.0	1,226	0.8	28
Alabama...........	7	0.6	18	0.4	31	128	1.0	1,289	0.8	26
Colorado..........	8	0.7	18	0.4	32	220	1.7	1,908	1.3	22
Hawaii............	6	0.5	17	0.3	33	60	0.5	925	0.6	34
Rhode Island......	4	0.4	13	0.3	34	48	0.4	701	0.5	37
Idaho.............	3	0.3	10	0.2	35	58	0.5	397	0.3	46
Louisiana.........	3	0.3	10	0.2	36	131	1.0	944	0.6	32
Texas.............	5	0.5	10	0.2	37	717	5.7	8,954	5.9	4
Mississippi.......	4	0.4	9	0.2	38	68	0.5	566	0.4	41
Maine.............	3	0.3	9	0.2	39	57	0.5	695	0.5	39
Vermont...........	2	0.2	7	0.1	40	35	0.3	459	0.3	44
New Mexico........	2	0.2	7	0.1	41	70	0.6	523	0.3	42
Montana...........	3	0.3	6	0.1	42	60	0.5	349	0.2	48
New Hampshire.....	1	0.1	5	0.1	43	64	0.5	1,213	0.8	29
Washington........	*	0.0	3	0.1	44	308	2.4	2,898	1.9	16
Nevada............	*	0.0	3	0.1	45	60	0.5	1,380	0.9	24
Tennessee.........	1	0.1	3	0.1	46	174	1.4	2,482	1.6	18
Utah..............	1	0.1	2	0.0	47	77	0.6	498	0.3	43
Other.............	*	0.0	1	0.0	48	108	0.9	1,135	0.7	31
North Dakota......	*	0.0	1	0.0	49	44	0.3	216	0.1	51
Alaska............	*	0.0	*	0.0	50	29	0.2	161	0.1	52
Wyoming...........	*	0.0	*	0.0	51	28	0.2	240	0.2	50
South Dakota......	*	0.0	*	0.0	52	53	0.4	329	0.2	49
Total..........	1,101	100.0	4,947	100.0		12,614	100.0	152,220	100.0	

September 15, 1990

* Less than 500 families or returns, or less than $500,000.

Note: Families and returns are shown by state in which return filed.

Table 16

Summary of State Government Individual Income Taxes, Personal Exemptions, Standard Deductions, and Deductibility of Federal Income Taxes
Tax Year 1989

As of October 1989. Only basic rates, brackets, and exemptions are shown. Local income tax rates, even those mandated by the state, are not included. Taxable income rates and brackets listed below apply to single taxpayers and married taxpayers filing "combined separate" returns in states where this is permitted.

		Taxable Income Brackets		Personal Exemptions			Standard Deduction[a]			
State	Tax Rates (range in percent)	Lowest: Amount Under	Highest: Amount Over	Single	Married-Joint Return	Dependents	Percent	Single	Married-Joint Return	Federal Income Tax Deductible[b]
Alabama + *	2.0-5.0%	$500	$3,000	$1,500	$ 3,000	$300	20%	$2,000	$4,000	yes
Alaska	No state income tax									
Arizona[c]	2.0-8.0	1,290	7,740	2,229	4,458	1,337	22.29	1,115	2,229	yes
Arkansas	1.0-7.0	3,000	25,000	20	40	20	10	1,000	1,000	no
California[c]	1.0-9.3	4,020	26,380	55[d]	110[d]	55[d]	n.a.	2,070	4,140	no
Colorado	5 percent of modified federal taxable income									no
Connecticut*	Limited income tax									
Delaware +	3.2-7.7	1,000	40,000	1,250	2,500	1,250	10	1,300	1,600	no
District of Columbia	6.0-9.5	10,000	20,000	1,160	2,320	1,160	n.a.	2,000	2,000	no
Florida	No state income tax									
Georgia	1.0-6.0	750	7,000	1,500	3,000	1,500	n.a.	2,300	3,000	no
Hawaii*	2.0-10.0	1,500	20,500	1,040	2,080	1,040	n.a.	1,500	1,900	no
Idaho	2.0-8.2	1,000	20,000	Same as federal[e]						no
Illinois	3.0	Flat rate		1,000	2,000	1,000	n.a.	n.a.	n.a.	no
Indiana +	3.4	Flat rate		1,000	2,000	1,000	n.a.	n.a.	n.a.	no
Iowa + [c] *	0.4-9.98	1,016	45,720	20[d]	40[d]	15[d]	n.a.	1,230	3,030	yes
Kansas*	4.5-5.95	27,500	27,500	2,000	4,000	2,000	n.a.	3,000	5,000	yes
Kentucky +	2.0-6.0	3,000	8,000	20	40	20	n.a.	650	650	yes
Louisiana	2.0-6.0	10,000	50,000	4,500	9,000	1,000	Combined with exemptions			yes
Maine	2.0-8.5	4,000	16,000	2,000	4,000	2,000	n.a.	3,100	5,200	no
Maryland + *	2.0-5.0	1,000	3,000	1,100	2,200	1,100	15	2,000	4,000	no
Massachusetts*	5.0-10.0	Flat rate		2,200	4,400	1,000	n.a.	n.a.	n.a.	no
Michigan +	4.6	Flat rate		2,000	4,000	2,000	n.a.	n.a.	n.a.	no
Minnesota*	6.0-8.0	13,000	13,000	Same as federal[e]						no
Mississippi	3.0-5.0	5,000	10,000	6,000	9,500	1,500	15	2,300	3,400	no

Table 16 (cont.)

Summary of State Government Individual Income Taxes, Personal Exemptions, Standard Deductions, and Deductibility of Federal Income Taxes Tax Year 1989

		Taxable Income Brackets		Personal Exemptions			Standard Deduction[a]			
State	Tax Rates (range in percent)	Lowest: Amount Under	Highest: Amount Over	Single	Married-Joint Return	Dependents	Percent	Single	Married-Joint Return	Federal Income Tax Deductible[b]
Missouri + *	1.5-6.0	1,000	9,000	1,200	2,400	400	n.a.	Same as federal[e]		yes
Montana[c]	2.0-11.0	1,500	52,500	1,200	2,400	1,200	20	2,250	4,500	yes
Nebraska	2.0-5.9	1,800	27,000	1,180	2,360	1,180	n.a.	Same as federal[e]		no
Nevada	No state income tax									
New Hampshire*	Limited income tax									
New Jersey*	2.0-3.5	20,000	50,000	1,000	2,000	1,000	n.a.	n.a.	n.a.	no
New Mexico	1.8-8.5	5,200	64,000	2,000	4,000	2,000	n.a.	3,000	5,000	no
New York + *	4.0-7.5	5,500	13,000	0	0	1,000	n.a.	6,000	9,500	no
North Carolina*	6.0-7.0	12,750	12,750	2,000	4,000	2,000	n.a.	3,000	5,000	no
North Dakota*	2.6-12.0	3,000	50,000	Same as federal[e]						yes
Ohio + *	0.743-6.9	5,000	100,000	650	1,300	650	n.a.	n.a.	n.a.	no
Oklahoma*	0.5-6.0	1,000	7,500	1,000	2,000	1,000	15	2,000	2,000	yes
Oregon* [c]	5.0-9.0	2,000	5,000	94[d]	188[d]	94[d]	n.a.	1,800	3,000	yes
Pennsylvania +	2.1	Flat rate		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	no
Rhode Island	22.96 percent of federal income tax liability									no
South Carolina[c]	3.0-7.0	4,000	10,000	Same as federal[e]						no
South Dakota	No state income tax									
Tennessee*	Limited income tax									
Texas	No state income tax									
Utah*	2.55-7.2	750	3,750	75 percent of federal exemptions			Same as federal[e]			yes
Vermont*	25 percent of federal income tax liability									no
Virginia*	2.0-5.75	3,000	16,000	800	1,600	800	n.a.	3,000	5,000	no
Washington	No state income tax									
West Virginia*	3.0-6.5	10,000	60,000	2,000	4,000	2,000	n.a.	n.a.	n.a.	no
Wisconsin*	4.9-6.93	7,500	15,000	0	0	50[d]	n.a.	5,200	8,900	no
Wyoming	No state income tax									

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- BUDGET SUMMIT -
Revenue and User Fee Package
Democrat Offer

Fiscal Years 1991-1995
[Billions of Dollars]

Provision	Effective	1991	1992	1993	1994	1995	1991-95	
A. High Income Individuals								35% GONE " MIN TAX ADJUST GONE"
1. Impose temporary deficit reduction 20% surtax on individual incoms over $500,000 (1)	1/1/91	2.2	4.3	4.9	5.6	6.5	23.4	
2. Remove HI wage cap	1/1/91	4.6	11.1	11.8	12.7	13.5	53.7	
3. Impose 10% luxury excise tax (2) @ ADMIN. THRESHOLDS	1/1/91	1.3	2.0	2.1	2.3	2.5	10.2	
B. Energy Security and Conservation	BASED ON CBO BASELINE OIL PRICES							
1. Impose 4% broad-based ad valorem energy tax (3)	1/1/91	7.8	11.6	12.3	13.0	13.7	58.4	.300/.01
2. $20 price floor for imported crude oil; exemption for Canada, Mexico, and Venezuela; revenue devoted to low-income energy assistance	1/1/91	--	--	--	--	--	---	RAISES NO NET -
3. Double gas guzzler tax	1/1/91	0.1	0.1	0.1	0.1	0.1	0.5	
4. Extend section 29 credit and expand to tight sands gas	1/1/91	(5)	-0.1	-0.2	-0.2	-0.3	-0.9	
5. Adopt incentives for domestic energy production	1/1/91	-0.3	-0.4	-0.6	-0.6	-0.7	-2.6	
C. Health and Environment								
1. Double beer and wine taxes; index beginning in 1992 (exclude sparkling wine)	10/1/90	1.5	1.4	1.6	1.8	2.0	8.3	
2. Increase distilled spirits tax by $2.00 to $14.50 per proof gallon	10/1/90	0.4	0.4	0.4	0.4	0.4	2.0	
3. Add new ozone-depleting chemicals covered by Montreal Protocol	1/1/91	0.1	0.1	0.1	0.1	0.1	0.5	
D. Miscellaneous Revenue Items								
1. Extend FUTA surtax	1/1/91	0.7	1.1	1.1	1.1	1.2	5.2	
2. Amortize insurance policy deferred acquisition expenses (DAC)	1/1/91	1.3	1.4	1.6	1.6	1.6	7.5	
3. Loss deductions and salvage values for insurance companies	1/1/90	0.5	0.3	0.3	0.2	0.1	1.3	
4. Adopt foreign compliance provisions	3/20/90	(4)	0.1	0.1	0.1	0.1	0.3	
5. Account for salvage and subrogation in property and casualty insurance company loss deductions (6)	1/1/91	0.6	0.4	0.4	0.3	0.3	2.0	
6. Increase the tax on asset reversions from defined benefit plans to 30%	9/10/90	(4)	(5)	(5)	(5)	(5)	-0.1	
7. Payroll tax deposit stabilization	–	1.0	2.2	-3.2	–	–	---	

Provision	Effective	1991	1992	1993	1994	1995	1991-95
E. User Fees							
1. Increase Airport Trust Fund aviation excise taxes (5 years) (7)............(8)	1/1/91	1.3	2.3	2.5	2.7	3.0	11.8
2. Increase harbor maintenance excise tax (7)............................(9)	1/1/91	0.3	0.3	0.4	0.4	0.4	1.8
3. Extend IRS user fees (5 years) (7)............................(9)	10/1/90	(4)	(4)	(4)	(4)	(4)	(4)
4. Extend leaking underground storage tank (LUST) trust fund (5 years).......	10/1/90	0.1	0.1	0.1	0.1	0.1	0.6
5. Extend highway fuels excise tax and increase motor fuels tax by 7 cents per gallon (10)............	1/1/91	5.4	6.9	6.9	7.0	7.0	33.2
F. Growth and Equity Incentives							
1. Extend certain expiring provisions (permanent)............	--	-0.6	-1.1	-1.7	-2.3	-2.8	-8.5
2. Adopt IRA proposal............	1/1/92	--	-1.6	-4.6	-5.6	-6.6	-18.5
3. Other items............	--	-1.2	-1.4	-1.7	-2.1	-2.5	-8.8
G. Regressivity Offset (11)............	--	-1.8	-10.1	-11.1	-13.8	-14.6	-51.5
GRAND TOTALS............		25.2	31.3	23.5	24.9	25.1	130.0

11-Sep-90 Joint Committee on Taxation

NOTES: Estimates provided are consistent with the Congressional Budget Office (CBO) updated budget baseline. Additional items contained in the President's budget proposal, relating to employment taxes and user fees, are estimated by CBO.

(1) Surtax to stay in effect until the budget is balanced.

(2) Tax applies to specific newly-manufactured items with retail prices above the following thresholds: automobiles--$30,000; private boats and yachts--$30,000; private aircraft--no threshold; electronics--$1,000; jewelry--$5,000; and furs--$500. Tax is 10% of purchase price in excess of thresholds.

(3) Estimate assumes tax based on retail price for electricity; adjustments are made for actual energy imports and exports but no further adjustments are assumed. (Details of this tax are subject to further development.) At least 50% of motor fuels tax component of broad-based energy tax dedicated to deficit reduction; remainder dedicated to Highway Trust Fund (20% of this portion to be allocated to mass transit).

(4) Gain of less than $50 million.

(5) Loss of less than $50 million.

(6) The estimate of the effect of this proposal does not account for possible interaction with the proposal to increase the tax on asset reversions.

(7) Estimate is net of income tax offset.

(8) 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.

(9) Estimate provided by CBO.

(10) Extension assumed in budget baseline. 50% of motor fuels tax increase dedicated to Highway Trust Fund; 50% dedicated to deficit reduction. Each State to receive Highway Trust Fund expenditures equal to at least 95% of its contribution.

(11) Estimate assumes increase in EITC to 30% (22.5% phaseout) in 1991 and 1992 and 33% (23.5% phaseout) in 1993 and thereafter; and increase in standard deduction by $150 single, $200 head of household, and $250 joint in 1991 and by $200 single, $250 head of household, and $300 joint in 1992 and thereafter. (Policy decision, including percentages and dollar amounts, not yet made.)

- BUDGET SUMMIT: Revenue and User Fee Package -
Distribution of the Federal Tax Burden and the Percentage Change in Tax Liability by Income Class, 1990

Income Class (1)	Increase or Decrease in Tax Liability (2)(3)	Percentage Change in Tax Liability (2)(3)	Distribution of the Federal Tax Burden Under Present Law (4)	Distribution of the Federal Tax Burden Under Proposal (2)(3)(4)
	Billions of Dollars	Percent	Percent	Percent
Less than $10,000.........	-$0.5	-3.3%	1.6%	1.6%
10,000 to 20,000.........	-3.5	-5.4%	7.6%	7.0%
20,000 to 30,000.........	2.5	2.5%	11.9%	11.9%
30,000 to 40,000.........	3.4	2.9%	13.4%	13.5%
40,000 to 50,000.........	2.8	3.2%	10.2%	10.2%
50,000 to 75,000.........	3.4	2.0%	20.0%	19.9%
75,000 to 100,000.........	1.9	2.9%	7.7%	7.7%
100,000 to 200,000.........	3.8	3.7%	12.1%	12.2%
200,000 and over..........	6.9	6.7%	15.4%	16.0%
Total, All Taxpayers......	$22.8	2.6%	100.0%	100.0%

Source: Joint Committee on Taxation

(1) The income concept used to place tax returns into income classes is adjusted gross income 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 preferences from passive business activities.

(2) Distributional analysis includes effects from surtax on high income, removal of HI wage cap, beer and wine taxes and indexing, distilled spirits tax increase, energy tax, motor fuels tax, and regressivity offset; analysis does not take into account changes in taxpayer behavior.

(3) Estimates of total tax liability presented in distributions will not match estimated changes in receipts because of differing time periods (CY 1990 vs. FY 1991-95) and because of varying patterns of fiscal year receipts.

(4) Distributions represent combined effects of individual income taxes, payroll taxes, Federal excise taxes, and estate and gift taxes. For the purpose of distributions, the full burden of payroll taxes is assigned to employees. Excise taxes are assumed to be borne fully by individuals either directly through purchase of the taxed commodity or indirectly through higher prices on all commodities as businesses pass along these added costs. Because of the uncertainty concerning the incidence of the corporate income tax, it is excluded from this table. Information in table excludes individuals who are dependents of other taxpayers.

Distilled Spirits/Beer/Wine

1. Current law equivalency for beer and wine with 25% of equivalency rate for small wineries (first 100,000 gallons for wineries with total production under 200,000 gallons) and small breweries (first 10,000 barrels for breweries with total production under 20,000 barrels) (10/1/90) - 4.4/23.4
   a. Beer - 56 cents per six pack; 14 cents per six pack for small breweries
   b. Wine - 62 cents per bottle; 15.5 cents for small wineries

2. Establish rate based on indexing since 1951(10/1/90) - 4.9/25.4
   a. Beer - 82 cents per six pack
   b. Wine - 10 cents per bottle

3. Triple (approx.) beer and wine and increase d/s by $1.00 and index - 2.3/16.0
   a. Beer - 48 cents per six pack
   b. Wine - 9 cents per bottle

4. Increase d/s by $1.00, (1/1/91) - (2.1/14.0)
   a. Beer - 42 cents per six pack - 260% increase
   b. Wine - 16 cents per bottle - 520% increase

5a. $18 billion revenue target/Increase DSP by $1.00 per barrel and increase beer and wine to maintain existing product balance in revenues (without indexing) - 2.8/18.7
   a. Beer - 58 cents per six pack
   b. Wine - 11 cents per bottle

5b. Same as 5a with exemption from increase for small wineries (first 100,000 gallons for wineries with total production under 200,000 gallons) and small breweries (first 30,000 barrels for breweries with total production under 60,000 barrels) - 2.7/18.3

5c. Same as 5a (with indexing) - 2.4/18.7
   a. Beer - 51 cents per six pack
   b. Wine - 10 cents per bottle

5d. Same as 5c with small producer exemption described in 5b - 2.3/18.1

6. Repeal Alcohol Occupational Tax for Retailers - .1/.5

TOBACCO INCREASES	effective 1/1/91	1991	1992	1993	1994	1995	1991-95
2-cent increase in all tobacco taxes		0.3	0.4	0.4	0.4	0.4	1.9
with indexing		0.4	0.6	0.7	0.9	1.0	3.6
8-cent increase in all tobacco taxes		1.1	1.6	1.5	1.5	1.5	7.2
with indexing		1.1	1.8	1.9	2.0	2.1	8.9
16-cent increase in all tobacco taxes		1.5	3	3	2.9	2.9	13.3
with indexing		2.3	3.5	3.7	3.9	4.2	17.6
20-cent increase in all tobacco taxes		2.6	3.8	3.8	3.7	3.6	17.5
with indexing		2.4	4.0	4.2	4.2	4.2	19.0

ADDITIONAL REVENUES

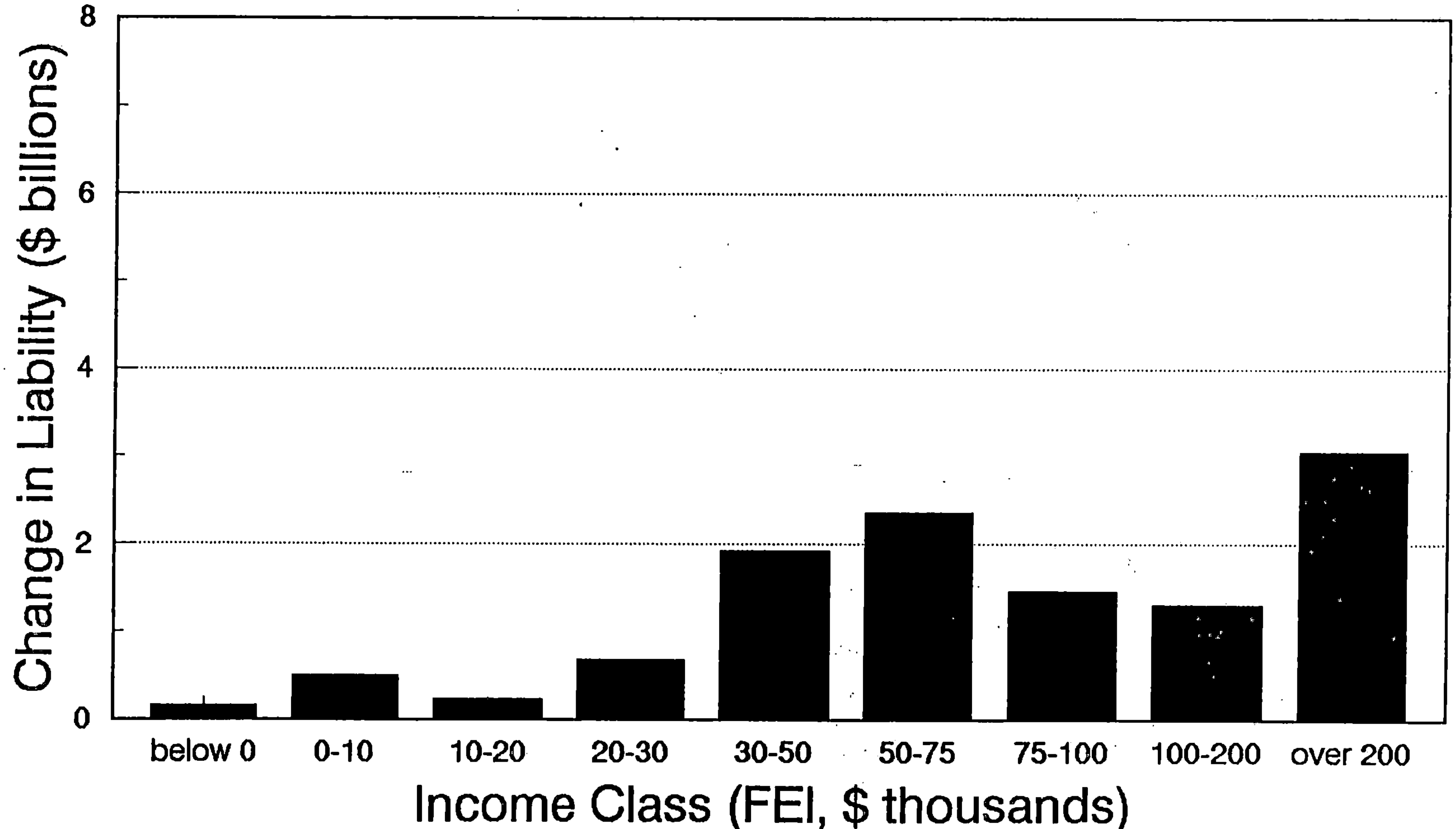
TAX MEASURES	CBO/JCT Scoring 1991	CBO/JCT Scoring 1991-95	OMB Scoring 1991	OMB Scoring 1991-95	CBO/JCT Less OMB 1991	CBO/JCT Less OMB 1991-95
1. Luxury Excise Taxes Effective 10/1/90						
Tax 10% of the purchase price in excess of threshholds: Automobiles - $30,000 Boats and yachts - $30,000 Electronics - $1,000 Jewelry - $5,000 Furs - $500			0.9	7.8		
2. Ozone Depleting Chemical Excise Tax	0.1	0.5	0.1	0.5		
The proposal would include the following chemicals in the ozone depleting chemical excise tax base on January 1, 1991: 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. Methyl chloroform is the only chemical that will raise a significant amount of revenue, since carbon tetrachloride is principally used as a feedstock and only small amounts of the CFCs are produced.						
3. Indexing of Excise Taxes						
Index all Excise Taxes (other than alcohol, tobacco and ad valorem)			0.3	8.0		
4. Petroleum Fuels Tax 1 cent per gallon tax on refined petroleum products, excluding feedstocks (estimates very preliminary)	0.8	7.8	1.2	8.4		
TOTAL		24.1 (E)	2.5	24.7		

Regular Annual, Supplemental, and Deficiency Appropriation Bills
Comparison of Administration Budget Requests and Appropriations Enacted

Calendar Year	Administration Budget Requests	Appropriations Enacted	Difference (under -) (over +)
1945	$62,453,310,868	$61,042,345,331	- $1,410,965,537
1946	30,051,109,870	28,459,502,172	- 1,591,607,698
1947	33,367,507,923	30,130,762,141	- 3,236,745,782
1948	35,409,550,523	32,699,846,731	- 2,709,703,792
1949	39,545,529,108	37,825,026,214	- 1,720,502,894
1950	54,316,658,423	52,427,926,629	- 1,888,731,794
1951	96,340,781,110	91,059,713,307	- 5,281,067,803
1952	83,964,877,176	75,355,434,201	- 8,609,442,975
1953	66,568,694,353	54,539,342,491	- 12,029,351,862
1954	50,257,490,985	47,642,131,205	- 2,615,359,780
1955	55,044,333,729	53,124,821,215	- 1,919,512,514
1956	60,892,420,237	60,647,917,590	- 244,502,647
1957	64,638,110,610	59,589,731,631	- 5,048,378,979
1958	73,272,859,573	72,653,476,248	- 619,383,325
1959	74,859,472,045	72,977,957,952	- 1,881,514,093
1960	73,845,974,490	73,634,335,992	- 211,638,498
1961	91,597,448,053	86,606,487,273	- 4,990,960,780
1962	96,803,292,115	92,260,154,659	- 4,543,137,456
1963	98,904,155,136	92,432,923,132	- 6,471,232,004
1964	98,297,358,556	94,162,918,996	- 4,134,439,560
1965	109,448,074,896	107,037,566,896	- 2,410,508,000
1966	131,164,926,586	130,281,568,480	- 883,358,106
1967	147,804,557,929	141,872,346,664	- 5,932,211,265
1968	147,908,612,996	133,339,868,734	- 14,568,744,262
1969	142,701,346,215	134,431,463,135	- 8,269,883,080
1970	147,765,358,434	144,273,528,504	- 3,491,829,930
1971	167,874,624,937	165,225,661,865	- 2,648,963,072
1972	185,431,804,552	178,960,106,864	- 6,471,697,688
1973	177,959,504,255	174,901,434,304	- 3,058,069,951
1974	213,867,190,007	204,012,311,514	- 9,854,878,493
1975	267,224,774,434	259,852,322,212	- 7,372,452,222
1976	282,142,432,093	282,536,694,665	+ 394,262,572
1977	364,867,240,174	354,025,780,783	- 10,841,459,391
1978	348,506,124,701	337,859,466,730	- 10,646,657,971
1979	388,311,676,432	379,244,865,439	- 9,066,810,993
1980	446,690,302,845	441,290,587,343	- 5,399,715,502
1981	541,827,827,909	544,457,423,541	+ 2,629,595,632
1982	507,740,133,484	514,832,375,371	+ 7,092,241,887
1983	542,956,052,209	551,620,505,328	+ 8,664,453,119
1984	576,343,258,980	559,151,835,986	- 17,191,422,994
1985	588,698,503,939	583,446,885,087	- 5,251,618,852
1986	590,345,199,494	577,279,102,494	- 13,066,097,000
1987	618,268,048,956	614,526,518,150	- 3,741,530,806
1988	621,250,663,756	625,967,372,769	+ 4,716,709,013
1989	652,138,432,359	666,211,680,769	+ 14,073,248,410
Totals	10,249,467,607,455	10,075,912,028,737	- 173,555,578,718

01/19/90 Prepared by House Committee on Appropriations

ADMINISTRATION'S OFFER OF 9/7
(with CY1995 capital gains)
Annual Change in Tax Liability



Rev. 9/10

Alcohol Option

Increase excise tax on distilled spirits by $1.00 to $13.50/proof gallon. Increase excise taxes on beer and wine on an alcohol equivalency basis to hit a 5 year revenue target of $18 billion. (Proposal shown below equalizes at 80% of equalizing rate i.e, tax on beer would increase to $26.78/bbl from $9.00/bbl and tax on table wine would increase to $3.02/gallon from $0.17/gallon)

	Current tax	Proposed tax
Six pack of beer	$ .16	$ .49
Bottle of table wine	.03	.61
Bottle of liquor	2.00	2.16

	Fiscal Years					
	1991	1992	1993	1994	1995	1991-1995
	($'s in billions)					
Receipts effect						
Distilled	0.1	0.2	0.2	0.2	0.2	0.9
Beer	1.8	2.5	2.6	2.6	2.6	12.0
Wine	0.9	1.3	1.3	1.3	1.3	6.0
Totals	2.8	4.0	4.1	4.1	4.1	18.9

High Capital-Gains Tax Busts State Budgets

By ALAN REYNOLDS

Many state governments, particularly in coastal states with a large proportion of affluent taxpayers, have faced unexpected weakness in their tax receipts in the past three or four years. This has led many states to introduce higher income and sales-tax rates, which damaged their own economies and placed a significant drag on the national economy as well.

The states' choice is part of a downward spiral. States' self inflicted damage reduces *federal* tax receipts. Weak federal receipts then increase the threat of higher federal rates, hurting the economy and in turn weakening state receipts. States then raise taxes, and the cycle continues.

One particular federal tax has had an especially harsh impact on state tax receipts, the 33% maximum marginal tax rate on capital gains enacted in 1986. Raising the maximum marginal rate on capital gains to 33% from 20% stopped the natural growth of taxable state income from this source. States in which capital gains had previously been an important source of taxable state income are finding weak tax receipts, perhaps without understanding the reason.

The chart shows realized capital gains (net after losses) for the five states that account for nearly half the capital gains in the entire nation. Florida and Texas have no income tax, which is one reason that many people who have accumulated substantial assets live there. New York, California and Illinois have long depended heavily on capital gains taxes. So have New Jersey, Massachusetts, Pennsylvania and Connecticut.

Until recently, evidence that a high federal capital gains rate has hurt state collections might have been deemed ambiguous. People rushed to realize gains in 1986 because the tax rate was about to rise to 28% the following year. It might be argued too that in 1987 capital gains were weak because of the October stock market crash, though there were plenty of gains in the year's first eight months.

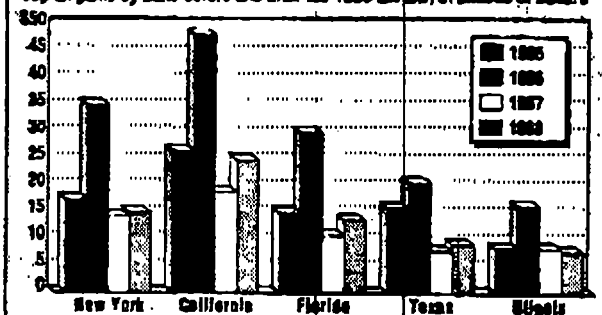
In any case, the ambiguity ended when the Internal Revenue Service released its 1988 estimates this spring. For all five states in the chart, the amount of capital gains reported was less than half of what it had been in 1986, the last year of 20% tax rates, and well below the level of 1985 (about 5% lower, on average). This decline in taxable state income from capital gains over three years occurred despite the nationwide increase of more than 22% in personal income in that same period.

For the federal government, the weakness in realizations since 1986 has been at least partly offset by a much higher average tax rate on a small volume of capital gains. The maximum federal capital gains tax was increased to 45% in 1975 from 27% in 1968. Yet so few of the affected high bracket taxpayers actually realized gains at the punitive rates of 1975 that the average capital-gains tax (on both excluded and taxable gains) remained exactly the same in 1975 as it had been in 1968, 15%. The 1985 reduction of the highest capital gains tax to 20% percent so encouraged efficient turnover of assets among higher-income taxpayers that the average tax paid remained exactly what it had been in the high-tax 1970s: 15%.

In 1988, by contrast, the capital gains tax on the highest-income taxpayers rose to 28% percent, but the average tax rate rose to 24%. It is doubtful if there has ever been a time in U.S. history when so many taxpayers faced tax rates above 20% on the uncertain rewards from life savings.

Forfeited Gains

Capital gains by state before and after the 1986 tax law, in billions of dollars



Source: Susan Hostetter, Joint Committee on Taxation; 1988 IRS Statistics of Income

States in which capital gains were a particularly important source of taxable income expected this source of income to grow between 1985 and 1988. After all, the Dow Jones average at the end of 1988 was 62% higher than it had been in 1985. But the states were mugged by the federal tax law of 1986. By imposing a 28-33% tax—even on the inflated capital gains of couples with rather modest incomes—the federal government made it extremely expensive for nearly all taxpayers to realize any capital gains, particularly in states that added their own tax on top of the federal levy, where the combined capital gains burden could reach 39%. Taxpayers responded by avoiding the sale of assets (except under financial distress), and by making sure that their future investments were not subject to combined capital-gains taxes—they invested in money-market funds instead of growth stocks. Tax receipts collapsed in states most dependent on capital gains—including much of the northeast.

But this is not the only adverse effect of high federal capital-gains taxes on state revenues. The increased federal tax rate on capital gains also provides a greater incentive to locate small businesses in states with little or no income tax, because of the brutal combination of federal and state capital-gains tax on those who sell their businesses. Loss of deductibility for state income taxes would greatly aggravate this effect for small businesses remaining in states like New Jersey, New York and California. For taxpayers in a 33% federal bracket and an 8% state bracket, for example, the combined marginal tax on capital gains would rise to 41% from the current 38%. Even fewer capital gains would then be cashed in states with high income-tax rates.

Governors of several states most injured by the federal tax on capital gains are widely considered to be "liberal" Democrats who are supposed to favor high federal tax rates on capital gains out of ideological habit. Yet the evidence is now clear that this federal tax clearly damages their own state treasuries, even aside from its damaging effects on the economic growth and on the value of real estate and other assets. State governors properly complain about the many other ways in which the federal government attempts to preempt the states' tax bases—by limiting the deductibility of state income taxes or imposing higher federal excise taxes. Since taxpayers do not have infinitely deep pockets, the more the federal government takes, the less is left for the states. Yet in the case of capital gains, governors of the states most seriously injured appear willing to impose draconian state tax rates on their citizens rather than lobby for relief from this counterproductive federal tax.

Mr. Reynolds is a research fellow at the Hudson Institute in Indianapolis.

Electricity Data

Total Generation & Sale

Total Net Generation 2,781 billion KWH

Total Sales 2,634 billion KWH X 1¢ = 26.34 BILLION
X .1¢ = 2.634 BILLION

(difference is due to transmission losses)

Sales by End-Use Sector (billions KWH)

Residential	904	34%
Commercial	724	28%
Industrial	915	35%
Other	91	3%
Total	2634	99%

Industrial = all sales to business that require more than 1,000 KWH of service

Manufacturing Use

- Industrial sector includes manufacturing, construction, mining and agriculture. (Services are largely in the commercial sector).
- Based on a 1986 survey, manufacturing represents approximately 77% of the industrial sector use.
- If this remains constant, 1989 electricity use by manufacturers would be about 705 billion KWH, or 27% of total electricity sales.

2.6 X 3/4 = $1.75 B/YR

Note: In the aggregate, electricity demand tends to track GNP growth on a one-to-one basis, although growth rates within sectors could vary.

Source: EIA 1989 data

MS. STAHL: Should the automatic spending cuts be delayed? We'll ask Senate leaders George Mitchell and Bob Dole--and we'll talk with economist Lester Thurow. Inflation and recession: the one-two punch--an issue facing the nation.

ANNOUNCER: From CBS News, Washington, "Face the Nation with Lesley Stahl." This portion of "Face the Nation with Lesley Stahl" is sponsored by McDonnell-Douglas and by the Archer Daniels Midland Company--ADM, supermarket to the world.

(Announcements)

MS. STAHL: With us now from Detroit, Senate Majority Leader George Mitchell; and here in Washington, Senate Minority Leader Bob Dole.

Senator Dole, are you ready to break with the White House, get some kind of an agreement with the Democrats, get rid of capital gains and get your budget deal--get it off the table completely?

SENATOR DOLE: I'm ready to get this agreement. I think the American people are tired of us sitting around and sitting around and doing nothing. It's almost like a filibuster going on in some of these sessions.

To break with the president? No. I think, as I've suggested, we have two packages--one with all the goodies, one with just plain deficit reductions; have two votes. And that's how I would deal with that. That's just one idea.

MS. STAHL: When you call the capital gains "a goodie," I mean you must be against it if you're willing to call it "a goodie."

SENATOR DOLE: No, I'm for a lot of the goodies. No, there are lot of goodies--low-income housing, capital gains, child care, earned jobs credit.

MS. STAHL: Yes, but that's a goodie for the rich, isn't it?

SENATOR DOLE: Well, you know, my view is we need to get this done--we ought to stop dancing around capital gains, face up to it, get it resolved and get this package put to bed.

MS. STAHL: You know--well, let me ask Senator Mitchell. Are you willing, Senator Mitchell, to allow capital gains to be the major sticking point? Why don't you Democrats give in so we can get a deal?

SENATOR MITCHELL: Well, we've given in a great deal already on the spending cuts. We've said we would accept it, provided there were an offsetting increase in the top rate on the wealthy. What we cannot give in, what we simply cannot accept, is a package which says that we will reduce the tax burden on those making more than $200,000 a year and increase the tax burden on everyone else. That's just not fair, and it ought not to be accepted.

MS. STAHL: Okay, let me ask both of you. Why not just get capital gains off the table right now--just put it off the table? Would you two agree to that between yourselves, Senator Dole?

SENATOR DOLE: Well, I don't think that's going to happen. I think it's pretty much of a given it's going to be on the table. But I think we're losing sight of what we got together for, and that's deficit reduction.

Now, with all the focus on capital gains, we'd better get back to deficit reduction, or we're going to have some real problems.

SENATOR MITCHELL: Well, I just say, Lesley, I agree completely with Senator Dole on that. Remember, now, the purpose here is to reduce the deficit. We have agreed in these talks for purposes of the discussion that the capital gains proposal will increase the deficit by $21 billion. Does it make sense for the president to say that in a deficit-reduction effort, the most important thing to him is something that will increase the deficit by $21 billion? That's the problem with it. Take it off the table, and rates off the table--that's fine with us.

MS. STAHL: What's wrong with what the senator just said, Senator Dole? You're having trouble because I think you agree with Senator Mitchell and don't agree with the White House.

SENATOR DOLE: No, but we've got to get the package passed. That's the bottom line.

I think there are a lot of Republican votes who will vote for the package if it includes capital gains, particularly House Republicans. And this just isn't--if Senator Mitchell and I could do this in thirty minutes, we'd probably get it passed in the Senate.

MS. STAHL: Without capital gains?

SENATOR DOLE: Well, with or without. But in any event, we want deficit reduction.

MS. STAHL: Well, which? With or without?

SENATOR DOLE: Well, I'd want it with; and he probably would be without. But we've got to get the package passed; we've got to have enough votes. That's why the White House is so concerned about the capital gains issue, in my view, in addition to the promise that President Bush made in the campaign.

MS. STAHL: Why is he so interested in it?

SENATOR DOLE: He wants to get enough Republican votes in the House to get the package passed.

MS. STAHL: I see. Senator Mitchell, if you have capital gains in a goodies package, a separate package, do you think that this will help the situation--or is it just where it is right now? You said the other day everything's basically done except the capital gains.

SENATOR MITCHELL: Well, I don't want to create a misleading impression. There are differences in other areas--we haven't reached agreement--but I believe that the other differences can be resolved quickly if we could resolve what I believe to be the issue of tax fairness.

With respect to the separate package, I commend Senator Dole. He's trying to break the logjam, come up with some proposal. Unfortunately, the administration expressed its adamant opposition to it at the outset. We'd be prepared to consider it, to work to see precisely what he has in mind, and to come up with some way to get this thing done.

I agree with Senator Dole. If this were a negotiation just among the members of Congress--that is, the congressional leadership--we would have had an agreement a couple of weeks ago. The problem is the administration's position and its dominant role in the discussions and its insistence upon its way.

MS. STAHL: And the House Republicans?

SENATOR MITCHELL: I don't think all of them, but many of them--that's correct. I think Senator Dole's analysis in that regard is correct.

But we've been prepared to compromise. We have compromised. We're acting in good faith, but we simply can't accept the proposal that says you're going to cut the tax burden for those making over $200,000 and reduce (sic) it for everyone else. That's just not fair.

In fact, he talks about getting the votes of House Republicans. We couldn't get Democrats in the House or Senate to vote for such a package--and we shouldn't even try.

MS. STAHL: Senator Dole?

SENATOR DOLE: I think he's correct; and we're looking at ways to achieve what he suggests, the majority leader suggests. And as to how we can increase taxes on upper income in a way that will in effect maybe pierce this so-called bubble but maybe not go clear to 33 percent.

MS. STAHL: Okay. You're meeting again today at 6 o'clock. Do you have a new plan, Senator Dole, to put on the table which would increase taxes on the wealthy?

SENATOR DOLE: No. Senator Mitchell, I think, has been working, you know, on an idea that he has prepared, I think--I don't want to get him in a spot--to lay down on--

MS. STAHL: Well, let's get him in a spot.

SENATOR DOLE: --lay down on Friday. But I think Mr. Darman, the OMB director, suggested we don't do that. My view is somebody needs to put something on the table. We need to resolve this; we need to finish it. We're going--we're losing votes every day, in my view, in the House and the Senate by not getting it done.

MS. STAHL: All right. What's the plan? Let's put it on the table, Senator Mitchell.

SENATOR MITCHELL: Well, what we have proposed to do is that we meet with the Democratic negotiating group, including the chairman of the Tax Writing Committee, Senator Bentsen and Congressman Rostenkowski, who really will be central participants in this--who are central participants; and that we develop a proposal to come forward to try to break the deadlock.

Unfortunately, the White House said no, no, no, don't do that--we don't want you to do that yet.

I just share the impatience which Senator Dole has expressed and which the American people have expressed. And that is we've got to get this done, and we want to bring it to a conclusion.

MS. STAHL: What would you propose, if you were to propose?

SENATOR MITCHELL: Well, I don't think we should be doing the negotiations over the air. And also I want to emphasize, any proposal has to have the approval of our negotiating group and specifically Senator Bentsen and Congressman Rostenkowski.

Now, what we proposed was to get our group together, see if we couldn't come up with something--and we'll obviously ultimately have to do that. We've got to break this impasse; we've got to get an agreement and get it passed.

MS. STAHL: October 1st is the deadline for this devastating sequester. Do either of you really think that any government official would deliberately instigate those cuts that would shut the government down? Law enforcement would be hurt; air traffic controllers would be fired,

Do you really think that it's a bluff on the president's part, or will he conceivably go through with this?

SENATOR DOLE: Well, my own view is, after a week or two of sequester, the White House and the Congress would be looking for some way out. You know, that may sound like a great idea up front. But we're talking about a deep, deep sequester--not just a 5 or 10 percent--32.5 percent. And that's not going to wash, in my view.

SENATOR MITCHELL: The best way to prevent a sequester is to get a meaningful budget agreement that's fair and responsible, and get it passed before the sequester takes place.

MS. STAHL: How much politics is involved here? For instance--and this is only one little chunk of the politics--you know, the president not wanting to back down just for his own image? Or, as has been charged, Senator Mitchell, the Democrats wanting to wait until after the election because in this situation you're not going to be pounded for being big taxers because nothing is resolved yet?

How much is politics a factor, Senator Dole?

SENATOR DOLE: Well, I think early on, there was some politics. I think at this stage, it's sort of non-partisan, bipartisan. I mean, let's face it, President Bush took a big risk when he broke his pledge on taxes; and he walked that extra mile. And I think now we're trying to all get together. So politics, in my view--if we get a good package, it will help both parties. If we don't get a package, it's going to hurt both parties--and it's going to hurt the president, too.

MS. STAHL: Senator Mitchell, what about the problem of it hurting all incumbents--not party, but anybody in power gets hurt by this?

SENATOR MITCHELL: We have committed ourselves to getting an agreement and to having it approved with a majority of support in both parties in both Houses. And I commit myself 100 percent that effort, if we can reach a fair and responsible agreement. And we're just there; we're right on the edge. That's what's so frustrating about this. We've gone a long way, and, but for this one issue, we're prepared for an agreement.

And we'll pass it. We'll work hard. It's going to be difficult. But I believe we can pass it.

MS. STAHL: Is it this one issue, Senator Dole? Is it capital gains? Is that it?

SENATOR DOLE: Well, that's the hurdle right now. I mean, it seems to me that once we jump that hurdle--hopefully that's going to be tonight or tomorrow some time, then we can--you know, there are still other differences, whether it's on entitlements or the make-up of taxes or how much you cut agriculture, things of that kind.

But, yes, right now, the big hurdle is capital gains. And we've got to deal with it carefully, as I've been told by the White House experts--and they are experts. They tell me that, you know, that they've got to bring everybody along in this game, and we shouldn't be in too much of a rush. Well, I don't know what else they've got to do this year, but I've got a long of things I'd like to do.

MS. STAHL: Let me ask you both very quickly about the wisdom of cutting the deficit and raising taxes as we are obviously heading into a recession. Is there any thinking going on that maybe all of this is unhealthy for the economy--the whole thing, Senator Mitchell?

SENATOR MITCHELL: Well, the most effective thing we could do for the American economy is to reduce interest rates. I believe that, in the long run, the American economy needs meaningful deficit reduction as a way to bring about a gradual long-term reduction in interest rates. It may have an adverse short-term effect; but I believe that, on balance, what we're trying to do is the right thing, and we must go forward with it.

The future of our economy requires meaningful action and lower interest rates. If we do that, I think we'll see economic expansion of the type we all want.

MS. STAHL: Do you think raising taxes--the ones that have been talked about--is the way to go in a recession?

SENATOR DOLE: Right, but we've got to be careful. I think both parties agree not to raise taxes any more than is necessary to have to do. We don't want to get up to $210 or $220 billion in tax increases. Short term, it's not probably going to be a big plus. But long term, it will be a plus, if it's good--you know, no smoke, no mirrors--good debt-reduction cuts and entitlements and other things. Then it's going to be good for the economy.

MS. STAHL: Let me ask you, Senator Dole, one final question. Do you really think in your own mind, you as an individual and you as the minority leader, that capital gains tax breaks are a good thing for the economy now?

SENATOR DOLE: Well, you know, yes, I think it's a good thing for the economy. I don't disagree with Senator Mitchell's--if we're going to give those over $200,000 a break, they ought to pay for it. But I think it will stimulate jobs, and that's what Newt Gingrich and others on the House Republican side are so concerned about. And I agree with Newt--create jobs.

I hope it doesn't--a big, big sell-off and people take their money and invest it somewhere overseas. That would not be a good result.

MS. STAHL: But isn't that very possible?

SENATOR DOLE: Well, that's what one very respected person who's written today in The Washington Post, Jodie Allen.

MS. STAHL: Well, isn't that a--doesn't that weigh in here?

SENATOR DOLE: That's a considered--

MS. STAHL: People can take--they know a capital gains tax break is out there. They sell off their assets. They take the money they've gained from it, and go and invest in West Germany or Japan or somewhere else.

SENATOR DOLE: Well, that's a possibility. I guess 16- percent increase in just the past few months--maybe Senator Mitchell will have a comment on that.

MS. STAHL: Well, does that come into your deliberations?

SENATOR DOLE: Yes, I think so. I think we try to consider everything. But let's keep in mind this is also a political issue, very important to the president. It's a promise he's made. He doesn't ask for much from the Congress, and he'd like to have this, and I think we can work it out.

MS. STAHL: Okay. Let me thank both of you, Senator Dole, Senator Mitchell, thank you. We'll talk more about the economy when we come back.

WOMAN IN THE STREET: Everything is much more expensive.

MAN IN THE STREET: The cost of living is just sky-rocketing.

WOMAN IN THE STREET: Everything is going up, up, up, very, very fast.

(Announcements)

MS. STAHL: Joining us now, economist Lester Thurow, dean of the Alfred P. Sloane School of Management at MIT. Professor Thurow, let's first talk about the recession. I won't ask you if we're in one, because that's such a technical phrase. But how deep, how longlasting, is the problem we're having likely to be, in your opinion?

MR. THUROW: Well, I think we're going to go through a period of about a year when the American growth rate is very low. Now, housing prices are falling and unemployment is rising, and that makes it seem like a recession, even though probably in the end economists will technically say it wasn't a recession.

MS. STAHL: Well, let me stop you right there. What does it matter about it being declared

31-40-20 Option

(1) Repeal bubble phase-outs and impose an explicit 3rd rate of 31% at levels where the bubble currently begins.

(2) Provide a 40% exclusion for individual assets (other than collectibles) acquired after 9/30/90 and a 20% exclusion for assets acquired before 10/1/90 (1 year holding period, full recapture & AMT).

Because we have limited data on how the JCT would score a prospective proposal, we are not confident that we can predict the JCT scoring of this option. However, our best guess based on Table 90-3 113 (15 Sept. 90) and the March 27, 1990 JCT pamphlet is that the JCT will score the option as approximately revenue neutral.

JCT distribution, as with all capital gains proposals, will show larger losses. However, a distribution of change in taxes paid by income classes should show an increase in taxes paid by the highest income class.

31%/40%/23% AMT

(1) Repeal bubble phase-out and impose an explicit 31% third rate at levels where the bubble currently begins.

(2) Provide a 40% (18.6% rate) exclusion for individual assets (other than collectibles) (1 year holding period, full recapture and AMT).

(3) Increase AMT rate from 21% to 23%.

Based on Table 90-3 113 (15 Sept. 90), the JCT should score this option as raising money in the first year and should score it as approximately revenue neutral to a slight loss over the period.

JCT distribution, as with all capital gains proposals, will show much larger losses. However, a distribution of change in taxes paid by income classes should show an increase in taxes paid by the highest income class.

<u>10% Surtax/45</u>

(1) Retain current rate structure through the end of the bubble. At the end of the current bubble, impose a temporary income tax surcharge of 10%.

(2) Provide a 45% exclusion for individual assets (other than collectibles) (1 year holding period, full recapture and AMT).

For the last Democratic offer, the JCT estimated that a 20% surtax on most income above the bubble raised $44 billion over 5 years. A 10% surtax on all income above the bubble should raise at least $23 billion. Given that a 45% exclusion would lose $21 billion against current rates and would lose less against current rates plus the surtax, we believe that the JCT may score this proposal as raising several billions. For further confirmation, compare E2 on Table 90-3 113 (15 Sept. 90) which shows a 45% exclusion and 33% rate (which is roughly equivalent to a 20% surcharge) to raise $29 billion over the period.

JCT distribution, as with all capital gains proposals, will show losses. However, a distribution of changes in taxes paid by income classes should show a significant increase in taxes paid by the highest income class.

10% Surtax/45/22-1/2

(1) Retain current rate structure through the end of the bubble. At the end of the current bubble, impose a temporary income tax surcharge of 10%.

(2) Provide a 45% exclusion for individual assets (other than collectibles) acquired after 9/30/90 and 22-1/2% for those acquired prior to 10/1/90 (1 year holding period, full recapture and AMT).

For the last Democratic offer, the JCT estimated that a 20% surtax on most income above the bubble raised $44 billion over 5 years. A 10% surtax on all income above the bubble should raise at least $23 billion. Given that a 45% exclusion would lose $21 billion against current rates and that item (2) of this proposal should lose considerably less against current rates on JCT scoring, we believe that the JCT may score this proposal as raising in excess of $10 billion. For further confirmation, compare Proposal E2 on Table 90-3 113 (15 Sept. 90) which shows a 45% exclusion and a 33% rate (which is roughly equivalent to a 20% surcharge) to raise $29 billion over the period.

JCT distribution, as with all capital gains proposal, will show losses. However, a distribution of changes in taxes paid by income classes should show a significant increase in taxes paid by the highest income class.

Growth, Job-Creation Incentive for Individuals

Purpose:

To encourage investment in new ventures, which are a primary source of new employment. The proposal would make shares in new ventures more attractive. It would lower the cost of capital and encourage venture capital and other small business equity investments.

A. Individual taxpayers would be permitted to deduct 25 percent of the purchase price of "qualified small business stock." Thus, for example, if qualified stock is purchased for $100,000, an income tax deduction would be allowed for $25,000.

The amount of such deductions per year would be limited to $50,000. The taxpayer's basis in the stock would be the purchase price reduced by the amount allowed to be deducted.

Qualified small business stock would be defined as stock: Cost $10B

(1) first acquired by the taxpayer (directly or through an underwriter);

(2) not issued in redemption of (or otherwise exchanged for) stock or any other equity interest that was issued prior to the effective date; and

(3) issued by a corporation with paid up capital of $50 million or less immediately after the issuance.

To qualify, the corporation must have been engaged in active trade or business for at least 5 years prior to issuance (or, if shorter, its period of existence), and must be engaged in an active trade or business immediately after the issuance. Substantially all the assets of the corporation must be utilized in active trades or businesses. For purposes of this provision, a corporation engaged in providing personal services, the holding or management of real estate or passive investment activities will not be considered an active trade or business. Appropriate attribution rules would be adopted to prevent abuse.

The proposal is limited to common stock. Common stock issued in exchange for debt or as a result of retiring debt would be eligible.

There would be a recapture as income in a decedent's final income tax return of amounts deducted within 2 years prior to death to prevent deathbed purchases of qualified stock, coupled with a step-up in basis to fair market value at death.

B. Increase R&D credit (including university basic research credit) from 20% to 25%. $1.2B

<u>Offset</u>: Reduce deduction for business meals and entertainment from 80% to 50%.

JCT estimate: +2.0 in 1991/+17.0 in 1991-95.

It is expected that the JCT will distribute the revenue loss from proposal A primarily to high income taxpayers. Under JCT distribution conventions, proposal B (which reduces corporate tax) will not be distributed to individuals. The bulk of the offset will also not be distributed for the same reason.

Growth, Job-Creation Incentive for Small Corporations

Purpose:

To encourage investment in new ventures, which are a primary source of new employment. The proposal would make shares in new ventures more attractive. It would lower the cost of capital and encourage venture capital and other small business equity investments.

A. Qualified small business corporations would be allowed an income tax credit equal to 7% of the offering price for issues of qualified small business stock. Appropriate attribution rules would be adopted to prevent abuse.

Qualified small business stock would be defined as stock:

(1) not issued in redemption of (or otherwise exchanged for) stock or any other equity interest that was issued prior to the effective date; and

(2) issued by a corporation with paid up capital of $50 million or less immediately after the issuance.

To qualify, the corporation must have been engaged in active trade or business for at least 5 years prior to issuance (or, if shorter, its period of existence), and must be engaged in an active trade or business immediately after the issuance. Substantially all the assets of the corporation must be utilized in active trades or businesses. For purposes of this provision, a corporation engaged in providing personal services, the holding or management of real estate or passive investment activities will not be considered an active trade or business.

The proposal is limited to common stock. Common stock issued in exchange for debt or as a result of retiring debt would be eligible. The credit would be recaptured upon future redemption of existing stock, payment of extraordinary dividends, or other equity-reducing transactions.

B. Increase R&D credit (including university basic research credit) from 20% to 25%.

Distributional Effect: Under standard JCT distribution conventions, these proposals would not be distributed to individuals.

LOW INCOME RELIEF IN DEMOCRATIC OFFER OF SEPTEMBER 17

Provisions

The Democratic offer of September 17 included two provisions meant to provide tax relief for low income families: an increase in the standard deduction of $150 on joint returns and $100 on single returns, and a doubling of the earned income tax credit (EITC). Neither of these provisions, in spite of their cost, is well targeted to the lowest income families.

Increase in Standard Deduction

-- Many of the lowest income families have incomes too low to benefit from the proposed increase in the standard deduction.

-- A low income single taxpayer receiving the maximum benefit from the proposal would receive a tax reduction of only $15.

-- Virtually none of the tax reduction from the proposal would go to families with incomes under $10,000, while nearly 45 percent of the tax reduction would go to families with incomes of over $50,000 (see attached chart).

Doubling of EITC

-- Many low income households would receive no benefit from a doubling of the EITC. Among those that would not benefit:

Working poor with no children;

The elderly whose main source of income is Social Security or Supplemental Security Income;

Families whose only source of income is from welfare.

-- The EITC currently does not adjust for family size, so the proposal would provide disproportionate benefits to some recipients.

A single mother with one child working full time and receiving the minimum wage would receive the same credit ($1,992) as would a mother of three children working beside her.

-- Although a properly structured increase in the EITC may be desirable, the large, untargeted increase in this proposal would have undesirable consequences:

The proposal is not well targeted, providing over $1 billion in annual tax relief to families with economic incomes over $30,000 (see attached chart).

The large revenue loss from the proposal would require offsetting tax increases which could burden the same low income families the proposal is meant to help.

For recipients in the phaseout range of the EITC, this proposal would increase marginal tax rate by 10 percentage points, discouraging work effort.

-- A sounder approach to expansion of the EITC was taken in the Administration's offer of September 7.

A young child credit of up to $1,000 for each child under four would be added to the EITC.

In addition, the child and dependent care credit would be made refundable.

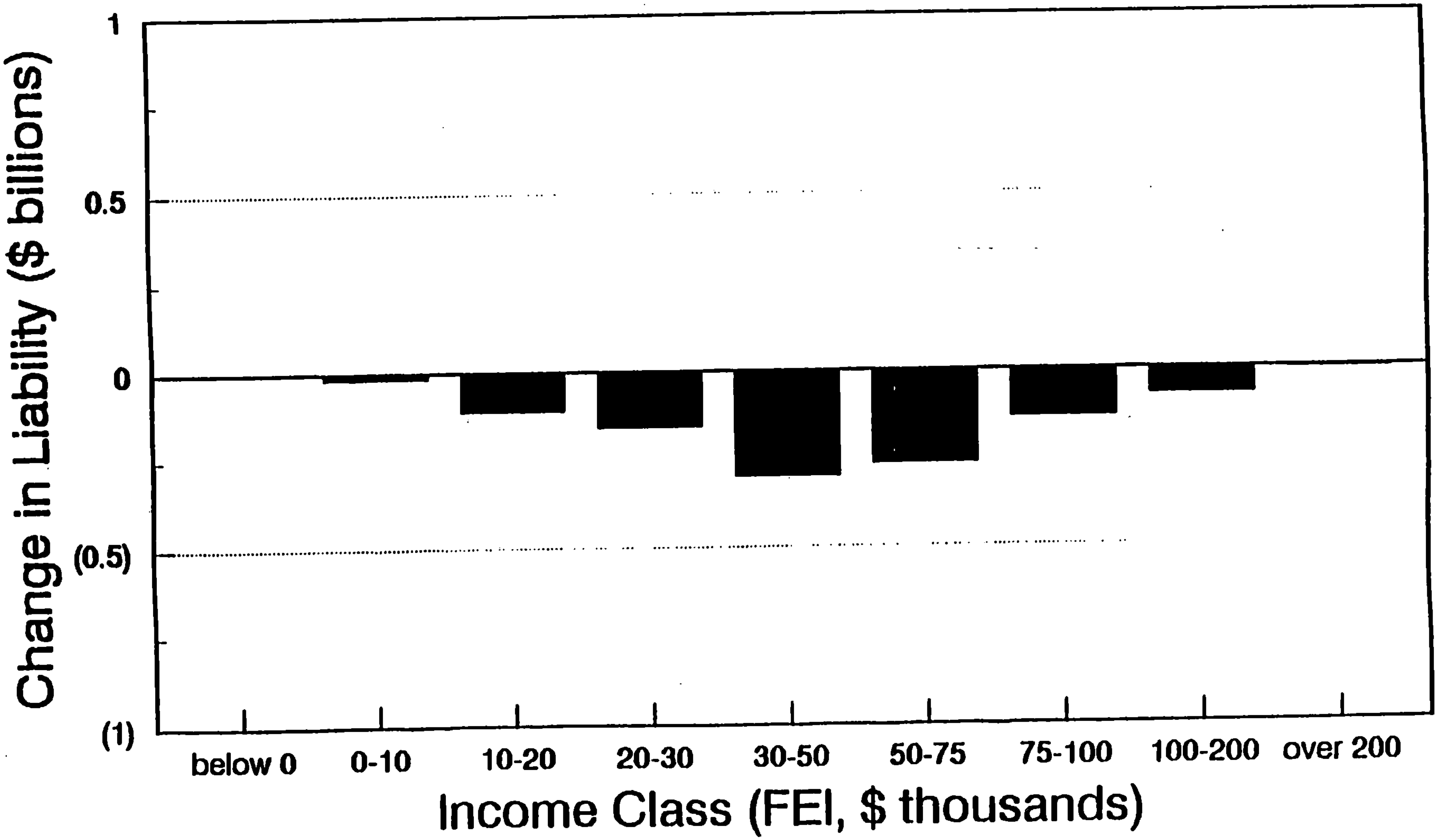
The lower revenue cost of this proposal would make it fiscally possible to adopt an additional, more targeted relief provision for the lowest income families (who typically would not benefit from an expansion of the EITC).

Attachments

INCREASE STANDARD DEDUCTION ($150/$100)

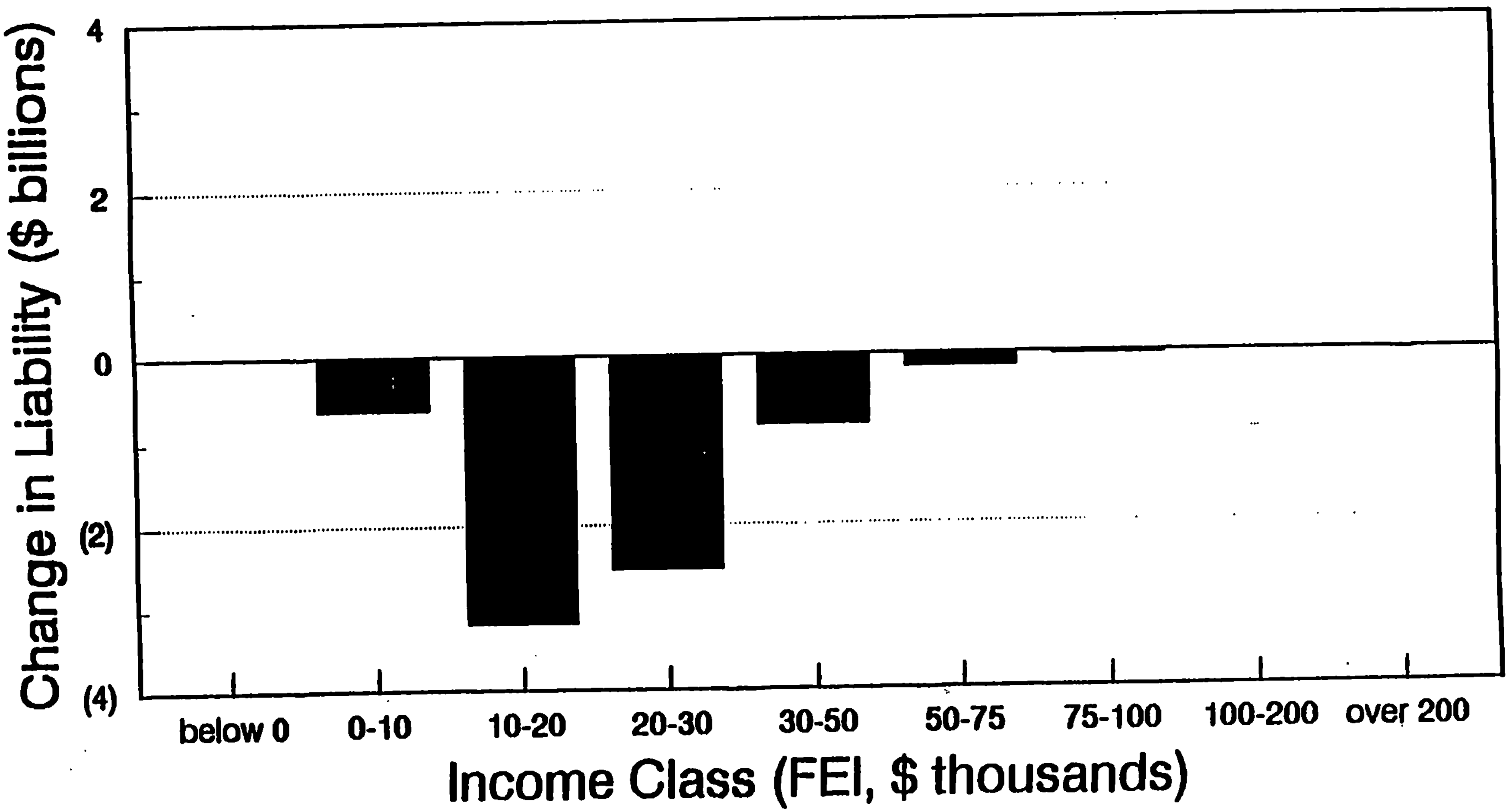
(From Democratic offer of 9/17)

Annual Change in Tax Liability



9/22

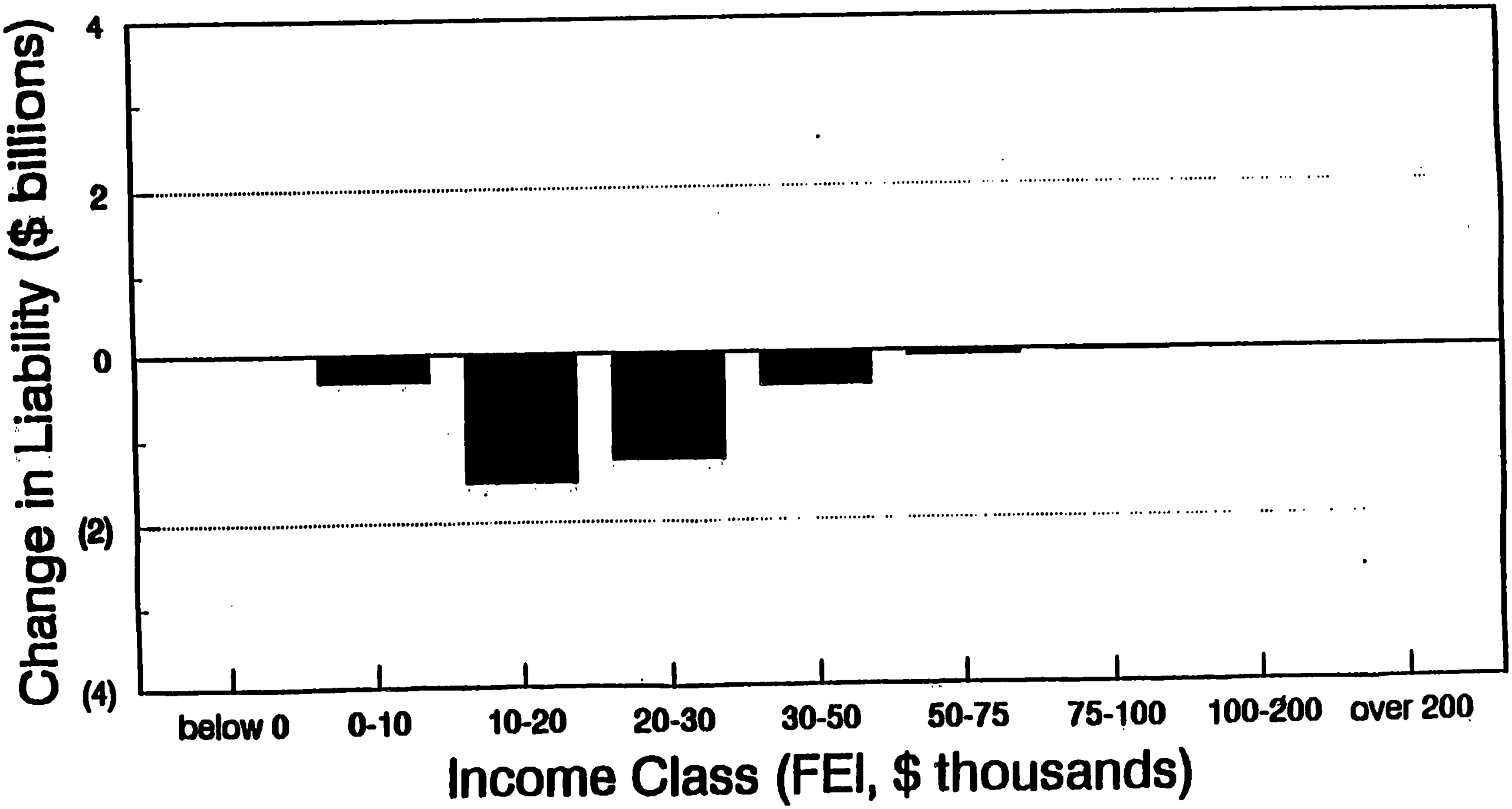
DOUBLE EARNED INCOME TAX CREDIT (EITC)
(From Democratic offer of 9/17)
Annual Change in Tax Liability



9/22

YOUNG CHILD EITC & REFUNDABLE CHILD CARE CREDIT* (From Administration's offer of 9/7)

Annual Change in Tax Liability



*Fully Phased In

9/22

(1)

Attached is a table of revenue estimates for several proposals which burst the bubble.

Under current law no one pays an average tax rate of over 28% on the value of their taxable income plus personal exemptions (although a taxpayer may pay an average rate over 28% on taxable income). Although some taxpayers face a marginal tax rate of 33% this simply represents a phasing out of the benefits of the 15% bracket and personal exemptions.

If the top marginal rate is permanently extended at a rate higher than 28% some taxpayers will pay an average rate higher than 28%. The attached proposals impose a cap to prevent any taxpayer from paying tax at an average rate higher than 28%. Proposals A and B apply the maximum 28% rate based to adjusted gross income (Adjusted gross income is taxable income plus personal exemptions plus itemized or standard deductions). Under this proposal some taxpayers will pay a higher tax than under current law. These will be taxpayers in the highest income brackets who have a lot of itemized deductions. Proposals C and D apply the maximum rate to taxable income. Under this proposal all taxpayers will receive a tax decrease. Proposals E and F apply the maximum rate to taxable income plus personal exemptions. Under this option, no one will pay tax higher than under current law and many will have a tax decrease. Proposal G is a straight 28% bubble burst.

Also presented in the table are the distributional effects of the various proposals. The tax effect is divided according to "Family Economic Income" (FEI). All members of a taxpayers family are aggregated together and classified according to their total family income from taxable and non-taxable sources. FEI is the standard Treasury income classifier.

e. Small-issue manufacturing bonds.

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

f. R&E allocation rules.

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

g. R&E tax credit.

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

h. Low-income housing credit.

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

i. Targeted jobs tax credit.

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

j. Business energy credits.

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

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

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

l. Orphan drug testing credit.

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

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

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

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

HOW TO HIT High Income WITHOUT RAISING RATES

I LIMIT DEDUCTIONS above an income level

1. Schedule A
   - Medical
   - charitable
   - ST. & Local income
   - REAL Property Tax
   - Personal Property Tax
   - Miscellaneous

2. Business Losses on 1040

II Phase out capital Gains above certain incomes

O Limit

III End All Deductions above a certain income

IV Tax now Tax-exempt income above a certain income

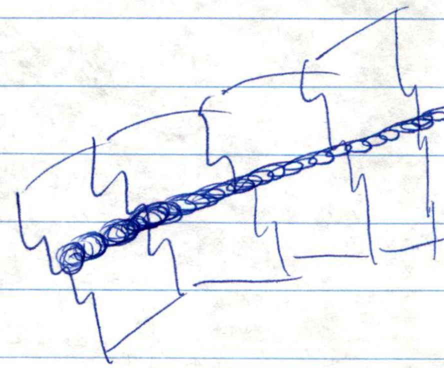
V Increase PERSONAL AMT

ENTITLEMENTS.

→ BYRD.....

ENTITLEM: — MIL. } +1.5.

+ 2 HARKINS, NUTRITION



TAX +$M.B -8

+ INDEX -4.5

HI ÷11.2 Kel. (+8!).

BN - -3.5

LE/RD -2.

29.2.

PHONE 13.9

ENERGY 15.3 58.7

29.2

↑B	δ31.-	2.
	δ1	
EITC ↓		6.
ENERGY		6.6
S/L SS		11.7
PHONE		13.9
~~[illegible]~~		40.2

INDEX	−4.5.
~~[illegible]~~.H.I	−14.
	21.8
	40.3

COLAS / TAX →85%

7/2 For Cola

HI to 65K vs / AGI 3%

AMT.

No HI. for 3% (200K).

TO: Jay Neel
From: Aaron

395-4840

WATERFIELD SPOT -

Saddam Hussein invades Kuwait. President Bush responds forcefully. America stands united behind Bush. Only a few criticize the President. One of them is Bill Sarpalius. Sarpalius said --quote-- "I wonder sometimes if some of (the military deployment to Saudi Arabia) is political." So Sarpalius thinks George Bush risks 200,000 American lives for political gain. Almost every world leader criticizes Saddam Hussein -- Bill Sarpalius attacks George Bush.

50% [illegible]

~~[illegible]~~ 50%

100 → 1000

500

100 1000

300

630

[illegible]

3.

New only

Ken [illegible]

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1.

System

Foley

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~~5%~~

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ME

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Memo	From Michael Boskin to John Sununu Re: Possible tax rule change to spur investment and growth (2 pp.)	9/28/90	~~P~~-5	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Budget Summit [1990] [4]

Open on Expiration of PRA
(Document Follows)
By JF (NLGB) on 10/28/05

Date Closed: 12/16/2004	**OA/ID Number:** 29138-006
FOIA/SYS Case #: 1998-0004-F[1]	**Appeal Case #:**
Re-review Case #: 2005-0426-S	**Appeal Disposition:**
P-2/P-5 Review Case #:	**Disposition Date:**
AR Case #:	**MR Case #:**
AR Disposition:	**MR Disposition:**
AR Disposition Date:	**MR Disposition Date:**

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
(b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

September 28, 1990

MEMORANDUM FOR GOV. JOHN H. SUNUNU

FROM: MICHAEL J. BOSKIN MJB

RE: Possible tax rule changes to spur investment and growth

I. Increase the expensing limit in the corporate tax from the current $10,000 to $100,000 or more (perhaps up to one million depending on revenue and other features.)

Pro

This would reduce the cost of capital since expensing, immediate first year write-off of investment, increases the present value of depreciation deductions. It would cost very little over the 5-year budget horizon for years 1, 2 and 3 and only a modest amount in years 4 and 5, (although it would lose revenue thereafter when we would hope to have the budget under control.) For example, in the first year, expensing a mainframe computer, rather than depreciating it over five years, would have no impact on the five year revenue estimate, it would just accelerate the tax deducations during the 5-year period.

2. Such an increase would help in the cash flow of small and medium size businesses in addition to its effect on the cost of capital. It might particularly benefit investment in the sectors that are lagging such as computers and autos. It would simplify the corporate tax system for the small and medium sized businesses that would not have to keep track of elaborate depreciation systems. It would equalize tax rates on all types of investments covered (an alleged philosophical cornerstone of tax reform.)

Con

Revenue Loss--Expensing accelerates tax deductions in all years and thus raises the present value of tax loss due to depreciation deductions

I do not know how the tax writing committee will react to expensing. They will probably prefer it to an ITC, but may balk on other grounds. They may balk because "it is sweetening capital cost recovery". It is my own personal opinion--although not one shared by Treasury-- that for many industries current tax depreciation substantially understates true economic depreciation because it does not account for technological obsolesence. Good examples include electronics and biotechnology.

Would ultimately have to be accompanied by some limitation on interest deductions to make sure that effective tax rates could not become negative.

II. 25 percent deduction for investment and new start-up ventures under the individual income tax. This is the proposal you mentioned.

Pro

This in principle could encourage investment in new ventures and would have the effect of reducing the capital gains tax rate from 28 percent to 21 percent for those who sold existing assets to invest in such ventures.

Con

It would be very difficult to prevent funds from flowing into a lot of non-productive new ventures which were organized solely to take advantage of this new provision (e.g. a lot of professionals would incorporate or change corporate structure to classify as new venture).

III. 25 percent (or some percentage depending on revenue loss), dividend exclusion to individuals.

Pro

Reduces double taxation of dividends, tax bias against equity, and cost of capital.

Con

Revenue loss

15

IV. Rapid growth firm package: Extend the current loss carry forward period from seven years to a much larger number: allow R & D tax credit to be carried forward with interest, repeal or modify the disallowance of tax loss carry forwards for firms with more than a 50 percent change in their equity ownership.

While these would all involve some revenue loss, it would be beneficial for very rapidly growing firms whose basic nature implies losses in the first few years of their existence (particularly high technology firms because they are R & D intensive.)

These are meant to supplement the list already under discussion.

THE WHITE HOUSE

WASHINGTON

September 28, 1990

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: LARRY LINDSEY

SUBJECT: Revenue Effects of Indexing

The following is an example of why traditional capital gains modelling would tend to underestimate the revenue effects of indexing.

Assume an investor owns a number of shares of two stocks, Stock A (an old, stagnant investment) and Stock B (a fast growth stock).

	Purch. Price	Years Held	Infl. Since Purch.	Current Price	Indexed Basis	Capital Gain	Indexed Gain
Stock A	$100	10	100%	$200	$200	$100	$0
Stock B	$100	1	10%	$120	$110	$20	$10

The investor needs close to $600 right away. He can sell either 3 shares of Stock A or 5 shares of Stock B.

Under current law, assuming a 28% marginal rate, taxes would be:

1) Stock A: 3 shares x $100 x .28 = $84.00
2) Stock B: 5 shares x $ 20 x .28 = $28.00

The investor would choose to sell Stock B. The data base we use for revenue simulation does not indicate that the investor owns A, only that he sold B. Therefore, our revenue analysis would show a current law revenue baseline of $28.

Then, we simulate new law alternatives. Ignoring behavior, the simulation of a 30 percent exclusion would indicate a revenue loss of $8.40, or 30 percent of the revenue currently collected.

The simulation for indexing shows a revenue loss of $14 without a behavioral response. That estimate is based on the sale of 5 shares of B under the new set of tax rules.

Of course, in both the indexing and exclusion, behavior would lower the estimated revenue losses, or perhaps lead to revenue gains as the taxpayer is assumed to sell more shares of stock B with a lower tax penalty.

Our objection to this is that an additional form of taxpayer behavior is involved when indexing becomes available. Consider the taxpayer's fundamental decision: how to raise $600 with minimum tax liability.

1) Stock A: 3 shares x $ 0 x .28 = $ 0.00
2) Stock B: 5 shares x $10 x .28 = $14.00

Now the investor would choose to sell stock A (which we didn't know anything about on our data tape) rather than stock B. The revenue loss from going to indexing is not $14, as estimated before, but $28. Total revenue is reduced to zero.

September 28, 1990

POSSIBLE REVENUE ITEM MODIFICATIONS

1. <u>LUXURY TAX</u>

1st Choice:

o Delete provision

2nd Choice:

a. Raise boat threshold to $50,000
b. Raise fur threshold from $500 to $5,000
c. Add additional items -- for example: polo ponies, art work, silver, antiques, oriental rugs, etc.

d. Impose tax at border so that American business does not lose sales abroad -- i.e., when jewelry, art, etc. purchased abroad is brought into the U.S., customs collects the 10 percent tax or reports transaction to IRS.

e. Eliminate from the proposal electronic goods, perhaps with the exception of electronic entertainment equipment (big screen televisions, large stereo systems).

f. Need to clarify whether business use autos, planes excluded.

2. <u>INSURANCE</u>
a. Reduce aggregate industry contribution under DAC
b. Watch annuity share -- proposal should be <u>lower</u> than 1.75 percent of premiums for annuities, the $10 billion figure.

3. <u>ETHANOL</u>
a. If there are either extenders or any energy incentive package, include extension to 2,000

4. <u>RAILROAD RETIREMENT PENSION FUND TAX INCREASE</u>
a. Railroads will be hit by a number of proposals -- estimates on this item have fallen -- request to eliminate proposal from list.

5. DETERMINE IF DEMOCRATIC OFFER STILL CONTAINS

o <u>Increase in tax on asset revision from defined benefit plans</u> -- the Administration has <u>serious</u> problems with Metzenbaum proposal - if included.

THE WHITE HOUSE

WASHINGTON

September 28, 1990

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: LAWRENCE B. LINDSEY

SUBJECT: Insurance Company Taxation

It is my understanding that the proposals now under consideration will adjust Acquisition Costs to reflect the financial accounting principles of insurance companies, it will not make offsetting changes in the tax accounting of reserves.

Example:

- o Three year policy.
- o $100 premium each year.
- o $120 acquisition expenses
- o $150 benefit at end of year 3.

Under G.A.F.A.P.

Year	1	2	3
Premium	100	100	100
Acquisition	40	40	40
Reserves	50	50	50
Profit	10	10	10

Under Current Tax Law

Year	1	2	3
Premium	100	100	100
Acquisition	120		
Reserves		75	75
Profit	-20	25	25

Under Proposed Tax Change

Year	1	2	3
Premium	100	100	100
Acquisition	40	40	40
Reserves		75	75
Profit	60	-15	-15

Note that a good case can be made that insurance companies are undertaxed under current law. However, the proposed change will lead to overtaxation.

I stress that I am not privy to the details of the legislative proposal and am quite willing to stand corrected. However, my sources tell me that it would be unlikely that an additional $2 billion per year could be raised if appropriate changes were made to <u>both</u> acquisition expenses and to reserves.

cc: Roger B. Porter
Michael J. Boskin

Capitol Offenders

A Budget Reform to Stop Congress from Breaking the Law

Representative Christopher Cox

With the October 1 commencement of another fiscal year, the prospects for sane congressional management of our federal budget are gloomier than ever. Already, fiscal 1991 appropriations are far higher than last year's; and the crisis in the Persian Gulf—which has increased current military spending and renewed congressional willingness to spend on the national defense—has only added to the seemingly hopeless mismatch of revenues and expenses. Worse, even were the budget summit between Congress and the president to yield some grand solution to bring this year's numbers closer into balance, we would still have to deal with next year's, and the year's after. And the dismal truth is that history is not on our side.

Yet, the federal government's financial problems are not nearly so intractable as they first appear. The chronic failure to balance the budget is simply the inevitable result of a poorly designed congressional budget process, which not only permits but encourages violation of the very laws designed to force rational choices among competing priorities. The current process guarantees wasteful spending and financial chaos.

Outlaw Jim Wright

Not least among the reasons that the system is subject to manipulation and abuse is that very few people understand how it works. Even within the Congress itself, terms like "current services baseline," "section 302(b) allocation," and "undistributed offsetting receipts" often produce blank stares. The budget committees, whose members at least have the incentive and opportunity to understand the process, are powerless to enforce its requirements on the appropriations committees (which often spend in seeming disregard of budget guidelines), on the Congress as a whole, or even on themselves. The Congressional Budget and Impoundment Control Act of 1974, which sets out the current process, is routinely ignored; and there is no remedy at hand to enforce it. As in the Old West, the man with a gun can make his own law, and the current congressional leadership is doing just that.

On my very first day in Congress, then-Speaker of the House Jim Wright announced from the chair that he intended to break the law. This may shock most Americans, but in fact it is routine business in Washington. Speaker Wright pledged in January 1989 that the House would complete work on the required 13 appropriations bills by the August recess. The law requires final action on these bills by June 30.

Imagine the consequences if you were to ignore the April 15 deadline for filing your income tax return. Yet when it comes to more than $1 trillion in annual spending, that is precisely what Congress is now doing—and has been doing routinely throughout each of the 16 years since the passage of the 1974 Act. This violation of the law may have reached its apogee with the utter mismanagement of the fiscal 1990 budget, during the course of which the Congress violated every legal deadline; and the current year's process seems destined to continue that infamous record.

In place of the process mandated by law, the congressional leadership has built a totally extra-legal system whose complexity and incomprehensibility shield it from effective public scrutiny. Virtually no member of Congress—let alone the public—even reads the huge spending bills the Congress adopts. As if in an annual ritual, the president routinely faces a take-it-or-leave-it decision on a hastily crafted omnibus continuing resolution or 11th-hour reconciliation bill running into the thousands of pages and comprising virtually all federal spending for the entire year. The use of such measures has effectively vitiated the president's veto authority, since signing them is the only alternative to closing down the United States government.

Such a system serves only the interests of those who seek to guarantee that government spending is literally uncontrollable, and who assert that the only alternative to massive and ever-increasing deficits is massive and ever-increasing taxation. This was not, however, the intention of those who drafted and passed the 1974 Act. Rather, this law represented an effort to place taxing and spending decisions within the context of an overall budget.

Representative Christopher Cox *(R–CA) is co-chairman of the House Task Force on Budget Process Reform.*

Failure of the 1974 Act

Until 1974, Congress never voted on a budget. Then, as now, the federal "budget" was simply the sum of the separately enacted annual appropriations bills, along with whatever financial commitments had been placed into law in prior years. To rectify this, the 1974 Act established the House and Senate Budget Committees, and provided for an annual budget to be adopted by Congress. The act required the passage of a non-binding first concurrent resolution on the budget early in the budgeting year, and a binding second concurrent resolution toward the end of that year. Additionally, it was intended that the second resolution would be enforced through reconciliation instructions that would require the various congressional committees to report to the floor whatever legislation was necessary to achieve the established targets. (In practice, Congress simply came to ignore the requirement that it pass a second budget resolution, and the requirement of two resolutions was done away with altogether in the first Gramm-Rudman-Hollings law, enacted in 1985.) Finally, the act set up a legally binding timetable to ensure the timely adoption of individual spending bills.

Certainly, providing for a floor vote on overall budget targets, mandating the timely adoption of spending bills, and enforcing overall budget limits through reconciliation represented positive steps. It is thus not for lack of a workable concept, but rather of effective enforcement mechanisms, that the 1974 Act has failed to bring order and coherence to the budgeting process and failed to bring discipline to congressional decisions to spend money.

Premises of the Cox Plan

To repair the broken-down congressional budget process, we must design a system with teeth in it to make sure that Congress doesn't again abandon it for some less-restrictive expedient. Beginning as a member of President Reagan's Working Group on Budget Process Reform, and now as co-chairman of the House Task Force on Budget Process Reform, I have developed a comprehensive proposal to rewrite the 1974 Act that would do just that. This new plan is based on the premises that an effective budget process must:

- encourage early consultation and cooperation between Congress and the president;
- produce decisions on overall budget levels early in the budgeting year;
- be evenhanded with respect to the president and Congress, not giving either an advantage in dealing with the other or in establishing spending priorities;
- tie each individual spending decision to an overall, binding budget total;
- require explicit decisions on spending levels for all federal programs, not just those arbitrarily deemed "controllable";
- prevent actual or threatened annual shut-downs of the federal government;
- be as simple as possible in concept and means of implementation, so that the process is clear and understandable to Congress and the public;
- not raise difficult questions of constitutionality;
- contain a bias in favor of spending restraint that could be overcome only if both the president and Congress wish to do so; and
- protect individual members of Congress against the political fallout from tough spending decisions by placing the burden to cut spending on the *process* rather than on specific legislators.

To accomplish these objectives, the 1974 Act should be amended to establish three related reforms. Congress should be required to enact a simplified budget, in the form of a legally binding joint resolution (as opposed to the present non-binding concurrent resolution), *before* any spending legislation can be considered. As a joint and not a concurrent resolution, the budget would be presented to the president for his signature or veto, and would thus be more likely to reflect a decision on overall government spending that combines the priorities of both the president and Congress.

Imagine the consequences if you were to ignore the deadline for filing your income tax return. Yet Congress has ignored its deadlines for 16 years.

Second, the budget process should contain enforcement mechanisms that will keep Congress within its budget ceilings for *all* spending except Social Security and the interest on the debt. Also needed is a sustaining mechanism that would be triggered in the event Congress and the president fail to act, so that the federal government will not be shut down because of political deadlock.

These are the basic elements of the Budget Process Reform Act, which, together with other members of the House Task Force on Budget Process Reform, I will soon be introducing in Congress.

A One-Page Budget

The Budget Process Reform Act would require that Congress enact a legally binding budget (in the form of a joint resolution) by May 15 of each year. Until the budget is signed into law, no authorization or appropriations bill could come to a vote in either house. The budget would set ceilings on all federal spending (except Social Security and interest on the debt) for the coming fiscal year. It would fit on a *single page*—setting specified ceilings on government spending within the 19 summary categories currently used in the budget. Because the budget would contain only 19 numbers, it is far more likely that the Congress and the president could agree at this high level of abstraction on how much the federal government should spend in the ensuing fiscal year. Numerous government programs and activities would be aggregated within each category, so that wrangling over the more detailed breakdown presently required in the president's budget submission could be avoided. (The president's budget in its present form would continue to be provided, but only after passage of the budget law. Just as now, the Congress would not be bound by its specifics.)

The budget enacted by Congress would also set ceilings for spending on entitlement programs. If the budget set a ceiling below the projected program outlays for the upcoming year, Congress would be required to effect a reconciliation with the budget ceiling by amending the organic statute for the entitlement program so as to meet the new ceiling.

The result would be the establishment of a binding budget, jointly reached by the Congress and the president early in the budgeting year.

The Two-Thirds Requirement

To end the sad spectacle of congressional law-breaking, the act contains three enforcement mechanisms to ensure that its provisions are observed, making it more likely that federal spending will be contained within the agreed-upon ceiling.

First, Congress would be permitted to enact spending legislation in excess of the budget ceilings only by a *supermajority vote*—two-thirds of both houses. Such a requirement would be constitutional: Article I, section 5, cl. 2 of the Constitution gives each house of Congress

The binding one-page budget and its enforcement mechanisms can protect members of Congress from some of the political consequences of tough budget decisions.

the power to determine its own rules. And although unprecedented in statute, two-thirds majorities have been required by the rules of the Senate. Senate Rule 22, for example—as amended in 1949—required the affirmative vote of two-thirds of the entire membership to end a filibuster.

The requirement of a supermajority for spending outside of a budget would provide a strong incentive for both the president and Congress to reach agreement on the budget, since neither—although perhaps for different reasons—would wish to be in the situation where all spending requires a supermajority vote. It would also provide a powerful tool to hold the Congress to the budget choices it makes. Thus, for example, if Congress wished to enact an appropriation that, together with other appropriations in the particular budget category, would exceed the budgeted ceiling for that category, this would subject all appropriations in that category to a two-thirds vote. Likewise, if Congress and the president failed to enact a budget, then all authorizing and appropriating legislation would require a supermajority for passage. The only way to adopt spending proposals by simple majority would be to authorize and appropriate within the ceilings of a duly enacted budget law.

No More Blank Checks

Second, Congress would be required to determine the desired level of spending for each federal program except Social Security and interest on the debt. Open-ended, "blank-check" appropriations—such as those for entitlement programs, which authorize the spending of "such sums as may be necessary"—would be banned.

Under the current system, any member of Congress who seeks to cut spending on entitlements must introduce legislation and obtain an affirmative vote to do so. But anyone who wishes to increase spending on any program with an open-ended appropriation need only sit back and watch it go. By requiring the Congress to decide how much it is willing to spend on a program during the coming fiscal period, the new act will level the playing field for spending cuts *and* spending increases. At the same time, it should be emphasized, requiring fixed-dollar appropriations for all federal programs will not in any way mandate reductions in entitlements. Congress would be able to decide to spend as much as it wants on entitlement programs. It would simply have to make that decision with every budget.

Entitlement programs are not "uncontrollable," merely uncontrolled. While the specifics often vary program by program, virtually all open-ended entitlements require that payments be made to any person or unit of government that meets eligibility requirements established by law. All persons who meet the program's eligibility requirements receive benefits to which they are "entitled"—regardless of the aggregate cost in any fiscal period.

Agency-Adjusted Benefits

But there is nothing requiring that entitlement programs have open-ended appropriations. Indeed, Senator Richard Lugar proved that fixed-dollar appropriations can be used for entitlement programs with his amendment to the Food Stamp program. As a result of the Lugar Amendment, the Food Stamp program operates from a fixed-dollar annual appropriation, but nevertheless entitles eligible households to receive certain levels of benefits. If the Secretary of Agriculture concludes that projected outlays will exceed the amount appropriated, he or she is required to recalculate the allotment to which each household will be entitled in order to keep expenditures within the statutory ceiling.

Following this model, the new act authorizes the heads of the relevant cabinet departments and agencies to adjust benefit levels and eligibility requirements when-ever entitlement spending exceeds the dollar amount actually appropriated by Congress.

President as Enforcer

Third, with respect to any spending in excess of the budget ceilings, the president would be granted *enhanced rescission authority*—that is, authority to rescind the over-budget portion of any spending unless Congress were to enact legislation expressly disapproving the specific rescission. This authority would be applicable only to the over-budget portion of proposed spending; the president, in other words, would simply be enforcing Congress's own budget decisions, as enacted into law. The president would also be granted authority to effect rescissions of any spending authorized or appropriated in excess of the previous year's funding levels in the event no budget were enacted.

To maintain the integrity of congressional control over the legislative process, the Congressional Budget Office, not the Office of Management and Budget, would be the "scorekeeper" for determining whether particular authorization and appropriations measures are consistent with the budget ceilings, and consequently whether the supermajority vote or rescission authority mechanisms are applicable. A supermajority vote would be required for any spending legislation that would exceed the budget ceiling for one of the 19 budget categories.

To make sure Congress doesn't "sandbag" the process by withholding action on critically important programs that can easily command a two-thirds vote, while filling up a category piecemeal with less urgent spending proposals, passage of the first over-budget spending would subject *all* spending legislation in that category to a supermajority vote. And, to permit the CBO to evaluate individual spending proposals when Congress has failed to act on an entire category, the supermajority requirement would also be triggered in the event that outlays

How Congress Broke the Law with the 1990 Budget

Legal Deadline	Action Required by Law	Result
January 9, 1989	White House budget due.	Submitted, as required by law, January 9.
February 15	Congressional Budget Office to submit report to budget committees.	CBO violated the law: report not submitted until February 23.
April 1	Senate Budget Committee to report concurrent resolution.	Senate violated the law: not reported until April 19.
April 15	Congress to clear concurrent resolution on budget.	Congress violated the law: not cleared until May 18.
May 15	Appropriations bills allowed in House.	House violated the law: first appropriation bill not considered until June 28.
June 10	House Appropriations Committee reports last annual appropriation bill.	House violated the law: as of June 23, only one committee markup complete.
June 15	Congress completes reconciliation legislation.	Congress violated the law: reconciliation bill not cleared until November 22.
June 30	House completes action on 13 annual appropriations bills.	House violated the law: only one was passed on time. House action was not completed until November 20.
July 15	Committees required by budget resolution to have submitted instructions for reconciliation.	Congress violated the law: fully half of committee instructions were late.
October 1	Fiscal year begins.	Congressional failure to act caused Gramm-Rudman ax to fall.
October 16	Under Gramm-Rudman, automatic cuts of $16 billion in defense, domestic programs take effect.	Late reconciliation bill keeps the meat-ax hacking for more than four months—until February 8, 1990.

Sources: *Congressional Quarterly*, Library of Congress, United States Code for a specific program under consideration, when added to the inflation-adjusted previous year's outlays for all other programs within the category, would exceed the budget ceiling in that category. The president's rescission authority would apply to any spending for which a supermajority vote was required.

These three enforcement mechanisms—the supermajority vote, fixed-dollar appropriations, and enhanced rescission authority for the president—ensure that the budget process will no longer be ignored. They do not, however, weaken the congressional power of the purse. Once a budget has been enacted, these mechanisms place procedural barriers in the way of *only that spending that would exceed the limits* to which Congress and the president have already committed themselves by law.

Averting a Shutdown

The final element in the Budget Process Reform Act is the sustaining mechanism—an *automatic continuing resolution.* In the event Congress fails by October 1 to complete action on appropriations for any program or activity, the previous year's funding level would automatically be reappropriated for the upcoming fiscal year. This mechanism has the virtue of avoiding the temporary shutdown of the government for lack of funds, while providing an additional incentive for Congress and the president to authorize and appropriate through the budget process. Unlike the Gramm-Rudman sequester, this continuing resolution would apply to all spending, except Social Security and interest. A freeze at the prior year's levels would be a result that both branches will wish to avoid, since each is likely to feel that there are some important accounts that should be dealt with differently than in the previous year. An added virtue of this sustaining mechanism is its bias in favor of spending restraint. If no action is taken, spending does not increase from year to year.

Rescission authority would apply only to the over-budget portion of proposed spending: the president would simply be enforcing Congress's own budget decisions, as enacted into law.

The sustaining mechanism is *not* the preferred means of determining federal spending levels, but rather is a form of disaster insurance against the contingency that the Congress and the president do absolutely nothing. The government does not shut down, and the Congress is not tempted to lay at the president's feet the night before October 1 a mountainous appropriations bill that he cannot read and must sign if he wishes to avoid shutting down the government.

A Politician's Dream

The problems of runaway spending and lack of accountability are not new—they're simply getting worse. Now, our huge federal borrowing is threatening to increase interest rates and inflation, and to destroy the overall health of the economy. The amount of taxes each of us will pay next year, the cost of our home loans and car payments, our career opportunities, the value of our retirement savings—all are dependent on whether Congress finally tames the budget beast. No longer will it suffice to consider one or two discrete repairs to the process, such as a line-item veto or new Gramm-Rudman-Hollings targets. While such reforms are needed, only a comprehensive rewrite of the 1974 Act will go to the heart of the problem: an undisciplined, out-of-control budget process.

There is reason to be sanguine about the near-term prospects for this proposed comprehensive reform of the budget process. Like Representative Dick Armey's base-closing commission and the Gramm-Rudman-Hollings sequester, the binding one-page budget and its enforcement mechanisms can protect members of Congress from some of the political consequences of tough budget decisions. The procedures themselves can take the heat for any unpopular spending cuts that might become necessary in order to meet the budget. First, because the budget ceilings are adopted early in the process and at a macroeconomic level, voting for a responsible budget will be politically less difficult than voting against specific spending bills. Even more important, the enforcement and sustaining mechanisms—supermajority vote, rescission authority, automatic continuing resolution—will permit politicians to say "yes" while the system says "no." That is a politician's dream. So for those in Congress who are concerned about the deficit, but who are unwilling to make an unpopular decision, the Budget Process Reform Act is ideal. The majority party of Congress should also presumably be interested in an act that would permit them to determine spending priorities with just a majority vote.

I believe a majority in the Congress could be persuaded to vote for a thoroughgoing reform of the 1974 Act. An encouraging sign was the recent 279–150 vote in the House of Representatives in favor of a constitutional amendment requiring a supermajority vote for an unbalanced budget. The time has arrived for this bipartisan coalition of fiscal conservatives to go further and address the root causes of our budget crisis. If we are successful in bringing budget process reforms to a vote, the nation will discover for certain whether the Congress is serious about its responsibility to the taxpayer, to our economy, and to future generations of Americans.