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# TREASURY NEWS



Department of the Treasury

Washington, D.C.

Telephone 566-2041

**EMBARGOED UNTIL 9:00 PM EST  
January 28, 1992**

These seven examples are hypothetical illustrations of how President Bush's package could affect individuals and families.

- Example A: Additional Tax Allowance for Children and \$5,000 First-Time Homebuyers Tax Credit
- Example B: Additional Tax Allowance for Children, \$5,000 First-Time Homebuyers Tax Credit, Penalty-Free IRA Withdrawals for First-Time Homebuyers, and Deduction of Interest on Student Loans
- Example C: Additional Tax Allowance for Children
- Example D: \$5,000 First-Time Homebuyers Tax Credit
- Example E: Capital Gains
- Example F: Deduction of Interest on Student Loans and Penalty-Free IRA Withdrawals for Educational Expenses
- Example G: Buying a Home for a Growing Family

**Example A: Additional Tax Allowance for Children and \$5,000 First-Time Homebuyers Tax Credit**

Family A consists of a husband and wife and two young children. The family's income consists of combined earnings of \$44,000 and interest income of \$500. At the end of 1992, the family buys a condominium for \$60,000; it is their first home purchase. The family does not itemize deductions and, under current law, pays Federal income taxes of \$4,395. Under the President's proposals, the family would benefit from a \$500 increase in the personal exemption for each child which begins on October 1, 1992, and from the tax credit for first-time home buyers. The larger personal exemption would decrease their tax by \$37.50, and the home-buyer credit would reduce their tax by \$2,500 in 1992 and by an additional \$2,500 in 1993. Including these benefits, Family A's 1992 Federal income taxes would be \$1,857.50, which is 58 percent less than under current law.

In 1993, Family B has its taxes reduced by \$2,500 by the second half of the credit for first time home buyers and by \$150 from the full year effect of the \$500 increase in the personal exemption for each child. Thus, in 1993, the proposal would reduce Family B's Federal income taxes by \$2,650.

**Example C: Additional Tax Allowance for Children**

Family C consists of a husband and wife and three children, all under age 18. The family's only income is from wages of \$40,000. The family does not itemize deductions and, under current law, pays Federal income taxes of \$3,720. The larger personal exemption for children which begins on October 1, 1992 would reduce the family's tax by \$56.25, or 1 percent, to \$3,663.75. In 1993, with the larger personal exemption for children being in effect for the full year, the tax reduction would be \$225.

Office of Tax Analysis  
January 28, 1992

**Example C: Additional Tax Allowance for Children**

Family C consists of a husband and wife and three children, all under age 18. The family's only income is from wages of \$40,000. The family does not itemize deductions and, under current law, pays Federal income taxes of \$3,720. The larger personal exemption for children which begins on October 1, 1992 would reduce the family's tax by \$56.25, or 1 percent, to \$3,663.75. In 1993, with the larger personal exemption for children being in effect for the full year, the tax reduction would be \$225.

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**Example D:           \$5,000 First-Time Homebuyers Tax Credit**

Newly-married couple D has combined earnings of \$48,000 and interest income of \$2,000. At the end of 1992, they purchase a house for \$120,000. It is the first home purchase for either spouse. The family does not itemize deductions and, under current law, pays Federal income taxes of \$6,368. Under the President's proposals, the family would benefit from the tax credit for first-time home buyers. Their Federal taxes would be reduced by \$2,500 in 1992 and by an additional \$2,500 in 1993. Including the credit, their 1992 tax would be \$3,868, or 39 percent less than under current law.

Office of Tax Analysis  
January 28, 1992

**Example E: Capital Gains**

Taxpayer E has been self-employed, and in 1992 he sells his business and retires. Taxpayer E and his wife file a joint income tax return and do not have any dependent children. They have \$60,000 of income from operating their business, \$10,000 of interest and dividend income, and a long-term capital gain of \$100,000 from the sale of the business. They have itemized deductions of \$10,400. Under current law, their 1992 Federal income tax would be \$41,546. Under the President's proposed reduction in capital gains taxes, their Federal income tax would be \$32,400, a reduction of 22 percent.

Office of Tax Analysis  
January 28, 1992

**Example F: Deduction of Interest on Student Loans and Penalty-Free IRA Withdrawals for Educational Expenses**

Family F has two children, both over age 18 and both attending college. Both children are claimed as dependents on their parent's Federal income tax return. Both parents work, earning combined salaries of \$60,000. In addition, in order to pay college tuition, during 1992 Family F withdraws \$5,000 from the father's IRA account. The family has taken loans to pay college tuition, and during the second half of 1992, the interest paid on those loans is \$2,000. Family F does not own its home, but it has itemized deductions of \$6,400, apart from the interest on the loans for college expenses.

Under current law, Family F's 1992 Federal income tax is \$9,566, including a \$500 penalty because of the early withdrawal from the IRA account. Under the President's proposals, the early IRA withdrawal to pay college expenses would no longer be subject to a penalty. In addition, the interest on the loans for college expenses would be deductible. As a result, Family F's Federal income taxes would be \$8,506, a reduction of \$1,066, or 11 percent.

Example G: "Buying a home for a growing family"

"Susan and Ward", 28 and 30, have lived in rented apartments since they were married six years ago. Their combined income of \$44,500 has allowed them to live comfortably in their Colorado community, but they have not managed to accumulate savings sufficient for the down payment they need to purchase a \$60,000 3-bedroom townhouse condominium in their neighborhood. With one small child and another on its way, they know that they will soon need more space.

The President's tax proposals would make it possible for Sue and Ward to buy their own home. Under the President's plan, the couple would be entitled to a \$5000 tax credit for first-time home buyers. Permitted to withdraw accumulated savings from their IRA accounts without penalty, they could raise enough money for the down payment. Furthermore, with the additional \$1000 tax exemption for their two children, the deductibility of interest on Susan's outstanding student loans permitted under the President's program, and the lowest mortgage interest rates in years, servicing their mortgage would be much less of a burden on their incomes than it otherwise would be.

Tax Benefits for "Sue and Ward" in 1992

1992 Federal taxes under current law: \$5,495 (includes \$500 penalty for early IRA withdrawal)

1992 Federal taxes with President's proposals: \$2,307.50

		<u>1992 Savings:</u>	
First-time homebuyer's credit	=	\$2,500	(\$2,500 in 1993 as well)
IRA withdrawals for home purchases	=	\$ 500	(assumes \$5,000 withdrawal)
Additional tax allowance for children	=	\$37.50	(1/4 benefit for 1992; for 1993)
Deduction of interest on student loans	=	<u>\$ 150</u>	(assumes \$1,000 interest)
		\$3,187.50	

## LETTERS TO PRESIDENT BUSH

### CAPITAL GAINS

#### 1. Florida Man

Supports capital gains tax cut "Few people realize exactly how much this would benefit the economy. More jobs will remain in the country because major corporations would continue to operate in this country... If the tax is raised, corporations would no longer be able to afford to work in this country so they would leave. That would cause many people to lose their jobs."

#### 2. President, Small Business, California October 24, 1991

Reduce capital gains tax in order to "Make it easier for the middle class citizen to re-invest in the economy. Many citizens, such as myself, were forced to gear down their expenses by selling larger homes and buying smaller, less expensive ones. This incurs a large gain which needs to be paid. If this capital gain was reduced, we would be able to re-invest this money in our business. This would provide additional jobs, increased corporate purchases and over the long run the stable tax base that is needed to run the government efficiently."

#### 3. Housewife and Mother, Midwest October 1, 1991

"We are an unusual family of 3 because we have no mortgage, we have a debt of less than \$2000. ... Taxes are killing us. ... My husband earns less than \$40,000 per year we pay U.S., Ohio, Dayton, Oakwood, and SS taxes along with minimum health insurance. This is killing us. ... We were able to sell our home at a profit. capital gains taxes will no doubt also kill us. Just like the local bank stock that my husband bought before we were married we'd like to sell it so we'll have a larger down payment. But no- capital gains. There really hasn't been a profit, just inflation. It seems like taxes adjust to inflation, why not capital gains?"

#### 4. Senior Citizen, Midwest November 29, 1991

We are "solid, middle income, middle class retired people. ... My husband made one very smart-and-lucky purchase of stock more than 20 years ago. It is the only one we have. After 11 years of retirement, we would like to start selling it and invest it in something that would keep up with inflation. Having to pay 28% or 15% is not palatable (sic) to us!"

5. **Retired Small Business Man, Enlisted Veteran of WWII & Korea, Florida**  
November 23, 1991

I "worked 42 years, self employed, took advantage of profit sharing and IRA roll over invested in common stocks and had the foresight to save. Managed to raise 5 children and put them through college. ... We will not go out and buy a new car, because, not only will we deplete irreplaceable savings, but be forced to pay tax on 100% of the gain on selling securities. We are being penalized for having foresight."

6. **Senior Citizen, South**  
November 24, 1991

"... the so called "middle class" needs help too! Lots of this "class" has a little property and a few stocks and would sell if they didn't have to give half or it away... I've been holding off since 1985 now to sell -- I can't take this property and stocks with me!"

7. **Senior Citizen, California**  
November 11, 1991

" There must be at least 20 million seniors who have one or more items that they are holding onto waiting for reimposition of the capital gains tax. A number of us figured after the Gulf War that you would quickly start pushing for capital gains"

8. **LTC (retired) U.S. Army, South**  
December 20, 1991

"I listened to a Harvard professor of the Harvard School of Business make the most ridiculous statement I have ever heard. He stated "The capital gains tax is a ploy of the rich." The rich do not pay taxes, they have write-offs and make deals in swapping properties, etc. It is the small middle income people like I (sic) who are getting ripped off by tax laws."

9. **California Man**  
October 22, 1991

"Think of what its (capital gains tax) complete abolishment would mean to America. Japan has no capital gains tax and they are buying up the world."

10. **Unemployed Man, Midwest**  
December 23, 1991

"Congress needs to know that not all who support a reduction in the tax on capital gains are rich. Some of us simply need tax relief during this transition period. Moreover, if I could retain my capital gains, it would immediately stimulate the economy in support of my children's college expenses and my own career transition. ... I had to sell my home and move to a more affordable location. Using my capital gains is paying the bills while I get back into the work force. However, without a reduction in the capital gains tax, I will lose a large part of my former 'equity' to taxation."

CAPITAL GAINS AND SMALL BUSINESS

11. **Small Business Owner, Florida**  
November 18, 1991

"I started this company alone in my garage when I was 25 years old. I am now 30 and employ 20. We have employed mostly minorities, and we have generated numerous opportunities for our vendors and our community. ... We ask for no special favors, All we ask is keep the doors of opportunity open so that the desire to enter these doors keeps burning. America needs the capital gains tax cut. Contrary to the rhetoric of its' opponents, the passage of this cut would be fair to all Americans."

12. **Small Business Owner, Midwest**

"My 83 year old mother is trying very hard to sell commercial property owned by her and my late father of over 30 years. The family business used to be on the property, and my mother's home is also still there as well. When she does sell it, it will be a shame to see my parent's life achievements taxed so radically, especially since over the years they were increasingly taxed on every level. ...In one form or another, my whole family has been drastically affected by the tax laws and their unfairness to the small business operation. Most of my aunts and uncles were either self-employed as farmers, crafts men/professionals, or small retailers -- grass root Americans who built this country. In most cases, my cousins were the ones who paid dearly as parents passed the family businesses on to their children. Now, however I am faced with seeing my own mother being taxed out of having enough left over to provide a secure future for herself. ...I very much resent the attitude of those who claim that lowering the capital gains tax will benefit only the rich. Our family is a far cry from the rich, we have worked very hard for every penny."

## SMALL BUSINESS SUCCESS

### 13. Small Business Owner, Northeast December 16, 1991

"I watched the construction industry in New England become comatose and has since virtually died. My firm responded by challenging our managers to leave the Northeast and search for work Nationwide (no easy task for a small business). We coached our staff to become more productive, to work longer hours while at the same time holding back even cost of living raises, and we struggled through 1989. Our employees in Pittsburgh have worked hard for twenty years and it was time to provide them with a new plant and equipment. We took on the risk and designed a new facility, only to discover that America's banks were no longer interested in real estate. We redesigned our building to be more cost effective in construction. Just this past summer my partners and I signed away our homes, our business, and everything we own to build that building for our Pittsburgh employees."

## CREDIT CRUNCH/SMALL BUSINESS

### 14. Small Business Owner, Southwest December 3, 1991

"I am a third-generation spanning nearly 80 years in our family business. My sales have been \$1 million per year for four years with only one employee working in my garage. I can expand my company to an economically depressed Indian reservation with 60% unemployment and in the process increase to \$20 million in sales and employ nearly 200 people. However, I can't get the expansion funds. I can't go to the bank and ask for \$1 million dollars without \$2 million in assets."

### 15. Small Business Owner, Florida December 24, 1991

"I have watched the interest rates drop, yet find it impossible to obtain a bank loan. The banks are not willing to take a chance and therefore America is not going to get back to work."

### 16 Small Business Owner, Texas December 19, 1991

"I manage a small company of 50 employees. ... We contacted several banks this year... in an attempt to obtain an SBA loan only to be turned down. It seems we didn't have the necessary collateral to be given a loan. To be frank about it, if we had the necessary collateral as required by the bank, we wouldn't need an SBA loan."

## EDUCATION

**17. Citizen, Southwest**  
October 25, 1991

"I am a hispanic male, forty four years old, who had worked... as Maintenance Supervisor for the past 17 years. Due to a severe back surgery in December of 1988, I was unable to return to my former line of work. ...I enrolled in college. I was, until then, a ninth grade drop-out. ...I am currently in my third semester of college and have made the "Dean's Honor Roll" every semester. If I can return to school at age forty-four, having been a ninth grade drop-out, anyone can. I am the luckiest man in the world. I live in a country where as a middle age minority, I have the same rights as anyone else. ...We all have heros and friends. You are my hero."

**18. Professor, Midwest**  
October 22, 1991

"...Your educational initiative is being carried out in Minnesota. I have listened to your educational policy statements, and I do not agree with your critics. It seems that they believe it is impossible to improve education without a large infusion of federal or state funds. Yet, I know they are wrong, and I want to provide you with evidence to prove just that. With little state or federal money, the science lab. at a very small, rural Minnesota school has been transformed into a state-of-the-art science teaching facility. This transformation was made possible by four groups: 1) a local businessman donating eight microcomputers; 2) the local university and private business providing analog-to-digital converters for each microcomputer so that science experiments can be done under computer control; 3) the local school board finding the funds to place laser disk and video technology in the lab; and 4) teachers willing to use the equipment. The lab now ranks as one of the top secondary science laboratories in the country. All this was done according to what you say is possible if we are really serious about becoming "Number 1" in science and mathematics by the year 2000."

**19. Texas Man**  
November 11, 1991

"Get before the public that the reason data shows the person receiving capital gains is wealthy is that it considers only the income for that year. Naturally if you are selling a family business that represents a life's work, your income is going to look pretty good for that one year." See Article

Wall Street Journal

by George W. Walker III

"My wife and I bought a house...we didn't want to live there; we just saw an opportunity to refurbish a run-down home and sell it for a modest profit. ...We didn't do our own plumbing or electrical work. We hired that neighbor who's a plumber, and that fine man who had done some electrical work around our own home a couple of years ago. We were on a first name basis with all the folks at the lumber store and the home improvement center. We were spending money to turn this neglected structure into a gracious inviting home. But, ...it will all be worth it after the house is sold. This, I will tell them is what America's economic system is all about. If you're willing to take a reasonable risk and work hard, you may reap a financial reward that makes the whole adventure worthwhile!"

"A funny thing happened on the way to the bank. I stopped in to see our accountant. 'Congratulations on your profit,' he said, 'but remember that the capital gains tax is 28% and you'll need to add 7% in state taxes. So whatever your gross profit, be sure to set aside 35% for taxes.'"

...After "deducting 35%" we were left with a net profit of "3,900. "Our very conservative estimate is that with the combined labor effort of all the family members who worked on this project totalled 1,200 hours. That means that after the capital gains tax is paid we netted about \$3.25 per hour."

"Would we try a venture like this again? I doubt it. And if the capital gains tax bite discourages us from trying it again, that means we won't be hiring the plumber and electrician, we won't be visiting the fabric and carpet store..."

"It's not that we care about 'the rich.' We promise that we'll continue to envy them and resent them. Still, let that tax cut go through. We could use the jobs...and the prosperity."

# TREASURY NEWS



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EMBARGOED UNTIL 9 PM (EST)  
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## Adjustment of Wage Withholding Tables

### Fact Sheet

#### Description

The tables published by the Internal Revenue Service for withholding federal income tax from wages are being adjusted for 1992 and subsequent years to reduce overwithholding on low- and middle-income wage earners. The adjusted tables for 1992 will be effective March 1. For most workers who are withheld at the married rates and whose wages subject to withholding are less than \$78,700, the adjustment will reduce withholding by \$345 over the next 12 months on each job (\$287.50 during the remainder of 1992). For most workers who are withheld at the single rates and whose wages subject to withholding are less than \$47,450, the adjustment will reduce withholding by \$172.50 over the next 12 months on each job (\$143.75 during the remainder of 1992). Smaller reductions apply in the phase out ranges, which are between \$78,700 and \$90,200 for those using the married rates and between \$47,450 and \$53,200 for other workers. At higher wage levels, there is no withholding reduction. Wages subject to withholding are total annual wages reduced by \$2,300 for each withholding allowance claimed. Similar reductions apply to retirees who have federal income taxes withheld from periodic payments from pensions, individual retirement accounts, or annuities.

#### Reduces Overwithholding on Low- and Middle-Income Workers

- In 1991 nearly 80 million tax returns were filed by low- and middle-income wage earners who reported total overwithholding of over \$70 billion, an average of \$900.
- Adjustment of the wage withholding tables will reduce overwithholding for most of these workers.

#### Increases Take-Home Pay

- The reduction in withholding will increase take-home pay for low- and middle-income wage earners by about \$25 billion over the next 12 months.
- This increase in take-home pay is automatic. No paperwork is required of eligible workers.
- Workers who do not want their withholding decreased can opt out of the withholding reduction merely by notifying their employers to withhold an additional amount.

(continues)

## Adjustment of Wage Withholding Tables

### Examples

The following examples illustrate how the adjustment to the IRS wage withholding tables, effective March 1, 1992, will affect typical taxpayers.

#### Example 1

A married couple has two children. Only one spouse works, earning \$700 per week (\$36,400 per year). The couple does not itemize deductions and has no income other than the wage earnings. The working spouse is paid weekly and claims two withholding allowances on Form W-4. Using the current wage withholding tables, federal income tax is being withheld at the rate of \$81.06 per week. Using the adjusted tables beginning in March, withholding will be reduced to \$74.42 a week. Although the family's overwithholding will be reduced by \$288 between March and December, it will still be eligible for a refund of \$747. The couple's withholding, income tax, and refund for 1992 using the current withholding tables and using the adjusted tables beginning in March are as follows:

	<u>Current Withholding Tables</u>	<u>Adjusted Withholding Tables*</u>	<u>Change</u>
Total annual withholding	\$ 4,215	\$3,927	\$ -288
Federal income tax liability	3,180	3,180	0
Refund due taxpayer	1,035	747	-288

\* Shows effect of using the adjusted withholding tables beginning in March. Current withholding tables are used in January and February.

## Example 2

A single worker with no dependents earns \$2,000 per month, or \$24,000 per year. In addition, the worker has \$1,000 of interest income per year. The worker does not itemize deductions. The worker claims no withholding allowances on Form W-4. Using the current wage withholding tables, federal income tax is being withheld at the rate of \$297.29 per month. Using the adjusted tables beginning in March, the worker's federal income tax withholding will be reduced to \$282.92 per month. Despite a withholding reduction of \$144 between March and December, the worker still receives a tax refund of \$588. The worker's withholding, income tax, and refund for 1992 using the current withholding tables and using the adjusted tables are as follows:

	<u>Current Withholding Tables</u>	<u>Adjusted Withholding Tables*</u>	<u>Change</u>
Total annual withholding	\$ 3,567	\$ 3,423	\$ -144
Federal income tax liability	2,865	2,865	0
Refund due taxpayer	702	558	-144

\* Shows effect of using the adjusted withholding tables beginning in March. Current withholding tables are used in January and February.

### Example 3

The facts are the same as in Example 1, except that the worker claims five withholding allowances on Form W-4 (for the worker, spouse, two children, and an extra allowance -- called the Special Withholding Allowance -- because the spouse does not work and the worker has only one job). Using the current wage withholding tables, federal income tax is being withheld at the rate of \$61.15 per week, and when the family files its 1992 Federal income tax return it would have neither a balance due nor receive a refund. Thus, with no adjustment to withholding, this family would be withheld correctly. Using the adjusted tables beginning in March, federal income tax withholding will be reduced to \$54.52 per week between March and December, and when the family files its 1992 income tax return it would owe \$288. Because the adjusted withholding tables would lead this family to have a balance due, the worker would probably "opt out" of the withholding reduction by notifying his or her employer. With such notification, withholding for this worker would be at the same level as under the current tables, and the family would again have neither a balance due nor a refund. The couple's withholding, income tax, and refund or balance due for 1992 using the current withholding tables, using the adjusted tables, and using the adjusted tables but "opting out" are as follows:

If the worker does not opt out:

	<u>Current Withholding Tables</u>	<u>Adjusted Withholding Tables*</u>	<u>Change</u>
Total annual withholding	\$ 3,180	\$ 2,892	\$ -288
Federal income tax liability	3,180	3,180	0
Balance due (-)	0	-288	-288

If the worker does opt out:

	<u>Current Withholding Tables</u>	<u>Adjusted Withholding Tables*</u>	<u>Change</u>
Total annual withholding	3,180	3,180	0
Federal income tax liability	3,180	3,180	0
Balance due (-)	0	0	0

\* Shows effect of using the adjusted withholding tables beginning in March. Current withholding tables are used in January and February.

#### Example 4

A married couple has one child. Only one spouse works, earning \$2,000 per week (\$104,000 per year). The couple does not itemize deductions and has no income other than the wage earnings. The working spouse is paid weekly and claims three withholding allowances even though the Form W-4 worksheet indicates that the worker is entitled to claim four withholding allowances (for the worker, spouse, child, and an extra allowance -- called the Special Withholding Allowance -- because the spouse does not work and the worker has only one job). Using the current wage withholding tables, federal income tax is being withheld at the rate of \$417.40 per week. Using the adjusted tables between March and December, federal income tax withholding will be unchanged except for rounding in certain tables. Under both the current and adjusted withholding tables, the family would be entitled to about the same tax refund of \$713 when it files its federal income tax return for 1992. In this situation, because of the level of the worker's wages, federal income tax withholding will be essentially unchanged as a result of the proposal. At this level of wages, there is no need for the worker to "opt out" of the withholding change in order to maintain the current level of withholding.

### Example 5

A married couple has two children. One spouse earns \$500 per week (\$26,000 per year); the other spouse earns \$200 per week (\$10,400 per year). The couple does not itemize deductions and has no income other than the wage earnings. Both workers are paid weekly. The spouse earning \$500 a week claims one withholding allowance on Form W-4; the other spouse claims zero withholding allowances. Using the current wage withholding tables, federal income tax is being withheld at the combined rate of \$77.02 per week. Using the adjusted tables beginning in March, withholding will be reduced to \$63.75 a week. Although the family's overwithholding will be reduced by \$575 between March and December, it will still be eligible for a refund of \$250. The couple's withholding, income tax, and refund for 1992 using the current withholding tables and using the adjusted tables beginning in March are as follows:

	<u>Current Withholding Tables</u>	<u>Adjusted Withholding Tables*</u>	<u>Change</u>
Total annual withholding	\$ 4,005	\$3,430	\$ -575
Federal income tax liability	3,180	3,180	0
Refund due taxpayer	825	250	-575

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## LETTERS TO PRESIDENT BUSH

### CAPITAL GAINS

#### 1. Florida Man

Supports capital gains tax cut "Few people realize exactly how much this would benefit the economy. More jobs will remain in the country because major corporations would continue to operate in this country... If the tax is raised, corporations would no longer be able to afford to work in this country so they would leave. That would cause many people to lose their jobs."

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"We are an unusual family of 3 because we have no mortgage, we have a debt of less than \$2000. ... Taxes are killing us. ... My husband earns less than \$40,000 per year we pay U.S., Ohio, Dayton, Oakwood, and SS taxes along with minimum health insurance. This is killing us. ... We were able to sell our home at a profit. capital gains taxes will no doubt also kill us. Just like the local bank stock that my husband bought before we were married we'd like to sell it so we'll have a larger down payment. But no- capital gains. There really hasn't been a profit, just inflation. It seems like taxes adjust to inflation, why not capital gains?"

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We are "solid, middle income, middle class retired people. ... My husband made one very smart-and-lucky purchase of stock more than 20 years ago. It is the only one we have. After 11 years of retirement, we would like to start selling it and invest it in something that would keep up with inflation. Having to pay 28% or 15% is not palalable (sic) to us!"

10. Unemployed Man, Midwest  
December 23, 1991

"Congress needs to know that not all who support a reduction in the tax on capital gains are rich. Some of us simply need tax relief during this transition period. Moreover, if I could retain my capital gains, it would immediately stimulate the economy in support of my children's college expenses and my own career transition. ... I had to sell my home and move to a more affordable location. Using my capital gains is paying the bills while I get back into the work force. However, without a reduction in the capital gains tax, I will lose a large part of my former 'equity' to taxation."

CAPITAL GAINS AND SMALL BUSINESS

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November 18, 1991

"I started this company alone in my garage when I was 25 years old. I am now 30 and employ 20. We have employed mostly minorities, and we have generated numerous opportunities for our vendors and our community. ... We ask for no special favors, All we ask is keep the doors of opportunity open so that the desire to enter these doors keeps burning. America needs the capital gains tax cut. Contrary to the rhetoric of its' opponents, the passage of this cut would be fair to all Americans."

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## EDUCATION

### 17. Citizen, Southwest October 25, 1991

"I am a hispanic male, forty four years old, who had worked... as Maintenance Supervisor for the past 17 years. Due to a severe back surgery in December of 1988, I was unable to return to my former line of work. ...I enrolled in college. I was, until then, a ninth grade drop-out. ...I am currently in my third semester of college and have made the "Dean's Honor Roll" every semester. If I can return to school at age forty-four, having been a ninth grade drop-out, anyone can. I am the luckiest man in the world. I live in a country where as a middle age minority, I have the same rights as anyone else. ...We all have heros and friends. You are my hero."

### 18. Professor, Midwest October 22, 1991

"...Your educational initiative is being carried out in Minnesota. I have listened to your educational policy statements, and I do not agree with your critics. It seems that they believe it is impossible to improve education without a large infusion of federal or state funds. Yet, I know they are wrong, and I want to provide you with evidence to prove just that. With little state or federal money, the science lab. at a very small, rural Minnesota school has been transformed into a state-of-the-art science teaching facility. This transformation was made possible by four groups: 1) a local businessman donating eight microcomputers; 2) the local university and private business providing analog-to-digital converters for each microcomputer so that science experiments can be done under computer control; 3) the local school board finding the funds to place laser disk and video technology in the lab; and 4) teachers willing to use the equipment. The lab now ranks as one of the top secondary science laboratories in the country. All this was done according to what you say is possible if we are really serious about becoming "Number 1" in science and mathematics by the year 2000."

### 19. Texas Man November 11, 1991

"Get before the public that the reason data shows the person receiving capital gains is wealthy is that it considers only the income for that year. Naturally if you are selling a family business that represents a life's work, your income is going to look pretty good for that one year." See Article

# TREASURY NEWS



Department of the Treasury

Washington, D.C.

Telephone 566-2041

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These seven examples are hypothetical illustrations of how President Bush's package could affect individuals and families.

- Example A: Additional Tax Allowance for Children and \$5,000 First-Time Homebuyers Tax Credit
- Example B: Additional Tax Allowance for Children, \$5,000 First-Time Homebuyers Tax Credit, Penalty-Free IRA Withdrawals for First-Time Homebuyers, and Deduction of Interest on Student Loans
- Example C: Additional Tax Allowance for Children
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- Example E: Capital Gains
- Example F: Deduction of Interest on Student Loans and Penalty-Free IRA Withdrawals for Educational Expenses
- Example G: Buying a Home for a Growing Family

**Example A: Additional Tax Allowance for Children and \$5,000 First-Time Homebuyers Tax Credit**

Family A consists of a husband and wife and two young children. The family's income consists of combined earnings of \$44,000 and interest income of \$500. At the end of 1992, the family buys a condominium for \$60,000; it is their first home purchase. The family does not itemize deductions and, under current law, pays Federal income taxes of \$4,395. Under the President's proposals, the family would benefit from a \$500 increase in the personal exemption for each child which begins on October 1, 1992, and from the tax credit for first-time home buyers. The larger personal exemption would decrease their tax by \$37.50, and the home-buyer credit would reduce their tax by \$2,500 in 1992 and by an additional \$2,500 in 1993. Including these benefits, Family A's 1992 Federal income taxes would be \$1,857.50, which is 58 percent less than under current law.

In 1993, Family B has its taxes reduced by \$2,500 by the second half of the credit for first time home buyers and by \$150 from the full year effect of the \$500 increase in the personal exemption for each child. Thus, in 1993, the proposal would reduce Family B's Federal income taxes by \$2,650.

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**Example B: Additional Tax Allowance for Children, \$5,000 First-Time Homebuyers Tax Credit, Penalty-Free IRA Withdrawals for First-Time Homebuyers, and Deduction of Interest on Student Loans**

Family B consists of a husband and wife and two young children. The family's income consists of combined earnings of \$44,000 and interest income of \$500. During 1992, the family buys a condominium for \$60,000; it is their first home purchase. Family B obtains the funds for the downpayment on the new house by withdrawing \$5,000 from an IRA account. During the second half of the year, they pay interest of \$1,000 on loans which they incurred to pay their college tuition. Under current law, Family B has itemized deductions of \$7,000 and pays Federal income taxes of \$5,495, including a \$500 penalty (10 percent of the amount taken out) for making an early withdrawal from an IRA. Under the President's proposals, the family would benefit from: the \$500 increase in the personal exemption for each child which begins on October 1, 1992; the elimination of the IRA penalty for IRA withdrawals used to purchase a home; the tax credit for first-time home buyers; and the deductibility of interest on education loans. The larger personal exemption would decrease their tax by \$37.50; eliminating the IRA penalty would reduce their taxes by \$500; the home-buyer credit would reduce their tax by \$2,500 in 1992 and by an additional \$2,500 in 1993; and the deductibility of interest on education loans would lower their taxes by \$150. Including these benefits, Family A's 1992 Federal income taxes would be \$2,307.50, which is 58 percent less than under current law.

In 1993, Family B has its taxes reduced by \$2,500 by the second half of the credit for first time home buyers, by \$150 from the full year effect of the \$500 increase in the personal exemption for each child, and by \$150 by the deductibility of interest on its education loans. Thus, in 1993, the proposal would reduce Family B's Federal income taxes by \$2,800.

**Example C: Additional Tax Allowance for Children**

Family C consists of a husband and wife and three children, all under age 18. The family's only income is from wages of \$40,000. The family does not itemize deductions and, under current law, pays Federal income taxes of \$3,720. The larger personal exemption for children which begins on October 1, 1992 would reduce the family's tax by \$56.25, or 1 percent, to \$3,663.75. In 1993, with the larger personal exemption for children being in effect for the full year, the tax reduction would be \$225.

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**Example D:           \$5,000 First-Time Homebuyers Tax Credit**

Newly-married couple D has combined earnings of \$48,000 and interest income of \$2,000. At the end of 1992, they purchase a house for \$120,000. It is the first home purchase for either spouse. The family does not itemize deductions and, under current law, pays Federal income taxes of \$6,368. Under the President's proposals, the family would benefit from the tax credit for first-time home buyers. Their Federal taxes would be reduced by \$2,500 in 1992 and by an additional \$2,500 in 1993. Including the credit, their 1992 tax would be \$3,868, or 39 percent less than under current law.

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**Example E: Capital Gains**

Taxpayer E has been self-employed, and in 1992 he sells his business and retires. Taxpayer E and his wife file a joint income tax return and do not have any dependent children. They have \$60,000 of income from operating their business, \$10,000 of interest and dividend income, and a long-term capital gain of \$100,000 from the sale of the business. They have itemized deductions of \$10,400. Under current law, their 1992 Federal income tax would be \$41,546. Under the President's proposed reduction in capital gains taxes, their Federal income tax would be \$32,400, a reduction of 22 percent.

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**Example F:            Deduction of Interest on Student Loans and Penalty-Free IRA  
                             Withdrawals for Educational Expenses**

Family F has two children, both over age 18 and both attending college. Both children are claimed as dependents on their parent's Federal income tax return. Both parents work, earning combined salaries of \$60,000. In addition, in order to pay college tuition, during 1992 Family F withdraws \$5,000 from the father's IRA account. The family has taken loans to pay college tuition, and during the second half of 1992, the interest paid on those loans is \$2,000. Family F does not own its home, but it has itemized deductions of \$6,400, apart from the interest on the loans for college expenses.

Under current law, Family F's 1992 Federal income tax is \$9,566, including a \$500 penalty because of the early withdrawal from the IRA account. Under the President's proposals, the early IRA withdrawal to pay college expenses would no longer be subject to a penalty. In addition, the interest on the loans for college expenses would be deductible. As a result, Family F's Federal income taxes would be \$8,506, a reduction of \$1,066, or 11 percent.

Example G: "Buying a home for a growing family"

"Susan and Ward", 28 and 30, have lived in rented apartments since they were married six years ago. Their combined income of \$44,500 has allowed them to live comfortably in their Colorado community, but they have not managed to accumulate savings sufficient for the down payment they need to purchase a \$60,000 3-bedroom townhouse condominium in their neighborhood. With one small child and another on its way, they know that they will soon need more space.

The President's tax proposals would make it possible for Sue and Ward to buy their own home. Under the President's plan, the couple would be entitled to a \$5000 tax credit for first-time home buyers. Permitted to withdraw accumulated savings from their IRA accounts without penalty, they could raise enough money for the down payment. Furthermore, with the additional \$1000 tax exemption for their two children, the deductibility of interest on Susan's outstanding student loans permitted under the President's program, and the lowest mortgage interest rates in years, servicing their mortgage would be much less of a burden on their incomes than it otherwise would be.

Tax Benefits for "Sue and Ward" in 1992

1992 Federal taxes under current law: \$5,495 (includes \$500 penalty for early IRA withdrawal)

1992 Federal taxes with President's proposals: \$2,307.50

		<u>1992 Savings:</u>
First-time homebuyer's credit	=	\$2,500 (\$2,500 in 1993 as well)
IRA withdrawals for home purchases	=	\$ 500 (assumes \$5,000 withdrawal)
Additional tax allowance for children	=	\$37.50 (1/4 benefit for 1992; for 1993)
Deduction of interest on student loans	=	<u>\$ 150</u> (assumes \$1,000 interest)
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**Example F: Deduction of Interest on Student Loans and Penalty-Free IRA Withdrawals for Educational Expenses**

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**Example C: Additional Tax Allowance for Children**

Family C consists of a husband and wife and three children, all under age 18. The family's only income is from wages of \$40,000. The family does not itemize deductions and, under current law, pays Federal income taxes of \$3,720. The larger personal exemption for children which begins on October 1, 1992 would reduce the family's tax by \$56.25, or 1 percent, to \$3,663.75. In 1993, with the larger personal exemption for children being in effect for the full year, the tax reduction would be \$225.

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**Example D: \$5,000 First-Time Homebuyers Tax Credit**

Newly-married couple D has combined earnings of \$48,000 and interest income of \$2,000. At the end of 1992, they purchase a house for \$120,000. It is the first home purchase for either spouse. The family does not itemize deductions and, under current law, pays Federal income taxes of \$6,368. Under the President's proposals, the family would benefit from the tax credit for first-time home buyers. Their Federal taxes would be reduced by \$2,500 in 1992 and by an additional \$2,500 in 1993. Including the credit, their 1992 tax would be \$3,868, or 39 percent less than under current law.

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**Example E:           Capital Gains**

Taxpayer E has been self-employed, and in 1992 he sells his business and retires. Taxpayer E and his wife file a joint income tax return and do not have any dependent children. They have \$60,000 of income from operating their business, \$10,000 of interest and dividend income, and a long-term capital gain of \$100,000 from the sale of the business. They have itemized deductions of \$10,400. Under current law, their 1992 Federal income tax would be \$41,546. Under the President's proposed reduction in capital gains taxes, their Federal income tax would be \$32,400, a reduction of 22 percent.

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**Example F: Deduction of Interest on Student Loans and Penalty-Free IRA Withdrawals for Educational Expenses**

Family F has two children, both over age 18 and both attending college. Both children are claimed as dependents on their parent's Federal income tax return. Both parents work, earning combined salaries of \$60,000. In addition, in order to pay college tuition, during 1992 Family F withdraws \$5,000 from the father's IRA account. The family has taken loans to pay college tuition, and during the second half of 1992, the interest paid on those loans is \$2,000. Family F does not own its home, but it has itemized deductions of \$6,400, apart from the interest on the loans for college expenses.

Under current law, Family F's 1992 Federal income tax is \$9,566, including a \$500 penalty because of the early withdrawal from the IRA account. Under the President's proposals, the early IRA withdrawal to pay college expenses would no longer be subject to a penalty. In addition, the interest on the loans for college expenses would be deductible. As a result, Family F's Federal income taxes would be \$8,506, a reduction of \$1,066, or 11 percent.

Example G: "Buying a home for a growing family"

"Susan and Ward", 28 and 30, have lived in rented apartments since they were married six years ago. Their combined income of \$44,500 has allowed them to live comfortably in their Colorado community, but they have not managed to accumulate savings sufficient for the down payment they need to purchase a \$60,000 3-bedroom townhouse condominium in their neighborhood. With one small child and another on its way, they know that they will soon need more space.

The President's tax proposals would make it possible for Sue and Ward to buy their own home. Under the President's plan, the couple would be entitled to a \$5000 tax credit for first-time home buyers. Permitted to withdraw accumulated savings from their IRA accounts without penalty, they could raise enough money for the down payment. Furthermore, with the additional \$1000 tax exemption for their two children, the deductibility of interest on Susan's outstanding student loans permitted under the President's program, and the lowest mortgage interest rates in years, servicing their mortgage would be much less of a burden on their incomes than it otherwise would be.

Tax Benefits for "Sue and Ward" in 1992

1992 Federal taxes under current law: \$5,495 (includes \$500 penalty for early IRA withdrawal)

1992 Federal taxes with President's proposals: \$2,307.50

		<u>1992 Savings:</u>
First-time homebuyer's credit	=	\$2,500 (\$2,500 in 1993 as well)
IRA withdrawals for home purchases	=	\$ 500 (assumes \$5,000 withdrawal)
Additional tax allowance for children	=	\$37.50 (1/4 benefit for 1992; for 1993)
Deduction of interest on student loans	=	<u>\$ 150 (assumes \$1,000 interest)</u>
		\$3,187.50