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2/3/97

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release January 14, 1997

THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN:

FACT SHEET

- The plan has two goals:
  - To revitalize Washington D.C. as the Nation's capital, and
  - To improve prospects for "home rule" to succeed.
- The plan will:
  - Relieve the District government of major financial and managerial responsibilities -- including certain pension plans and parts of the criminal justice system -- that are beyond its financial capacity, and resolve the city's cash shortfall that stems from its accumulated deficit;
  - Invest considerable resources to improve the city's criminal justice system and capital infrastructure;
  - Strengthen the District's economic base; and
  - Draw on the Federal government's technical expertise to help make the city government effective in such areas as income tax collection, education and training, housing, transportation, and health care delivery.
- Over five years, this plan will invest \$3.9 billion of Federal budgetary resources in the Nation's capital. Among other things, the plan provides:
  - \$885 million for new capital spending on prison renovation and construction;
  - \$891 million to operate prison facilities;
  - \$681 million to operate the court system;

- $125 million in 1998 to begin rebuilding the city's transportation infrastructure;
- $117 million to improve District tax collection;
- $917 million to increase the Federal share of D.C.'s Medicaid payments; and
- grant and tax incentives for economic development in the District.

- In exchange, the plan will end the yearly Federal appropriation and other payments to the District, saving $3.56 billion over five years.

- Thus, the <u>net Federal costs of the plan come to $339 million over five years</u>.

- The plan also proposes that the Federal government assume responsibility for the District's existing pension plans for law enforcement officers, firefighters, teachers, and judges.

  - Upon their transfer to the Federal Government, the plans would close (that is, they would accrue no new liability).

    - The existing pension assets would pay the beneficiaries.

    - Starting in 2007, the Federal government would pay off, over an extended period of time, the $4.3 billion in unfunded liability associated with these plans -- much of which was transferred from the Federal government to the District in 1979.

  - The District would establish new plans for current employees.

- <u>Over five years, the plan would save the District about $770 million</u>.

  - Federal budget costs will be less than District budget savings in part because pension assets, rather than Federal budget resources, will be used to pay beneficiaries until 2007.

- <u>The proposed Federal spending is all dependent on the District government taking certain actions to improve its performance</u> -- as outlined in a Memorandum of Understanding that will be reached between the Federal government, the District government, and the Financial Authority.

- The plan will benefit the city, the region, and the Nation:

  - It benefits District residents by reducing their government's financial burdens, improving the delivery of city services, and investing in the criminal justice system, economic development, and transportation.

- It benefits the region because of the city's economic recovery; the financial support given to the police, fire, teachers, and judges pension funds; the rebuilding of the District prison system; and the improvement of a key component of the regional transportation infrastructure.

- It benefits the Nation because it begins to create a capital city that we can all be proud of, improves its transportation system, and helps ensure the safety of residents and visitors.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

February 3, 1997

The Honorable Bill Archer
Chairman, Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am writing to request your assistance in securing an immediate extension of the Treasury Department's authority to transfer receipts of aviation excise taxes from the General Fund into the Airport and Airway Trust Fund and short-term reinstatement of the taxes dedicated to the Trust Fund.

As you know, when Congress extended the tax through December 31, 1996, it extended our authority to transfer the taxes to the Trust Fund only through the end of 1996. Thus, we were permitted to transfer taxes that were deposited in 1996, but not taxes that are received after December 31, 1996 even if the taxes relate to air transportation that occurred in 1996. We have recently discovered that approximately $1.2 billion of transfers to the Trust Fund of aviation excise taxes were authorized based upon preliminary estimates that they were being deposited by the airlines in 1996. In fact, those revenues were received, or are shortly to be received, in calendar year 1997, and hence the transfers to the Trust Fund with respect to those revenues should have remained in the General Fund.

In general, transfers to the Trust Fund are based on Treasury estimates of tax deposits. Because the Treasury office responsible for authorizing transfers to the Trust Fund did not know that the airlines (relying on IRS advice) were not making normal deposits, our estimates, and our transfers to the Trust Fund, were much higher than actual deposits. We have concluded that it is necessary to correct this error by transferring the excess back to the General Fund.

We have also concluded that the only way to make aviation taxes received in 1997 on account of 1996 liabilities available for the purpose Congress intended is to extend Treasury's authority to transfer those excise taxes to the Trust Fund. The extension of Treasury's authority to transfer the receipts into the Trust Fund does not involve the expenditure or appropriation of any new money. Rather, it is simply a technical modification required to ensure that certain aviation taxes already received, or shortly to be received, are appropriately deposited in the Trust Fund.

In addition, some Federal aviation capital programs will, absent a reinstatement of these aviation excise taxes, totally run out of money in the near future. Such programs include the replacement of antiquated radar systems and airport grants. Although the ability to continue such programs will end in March 1997, earlier notices to contractors will be necessary to avoid liability on projects where funds will run out without extension of the lapsed taxes. In many cases these notices will need to go out almost immediately. We therefore also urge the immediate short-term reinstatement of those taxes through late September of this year, while the Administration works with Congress to devise a long-term financing solution for the FAA.

Thank your for your attention to this urgent issue.

Sincerely,

Robert E. Rubin

Robert E. Rubin

1130

THE WHITE HOUSE

Office of the Press Secretary

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  - To improve prospects for "home rule" to succeed.
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  - Relieve the District government of major financial and managerial responsibilities -- including certain pension plans and parts of the criminal justice system -- that are beyond its financial capacity, and resolve the city's cash shortfall that stems from its accumulated deficit;
  - Invest considerable resources to improve the city's criminal justice system and capital infrastructure;
  - Strengthen the District's economic base; and
  - Draw on the Federal government's technical expertise to help make the city government effective in such areas as income tax collection, education and training, housing, transportation, and health care delivery.
- Over five years, this plan will invest $3.9 billion of Federal budgetary resources in the Nation's capital. Among other things, the plan provides:
  - $885 million for new capital spending on prison renovation and construction;
  - $891 million to operate prison facilities;
  - $681 million to operate the court system;

- $125 million in 1998 to begin rebuilding the city's transportation infrastructure;
- $117 million to improve District tax collection;
- $917 million to increase the Federal share of D.C.'s Medicaid payments; and
- grant and tax incentives for economic development in the District.

- In exchange, the plan will end the yearly Federal appropriation and other payments to the District, saving $3.56 billion over five years.
- Thus, the <u>net Federal costs of the plan come to $339 million over five years</u>.
- The plan also proposes that the Federal government assume responsibility for the District's existing pension plans for law enforcement officers, firefighters, teachers, and judges.
  - Upon their transfer to the Federal Government, the plans would close (that is, they would accrue no new liability).
    - The existing pension assets would pay the beneficiaries.
    - Starting in 2007, the Federal government would pay off, over an extended period of time, the $4.3 billion in unfunded liability associated with these plans -- much of which was transferred from the Federal government to the District in 1979.
  - The District would establish new plans for current employees.
- **<u>Over five years, the plan would save the District about $770 million</u>**.
  - Federal budget costs will be less than District budget savings in part because pension assets, rather than Federal budget resources, will be used to pay beneficiaries until 2007.
- **<u>The proposed Federal spending is all dependent on the District government taking certain actions to improve its performance</u>** -- as outlined in a Memorandum of Understanding that will be reached between the Federal government, the District government, and the Financial Authority.
- The plan will benefit the city, the region, and the Nation:
  - It benefits District residents by reducing their government's financial burdens,

improving the delivery of city services, and investing in the criminal justice system, economic development, and transportation.

- It benefits the region because of the city's economic recovery; the financial support given to the police, fire, teachers, and judges pension funds; the rebuilding of the District prison system; and the improvement of a key component of the regional transportation infrastructure.

- It benefits the Nation because it begins to create a capital city that we can all be proud of, improves its transportation system, and helps ensure the safety of residents and visitors.

Addendum:

Details of the Plan

I. Functions assumed by the Federal government

- The Federal Government would assume financial and administrative responsibility for the District's pension plans for police and firefighters, teachers, and judges.

  – Beginning in Fiscal Year 1998, the pension system would be closed (i.e., no new benefits would accrue) upon transfer to the Federal government. The District would transfer to the Federal government or its designee existing pension assets, estimated to be worth over $3.3 billion, leaving the Federal government to take on the remaining $4.3 billion in unfunded liability. A third-party Trustee would be appointed by the Federal government to administer the plan and invest pension assets.

  – This action would be conditioned on the District signing a Memorandum of Understanding with the Federal government requiring that the existing pension plans be closed; the District would have to set up new plans for its current and future employees; the District would be responsible for current employees who are not yet vested under the existing system; the District would have to provide adequate employment records to the third-party trustee; and assets would need to be transferred to a Trustee.

- The Federal Government would take direct responsibility only for funding the District Court System. The Courts would remain self-managed.

  – The court system works well, and courts would continue to be self-managed. The funding would be requested for the Federal Judiciary and would cost $129 million in the first year and $685 million over a five year period. The D.C. court system would be funded through the Judiciary's Administrative Office of the U.S. Courts. There are no conditions for implementation because the District court system is deemed to work well.

- The Federal Government would assume financial and administrative responsibility for the District's prison system, including substantial capital investment in modernizing the facilities.

  – The Federal government would take responsibility for the District's sentenced prisoners (but not presentenced prisoners), a responsibility that is elsewhere borne by the States. During the transition, funding for the incarceration of the District's felons would be provided by the Federal government to a receiver responsible to the Control Board. Funding would include capital for both construction of new facilities and renovations of the existing facilities; Lorton would continue to be used as a prison facility.

— A receiver would be appointed to oversee the D.C. Department of Corrections operations related to incarcerated D.C. felons for a period of three to five years, after which the Bureau of Prisons would assume responsibility; prison facilities at Lorton would be repaired and expanded.

— The Federal government would accept all current prisoners. The Federal government would accept new prisoners only if they are sentenced in accordance with Federal standards. The Bureau of Prisons (BOP) would have flexibility in transferring D.C. inmates elsewhere in the Federal Prison System if needed to manage the inmate population. Current D.C. prisons staff would be required to meet Federal standards and reapply for their positions. Finally, the Federal government would assume responsibility after the transition period for the District's parole system and community corrections program.

- <u>The Federal Government will increase its share of the District's Medicaid payments to 70%:</u>

  -- The Administration proposes to pay both the Federal and "State" share of the District's Medicaid costs, thereby reducing the District's share to 30 percent (the maximum amount that can be paid by localities in States that benefit from a 50 percent Federal match). The District will receive an estimated $156 million in FY 1998 for this. The Department of Health and Human Services will provide more intensive technical assistance to help the District improve the management of its Medicaid program and assure that Federal funds are not mismanaged. The increased Medicaid funding will be conditioned on the District following various HHS suggestions for programmatic improvements.

- <u>Intermediate term financing of the accumulated deficit.</u>

  — The Administration will propose legislation to have the Federal Government provide intermediate term (ten to fifteen year) financing for all or part of the District's accumulated deficit, which is estimated to be between $400 - $500 million. The terms and conditions for such loans will be determined later, but it is envisioned that:

  - Treasury interest rates would be charged.

  - The District could refinance the Treasury loan at some later time after the District's credit picture improves.

II New investments in infrastructure

- The Federal Government will establish a National Capital Infrastructure Fund:

  - In FY98, the Administration proposes providing $125 million in seed money from the Federal Highway Trust Fund to establish the NCIF. The NCIF will fund transportation infrastructure projects in the District which benefit residents and commuters alike. This includes the construction of local roads and bridges, the local match for federal-aid road and bridge projects, and capital expenditures for the Washington Metropolitan Area Transit Authority (WMATA). These funds will be available only for capital projects; routine maintenance projects would not be eligible.

  - The NCIF will be authorized to accept contributions from other sources, e.g., payments in lieu of taxes from tax-exempt organizations such as universities and hospitals.

III. Economic Development

- The Administration proposes to establish an economic development corporation (EDC) as a non-Federal public authority. The EDC would be funded, in part, with Federal funds, with an increasing local and private sector match.

IV. Technical assistance to District government

- Tax Collection: IRS would assume responsibility from the District of Columbia for collecting D.C. individual income taxes and payroll taxes, funded by an addition to the IRS appropriation for that purpose. Expected costs are $15 million in 1998 for startup and phase in, and $25 million in FY 1999 and after for operations.

  - As a condition: specific authorizing legislation setting out the functions and timing will be required; IRS will be responsible for enforcement and will use its current enforcement powers; IRS will be responsible for management, tax return and refund processing, customer service, compliance, and computer operations.

- Other Executive Branch Agencies will work with the District to identify areas in which the Federal government might provide technical assistance to help the District government improve the efficiency with which it delivers services.

6/4/97

GUIDANCE ON RESEARCH AND DEVELOPMENT TAX CREDIT
JUNE 4, 1997

* Actually, this is the Research and Experimentation Tax Credit

* Our budget proposes a one-year extension, and we will obviously work with the tax-writers if they have other ideas.

TOIV

4.14.97

Statement by the President on Tax Simplification
April 14, 1997

Today, my Administration will propose a package of measures to simplify our nation's tax laws and enhance taxpayers' rights. The task of filing taxes has become too complex for too many Americans. This tax simplification plan will begin to ease that burden, particularly for families with children and for small businesses.

Under this proposal, 95 percent of corporations would no longer have to calculate a complicated alternative tax, and more than 1.7 million dependents, mostly children, who have $700 or more of earned income, would no longer have to file taxes just because they have unearned income. If enacted, this plan will allow millions of Americans to spend less time filing their taxes and more time with their families.

5 million small corps.

4-14-97

GUIDANCE ON TAX AMNESTY
APRIL 14, 1997

Q&A on Tax Amnesty

Q: THE SPEAKER HAS PROPOSED THAT DELINQUENT TAXPAYERS BE GIVEN A TAX AMNESTY, WITH UP TO ONE YEAR TO PAY BACK TAXES WITHOUT PENALTY. IS THAT A DESIRABLE POLICY?

A: The Federal government would be unlikely to see much of a benefit from the proposed tax amnesty.

- **The Federal income tax system is based on voluntary compliance, and the compliance rate is much higher than for State taxes.** Therefore, there is less room for improving future compliance, the most persuasive reason for having a tax amnesty.

- **If overall compliance with the tax system does not increase as a result of an amnesty, the revenues raised are merely accelerations of revenues that would have been collected through normal audit and collection activities.** In this case, a tax amnesty is nothing more than a budget gimmick

- **In order to make an amnesty effective, it must be followed with credible stepped-up enforcement.** It is unclear how the Internal Revenue Service can increase its enforcement effort from current levels without becoming more intrusive into the affairs of taxpaying Americans.

- **An amnesty is unfair to the vast majority of taxpayers who pay their taxes on time.** After all, why should a person who ignores their legal liabilities be rewarded for their efforts with an interest-free and penalty-free "loan" from the government? A tax amnesty can reduce overall respect for a citizen's legal obligations.

Background:

Tax amnesties have been used by States on numerous occasions to generate revenue gains by:

(1) Speeding up revenues that would have been collected through ordinary compliance and audit activities; and

(2) Getting delinquent taxpayers back into the tax system. The States' experiences have been mixed --some have generated the projected revenues and others have come up short. Also, State tax amnesties have covered many types of taxes --business income taxes, sales and excise taxes, property taxes, and individual income taxes. *[Many of the positive State experiences have come from sales tax amnesties, since this brings retailers into the tax system where they remain for future years. --I am checking to see if this is true.]*

In order for an amnesty to be at all effective, it must be made clear it is a one-time event and will be followed by stepped-up enforcement efforts. Otherwise taxpayers will rationally become delinquent and simply wait for the next amnesty to pay the taxes owed without suffering any adverse consequences.

FROM NEC

We should also add: We'll certainly pay attention to any serious proposals by the Speaker. Frankly, though, we believe the Administration has a good set of proposals for tax relief for working families, as well as tax simplification proposals that can reduce the paperwork and time burden the system now places on millions of taxpayers.

TOIV

4-14-97

DRAFT

MAJOR ITEMS OF THE TAX SIMPLIFICATION PACKAGE

Increase the standard deduction attributable to unearned income of dependent filers.

- o This provision will free *1.7 million* dependents (typically children) from the requirement of having to file a separate tax return. Under current law, a dependent in this situation would have to file a return. Under current law, the dependent with $700 (in 1998) or more of earned income (e.g., a newsboy) would be taxed on all his or her capital income (interest in a savings account, dividends, capital gains distributions of mutual funds) and would have to file a return. Under the proposal, the dependent would not have to file unless his or her capital income exceeds $700 (as long as the sum of capital and earned income was below the standard deduction, currently $4,100).

Increase de minimis threshold for payment of estimated tax from $500 to $1,000.

- o This provision will *eliminate penalties on more than 600,000 taxpayers*. As many as 1.3 million taxpayers may be able to delay payment on a small portion of their tax liability because of this provision.

Corporate AMT reform.

- o The proposal would exclude altogether from AMT (alternative minimum tax) corporations with gross receipts below $5 million. *Under this proposal, roughly 95 percent of all corporations (more than 2 million) would be spared the trouble of calculating the AMT.* More than 15,000 corporations pay the corporate AMT each year and of these, more than 6,000 would no longer have to calculate and pay the AMT. Currently, millions of corporations have to calculate the determination of whether they are liable for the AMT, even when they have no such liability.

Individual foreign tax credit limitation.

- o This provision would reduce the number of taxpayers filing Form 1116 *by about 500,000*, or *roughly one-third of all that are filed*, providing tremendous simplification at little cost. Taxpayers with foreign tax credits under $300 ($600 on a joint return) would be exempt from limitations on the use of the credit and allowed to claim the credit without a complicated calculation on Form 1116. A January *Wall Street Journal* article described it as "... the devilish Form 1116 ... The limitations on credits require so many calculations that tax experts shy away from trying to describe the complications of Form 1116..."

Simplify "10-50 corporation" foreign tax credit limitation basket.

- o This proposal would reduce complexity and compliance burdens on U.S. companies with foreign joint venture operations by eliminating most of the multiple, separately computed limitations on the credits applicable to income from foreign corporations the taxpayer does not control. Under current law, credits from each such joint venture operation are subject to a separate limitation. The reduction in compliance burdens would reduce the complexity created by current law in the case of U.S. participation in

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foreign joint ventures and foreign investment by U.S. companies through affiliates that are not majority owned. The somewhat increased ability to mix high- and low-tax income for foreign tax credit purposes would relieve some of the harsh tax effects of these separate limitations.

Large partnership simplification.

- The simplification of the system of reporting income from large partnerships will affect *about 2,000 partnerships*, containing *40 percent of all partners (around 6 million)*. Several provisions would be added to simplify the audit and reporting of large partnership income. The proposals will, among other things, make it much easier for these partners to report their shares of partnership earnings on their tax returns.

De minimis exception to passive loss rules.

- Passive losses under $1,000 would be allowed without limitation. This provision would reduce taxes for *about 400,000 taxpayers* and relieve them from the recordkeeping burden of carrying over disallowed losses to the following year.

Exclusion for gains on sale of principal residence (previously announced).

- The proposal exempts up to $500,000 of gain on the sale of a principal residence. This provision lowers the number of taxpayers *paying capital gains taxes on residences to roughly 10,000 per year from 150,000 per year*. It will substantially reduce record-keeping requirements for over 60 million households who own their own home.

Simplification of child dependency exemption rules.

- Under the proposal, many taxpayers would no longer have to demonstrate that they provide over half the support for their children in order to claim them as dependent. Instead, taxpayers could claim their sons, daughters, grandchildren, or foster children as dependents if the children were under the age of 19 (24 if full-time students) and resided with them for over half the year (a full year in the case of foster children). Filing requirements and record keeping would be simplified for most of the 40 million taxpayers who claim 70 million children in their homes as dependents.

The revenue losing simplification proposals are paid for principally by two significant revenue raising simplification proposals:

Simplify treatment of real estate exchanges.

- Currently real estate exchanges of business or investment property can be made tax free no matter what the nature of the real estate. However unless a direct swap can be negotiated between the parties, a complicated three party transaction must be constructed through a broker who finds replacement property for the party desiring to dispose of a parcel. The proposal would eliminate the necessity of the complex structure with three parties by allowing gain from a sale to be deferred even if sold for cash, so long as the cash is reinvested within six months. The replacement property, however, must be

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similar in use to the disposed of property, e.g., rental property. No longer would deferral be allowed for swaps of apartment houses for vacant land. This proposal would raise $1.8 billion over five years.

Dividend dumping of stock of foreign corporations.

- A proposal would curb the practice of corporations and other investors that are not able to use foreign tax credits because of tax law limits, or because they are exempt organizations or foreign corporations not subject to U.S. tax, and that own shares of stock of foreign corporations, from using complex transactions to dispose of such shares for a temporary period while a dividend is paid, with another investor that can utilize foreign tax credits based on foreign taxes attributable to the dividend. The benefit of the foreign tax credit is shared between the two investors. This proposal would raise $945 million over five years.

6·27·97

GUIDANCE ON MONDAY TAX EVENT
JUNE 27, 1997

* Event will take place in Rose Garden or as departure statement.

* The President, at about 9:30 a.m., will make remarks to reporters (the pool?).

* He will lay out very specifically the goals he has for the conference on the tax relief bill that will take place following the Congressional recess.

* His representatives will be very active in that conference, seeking to achieve his goals of a bill that genuinely promotes economic growth, that is targeted to middle-income families, that opens up the doors to college, especially 13th and 14th grades, for our young people, that is fair to low-income working families, and that does not explode the deficit in the out-years.

* The President will be a little more specific than these goals. He will talk about specific policies that he thinks ought to be in the final bill.

* As you know, while the President had a very good tax cut proposal in his own budget and has made modifications to it over the past few months, we have not, since the budget agreement, specifically stated how we would construct a tax cut with the numbers agreed to by the President and the Congressional leadership.

* There will be a briefing with more specifics here in the briefing room either right after the President's remarks or, we hope, at noon, at a time when those of you traveling to Boston can hear it in the filing center.

* Briefers will include at least Gene Sperling and Treasury Secretary Bob Rubin.

Q: Will he make veto threats?

A: Well, we want to work with the Congress on a bill that the President can sign. We've heard the Speaker and others say that they want to pass a bill that the President can sign. I think Monday's event is designed to make sure that the Congress understands what kind of bill that would be. A number of changes are going to be needed, and that's why we want to be sure they understand from the beginning of this conference what our priorities are.

Q: But how can he make new proposals at this time that are outside of anything either the House or the Senate approved? The conference can't consider other ideas, can it?

A: Well, I think we've all seen Congress deal with those kinds of procedural issues in the past in order to get something done that they wanted to get done in a conference, and I think that won't be a problem here.

Q: Are you going to send up specific legislative language?

A: (Checking -- probably not.)

TOIV
Siewert

6/18/97

Background on Chairman Roth's Tax Plan

June 18, 1997

The Clinton Administration's goal is to increase the amount of tax relief going into the pockets of working families. Chairman Roth's plan strays from that goal. It provides too little tax relief for working families in order to provide unnecessary tax cuts to those who least need them:

- ***Two thirds of the tax cut in the Roth plan go to twenty percent of families with the highest incomes.***

- ***By contrast, sixty percent of families, families in the middle and below, would receive less than fifteen percent of the Roth tax cut.***

- ***Just like the Archer plan, the top one percent's share of the tax cut is larger than the share going to the bottom sixty percent of families.***

Completely Denies the Child Tax Credit to 4 Million Working Families. Under the Roth plan, the child tax credit is figured only after the earned income tax credit is taken against a family's tax bill. Unlike even the Republican 1995 budget, it is specifically designed in a way to <u>deny the credit to 4 million families.</u> For example: A family of four with two children and $25,000 of income would receive <u>no child tax relief</u> under the Roth plan, despite the fact that this family pays over $1,900 a year in federal payroll taxes. The President strongly believes these hardworking families deserve a tax cut to help them raise their kids too. Under the President's plan, this family would get $1,000 -- just as much as a family earning twice that much. The President favors a refundable tax credit, indexed for inflation, that better targets low and middle income families and which, when phased in, will cover children under age 18.

Fails to honor the budget agreement's $35 billion commitment to higher education. As part of the budget agreement, the Republicans in Congress agreed to tax relief of roughly $35 billion consistent with the President's tax credit and deduction for postsecondary tuition and fees. The Roth plan falls short in both the size of the education investment and its design. It includes just $20 billion of the President's education tax cuts as envisioned in the budget agreement. The absence of the President's deduction would mean that working Americans pursuing lifelong learning would not get this tax cut.

We're pleased that a version of the President's HOPE scholarship is included and that the Senate Republican version improves on the House Republican version. The House version of the Hope scholarship is very unfair to community college students. Under the House bill, a student from a working family who goes to a community college with a $1,200 tuition would receive a $600 HOPE scholarship. <u>Under the Senate Republican bill, that same student would receive a $900 scholarship. While this is a step in the right direction, it is still below the full $1,200 the student would receive under the President's proposal.</u>

Ignores pledge to seek to include the President's Welfare-to-Work tax credit and expansion of Empowerment Zones and Enterprise Communities. The Roth plan does include a scaled down version of the President's brownfield initiative, which as U.S. Conference of Mayors' President Mayor Richard Daley has written, *"joins together the need for sound enivonmental policy and job creation."*

Roth plan does exclude some of the more egregious provisions in the Archer plan:

1) Excludes the component of the Archer child credit that, by reducing their tax cut, penalizes 6 million families who pay for child care.
2) No indexing of capital gains, which would explode in cost down the road.
3) Does not gut the corporate alternative minimum tax.

Budget and Tax Q & A
June 17, 1997

Q: What is your response to the Roth tax plan?

A: The Senate Republican plan, like the House Republican plan, does not meet the test of fairness. It provides too little tax relief to working families. Two-thirds of the both the House and Senate Republican proposals go to the top 20 percent of families, while less than 15 percent goes to the 60 percent of families in the middle and below.

- **It completely denies the child tax credit to 4 million working families.** Under the Roth plan, the child tax credit is figured only after the earned income tax credit is taken against a family's tax bill. Unlike even the Republican 1995 budget, it is specifically designed in a way to <u>deny the credit to 4 million families</u>. These are hard working families who deserve a tax cut to help them raise their kids too.

- **The Roth plan fails to honor the budget agreement's $35 billion commitment to higher education.** As part of the budget agreement, the Republicans in Congress agreed to tax relief of roughly $35 billion consistent with the my HOPE scholarship tax credit and deduction for postsecondary tuition and fees. The Roth plan provides only $20 billion for this critical purpose.

- **The Roth plan does exclude some of the most egregious provisions that were in the House plan proposed by Chairman Archer:**

    - It excludes the component of the Archer child credit that, by reducing their tax cut, penalizes 6 million families who pay for child care. I said that this proposal will not stand and it is good to see the Senate removed it. This is a step in the right direction.

    - Unlike the Archer plan, the Roth plan does not include indexing of capital gains, which would explode in cost down the road as the baby boom generation edges towards retirement.

Q: Why are the Senate Democrats on the Finance Committee supporting the Roth plan and not sticking with you?

A: The Democrats on the Finance Committee are doing what they should be doing -- trying to improve the tax cut at every stage of the process. And they have had some positive impact:

- The House plan penalized working families who pay for child care by reducing their child tax credit. That provision is not in the Roth plan.

- Capital gains indexing is also not in the Roth plan. That's a vast improvement over the Archer bill, because indexation explodes the deficit in the out years -- just as the baby boomers near retirement.

- The HOPE Scholarship is better than the House plan for students going to Community College. It's still not perfect, and I will keep working to make sure that our tax cuts help make the 13th and 14th year of college accessible to everyone.

- I expect that Democrats will do all they can to improve the tax bill at the next stage when the bills are debated on the floors of both Houses.

We will do the same when the bills go to conference. We will continue to work to ensure that the final tax bill meets the tests I have set out:

(1) Must be faithful to the bipartisan agreement;
(2) Must help the economy grow;
(3) Must be fair to middle class families;
(4) Must target our top priority -- education: and
(5) Must not explode the deficit and make it more difficult to meet the fiscal challenges we face when the baby boom nears retirement.

Q: Will you veto the tax bill?

A: It is premature to talk about a possible veto.

- From the start I have made perfectly clear that any tax bill I sign must meet the test I laid out last week:

(1) Must be faithful to the bipartisan agreement;
(2) Must help the economy grow;
(3) Must be fair to middle class families;
(4) Must target our top priority -- education: and
(5) Must not explode the deficit and make it more difficult to meet the fiscal challenges we face when the baby boom nears retirement.

Q: Republicans have said that granting the child tax credit to people who have no federal income liability -- because of the EITC -- amounts to welfare. Why should we give money to people who pay no federal taxes?

A: First of all, I am very proud of what we did to expand the Earned Income tax Credit in 1993. That tax cut has helped more than 15 million hard-working American families have some more money to pay in their pockets. That tax credit, championed by President Reagan, helps many families meet the costs of raising their children and to stay off welfare.

We should not penalize the hardest-pressed working families by denying them the benefits of tax relief that goes to people who make significantly more money. That measure is unnecessarily punitive and was not even included in the 1995 Republican budget that I vetoed.

The people who benefit from the EITC work hard and they can $25,000 or more. They pay the state and local taxes that fund our schools. They pay payroll taxes; and generally contribute to make our society better. These familes should not be excluded from the benefits if the child tax credit -- just becuase they don't earn enough..