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February 29, 2000

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BUDGET PACKAGE

Letters to the Editor
The Washington Post
1150 15th Street, N.W.
Washington, D.C. 20071

Dear Editor:

Michael Kinsley ("Simple Gifts," February 29) analyzes a piece of Sen. John McCain's tax plan that would fundamentally change the tax deduction for gifts to charities. Unfortunately, his analysis stops short of fully understanding how donors think about taxes, and how this would affect giving. The simple fact is that donors look at what it will cost them to make a charitable donation. The charitable deduction has the practical effect of lowering the final cost of making a gift. Make no mistake about it, whatever the value of the deduction may be, it does ultimately cost the donor to make a charitable gift.

So, let's draw Kinsley's example out a little further. The donor bought some stock for $2,000 and its market value is now $10,000. Right now, donors can take a deduction at market value, $10,000 in this case, and if they are in the 36 percent bracket, that write-off is worth $3,600. Now if Sen. McCain got his way, the cost of making the gift would skyrocket, since the value of the tax deduction would be cut by 80 percent, to $720.

Contrary to Kinsley's assertion that "no one ever proposed this ridiculous arrangement," Congress fully understands its implications. The 1986 Tax Reform Act limited the charitable deduction, just as Kinsley would, for donors subject to the Alternative Minimum Tax, and donations plummeted. Sen. John McCain co-sponsored the bill that helped put the current policy in place, which Congress approved in 1993.

Our tax laws have always recognized the distinctly American tradition of donating to charities. Why disrupt this now?

Sara E. Meléndez

Sara E. Meléndez
President and CEO
INDEPENDENT SECTOR

GiveFive.

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[illegible]

Michael Kinsley

Simple Gifts

McCain wants to close this loophole, Bush wants to keep it, Clinton wants to enlarge it. Guess who's right?

You shouldn't have to pay income taxes on money you give away. That is the simple idea behind the deduction for donations to charity. You can see it as a policy to encourage private giving. Or you can see it as matter of "horizontal equity": a taxpayer who makes $50,000 and gives away $10,000 should be taxed like someone who makes $40,000, not like someone who makes $50,000 and keeps it all.

No matter how you see it, though, there's no good reason to let people deduct money they never have to declare as income. Yet that's the rule for "appreciated property." Sen. John McCain includes this item in a long list of tax loopholes he would close. George W. is attacking him for it. Meanwhile President Clinton, in his final budget, actually calls for enlarging this loophole by weakening rules that (slightly) limit its use.

Press reports almost never explain how this thing works. It's not all that complicated. Suppose you buy some stock for $2,000, it goes up to $10,000, you sell it, and you give the money to charity. You declare your $8,000 profit as income, and you deduct your $10,000 donation. That makes sense. Now, suppose instead that you give that stock worth $10,000 directly to the charity. You don't have to declare the $8,000 profit as income, but you get the full $10,000 deduction anyway. That makes no sense. Is there any reason the government should care whether you give a charity $10,000 of stock or $10,000 cash—care enough to reduce your tax bill by two or three thousand dollars for choosing to give the stock? None that I have ever heard.

No one ever proposed this ridiculous arrangement. It's the kind of anomaly that gets into the tax code unintentionally and then can't be gotten rid of. This particular loophole's protectors include not just the usual rich businessmen and indiscriminate right-wing taxophobes but every church, university, art museum and other nonprofit institution in the country. However high-minded or outright liberal they may be on other issues, they abandon their values and their intellectual integrity on this one.

Essentially, this loophole allows people to deduct some of their charity twice. That does, I suppose, encourage donations to charity. But how much encouragement does a person need? If he gives cash, a top-bracket taxpayer can supply $10,000 to charity at an out-of-pocket cost of about $6,100. If he gives appreciated stock, his out-of-pocket cost for giving $10,000 can be as little as $4,100. The rest doesn't come from thin air—it comes from lost revenue to the Treasury.

And no—to squash a tedious point often made about any discussion of tax loopholes—I am not "assuming that all income belongs to the government." I am assuming that people who give appreciated stock to charity can do math. And I am assuming that every dollar the Treasury doesn't get because of a loophole either adds to the national debt or must be made up by taxes on the rest of us.

This calculation does assume that your stock profit will eventually be taxed, one way or another—which it won't be if you hold onto the stock until you die. Your heirs, when they sell, only have to pay taxes on the profit since they inherited. That's another, much bigger, loophole that should also be closed. But meanwhile, allowing the existence of one tax loophole to justify another is like allowing a couple of thieves to supply each other an alibi.

"Loophole" is a charged word, of course. Some of the tax code's frills and furbelows are justifiable. But they should be justified in terms of their real cost. And kicking in as much as 60 percent in order to encourage someone to fork over the other 40 to a charity of her choice (where she gets the thank-you and the emotional fix and the tote bag or her name on the building or whatever) seems a bit much. The Congressional Budget Office figures this one will cost $17 billion over the next 10 years. Seventeen billion may be a sad little number to be brandishing in any discussion of government budgets. But I dare Gov. Bush or President Clinton to say that.

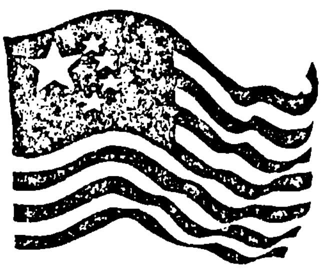
Michael Kinsley, editor of Slate (www.slate.com), writes a weekly column for The Post.

The Washington Post

TUESDAY, FEBRUARY 29, 2000

Cause for Alarm

It is ironic that The Post ran an article on the "alarmist" views toward China held by the so-called Blue Team on the day that it also reported Beijing's latest threat to use force against Taiwan ["Blue Team Draws a Hard Line on Beijing," front page, Feb. 22]. The Clinton administration's policy of commerce-driven "engagement" has not moderated the Beijing regime. Instead, China has seen it as appeasement and been encouraged to become bolder.



BY BARRIE MAGUIRE

The article did mention "the well-greased lobbying effort" of the multinational corporations in support of the Red Team (pro-China) view that it is safe to provide the Communists with large amounts of capital and technology under the rubric of "free trade." Yet, as the Commerce Department's Bureau of Export Administration has concluded, "The stated objectives of China foreign investment and trade policies . . . are modernization and self-sufficiency of China's industrial and military sectors." This will change the balance of power in Asia in ways dangerous to American interests.

KEVIN L. KEARNS
Washington

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The Feb. 25 front-page Post article "Taiwan Displays Its Feeble Fleet" presents us with an image of terrified Taiwanese desperately needing American support.

Yet the "terrified" Taiwanese have rushed to invest $46 billion in 46,000 businesses in China and have attained an annual trade surplus of $20 billion with China. The Chinese give the Taiwanese preferential access to Chinese markets.

Even more curious, the democratically elected Taiwan government supports nearly all the territorial claims of the People's Republic of China (PRC) and insists that Tibet, today's independent Mongolia, and the Senkaku Islands be all part of "One China." These claims are enshrined in Taiwan's constitution.

DWIGHT SUNADA
Stanford, Calif.

The King Story

The Feb. 22 and Feb. 24 news stories ["Black Professor Pardoned in 1961 Draft Board Case" and "Black Who Fled Draft Board Slight Returns to U.S."] about President Clinton's pardon of Preston King so that he can return to the United States for the funeral of his brother, Clennon King, didn't relate the whole story.

In June 1958, while Preston King was being slighted by his draft board, Clennon King, then a professor at Alcorn State College in Jackson, Miss., sought admission to the graduate school of the University of Mississippi. When he showed up at the campus, he was met by the campus and state police, who took him to the state psychiatric hospital in Jackson. The theory was that any black in Mississippi who applied to Ole Miss must be insane.

The psychiatrists determined that Mr. King was sane, and he was released. The allegation of insanity apparently had the desired effect, notwithstanding the facts. According to papers on file in the archives of the Mississippi State Sovereignty Commission in Jackson, in 1958 the New York office of the ACLU telephoned one of its members, William P. Murphy of the University of Mississippi. It was seeking advice concerning representation for Mr. King.

Mr. Murphy advised the ACLU that it was unlikely that it would find a lawyer in Mississippi willing to represent Mr. King. He also advised the ACLU that it was "likely that Mr. King was mentally unbalanced and that his denial of admission to the university was for perfectly valid nonracial reasons."

The name James Meredith is still remembered as the person who broke the racial barrier at Ole Miss. But Clennon King should be remembered as the person who gave the barrier its first good hard kick.

DAVID R. COX
Washington

Sen. McCain's Honor

As a progressive Democrat who agrees with Michael Kinsley far more than with Sen. John McCain, I was appalled by his commentary on the senator [op-ed, Feb. 22]. From its opening reference to Sen. McCain "preening about his honor," it amounts to character assassination and comes perilously close to an assault on military valor in general. Although Sen. McCain's heroism does not qualify him to be president, it merits more respect than Kinsley's snide: "Yes, senator, fine: You're Luke Skywalker. Now can we drop it?"

Mr. Kinsley also finds Sen. McCain's recounting of the torture he suffered as a POW designed to imply that his honor sets him apart from the corrupting influence of money in Washington. Given that Sen. McCain risked his life, damaged his health and endured years of imprisonment by refusing to cut a deal with his captors, the proposition that as a senator he is unwilling to compromise his principles seems a fairly modest inference. One can disagree with John McCain about many things, but no one should question his honor.

DONALD TOKER JR.
Bethesda

Metro Unsafe For the Blind?

I was aboard the Metro train that was stopped at the Van Dorn Metro Station when a blind man fell beneath the tracks and tucked himself into the safety crawl space ["Blind Man Unhurt in Metrorail Tumble," Metro, Feb. 25].

If the individual was using his cane, he sensed the raised bump border to the track then proceeded to try to board the waiting train. He probably tapped to feel the open door, but in this case it was a gap between the train cars. Why doesn't Metro put rubberized accordian-like protections between the train cars? Even having train car edges with alternative edging, meaning a bumped edge so that the touch of the cane can indicate that this is the edge of the car not the door opening, would have saved this man a distressing experience.

AMI LYNCH
Alexandria

Devastating Toll Of the War in Congo

A horrible situation is going on in the eastern Democratic Republic of Congo, formerly Zaire, where there recently has been a revolution ["With Nothing to Stop It, Tribal War Ravages Congo," front page, Feb. 16]. The new Rwanda-backed government has disarmed the forest rangers, allowing massive slaughter of wildlife, including the Eastern Gorilla.

One year ago, 280 gorillas lived in Kahuzi-Beiga National Park. Now there are just 96. All four habituated families that accepted tourists have been slaughtered.

The number of elephants in Kahuzi-Beiga park has plummeted from 320 to 20 in the same length of time. The poachers are heavily armed and have killed many park personnel trying to protect the wildlife.

If we let the gorilla be annihilated, we, the human race, will be to blame.

JAMEY LEE WEST
Gaithersburg

The Washington Post

Tuesday, February 29, 2000

A1

Tax Report

A Special Summary and Forecast Of Federal and State Tax Developments

PKG - State Budget PACKAGE

SUPPORT GROWS for allowing more people to deduct charitable gifts.

Under current law, only those who itemize their deductions may deduct charitable contributions on their federal returns. But about 70% of taxpayers don't itemize; instead, they take the standard deduction. President Clinton, joining with some Republican leaders, backs legislation to allow nonitemizers to deduct some contributions. Advocates say this would promote fairness and increase charitable giving.

Here's how the Clinton plan would work: Each year from 2001 through 2005, married couples filing jointly who don't itemize could deduct 50% of charitable gifts exceeding $2,000, a Treasury official says. For singles, the threshold would be $1,000. After 2005, the thresholds would drop to $1,000 for married couples, $500 for singles. The Treasury estimates these changes would cost about $13 billion over 10 years.

Texas Gov. George W. Bush also favors the idea of allowing people who don't itemize to deduct their gifts.

CHARITIES CHEER Clinton plans to boost philanthropy.

Another administration proposal would encourage donors to increase gifts of appreciated stocks, art, real estate and other assets to charity. Under existing law, taxpayers making such gifts can't deduct an amount greater than 30% of their adjusted gross income, or AGI. For gifts to many private foundations, the limit is 20%. Clinton proposes raising the 30% AGI limit on gifts of appreciated property to 50%, and proposes boosting the 20% limit to 30%.

The president also supports simplifying and reducing an excise tax on foundations' net investment income. Clinton's proposals represent "the most comprehensive and significant package I've seen for promoting charitable giving," says Dorothy S. Ridings of the Council on Foundations.

EXCHANGE FUNDS, a popular tax-saving tool, may face new assaults soon.

Clinton administration officials are considering new proposals to curb these funds, which are enjoying rapid growth. Also known as swap funds, they appeal to wealthy investors with large holdings in a single stock who want to diversify without getting hit by capital-gains taxes. In a typical example, investors swap their holdings of a specific stock for units of a diversified pool of stocks, in a tax-free transaction.

These funds are set up as highly specialized types of fixed investment pools, typically limited partnerships or limited-liability companies, says Bruce D. Haims of the Debevoise & Plimpton law firm in New York. They also have key restrictions, such as early-redemption penalties and very high minimum-investment requirements. In one fund, the minimum investment was $500,000 of stock. Other funds have even higher minimums.

Among the firms long active in this field are Eaton Vance, Goldman Sachs and Salomon Smith Barney.

MORE TAX LAWYERS at major law firms jump ship to join Big Five accounting firms. KPMG is expected to announce soon that it has hired seven Weil, Gotshal & Manges international-tax lawyers, including Steven Lainoff, a former IRS official. This group "will allow KPMG to take a leap forward in the international tax arena," says John Lanning of KPMG.

PRESIDENT CLINTON nominates former Treasury official Nancy Killefer, now at McKinsey & Co., to serve on an IRS oversight board created by a law the president signed in 1998. The Senate Finance Committee plans a hearing tomorrow on all the president's nominees.

BUDGET BLISS: Treasury Secretary Summers says the proposed fiscal 2001 budget, to be released soon, will "end the shrinkage" of the IRS work force that "has in recent years only added to its challenges." The IRS says it has about 97,800 "full-time equivalent" posts, down from 116,600 in 1992.

HALL OF SHAME: New York City names 19 businesses owing taxes.

This week, the city's finance department began posting the names in cyberspace: www.nyclink.org/finance. "Our goal is not to embarrass these businesses, but to get them to talk to us about resolving their debts in a reasonable manner," says Andrew S. Eristoff, the city's finance commissioner. "However, we are willing to use the pressure of public disclosure to force the most recalcitrant to pay attention."

The list is limited to delinquent businesses for which a tax judgment has been filed in court. Only a few state and local governments disclose the names of delinquent individuals or businesses, says the General Accounting Office, a congressional investigative arm. Among these is Connecticut, which since 1997 has been releasing the names of the 100 taxpayers with the largest tax debts to the state.

A Connecticut official says "cybershame" has helped the state collect millions in overdue taxes, penalties and interest.

BRIEFS: Moving on: Marcus S. Owens, who headed the IRS's exempt-organizations division for 10 years, says in an interview he will join the Washington law firm of Caplin & Drysdale later this month, where he will specialize in tax-exempt organizations. . . . Biting sound bites: The morning after Clinton's marathon Thursday night speech, a research report from ISI Group asks: "State of the Union – Is It Over Yet?"

—Tom Herman

THE WALL STREET JOURNAL
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Web Fund-Raiser Helps Candidates Who Challenge Impeachment's Backers

By Robert Cwiklik
Staff Reporter of The Wall Street Journal

Jean Elliott Brown's congressional campaign is unique, and not just because her Web site features an audio file of the candidate singing a torch song.

The campaign by the 48-year-old former actress and public-relations executive is a breed apart because it owes its existence to cyberspace. Seed money for her effort in Florida's 16th Congressional district came from e-mail solicitations by MoveOn.org, a Web-based political-action committee spawned by the passions surrounding President Clinton's impeachment. As a MoveOn volunteer, Ms. Brown, a Democrat, got her first exposure to politics, and her inspiration to run. "I was born of the Internet," she said.

MoveOn surprised campaign strategists last winter when its appeals via the Internet quickly attracted $13 million in pledges to support candidates running against impeachment backers. Last June, it set records for online fund raising by collecting more than $250,000 in just five days, mostly in donations under $50.

Political pros were dazzled by MoveOn's demonstration of the Internet's potential to magnify the electoral clout of donors with small purses. But as Ms. Brown—one of five candidates MoveOn has so far chosen to support—gears up to face a well-financed Republican incumbent in the pivotal 2000 congressional elections, both she and MoveOn must prove they can continue to tap the waning passions following the impeachment.

After keeping a relatively low profile for months, MoveOn plans this month to call upon those who had pledged support to deliver cash for its slate of congressional challengers. "It's 2000," said Wesley Boyd, a Berkeley, Calif., software entrepreneur and one of MoveOn's founders. "It's time to go."

So far, the organization has collected $156,000 for its five candidates. Before votes are cast this fall, MoveOn hopes to raise millions more for as many as 40 candidates across the country, and to deploy thousands of volunteers for their campaigns. MoveOn's strategy is to target competitive races where its involvement could make a difference.

If MoveOn were to achieve its ambitious goals, it might have a big impact on this year's struggle to control Congress, especially the House. Republicans hold a five-vote majority there, and the outcome will "likely be determined in no more than three dozen congressional districts," said Thomas Mann, director of governmental studies at the Brookings Institution, a Washington think tank.

One big target: House impeachment manager James Rogan, of California, is facing a challenge from Democratic state Sen. Adam Schiff, for whom MoveOn to date has raised $106,000, Mr. Boyd said.

But as the first anniversary approaches of Mr. Clinton's acquittal by the Senate, some say the anti-impeachment outrage that fueled MoveOn's early successes has cooled.

"How much more mileage can you get out of this issue, even among committed Republican haters?" asks Amy Walter, an editor for the Cook Political Report, a newsletter that specializes in sizing up congressional campaigns.

Mike Fraioli, a Washington-based fund-raiser for Democratic candidates, said MoveOn's performance has been "tremendous" considering its minimal overhead compared with direct-mail fund raising. But he questions the durability of the group's anti-impeachment appeal. He says MoveOn might have been better off trying harder to collect on its pledges sooner. "Never let your pledges hang out there," he said. "Things change, the world changes. All the emotion that existed a year ago no longer exists today."

Rather than moving more aggressively to capture its pledges, MoveOn decided to cultivate what it saw as its most important resource: a networked community of supporters. Aside from a pair of seed-money solicitations last June and a third in December, Mr. Boyd said MoveOn chose to leave its supporters in peace until closer to electoral crunch time.

Mr. Boyd said he expects MoveOn to collect "millions and millions" of dollars for its candidates in the 2000 race. But its main strategy is to maximize the power of small donors in an era when big money tends to dominate politics.

With an average contribution to MoveOn around $37, Mr. Boyd said such small contributions aren't a high priority for candidates, who go after bigger checks from richer donors and PACs. But while a conventional PAC might give a $1,000 check to each of hundreds of candidates to garner legislative influence, Mr. Boyd said MoveOn seeks to channel thousands of small donations to far fewer individuals, but to exercise a much bigger impact on the outcome of their campaigns.

MoveOn was launched in September 1998 as a protest site called "Censure and Move On" following the release of the Starr Report, independent counsel Kenneth Starr's lurid brief against Mr. Clinton. The site displayed a petition instructing Congress to officially scold the president and move on to other issues. The document drew 500,000 electronic "signatures" and left MoveOn with an equally large e-mail list of supporters.

When the House impeached Mr. Clinton in December 1998, MoveOn launched its "We Will Remember" campaign, asking supporters to pledge money to help defeat impeachment proponents in 2000. In a little more than a month, Mr. Boyd said more than $13 million was pledged by 25,000 people.

Mr. Boyd, 39, and his wife, Joan Blades, 43, who co-founded MoveOn, recorded the pledges, planning to remind donors of them as the 2000 campaign approached. Their Web site is designed to make the process of selecting a candidate and making a contribution "as simple as a few mouse clicks." The pair founded Berkeley Systems, a software company that made the After Dark PC screensaver—famous for its flying toaster images and the computer game "You Don't Know Jack."

The couple sold the company in 1997 and now works full time for MoveOn, which they have registered as a PAC with the Federal Election Commission. MoveOn is a "bundler" of campaign money similar to Emily's List, which supports campaigns by Democratic women. MoveOn doesn't amass a war chest of funds to dole out, but simply relays contributions directly to the candidates that donors have picked from the MoveOn slate.

Ms. Walter, of the Cook Report, says MoveOn's impact on this year's election could be significant even if it were limited to the political seed money it has already dispensed. "You can't underestimate the power of that," she says.

Ms. Brown's candidacy may not have gotten very far without such start-up cash. Her opponent, GOP Rep. Mark Foley, has more than $1.1 million in his re-election fund. In 1996, he trounced a challenger who had raised only $77,000, and in 1998 he ran unopposed. But while Ms. Brown has so far raised $90,000 through MoveOn, and $250,000 overall, Ms. Walter still considers her candidacy "a long shot."

It remains to be seen whether MoveOn can continue to boost campaigns such as Ms. Brown's as memories of the impeachment recede. "It was a nice little engine and it got some people going," Mr. Fraioli said. "But I can't imagine that level of emotion is going to carry anyone's campaign across the finish line."

Clinton to Seek More Funds To Monitor Safety of Drugs

By a Wall Street Journal *Staff Reporter*

WASHINGTON – The Clinton administration is likely to seek more funds to address what it says is a growing problem of serious side effects and medical errors affecting people taking prescription medications.

While not laying out specifics, Janet Woodcock, the Food and Drug Administration's director of the Center for Drug Evaluation and Research, told a Senate panel that the agency did need more money to "really perfect our current system" of monitoring the safety of drugs once they are on the market.

The president's budget will "aggressively deal with the issue of medical errors and adverse events," she said in her written testimony.

Congressional Democrats said the administration's budget request next week is likely to include an extra $12 million a year for the monitoring systems.

Serious side effects and medical errors are "not a new problem," Dr. Woodcock said. "It's been recognized for three decades, although it may be getting worse." In 1999, for example, the number of serious unexpected drug reactions topped 80,000 by Nov. 10, compared with 69,402 for all of 1998 and 53,879 for 1997.

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