This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

COALITION ON WOMEN AND TAXES

WASHINGTON, D.C.

c/o National Women's Law Center
1616 P Street NW, Washington, DC 20036 202/328-5160

COALITION ON WOMEN AND TAXES SUPPORTS SENATE FINANCE COMMITTEE TAX BILL

The Coalition on Women and Taxes supports the bill passed by the Senate Finance Committee because it is a significant improvement over current law for low and moderate income women. It spreads the tax burden more equitably, eliminates the tax burden on the poor and better bases taxation on ability to pay. On many provisions affecting women, the Finance Committee bill is similar to the bill passed by the House last December which the Coalition on Women and Taxes supported. By lowering tax rates and closing many loopholes which have allowed many corporations and upper income individuals to escape paying their fair share, the Senate bill also goes a long way toward restoring confidence in our tax system.

The Finance Committee bill should be passed without amendments that would in any way diminish the tax relief provided to low and moderate income individuals and families.

The Finance Committee bill would help low and moderate income women and their families by:

- eliminating over six million poor people from the income tax rolls through significant increases in the standard deduction, personal exemption and earned income tax credit.

- assuring, through indexing of these key provisions, that inflation will not erode the tax threshholds and push poor people back on the tax rolls.

- providing greater equity for single heads of household by treating them more like married couple families of the same size, by bringing the standard deduction for heads of household much closer to the standard deduction for married couples.

- bringing tax relief to low and moderate income families who have born a disproportionate share of the tax burden in recent years.

- assuring that more women are covered by employer-provided pensions through improvements in vesting, integration and coverage requirements.

Highlights of the key provisions affecting women:

- Tax rates:

  Only two rates: 15% and 27%. The 27% rate would begin at the following levels for taxable income:

  Singles: $17,600
  Marrieds: $29,300
  Heads of Household: $23,500

- Personal Exemption:

  Set at $2,000 for all taxpayers and dependents ($1,900 in 1987). The exemption would be phased out between $145,320 and $185,320 for married couples, between $87,240 and $127,240 for singles, and between $111,400 and $151,400 for heads of household.

- The benefit of the 15% tax bracket would also be phased out for high-income taxpayers. The phase-out would occur between $75,000 and $145,320 for marrieds, between $45,000 and $87,240 for singles and between $55,000 and $111,400 for heads of household.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

- Standard deduction is raised for all taxpayers:

  Singles: $3,000
  Marrieds: $5,000
  Single Heads of Household: $4,400

- Standard deduction for heads of household ($4,400) is brought much closer to standard deduction for married couples ($5,000).

- Additional standard deduction of $600 for elderly or blind is included but extra personal exemption for elderly in current law is eliminated.

- Earned income tax credit is increased and indexed. Phase-down will begin at $10,000 and end at $17,000.

- Dependent care credit is retained.

- Two-earner deduction is eliminated.

- Indexing for brackets, standard deduction and personal exemption, but rounded down to next lowest $50.

- Expanded pension coverage for working women:

  - five-year vesting, down from ten years
  - a reduction in the amount of pension benefit that can be offset by Social Security from 83 1/3% to 50%
  - a requirement that employers must cover at least 80% of their work force, with certain modifications, up from 56%, to help assure that pension plans benefit all employees in the work force.

- According to preliminary materials prepared by the Joint Committee on Taxation, tax reduction provided by the Finance Committee bill would be distributed in the following way:

Income Class	Percent decrease in income tax liability
less than $10,000	62.3%
$10-20,000	18.1%
$20-30,000	8.0%
$30-40,000	5.0%
$40-50,000	6.6%
$50-75,000	3.9%
$75-100,000	3.3%
$100=200,000	3.8%
$200,000 +	4.7%
TOTAL	6.3%

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

TO: SENATOR
FR: AMY JO CHANDLER
RE: KANSAS FEDERATION OF BUSINESS AND PROFESSIONAL WOMEN CLUBS
STATE CONVENTION - BROADVIEW HOTEL
DA: MAY 30, 1986

- This is the annual state convention. Their primary purpose for the weekend is to put together their state platform of issues affecting women, both federal and state, for which they will lobby Congress and the Kansas Legislature in the coming year.

- The group is a vocal supporter of ERA and has a very active lobby both on the hill and in state legislatures throughout the country.

- Officers

Avis Jacob - Emporia	State President
Sue Rouse - Hays	State President Elect
Bev Brenneman - Newton	1st Vice President
Charlotte Shawver - Manhattan	2nd Vice President
**Mary Ray Oaken - Kentucky	National President Elect

- We will enter the Broadview through the main entrance. Charles Wheeler will meet us and take us to the meeting in Exhibit Hall #2. The entire group will be gathered there. (approx. 650 women)

- 2:45 - Press Conference - Plaza Room

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

May 29, 1986

Tax Reform and Real Estate

• There has been a lot of talk about the impact of tax reform on the real estate industry. The important thing to remember is that tax reform doesn't touch the most important tax breaks that benefit real estate: the mortgage interest deduction for first and second homes, and the capital gains rollover for sale of a principal residence (as well as the capital gains exclusion for those over 55).

• In the period 1986-1990, these tax benefits--together with deductibility of property taxes on owner-occuppied homes--total a revenue loss of $285 billion under current law. None of these benefits is taken away under the Finance Committee tax reform bill.

• Of course, it is true that lowering tax rates dramatically reduces the benefits from existing tax privileges. But that, after all, is the whole point of tax reform: to return to a tax system that is simpler, fairer, and protects the average taxpayer in preference to those who can exploit special tax breaks.

• The much lower rates in the Senate bill--15% and 27%--automatically take a lot of the juice out of tax shelters, by reducing the after-tax benefit of investing in a shelter. All we've done is go one step further, and explicitly limit those tax shelter activities we think lack economic justification.

• That's the new limit on passive losses: we don't let you use losses from inactive investments to offset income from other sources. Why? So we can discourage purely tax-motivated transactions, and ensure that investments are made based on their real economic merit. That's good for the economy as a whole, including the real estate sector.

• The real estate industry itself is divided on the issue of tax reform. A number of major developers--including Oliver Carr, one of the biggest developers in Washington D.C.--have endorsed the Senate tax reform bill, because they hope it will reduce wasteful overbuilding and help target construction to where the marketplace dictates.

• Whenever you make major changes like this tax reform, you are bound to upset a lot of people who have relied on the old rules. Real estate investors are not alone in this. But it was that concern which led me to press for a phase-in of the new passive loss limitations over a 4-year period. The door is not, of course, closed to further changes if an equitable case can be made--we're willing to talk, and everyone expects the conference committee to address many of these concerns.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

• No doubt about it, tax reform will force a lot of people to rearrange their investments. Even the change in depreciation rules for real estate--moving up to 27 1/2 years for residential and 31 1/2 years for commercial--will have some impact. We will try to make the transition as smooth as possible, but remember that if we didn't have to upset some applecarts, we wouldn't be talking about tax reform in the first place.

• Finally, note that the Finance Committee bill keeps in place the credit for rehabilitating older properties (although at a reduced rate) and creates a new credit for low-income housing. No one is closing the door on tax-favored real estate investment.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

May 29, 1986

PASSIVE LOSS LIMITATION

EXCEPTION FOR OIL AND GAS WORKING INTERESTS

- The Finance Committee bill contains an exception from the passive loss limitation rule for "working interests in oil and gas properties".

- First, I would like to clear up a misconception in the reports by the media. There was no threat to kill the tax reform effort if this modification were not adopted. This modification was included in this bill just like any other modification -- a majority of the Committee thought it was a good idea and voted for it.

- The passive loss limitation rule is the provision that has been described as the "anti-tax shelter" provision. This provision raises approximately $50 billion over five years by telling investors in tax shelters that they can use deductions generated from these investments to offset income generated by these types of investments, but they cannot use these deductions to offset other income such as salary or wages.

- The working interest exception recognizes the economic reality that some oil and gas projects are structured differently than real estate or other types of investment.

- Those of us who voted for this exception believe that when an individual enters into a joint venture to drill an oil well and agrees that he will be jointly and severally liable for any and all costs that may result, he is in the active business of oil drilling. He is not just a passive investor who only has limited liability.

- Working interest holders receive detailed explanations of proposed expenditures before they are incurred and they have the ability to challenge the specifics and to put up funds or

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

not. They are truly in the business whether or not they actually operate the drilling rig.

- In contrast, if an individual is a limited partner in a so-called oil fund, under the Senate bill he will be treated just like other passive investors and the loss limitations will apply.

- The working interest exception represents $1.4 billion out of $50 billion raised the passive loss limitation. It is clear that the exception does not materially reduce the value of the general rule.

- In fact, the working interest exception has almost exactly the same revenue impact as the 3-year extension of the targeted jobs credit which we agreed to the same evening we agreed to the working interest rule. I have not seen any stories about the $1.3 billion loss attributable to these credits.

- Similarly, the research and development credit was extended for 4 years at $1 billion per year. It is an incentive, not an economic cost, but no one has written about that. No one has discussed the credit for historic and other older buildings which cost $2 billion per year and have been the basis for countless tax shelters.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

May 15, 1986

Tax Reform in the Senate

- The Senate Finance Committee has done the country proud by producing the most far-reaching tax reform bill in history: and approving it by an overwhelming 20-0 vote. They said we couldn't beat the special interests--they were wrong.

- Tax reform in the Senate means the lowest income tax rates since 1931. The new rates are 15% up to $29,300 in income (joint returns), and 27% above that income level. On the corporate side, the rate is 33%.

- It also means significant tax reductions for working people in America, particularly the lowest-income wage-earners. 6 million low-income Americans will be taken off the tax rolls completely as a result of tax reform. The personal exemption will go up to $1,900 in 1987 and $2,000 in 1988. The standard deduction will go up to $5,000 for joint returns.

- Taxpayers with incomes of $10,000 or less get a 62% tax reduction; between $10,000 and $20,000, an 18% tax reduction; between $30,000 and $40,000, a 5% reduction; and between $40,000 and $50,000, a 6.5% reduction.

- These low, low tax rates are made possible by a major crackdown on unjustified tax shelters for the rich, and by eliminating many deductions, exemptions, credits, and the like. But mortgage interest, charitable contributions, and State and local income and property taxes remain fully deductible. The casualty loss deduction will remain subject to a 10 percent floor and the medical expenses deduction will be subject to a similar floor.

- A stiff new minimum tax ensures that no wealthy individual or corporation can avoid paying their fair share of tax.

Productive for the economy

- This bill achieves, in a big way, the major economic goal of tax reform: establishing a 'level playing field' by taking the juice out of special tax breaks. If we can get this bill signed into law, people will be able to make their financial and economic decisions without worrying so much about tax consequences--and that's a very healthy thing for the economy.

- In addition, the Senate bill creates a much healthier climate for investment and productivity than the House-passed bill. Depreciation allowances are more realistic, and more neutral among various industries than under the House bill.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

- o Simply put, lower tax rates for all taxpayers are bound to take the premium out of planning your finances for the purpose of tax avoidance. And getting rid of some long-standing tax differentials--like capital gains rates, deductions for most interest payments, and dropping the investment credit--advances the same goal. From now on, straight marketplace judgment is what counts most--not creative tax accounting.

Last step in the process

- o The new high-water mark on tax reform represented in the Finance Committee bill is the culmination of years of hard work in reducing and stabilizing tax rates and broadening the tax base. The groundwork for tax reform was laid in 1981 when, under my Chairmanship, the Finance Committee led the way for President Reagan's tax-rate cuts and initiated tax indexing to keep those lower rates in place, regardless of inflaion.

- o The next step was to resort to closing loopholes, improving compliance, and removing special preferences as a way to raise revenue, rather than re-imposing high tax rates on working Americans. That was done in both 1982 and 1984 under the Dole Finance Committee.

- o The net effect of this was to point the way to a lower-rate, broader-based, fairer and more productive tax system. Tax indexing and accelerated depreciation were sort of like the Gramm-Rudman of the tax code: they force us to make choices we ought to have been making all along, and to face the fact that our tax code had become a maze of special preferences and privileges that had outlived their usefulness.

- o Now let's finish the job: and achieve true tax reform for all Americans.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

May 6, 1986

Finance Committee Tax Reform Bill

- o There will be only two rates for individuals: 15% and 27%. This will cut the top rate almost in half;
- o 80% of Americans will have a top rate no higher than 15%;
- o This will be the lowest individual top rate since 1931.
- o Approximately 6 million of the working poor will be moved off the Federal income tax rolls;
- o A family of four making up to $13,000, $530 above the poverty line, will pay no Federal income taxes;
- o Fairness is restored to the tax system through tough anti-sheltering and minimum tax rules. While significantly reducing Federal income tax rates, the proposal also permits the following deductions:
  - Home mortgage interest;
  - State and local income taxes;
  - State and local property taxes;
  - State and local personal property taxes;
  - Charitable contributions for itemizers.

The following benefits will be retained and/or increased:

- Standard deduction for single, joint and head of household taxpayers--increased;
- Personal exemption--increased to $2,000;
- $600 standard deduction for the elderly and blind;
- Earned income tax credit for lower income taxpayers--increased;
- Child care credits--retained.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

How is all of this paid for?

- By closing corporate loopholes and special tax privileges--approximately $105 billion;

- By eliminating the ability of individuals to avoid paying taxes by using tax shelters--$50 billion; A 4-year transition rule applies to alleviate short-term disruption, and working interests are not subject to the passive loss limitations where an individual has unlimited liability.

- By eliminating individual capital gain exclusion--$220 billion; 71% of which is presently claimed by individuals earning over $200,000; (The tax rate on long-term capital gains will still be below the 28 percent maximum rate in effect before 1981.)

- By imposing a stiff minimum tax on individuals and corporations assuring that wealthy individuals and profitable corporations will have to pay some tax--$40 billion.

o Making future IRA contributions available only to those not covered by pension plans (other than social security)--$30 billion. Individuals covered by a pension plan can still make nondeductible IRA contributions and take advantage of tax deferral on the income from his/her investment.

The proposal sets a top corporate rate of 33%, down from a top rate of 46% under current law.

No changes are made to current law excise taxes.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

May 9, 1986

Individual Retirement Accounts

- Senator Packwood's 25% proposal included repeal of IRA's for everyone. His 27% proposal as it was adopted by the Finance Committee includes my suggestion to retain fully deductible IRA's for people who are not covered by pension plans. This change meant that the proposal would raise $19 billion less over 5 years than full repeal.

- Senator Chafee's amendment which the Committee adopted broadened IRA's a little more by allowing individuals who are covered by pension plans to make nondeductible IRA contributions. The income earned on these investments would remain tax-deferred until it is withdrawn from the IRA.

- The Chafee amendment cost $1.6 billion over five years. Of course, since the "inside buildup" will grow over the years, the revenue cost in the future will be substantially greater.

- These changes, therefore, restored over $20 bilion of the $46 billion that would have been gained by repeal of IRA's altogether.

Misconceptions

- Individuals who now have IRA's will be able to keep the amounts they have already invested without any change in tax effect. They will also be able to contribute up to $2,000 each year ($2,250 for IRA's with a spousal feature) in the future. The only difference is that only individuals not covered by a pension plan will be able to take a deduction for the contribution. In every case, income earned on amounts invested in an IRA will remain tax-free until they are withdrawn from the IRA.

- There has been much discussion about the loss of the deduction for some individuals. Two things seem to have been ignored in the debate so far. First, 80 percent of all families will have their tax rate reduced to 15 percent. At this rate, the deduction on a maximum $2,000 contribution is worth only $300. With the low rate, double personal exemption and larger standard deduction, virtually all these taxpayers will have a substantial tax cut despite the loss of an IRA deduction. Of course, many people do not contribute the maximum $2,000 and the deduction is even less important for them.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

- Second, the value of the tax-deferral on the income earned in IRA's is the most significant feature from a tax-saving point of view. That feature is still retained in every case.

- In addition, I should point out that more and more employers are adding 401(k) plans as part of the pension package they offer to their employees.

- 401(k) plans are equivalent to IRA's in tax effect except that the maximum annual contribution is $7,000. I expect that, if the Finance Committee's IRA rules are included in the legislation sent to the President, the rate of new 401(k) plans will accelerate.

- If I am right on this, we basically have a fight not about the level of retirement savings, but about who holds these savings. Will it be the banks and insurance companies who administer pension plans or the banks, mutual funds, and other financial institutions who sell IRA's?

Who Takes the IRA Deduction
(Percentages Rounded)

Adjusted Gross Income (1983 figures)	Percent of All Tax Returns	Percent of All IRA Deductions
Below $10,000	36.0%	3.2%
$10,000-$19,999	25.6	11.2
$20,000-$29,999	16.8	18.7
$30,000-$39,999	10.8	21.1
$40,000-$49,999	5.3	17.4
$50,000-$74,999	3.7	18.0
$75,000-$99,999	.8	5.2
$100,000 and up	.8	5.1

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

May 9, 1986

TAX RATES

- o The individual tax rates in the Finance Committee bill are 15 and 27 percent. 80 percent of families will be in the 15 percent bracket.

- o To make sure that wealthier taxpayers do not receive a disproportionate tax cut, the benefits of the 15 percent bracket and of the increased personal exemption are phased out for high income taxpayers.

Recapture of Benefit of the 15% Bracket

- o The benefit of the 15 percent rate bracket is recaptured for taxpayers filing joint returns who have incomes over $75,000. This is done by a gradual phase-in so that the dollar value of the lower rate is not entirely lost unless the taxpayer has more than $145,320 in income.

- o The provision is drafted as a phase-out to avoid what we call a "cliff". We did not think it would be fair to tell taxpayers who have $75,001 of income to pay tax on all of it at the 27% rate, while taxpayers with $74,999 in income pay tax at the 15 percent rate.

- o However, the way it is drafted gives commentators an opportunity to say that the "marginal" tax rate for families between $75,000 and $145,320 is 32 percent instead of 27 percent.

- o The important thing to remember is that their effective tax rate never will exceed 27 percent and that, even at 32 percent, the rate is below the 38 percent in the House bill and 35 percent in the President's proposals.

(N.B. The phaseout for single taxpayers begins at $45,000.)

Phaseout of Personal Exemption

- o The Committee bill phases out the personal exemption for families between $145,320 and $185,320.

- o I understand that the effect of this is to raise the marginal rate for these taxpayers to 28 percent, although, as I mentioned earlier, the effective rate never exceeds 27 percent.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

- However, for taxpayers in this income range, the rate is significantly less than the 50 percent rate in current law, as well as the rates proposed by the President and passed by the House.

- Some will argue that the Finance Committee bill raises the tax rate on long-term capital gains too much. I can understand their concern, but over 70 percent of the benefit from the capital gains exclusion is taken by individuals making over $250,000 a year. These taxpayers will have a tax rate of 27 percent. That should be sufficient.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

May 9, 1986

PASSIVE LOSS LIMITATION

EXCEPTION FOR OIL AND GAS WORKING INTERESTS

- o The Finance Committee bill contains an exception from the passive loss limitation rule for "working interests in oil and gas properties".

- o First, I would like to clear up a misconception in the reports by the media. There was no threat to kill the tax reform effort if this modification were not adopted. This modification was included in this bill just like any other modification -- a majority of the Committee thought it was a good idea and voted for it.

- o The passive loss limitation rule is the provision that has been described as the "anti-tax shelter" provision. This provision raises approximately $50 billion over five years by telling investors in tax shelters that they can use deductions generated from these investments to offset income generated by these types of investments, but they cannot use these deductions to offset other income such as salary or wages.

- o The working interest exception recognizes the economic reality in the way some oil and gas deals are structured differs greatly from real estate or other types of investment.

- o Those of us who voted for this exception believe that when an individual enters into a joint venture to drill an oil well and agrees that he will be joint and severally liable for any costs that may result, he is in the business of oil drilling. He is not just a passive investor.

- o These individuals receive detailed explanations of proposed expenditures before they are incurred and they have the ability to challenge the specifics and to put up funds or not. They are truly in the business whether or not they actually operate the drilling rig.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

- In contrast, if an individual is a limited partner in a so-called oil fund, he will be treated just like other passive investors and the loss limitations will apply.

- The working interest exception represents $1.4 billion out of $50 billion attributed to the passive loss limitation. It is clear that the exception does not materially reduce the value of the general rule.

- In fact, it has almost exactly the same revenue impact as the 3-year extension of the targeted jobs credit which we agreed to the same evening we agreed to the working interest rule. I have not seen any stories about the $1.3 billion loss attributable to these credits.

- Similarly, the research and development credit was extended for 4 years at $1 billion per year. It is an incentive, not an economic cost, but no one has written about that. No one has discussed the credit for historic and other older buildings which cost $2 billion per year and have been the basis for countless tax shelters.

This document is from the collections at the Dole Archives, University of Kansas
http://dolearchives.ku.edu

SALES TAX DEDUCTION

- The total repeal of state and local taxes would have raised approximately $160 billion over 5 years against the rates in the Finance Committee bill. Repeal of the sales tax raises $17 billion over the same period. Therefore, it is fair to say that substantially all the state and local tax deduction has been retained.

- I strongly supported this historic tax reform bill despite reservations about the loss of the sales tax deduction. Obviously I care a lot about the people of Kansas: and Kansas gets over 23% of its tax revenue from general sales tax.

- But to look only at the sales tax issue would really be letting the tail wag the dog. This tax package provides dramatic relief for individuals, and the potential for a big boost to the economy as a whole. Leaving people with much lower marginal rates, more pocket money, and better job opportunities is bound to make the task of raising revenue at least somewhat easier for State and local governments.

- Also on the plus side for State and local governments, those States that copy the Federal income tax base can get a substantial revenue boost from the extensive base-broadening measures included in the tax reform bill.

- Nearly all individuals use the sales tax table: rather than actually keeping sales tax receipts throughout the year and counting them up when they are ready to prepare their returns. This means that states and localities should not expect any significant change in buying patterns and, therefore, no significant change in sales tax revenue.

- I supported retaining the full state and local tax deduction when we were talking about a maximum rate of 35%. However, with a maximum rate of 27% and 80% of individuals in the 15% bracket, the sales tax deduction is less important.

- To keep that magic 27% top rate, we're going to have to work hard to keep the Finance Committee bill intact. That means anyone who wants to restore the sales tax deduction will have to come up with a credible revenue-raising alternative -- and that's increasingly difficult to do.