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Growth Package

02/12/92
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H.R. 4200
ECONOMIC GROWTH AND JOB CREATION ACT OF 1992
(Administration Scoring)

(Dollars in Millions)

	1992	1993	1994	1995	1996	1997	1992–97
Growth Incentives:							
Enhance Long–term Investment: Capital Gains**	600	3600	1700	–100	–200	–800	4800
Passive Loss Relief for Real Estate	–130	–418	–396	–449	–516	–592	–2501
Investment Tax Allowance (ITA)	–6055	–1580	3529	941	810	623	–1732
Simplify and Enhance AMT Depreciation	–204	–376	–354	–261	–179	–123	–1497
Facilitate R&E Investment by Pension Funds/Others	–*	–*	–*	–*	–*	–*	–*
First–time Homebuyers Tax Credit of $5,000	–201	–2067	–2535	–637	167	110	–5163
Waive Penalty for IRA Withdrawals for First Time Homebuyers	–5	–79	–97	–117	–125	–92	–515
Total Cost of Growth Package	–5995	–920	1847	–623	–43	–874	–6608
Pay–As–You–Go Offsets:							
PBGC Reforms	8700	2500	2396	1276	2725	2112	19709
Extend Statute of Limitations on Collecting Defaulted Student Loans	266	0	0	0	0	0	266
CSRS: Extend Elimination of Lump–Sum Option	0	0	0	0	2144	2926	5070
Total Offsets	8966	2500	2396	1276	4869	5038	25045
NET DEFICIT REDUCTION	$2,971	$1,580	$4,243	$653	$4,826	$4,164	$18,437

* Less than $500,000

** Preliminary Administration Scoring

FACTS

Pension Benefit
Guaranty Corporation
2020 K Street, N.W.
Washington, D.C. 20006-1860

PBGC REFORMS

The overall pension system is strong and the life blood of American savings. The Pension Benefit Guaranty Corporation (PBGC), the government insurance program, backs $900 billion of these valued benefits for 40 million Americans in private defined benefit plans.

PBGC's history shows the insurance program is increasingly vulnerable to large losses and its exposure is growing. PBGC's financial problem has been hidden by the rose-colored glasses of cash-flow accounting. Past reforms are not working fast enough to increase benefit security or reduce potential losses.

Financial Position: PBGC's single-employer program has a large and growing deficit ($2.5 billion) from already terminated plans and the potential for much larger losses from chronically underfunded plans.

> 1991 saw the two largest losses in PBGC's history: Pan American World Airways (underfunded by $900 million) and Eastern Air Lines (underfunded by $700 million).
>
> Pension underfunding associated with readily identifiable troubled companies grew last year by 75% to $13 billion.
>
> Financial forecasts, with a longer view of the future, show contingent losses of $30-45 billion.

Solutions: The Administration is proposing a four-point program to reform this 17-year-old program. The proposals will address the central problem of exposing the hidden liabilities of underfunded pension plans and the lack of legislative and market incentives for companies to better fund plans.

The proposals will revise the current budget accounting rules to more properly account for the PBGC's hidden liabilities and will limit many of the current incentives to underfund, rather than fund, defined benefit plans.

Point 1. Bankruptcy: Change the bankruptcy code, to reflect ERISA and the Tax Code, to improve PBGC's recoveries and give creditors incentives to push companies to improve and maintain better funding:

> Clarify that contributions must be made while a company is in bankruptcy and make all contribution claims a priority.
>
> Clarify priority for employer liability (underfunding) claim and increase amount gradually over time.
>
> Give a priority claim to any shutdown benefits due to shutdown within three years of plan termination.
>
> Give PBGC the option to be a member of a creditors committee.

Point 2. Minimum Funding: Increase minimum funding requirements to lessen PBGC's exposure to risks caused by underfunding plans:

> Require companies to contribute the highest of three amounts: (1) the regular 1974 required contribution, (2) a stronger version of the 1987 deficit reduction contribution, or (3) a new solvency maintenance contribution equal to annual plan disbursements plus interest on the unfunded liability.
>
> Eliminates "gaming" of the funding rules to assure annual contributions.
>
> Includes transition rules to ensure that no plan bears an unreasonable risk.
>
> The goal is for underfunded plans to reach full funding within ten to twenty years.

Point 3. Guarantee: Prevent PBGC's exposure to losses from increasing when a company gives a benefit increase in a chronically underfunded plan:

> Changes would be prospective only for benefit increases after enactment. Future accruals from existing plan amendments are not affected.
>
> Future benefit increases will not be guaranteed if a plan is underfunded, but the guarantee will be restored once a plan becomes fully funded.
>
> Future benefit increases contingent on an unpredictable event, such as a plant closing, will not be guaranteed.

Point 4. Accounting: Change the PBGC accounting system to an insurance industry standard of accrual basis accounting to better reflect PBGC's "hidden liabilities":

> The conversion of PBGC's budget accounting system from a cash basis to an accrual basis will better reflect potential longterm losses and risks.
>
> Update the budget annually to reflect changes in expected losses and market conditions.
>
> Provide a much better means of measuring the effect of policy changes.

SUMMARY: WAYS AND MEANS DEMOCRATIC ALTERNATIVE

Redistributing the Individual Tax Burden

> The largest tax relief is a two-year, refundable credit of the employee's share of FICA (or 10 percent of SECA) taxes up to $200 for an individual or $400 for a joint filer. While the credit is <u>temporary</u>, the tax increase to pay for it is <u>permanent</u>.

-- A fourth, individual rate bracket of 35 percent, beginning at taxable incomes of $85,000 (single), $145,000 (joint) and $125,000 (head of household) would be added.

-- The individual AMT rate would be increased to 25 percent.

-- The plan would impose a 10 percent surtax on tax attributable taxable income in excess of $1 million.

-- PEP and Pease would be extended for two years, raising additional revenue from taxpayers with incomes over $125,000.

-- 1.7 million families (or about 5 million people) would be affected by these rate increases. Approximately 80 million taxpayers would benefit from the temporary tax cuts.

> While the Democratic plan is self-financing over the five-year budget period, JCT estimates that it would lose $30.6 billion in the first three years -- principally because of the large upfront cost of the temporary refundable credit.

-- Under the BEA, the 1992 - 1994 shortfall would trigger sequester, resulting in cuts to Medicare, Headstart, school lunch, agriculture and other programs.

-- To pay for itself year-by-year, and to make the credit permanent:

< rates would have to increase for taxpayers making more than $35,000 (single) and $60,000 (married);

< top marginal rates would increase to 50% or more;

< corporate rates (including the AMT) would increase 2 - 4%.

Capital Gains Proposal

> The capital gains proposal is limited and prospective only.

> It provides indexing for inflation on "certain assets" (not yet identified) acquired after February 1, 1992.

> It provides a 50% exclusion for investments in "certain small business stock" (not defined) held for more than 5 years. Best guess: limited to stock issued after February 1, 1992; gross assets less than $100 million; covers preferred stock; broadened to cover S corp stock.

> Unlike earlier version, no income limits on those eligible for benefits.

Business Provisions

> The Democratic plan would "permanently" reduce the corporate regular and AMT tax rates by 1 percent.

> The Democratic alternative would disallow corporate tax deductions for executive compensation in excess of $1 million.

> The Democratic plan would eliminate the ACE depreciation proposal (same as the President's plan).

> The Democratic plan offers no specific investment incentives (e.g., investment tax allowance or investment tax credit).

> With respect to other business proposals, the Democratic plan:

-- Makes the R & D credit permanent (same as the President's long-term package).

-- Would not extend the R & D allocation rules, but urges the Treasury to make it permanent by changing IRS regulations.

Real Estate Provisions

> The passive loss provision is extended to cover anyone involved in the real estate business more than 500 hours per year -- but:

-- limit to existing structures (including new purchasers);

-- cut back deduction by 20% and allow no carryforward.

> Extend depreciation period on commercial property from 31.5 to 40 years; extend depreciation period on residential rental property from 27.5 to 31 years.

> Index the $125,000 exclusion for capital gains on sale of residence.

> Unlike the President's proposal, the Democratic Alternative contains no first time home buyer's credit, and no provision for deducting losses on sales of residences.

Other Provisions

> The Democratic Alternative provides a credit for interest on student loans, with an income limit (President's proposal provided for interest deduction with no income limit).

> Penalty free withdrawals from IRAs for first time home buyers, and for medical and educational expenses; but no IRA-type proposal.

> Expand transit exclusion to $60 per month (President's proposal), but limit exclusion for employer-provided parking to $160 per month.

> Permanent extensions of: low-income housing credit, mortgage revenue bonds, employer-provided educational expenses, targeted jobs credit, qualified small-issue manufacturing bonds.

> Provide temporary extension of deduction for health insurance costs of self-employed individuals.

> Repeal the luxury tax on boats and planes (President's proposal), and on furs and jewelry; index the threshold for cars.

> Adopt an enterprise zones proposal

-- 20 locations, 15 year duration

-- wage credit; investment tax allowance for tangible property; deductions for certain purchases of stock; investment tax credit for certain purchases of equipment in rural areas.

> Permit partnerships, S corporations and personal services corporations to use fiscal years (rather than calendar year); subject to paying interest charge on deferred taxes.

> Adopt certain taxpayer bill of rights provisions.

> Adopts various tax simplification proposals, including intangibles bill with elective retroactive effective date.

> Include the President's proposals to: (i) prohibit double dipping by thrifts receiving federal financial assistance (with modifications); (ii) extend 45-day processing rule to all returns; (iii) conform book and tax accounting for securities inventories.

WASHINGTON EDITION / LOS ANGELES TIMES   FRIDAY, FEBRUARY 14, 1992

A1

THE TIMES POLL

Tax Reductions Are Not Americans' Top Priority

By JAMES RISEN
TIMES STAFF WRITER

WASHINGTON—At a time when Washington is rushing to enact a package of election-year tax relief, most Americans say they would rather use the post-Cold War "peace dividend" to boost domestic spending or reduce the deficit instead of financing tax cuts, according to a new Times Poll.

While Americans remain largely pessimistic about the economy, the nationwide poll found little evidence of a mounting grass-roots tax revolt that might pressure Congress to rush through the kind of anti-recession tax cuts advocated by President Bush and key Democrats.

Instead, the poll suggests that many Americans share a deep-seated concern over the nation's chronic, long-term economic problems—particularly the federal deficit, which is expected to soar to nearly $400 billion this year.

"I don't live on debt, I don't like debt in my life, so I think taxes should stay where they are so we can lower the deficit," said Michael Wheat, a used car dealer in Allegan, Mich., who participated in the survey and agreed to be interviewed afterward.

The new poll findings come as Congress begins consideration of the President's economic growth package, which includes a mix of tax cuts for businesses and individuals, while Democrats on the House Ways and Means Committee rush to develop their own tax relief plan.

Despite the flurry of tax-cutting activity on Capitol Hill, the Times' survey suggests that Washington may have misread the depth of the public's support for a quick effort to lower taxes. For example, when asked which issues should be discussed in this year's presidential race, 33% cite the economy generally, 28% say unemployment and 21% say health care, but only 6% mention taxes.

The survey found that tax cuts have popular appeal, particularly when they are linked to the middle class. When respondents were given a list of things they thought would improve the economy, a tax cut for "average Americans" was mentioned second only to tougher restrictions on trade with Japan among six specific policy options.

Yet when asked what Washington should do with the peace dividend produced by declining defense spending, only 22% said the savings should be used to finance a tax cut. By contrast, 35% said the money should be used to boost spending on domestic programs, while 33% said it should go directly for deficit reduction.

The Times' survey, based on interviews of 1,776 adults across the country between Jan. 31 and Feb. 3, has a margin of error of plus or minus 3 percentage points.

John Brennan, director of The Times Poll, noted that participants in several surveys conducted since late 1989 have expressed mixed feelings about the best use of funds freed up by declining defense budgets, with no option receiving a clear-cut majority.

"There is no consensus in the country about what to do with the peace dividend," Brennan said. "Congress is divided because the public is divided."

The latest findings involving the health of the economy suggest a more clear-cut policy response, Brennan said. "If Bush and Congress are interested in increasing consumer confidence, they're going to have to do something about the fears of unemployment, the perception that unemployment is rampant and that people's jobs are at stake," he said. "This seems to be much more important than some kind of tax relief."

The latest poll found that only 21% of those surveyed believe the economy will be better three months from now than it is today, and only 20% believe the unemployment picture will brighten during the same period. Those figures represent a slight upturn in consumer sentiment since the last Times Poll in November.

But now that the White House and Congress have begun work on a tax bill designed to pull the nation out of the longest recession since World War II, the poll findings and follow-up interviews suggest that many Americans are having second thoughts about Washington's ability to act responsibly.

The latest poll found that 68% of those surveyed disapprove of Bush's handling of the economy, and only 12% express confidence in Congress, one of the lowest readings in two decades.

"The deficit is out of hand, and I'm concerned about the country some day collapsing through overspending," said Joseph Giordano, a 56-year-old retired school teacher in Sheffield, Pa. "As much as I'd like a tax cut, I think the money should go to budget balancing. It's not worth it to come in a political year and say you're going to cut taxes a little bit. Our problems are education, the ability of our industries to compete, and you're not going to improve that with just a few hundred dollars [in tax relief]."

Giordano's assessment reflects the sentiments expressed by many economists who fear that the political Establishment may be sacrificing the nation's long-term interests, such as deficit reduction, in an effort to assuage short-term anxieties about the economy and the perennial desire for tax relief.

Many experts say the federal deficit represents the biggest single threat to America's long-term prosperity because it puts upward pressure on interest rates and siphons off savings that otherwise would be available for more productive investments.

In fairness, the original economic growth plan outlined by the President in his State of the Union

TAX

address called for using $50 billion in additional Pentagon budget cuts over five years to reduce the deficit. Bush proposed financing tax cuts by other means, including accounting adjustments and reductions in the future growth of mandatory spending programs.

Yet Bush's financing measures have been widely criticized by private economists, congressional Democrats and even some Republicans, who argue that they represent bookkeeping tricks or that they would require politically unrealistic policy shifts.

As a result, most analysts believe that any significant tax reduction will have to be offset by savings from the Pentagon budget, which is expected to shrink dramatically in the wake of the Soviet Union's collapse. In fact, leading Democrats say they want to make much deeper cuts in defense spending than the President is proposing and use the savings either to boost spending on domestic programs or finance more broad-based tax cuts.

The latest poll findings seem to corroborate earlier survey results indicating that taxes do not rank that high on most Americans' economic priority lists. Of those surveyed in November, for example, 32% identified unemployment as the nation's most pressing economic problem, 10% said foreign trade and 8% cited the deficit. Only 3% mentioned taxes.

**TALKING POINTS
ON
HOUSE DEMOCRATS PROPOSAL**

- The Democrats want to permanently raise taxes. That is irresponsible.

- Americans want jobs and responsible government, not less than a dollar a day for two years, permanent tax increases and increased spending, larger deficits or cuts in medicare.

- The Democrats do not have any proposals to increase jobs.

- The Democrats do not cut wasteful spending, eliminate pet programs, cut the deficit or defense. What they do is increase interest rates or force cuts in medicare and make it harder and more expensive for Americans to buy their first home.

- The House Democrats have proposed a temporary tax cut for some Americans, while permanently raising taxes on almost two million American families. If the tax cut was made permanent, as Senator George Mitchell has suggested, the Democrats would have to raise taxes on hard working Americans making more than $35,000.

- Even the Democrats front runner for President, Paul Tsongas would veto the Democrats plan.

- The President has proposed a comprehensive pro-growth, pro-family and pro-jobs program.

TALKING POINTS

HOUSE DEMOCRATS' TAX PROPOSAL

> The Democrats are trying to buy the working men and women of this country for 60 cents a day for two years.

> In return:

-- They want permanent tax increases. Once again, they're taxing the American Dream.

-- They've done nothing to create jobs.

-- They've done nothing to cut wasteful government spending.

-- They've done nothing to help first time home buyers.

-- They've done nothing to help families save . . . . for education, home ownership, medical care and retirement.

-- Their two year, 60 cent pay-off will require cuts in programs that matter, for example: Medicare, Headstart, school lunch and agriculture programs.

> Even the Democrat's front runner for President, Paul Tsongas, would veto the Democrat's plan.

> The impact on jobs:

-- President Bush's fast track program: hundreds of thousands of new jobs

-- The Democrat's welfare state alternative: none

> The impact on families:

President Bush's Pro-growth, pro-jobs <u>Pro-Family Program</u>	Democrat's Welfare <u>State Alternative</u>
Permanent	Temporary
More for middle class families	Less for middle class families
More for children	Less for children
Helps first time home buyers	No help for first time home buyers
Helps families save	No help for families trying to save

> President Bush's program is paid for by reforming government, cutting wasteful government programs, and by returning responsible cuts in the Defense Department budget to the American public.

> The Democrat's welfare state alternative will be paid for with tax increases. They won't cut wasteful government programs, and will meat axe the Defense Department Budget to pay for more social programs.

PRELIMINARY OMB ESTIMATES OF THE REQUESTER EFFECTS
OF THE HOUSE DEMOCRATS

House Ways and Means Democrats have released a tax package that would increase the Budget Deficit during the first 3 years by approximately $30 billion (JCT est.) Under current law this would cause a sequester for each of these 3 years. According to preliminary OMB est., the programs listed could be cut up to the ammounts indicated for 1992 and 1993 combined.

Program	OMB Estimated Cuts (in $Billions)
Medicare	4.4
Federal Farm Support Programs (e.g. CCC)	9.0
Federal Student Loan Program	0.05
FHA and VA Loan Program	1.0
Child Support and Enforcement	1.8
Social Services Block Grant	2.7
SLIAG (state grants for immigration; 95% of which go to TX, FL & CA)	0.8
GI Bill	0.6
AFTC Job Program	0.55

TALKING POINTS AGAINST DEMOCRAT PROPOSAL

- o <u>Permanently</u> increases individual income tax rates while providing <u>temporary</u> tax credits.

  - -- History shows that increases in the top rate eventually lead to increases in taxes on those with middle incomes.
  - -- Polls show little support for middle class tax cut.
  - -- Only a quarter of tax relief comes in 1992; over 60% comes in 1993--too late to stimulate economic recovery.
  - -- $400 credit for couples constitutes little more than $1 per day tax cut.

- o Democrat package promises "fairness," but only incites class warfare.

  - -- Four-point rise in top rate constitutes a 13% increase in marginal rate.
  - -- Millionaire's surtax is gratuitous and not justified by anything other than the politics of envy.
  - -- Limit on deductibility of executive compensation over $1 million constitutes unjustifiable federal intrusion into private corporate decisionmaking. Will be difficult to administer and will only result in alternative compensation schemes being developed.
  - -- Revenue projections unlikely to be met--history shows that higher rates seldom bring in higher revenues.

- o Lowering the corporate tax rate to 33% while raising the top income tax rate to 35% will provide an incentive for individuals to incorporate in order to obtain a lower tax rate.

  - -- Will provide a boon to tax shelter industry.

- o Democrat package does little to stimulate growth or investment.

  - -- Poll data indicate that individuals are more concerned about state of the economy than taxes.
  - -- Little evidence that cuts in corporate tax rates stimulate investment. 1986 tax reform cut corporate rate from 46% to 34%, yet gross private domestic investment has fallen since mid-1980s.

Year	Gross Private Domestic Investment (1987-$)
1984	757.5
1985	745.9
1986	735.1
1987	749.3
1988	773.4
1989	789.2
1990	744.5
1991	672.6

Increases in the Top Tax Rate Reduce Taxes Paid by the Wealthy