TAX STUDY GROUP MEETING ATTENDEES

July 14, 1994

Corporation	Attendee
Baxter International	Ivan Shandor
DuPont Company	Ellan Wharton
Eastman Kodak Company	Robert M. Dobreski Bob Burns
Emerson Electric Co	John Yopp
General Electric	John Samuels
General Mills	Sandy Navin
General Motors Corp.	Bill Laitinen
Hallmark Cards, Inc.	Paul Zagortz
Hewlett-Packard Co.	Dan Kastenbauder
Honeywell, Inc.	John Skinner
IBM Corporation	Bob Mattson
Levi Strauss & Co.	Laura Liang
Merck and Co., Inc.	George Podurgiel
PepsiCo, Inc.	Mat McKenna
Philip Morris	Bruce Brown
Procter & Gamble Co.	Bob Guinan
Quaker Oats Company	Stephen Perry
Sara Lee Corporation	Jim Wabich

July 12, 1994

MEMORANDUM TO THE REPUBLICAN LEADER

FROM: David Taylor David

SUBJECT: Paying for GATT

The President, Panetta, and Kantor understand that the major obstacle to approval of the implementing legislation will be paying for the projected tariff revenue loss. According to Bill Hoagland, the Administriation needs to find another $9.8 billion in offsets over 5 years and a little over $27 billion over 10 years.

Ever since the Uruguay Round concluded, the Administration has tried to put international and domestic pressure on Congress to move the implementing bill without providing hard offsets. The Finance Committee is scheduled to begin the mark-up process next week, and the Administration has failed to put hard offsets on the table. The further this process moves without a discussion of funding, the more difficult it will be for those Republicans who are inclined to support GATT to block action on the bill based on financing options -- tax/fee increases or a budget waiver -- they oppose.

At this meeting, you should stress two points:

- Republicans clearly prefer to pay for GATT with spending cuts. The ratio of spending cuts to revenue-raisers will be a key factor in determining the level of GOP support for the implementing bill.

- We will only consider supporting a budget waiver for GATT if the implementing legislation meets the following conditions: 1) the implementing legislation cannot add to the deficit over the first 5 years, and 2) there must be a good faith effort to finance the projected tariff revenue loss over 10 years.

Budget Waiver

In the FY95 Budget Resolution, I worked with Domenici, Packwood, and Moynihan staffs to block efforts by the Democrats to eliminate the requirement that new entitlements be paid for over 10 years. 10-year budgeting is important because the Administration plans to phase in their major new spending initiatives -- health care, job-training, etc. -- over more than 5 years. Section 23 of the Budget Resolution establishes a 60-vote point of order on direct-spending and revenue bills that increase the deficit for any one of three time periods: a) the first year, b) years 1 through 5, or c) years 6 through 10.

The Administration appears to have backed away from its commitment to pay for the GATT tariff revenue loss over 10 years. As a result, the implementing bill will be subject to at least one 60-vote point of order in the Senate.

Senator Domenici has indicated that if the Administration pays for the bill over 5 years and makes "a good faith effort to finance the bill over 10 years but comes up short," he might be willing to accept a waiver for the outyears because of uncertainties about 10-year budget forecasts. In my view, the Administration has read too much into this statement.

Revenue Raisers

When NAFTA pay-fors were being discussed, at least 30 House Republicans signed a letter to the President which stated "It would be difficult for many of us to support a NAFTA which includes tax increases." A similar draft letter is in circulation on the House side now. If the Administration decides to move the implementing bill this year, Newt Gingrich would support a budget waiver rather than vote for any tax increases to pay for GATT. Next year, he would take a different view. **This issue will come up at tomorrow's joint leadership meeting.**

The Administration has met with several Republicans to see if various revenue-raisers might be acceptable, but there has been little effort to come up with spending cuts to pay for GATT. All the cuts have been used to finance the Administration's other priorities -- welfare, job-training etc.

Domenici has tried to help the Administration develop a list of spending cut options. But most of the cuts the Administration can support are currently tied to other spending initiatives.

Administration Pay-for Options

The Administration's latest effort to pay for GATT makes no attempt to pay for the revenue loss over 10 years. The attached list may be incomplete because it includes a total of $7.0 billion in pay-fors for a bill that costs an estimated $9.8 billion over 5 years. The list includes $4.7 billion in revenue raisers and only $2.3 billion in new spending cuts. The $1.7 billion in agriculture savings occur automatically as a result of GATT.

On the spending cut side, the $1.0 billion PBGC Reform package will be controversial. Reforms are needed in this area, but putting reform on a fast-track bill could cause problems for Moynihan and other members of the Finance Committee.

Attachment

cc: Sheila Burke Rolf Lundberg Nina Oviedo

7/12/94

Pay–As–You–Go Effects of GATT Implementing Legislation
($ in billions, CBO/OMB scoring)

	1995	1996	1997	1998	1998	1995–1999
Tariff Revenue Losses	0.9	1.7	2.3	3.0	3.7	11.5
Agriculture Outlay Savings	–*	–0.3	–0.4	–0.5	–0.5	–1.7
Total GATT estimate	0.9	1.4	2.0	2.5	3.1	9.8
Other tariff losses due to possible additions to GATT:						
Extend GSP 1 year	0.5	--	--	--	--	0.5
Extend CBI 1 year	0.1	--	--	--	--	0.1
Total GATT plus GSP & CBI	1.5	1.4	2.0	2.5	3.1	10.4

★ occurs automatically as a result of GATT

* Savings of less than $50 million.
Notes: A negative sign indicates a reduction in the deficit.

Possible Pay–As–You–Go Offsets for GATT Implementing Legislation
Put Forward By Administration
($ in billions, OMB scoring)

	5–year total
REVENUE INCREASES	
Change inventory accounting rules	–1.3
Require sec. 936 corporations and subpart F CFCs to file taxes quarterly rather than annually	–1.3
Eliminate windfall "same condition substitution" subsidy	–0.5
Require employers to offer cash in lieu of leased parking place	–0.4
Speed up collection of excise taxes	–0.3
Treat partnership distribution of marketable securities as cash	–0.3
Offer voluntary withholding of non–means–tested cash benefits	–0.3
Tax HCFCs and HBFCs as ozone–depleting chemicals	–0.2
Mandatory w/holding of distribution of profits from Indian casinos	–0.1
Subtotal revenue increases	–4.7
OUTLAY REDUCTIONS	
PBGC reform – net savings	–1.0
Spectrum auction – pioneering preference program – modification of 20 percent set–aside	–1.0
Require soc. sec. # for newborns – eliminate EITC fraud	–0.3
Subtotal outlay reductions	–2.3
Total paygo offsets suggested by Administration	–7.0
OTHER POSSIBLE PAYGO OFFSETS – SBC minority suggestions	
Extend corporate income surtax dedicated to Superfund (taxes)	–1.6
Extend veterans' OBRA 1993 provisions (spending)	–0.5
Total Administration plus SBC minority paygo offsets	–9.1
UNDER DISCUSSION – USING PAYGO SURPLUS	
May 10, 1994 CBO paygo surplus (post–OBRA 93)	–1.3
July 8, 1994 OMB paygo surplus (post–OBRA 93)	–1.7
Possible addition to paygo surplus from mining reform legislation	–0.3

REAL HELP FOR THE MIDDLE CLASS

DOLE/PACKWOOD

- NO TAX INCREASES
- NO INCREASE IN THE DEFICITS
- CHOICE OF BENEFITS, CHOICE OF INSURANCE
- NO GOVERNMENT PRICE CONTROLS
- NO JOB KILLING EMPLOYER MANDATES
- PORTABILITY OF INSURANCE
    - LIMITS ON PRE-EXISTING CONDITION EXCLUSIONS
    - GUARANTEE ISSUE -- INSURERS HAVE TO SELL YOU INSURANCE
    - OPEN ENROLLMENT --
- TAX FAIRNESS FOR THOSE INDIVIDUALS AND SELF-EMPLOYED WHO BUY THEIR OWN INSURANCE.
- CREATION OF MEDICAL SAVINGS ACCOUNTS

KEY PROVISIONS OF THE DOLE/PACKWOOD BILL

- UNIVERSAL COVERAGE AS A GOAL, ACHIEVED BY MAKING INSURANCE MORE ACCESSIBLE TO THOSE NOW DENIED COVERAGE BECAUSE OF PRE-EXISTING CONDITIONS, JOB CHANGES, OR POVERTY
- THE PRESIDENT WOULD BE REQUIRED TO REPORT TO CONGRESS BY JANUARY 15, 1998 ON THE LEVEL OF INSURANCE COVERAGE
- NO NEW TAXES. FINANCING COMES FROM MEDICARE ($60 BILLION) AND MEDICAID ($40 BILLION) SAVINGS
- NO MANDATES ON EMPLOYERS OR INDIVIDUALS TO BUY INSURANCE
- BUY-IN TO THE FEDERAL EMPLOYEES HEALTH PLAN FOR SMALL EMPLOYERS AND THE SELF-EMPLOYED
- SUBSIDIZED PRIVATE INSURANCE FOR LOW INCOME FAMILIES WITH INCOMES UP TO $22,200 FOR A FAMILY OF FOUR
- PHASED-IN TAX DEDUCTIONS FOR INDIVIDUALS AND THE SELF-EMPLOYED WHO PURCHASE THEIR OWN INSURANCE
- VOLUNTARY MEMBERSHIP AVAILABLE TO ALL IN INSURANCE PURCHASING COOPERATIVES
- NO MANDATED STANDARD BENEFITS PACKAGE, EXCEPT FOR THE PACKAGE THAT RECEIVES GOVERNMENT SUBSIDIES
- MEDICAL SAVINGS ACCOUNTS OFFERED IN A SIMILAR WAY AS INDIVIDUAL RETIREMENT ACCOUNTS
- NO PRICE CONTROLS OR GLOBAL BUDGETS
- MEDICAL MALPRACTICE REFORM, INCLUDING $250,000 CAP ON NON-ECONOMIC DAMAGES
- ADMINISTRATIVE SIMPLIFICATION -- STREAMLINING PAPERWORK
- MEDICARE RECIPIENTS WOULD BE ENCOURAGED TO JOIN MANAGED CARE PLANS

SPEAK

Thurs, July 14

7:00 - dinner
(SPEAK after dinner is their preference)

Hay-Adams

Washington National Tax Services
Suite 700
1801 K Street, N.W.
Washington, DC 20006

Telephone 202 296 0800

Price Waterhouse

May 16, 1994

(Thurs, July 14
(5:00 a.m. arrive Dulles from Calif

OY

Honorable Bob Dole
United States Senate
141 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Dole:

I would be greatly honored if you could join the CEO Tax Study Group as a dinner speaker at the group's next meeting in Washington, which will be Thursday evening, July 14, 1994. The dinner will be attended by the tax directors of our member companies.

The CEO Tax Study Group is a group of 21 of some of America's best known corporations (see attached list of membership). The group first came together in the mid-1980's during tax reform and has continued to work together on tax policy issues.

As you know, our group is collegial and our dinner meetings are on the informal side. We are interested in your perspectives on the current state of the economy, health care and tax policy.

The dinner meeting will be held in the Federal Suite at The Hay Adams Hotel, One Lafayette Square, N.W., Washington, D.C. Cocktails will begin at 6:00 p.m. and dinner will be served at 7:00 p.m. I would like you to speak immediately after dinner.

Please do not hesitate to call me at (202) 822-8570 if you have any questions. Since we need to firm up our plans soon, I look forward to your response.

Sincerely,

Mark

Mark McConaghy

Enclosure

TAX STUDY GROUP
MEMBERSHIP

Baxter International
E. I. Du Pont
Eastman Kodak Company
Emerson Electric Company
Genentech, Inc.
General Electric Company
General Mills, Inc.
General Motors Corporation
Hallmark Cards, Inc.
Hewlett-Packard Company
Honeywell, Inc.
IBM Corporation
Levi Strauss & Company
Merck & Company, Inc.
3M Company
PepsiCo, Inc.
Philip Morris Companies, Inc.
The Pillsbury Company
The Procter & Gamble Company
The Quaker Oats Company
Sara Lee Corporation