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BOB DOLE
KANSAS

United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

September 19, 1986

Sept 22
SD 711

M E M O R A N D U M

TO: SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: TALK TO STANDARD INSURANCE BOARD

You are doing this for Senator Hatfield in his office, SD-711, on Monday at 11:45 a.m.

The Board members have diverse business interests, so there is no one particular issue of interest. The group indicated an interest in the Senate agenda for the rest of the year, in current foreign policy issues, and in tax reform. Attached are appropriate materials, including a new general talking points on tax reform I prepared.

Attachments

September 19, 1986

TAX REFORM: THE LAST ROUND

- Tax reform is about to become a reality, despite all the naysayers who said it would never happen. The bill has been filed and the House is expected to vote on the final package this week.

- Not everyone is happy with this legislation, but it does achieve the main goals President Reagan set for tax reform: much lower tax rates, coupled with elimination of special tax breaks, to improve the equity of the tax system; a $2,000 personal exemption to boost American families; and no tax increase.

- In particular, the new low tax rates -- 15% and 28% by 1988, when the new tax law will be fully effective -- are cause for celebration. About 80% of Americans will be able to pay taxes at a flat 15% rate.

- The Family. The working poor, who need help the most, would get the most benefit. 6 1/2 million of the lowest income taxpayers would be taken off the rolls. The earned income credit would be raised, and adjusted for inflation in the future. The standard deduction for joint returns goes up to $5,000 from the present $3,670.

- Fairness. The new low tax rates are made possible by a major crackdown on unjustified tax shelters for the rich, and by eliminating many special tax breaks. But mortgage interest, charitable contributions, and state and local income and property taxes remain fully deductible.

- Economic impact. In the long run, tax reform should be good for the economy. Much lower tax rates, and a more level playing field for all types of business activity, give the U.S. the most advanced tax system in the world: an important factor in the global economic competition. We will be ahead of the game if we realize the productivity and efficiency gains that tax reform promises.

- At the same time, there are legitimate concerns, especially in the short run. There's no question the transition to the new system will cause significant dislocations and may be a temporary drag on the economy. And shifting the tax take more to businesses is not free from risk.

- Warning Signal. Most of all, though, we need to implement this system and stick with it . . . we promised, and we ought to stick to our promises. Most importantly, we have to guarantee that the low 1988 rates are achieved, and that they are not raised in the future. Low rates are the key to this whole endeavor, and we have no right to renege on the low-rate pledge we made to all taxpayers. A number of business and pro-taxpayer groups are signing up pledges to stick with the new low rates: and that is exactly what we need to do.

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M E M O R A N D U M

TO: SENATOR DOLE

FROM: RICH BELAS

SUBJECT: DOLE TRANSITION RULES

The following are the Dole transition rules included in the conference report:

1. Topeka Redevelopment Bonds -- Grandfather of redevelopment project.
Revenue cost: $4 million.

2. Hardage -- ITC and depreciation grandfather for 8 projects.
Revenue cost: $6 million.

3. General Aviation -- ITC availability for aircraft sold before end of 1986 and placed in service before July 1, 1987.
Revenue cost: $27 million.

4. Banks of Iowa -- General Utilities grandfather.
Revenue cost: $7 million.

5. AIG & Cigna Foreign Insurance Investment Income -- Three-year phase-in of the rule requiring this income to be taxed in the year it is earned rather than being deferred until the income is brought home to the U.S.
Revenue cost: $20 million.

6. Koch Industries -- ITC and depreciation grandfather.
Revenue cost: $7 million.

7. Brown & Brown, Inc. -- ITC grandfather for a construction company in Salina which had sold most of its equipment in 1985 and then reinvested early this year in new equipment.
Revenue cost: $141,000.

8. Ideal Basic Industries (Phil Anschutz) -- net operating loss carryover grandfather.
No revenue cost over the next 5 years: $68 million in the out-years.

9. Utility Unbilled Revenue -- grandfather for two Michigan utilities and Kansas Power & Light. ok for one of the Michigan utilities and Kansas Power & Light.
   Revenue cost not available since this is part of a generic rule.

10. Robert Wunsch -- raising of compensation cap of state legislator for purposes of compensation from trust. ok.
    Revenue cost: negligible.

11. Virgin Islands Inhabitant Tax for Tom Pauken -- makes the changes in the bill prospective for Pauken's company.
    Revenue cost: negligible.

12. Old Wayne County Courthouse Rehabilitation Grandfather for Bill Lucas --
    Revenue cost: not available since this is included in a generic grandfather for restoration of historic buildings.

13. Modco grandfather --
    Revenue cost: none. Actual benefit to companies: approximately $400 million.

14. Domestic Ethanol Industry -- Acceleration of gasoline tax. The conference report has been drafted in a manner consistent with your letter to Senator Packwood.

DOLE ITEMS IN SENATE BILL RETAINED IN CONFERENCE AGREEMENT

1. United Telecom -- ITC and depreciation grandfather for telecommunications network. Senator Danforth and possibly other members also asked for this rule.
   Revenue Cost: $234 million.

2. Manhattan, KS, tax-exempt bond grandfather for redevelopment project.
   Revenue cost: $3 million.

3. Kansas independent colleges tax-exempt bond grandfather
   Revenue cost: $8 million.

4. Capital Holding Company grandfather of interest paid deductions for Senator Huddleston.
   Revenue cost: none.

5. Farmland Industries -- Technical correction of the vacation accrual rules.
   No revenue cost.

6. Lady Baltimore Foods, Kansas City, KS -- Grandfather from the Multiemployer Pension Plan Amendments Act withdrawal liability rules.
   Revenue Cost: none.

DOLE ITEMS FOR OTHER MEMBERS

1. Senator D'Amato -- Grandfather for Times Square Redevelopment project (George Klein request).
   Revenue cost: $42 million

2. Senator Grassley -- Grandfather from installment sales rules for John Deere.
   Revenue cost: $212 million.

3. Senator Hawkins -- Grandfather from installment sales rules for General Development Corporation. Bob Lighthizer has told me that the rule is unecessary after all because the company will be under the generally applicable minimum tax rules. I have been trying to make sure that the minimum tax is drafted to help them.
   Revenue cost: $11 million.

4. Senator Domenici -- Grandfather of several tax-exempt bond issues. The only transition rules that Senator Domenici got were the ones you asked for.
   Revenue estimate: not available.

5. Senator Murkowski -- Grandfather of tax-exempt pension bond issue for Anchorage. This was in the House bill. Senator Packwood objected to any new pension bond transition rules, but did not object to this one which was in the House bill.
   Revenue cost: not available.

6. Congressman Latta -- Grandfather of tax exempt bond issue for Bowling Green, Ohio.
   Revenue cost: $4 million.

DOLE REQUESTS NOT INCLUDED IN CONFERENCE REPORT

1. All passive loss requests other than generic transition rule for low income housing which partially helps Herb Collins.

2. Hallmark disclaimer request.

3. Ruan grandfather of certain trucks to allow them to receive favorable ITC and depreciation treatment even though they would not be placed in service early enough to benefit from the generic binding contract transition rule.

4. Corporate-owned life insurance -- The conference report contains a June 20, 1986, effective date despite a request to advance the effective date at least to August 16, 1986.

5. RJR/Nabisco interest allocation grandfather -- Revenue cost would have been $36 million.

LONG-RANGE INTEREST.

o BUT A CAVEAT: LET'S NOT LET EXPECTATIONS GET AHEAD OF REALITY.

o SUMMIT IS NOT GOING TO:

-- RESOLVE FUNDAMENTAL U.S.-SOVIET DIFFERENCES.

-- LEAD TO MAJOR BREAKTHROUGH ON ARMS CONTROL.

<u>Arms control</u>

o SOME HOPEFUL SIGNS SOVIETS INTERESTED IN SERIOUS BARGAINING FOR FIRST TIME, BUT PROOF WILL BE IN PUDDING.

o WE GOT TO THIS POINT BY:

-- BUILDING UP OUR STRENGTH.

-- TAKING INITIATIVE WITH NEW PROGRAMS LIKE SDI.

-- BEING TOUGH IN BARAGAINING: REAGAN ADMINISTRATION MADE CLEAR RUSSIANS WOULDN'T GET ANYTHING FOR FREE.

o LET'S STICK WITH THAT COURSE.

-- DOESN'T <u>REDUCE</u> CHANCES FOR MEANINGFUL NEGOTIATIONS.

-- ON CONTRARY, IS <u>ONLY</u> WAY TO GET SOVIETS TO BARGAIN.

o CONGRESS MUST STAND BEHIND PRESIDENT IN PRE-SUMMIT PERIOD.

o MAIN DANGER: HOUSE EFFORTS TO:

-- TIE PRESIDENT'S HANDS.

-- GIVE RUSSIANS SOME OF WHAT THEY WANT ON SILVER PLATTER.

o WILL DO EVERYTHING I CAN TO SEE THAT SENATE BLOCKS ANY DANGEROUS HOUSE MOVES.