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TAX FEATURES

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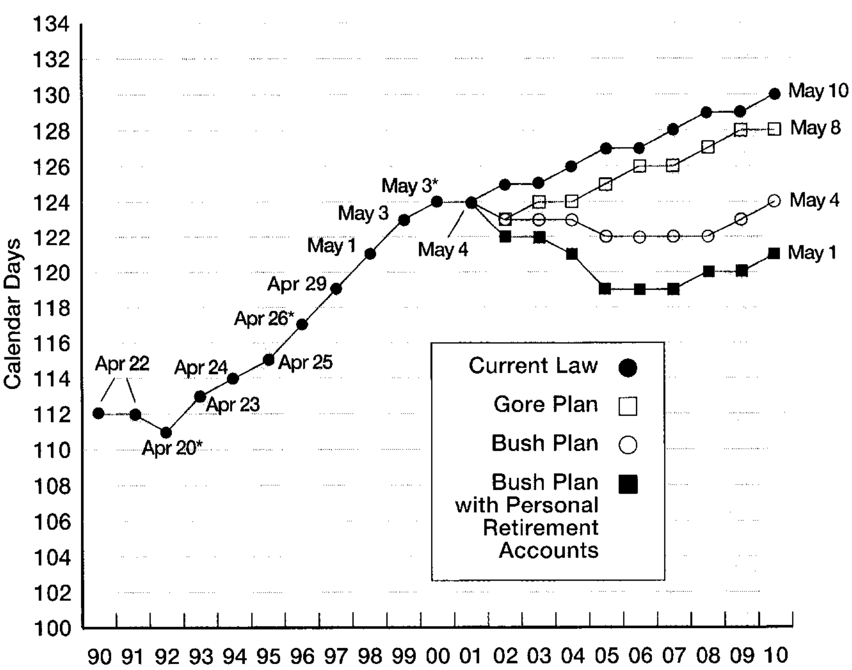
Bush and Gore Argue Taxes Throughout Debates

Vice President's Plan Would Slow Tax Growth Slightly; Governor Bush's Would Hold Tax Burden Level

Al Gore and George W. Bush have repeatedly exchanged accusations that their tax plans are a "risky scheme" or the result of "fuzzy math." How can taxpayers make sense of the claims?

Figure 1: How the Candidates' Plans Would Affect Tax Freedom Day, 1990-2010



Source: Tax Foundation

The answer is to measure each plan's effect on Tax Freedom Day, according to a new report from the Tax Foundation (see Publication Summary on page 3).

Probably the best known tax day after April 15th, Tax Freedom Day is the day when Americans have finally earned enough to pay tax collectors at the federal, state, and local levels and keep a day's pay for themselves. This year, Tax Freedom Day fell on May 3, the latest ever and 13 days later than it arrived in 1992.

How Big Are These Tax Cuts?

As the chart at left shows, the two tax plans would have substantially different results for the future of Tax Freedom Day, though neither would have a huge impact.

The much debated "cost" of the candidates' plans, roughly $500 billion for Gore and $1.3 trillion for Bush, may seem huge. However, when these ten-year estimates are measured on the nation's calendar along with Tax Freedom Day, their magnitude diminishes considerably.

The "Current Law" line of the chart shows a cautious estimate of what Tax Freedom Day would be if no changes were made to our tax system. The steady rise in Americans' tax burdens is primarily due to our progressive tax system. In short, "progressive" means that the more

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you earn, the higher the percentage of your income that you pay in taxes.

When tax rates are left unchanged over several years, tax burdens rise by themselves because people earn more as years go by and find themselves paying higher rates. So while the nation's income has grown by an average annual rate of 6.2 percent over the past decade, tax collections have grown even faster—an average of 7.8 percent each year.

Left unchecked, then, Tax Freedom Day would reach May 7 by 2005 (127 days of work to pay taxes), and May 10 by 2010 (133 days).

How do the Candidates' Plans Affect Tax Freedom Day?

The "Gore plan" line shows that the Vice President's plan would have only a modest slowing effect on the encroaching tax burden. The Gore plan is largely composed of many small, targeted tax credits, and it allows Tax Freedom Day to grow to May 7 by 2005, and to May 8 by 2010. That means the decade would end with Americans working five extra days for the government, but still two days less than they would under current law.

By contrast, the "Bush Plan" line shows that Gov. Bush would hold the line on America's tax burden. Tax Freedom Day would roll back to May 2 in 2005—five days earlier than under current law and three days earlier than the Gore plan. By 2010, the tax burden would begin to trend up slightly, and Tax Freedom Day would arrive on May 4, six days less than under current law, and four days less than under the Gore Plan.

The last line in the chart combines the Bush tax plan with his support for a plan allowing younger workers to invest a portion of their payroll taxes in personal retirement accounts. If 2 percent of their wages (equal to roughly 13 percent of their payroll taxes) could be deposited into such accounts, this reduction in taxes—albeit diverted into savings—would enhance the overall impact of the Bush tax plan.

The combination of these two plans would roll back the date of Tax Freedom Day to April 29 by 2005 — the lowest level since 1997 — before it rose slightly again to May 1 by 2010.

Table 1: Tax Relief in the Bush Tax Plan, FY 2001–2010

Billions of Dollars

I.	Reduction of Individual Income Tax Rates		$ 727.0
II.	Family Tax Relief		$ 165.8
	Double Child Credit	$ 162.3	
	Education Savings Accounts	3.5	
III.	Marriage Penalty Relief		$ 87.7
IV.	Encourage Charitable Giving		$ 79.6
	Non-itemizer deductions	$ 75.8	
	IRA Funds to Charity	2.1	
	Raise Corporate Charity Limit	1.7	
V.	Business Incentives		$ 260.0
	Eliminate Estate Tax	$ 236.2	
	Make Research Tax Credit Permanent	23.8	
	NET TAX RELIEF OVER TEN YEARS		$ 1,320.5

Sources: Descriptions from georgewbush.com; estimates from Joint Tax Committee.

Table 2: Tax Relief in the Gore Tax Plan, FY 2001–2010

Billions of Dollars

Investing in Education and Learning		$ 54.9
College Opportunity Tax Cut	$ 36.0	
401(j) Education and Training Accounts	3.0	
National Tuition Savings Accounts	2.0	
Training Tax Credit	0.6	
School Construction Tax Credit	8.0	
After-School Tax Credit	5.3	
Improving and Expanding Quality Healthcare		$ 76.6
Tax Credit for Health Insurance	$ 48.0	
Small Business Health Insurance	0.3	
Long-term Care Credit	26.6	
Disability and Work Tax Credit	1.7	
Rewarding Family, Reducing Poverty, and Empowering Communities		$ 144.1
Eliminate the Marriage Penalty for Millions of Working Families		$ 66.2
Expand Child and Dependent Care Tax Credit	31.0	
Expand the Earned Income Tax Credit	29.0	
Increase the Low-Income Housing Tax Credit	5.7	
Expand and Improve EZ/EC Incentives	4.4	
New Markets	5.1	
Close the Digital Divide	2.1	
Technology Bonds	0.6	
Cleaning Up the Environment and Enhancing Energy Security		$ 51.3
Conservation Tax Incentives	$ 2.0	
Better America Bonds	3.1	
Permanently Extend Brownfields Tax Credit	1.1	
Encouraging Energy Efficient Homes, Buildings, Autos, and Other	45.1	
Making Retirement More Secure By Encouraging Savings		$ 202.4
Retirement Savings Plus	$ 200.0	
Tax Credit for Small Business Startup Pension Expenses	1.3	
Simplify, Increase Portability of Pensions, Including	415 1.1	
Encouraging the Development of New Technologies and Other		$ 45.9
Permanent R&E Tax Credit	$ 23.8	
Reduce the Estate Tax for Small Businesses and Family Farms	11.0	
Democracy Endowment	2.1	
Additional Unallocated Tax Cuts	9.0	
GROSS TAX CUT		$ 575.2
Close Corporate Shelters and Unwarranted Loopholes		– $ 95.6
NET TAX RELIEF OVER TEN YEARS		$ 479.6

Sources: Descriptions and estimates from algore2000.com

How the Bush Plan Would Work

The components of the Bush tax plan include broad-based tax relief achieved by cutting individual income tax rates; targeted relief aimed at families; charitable giving incentives; and economic stimulus (see Table 1).

Lowering Individual Tax Rates

The cornerstone of the Bush plan is a proposal to phase in lower individual income tax rates. There are now five rates, and if current law prevails until 2006, married couples filing jointly will pay 15 percent on their first $51,350 in taxable income; 28 percent on income between $51,350 and $124,050; 31 percent between $124,050 and $189,050; 36 percent between $189,050 and $337,650; and 39.6 percent on taxable income over $337,650.

Under the Bush plan, tax rates would gradually fall between 2002 and 2006. In 2006, with changes fully phased in, there would be four rates. A married couple filing jointly would then pay a 10 percent tax on their first $12,000 of taxable income; 15 percent on income between $12,000 and $51,350; 25 percent between $51,350 and $189,050, and 33 percent on all taxable income over $189,050.

Family Provisions

The Bush plan would double the per-child tax credit to $1,000 and make filers with less than $200,000 in AGI eligible.

Two-income married couples sometimes pay more tax than if they were single, filing separately. To remedy this so-called "marriage penalty," the Bush plan would grant up to a $3,000 deduction to two-earner families.

The Governor's plan would also allow filers to contribute up to $5,000 per child each year to an educational savings account.

Boosting Charitable Giving

The Bush plan would allow filers who do not itemize their deductions to claim a deduction for charitable giving. In addition, individuals over age 59 could make tax-free contributions of IRA funds to charities.

Under current law corporations are allowed to deduct charitable gifts up to 10 percent of corporate income. Bush would raise the limit to 15 percent.

Economic Stimulus

Governor Bush argues that federal estate and gift taxes deter capital formation and impede economic growth. Therefore, he would phase them out by 2009. To encourage research and development of new technologies, the plan makes the research and experimentation tax credit permanent.

Promoting Retirement Savings

While the Governor has not endorsed any specific proposal, he spoken favorably about allowing workers to place a portion of their payroll taxes into personal retirement accounts that would be invested in stocks and bonds. Upon retirement, individuals would be allowed to draw principal and interest from these accounts. Any unused funds could be passed on to an individual's heirs.

How the Gore Plan Would Work

The Gore plan offers $575.2 billion over 10 years in highly targeted tax relief (see Table 2 for details), but it would also raise $95.6 billion in business taxes, leaving a net tax cut of $479.6 billion.

Promoting Retirement Savings

The largest item in Vice President Gore's plan proposes to boost retirement savings by having the government match the amount a taxpayer saves in new Retirement Savings Plus accounts. The size of the match would range from 3-1 down to 1-3, depending on a filer's income.

For example, a married couple filing jointly and earning under $30,000 would get the maximum—three dollars for every one they put in. Married couples with an AGI between $60,000 and $100,000 would receive the smallest match—33 cents for each dollar they contributed. People earning over $100,000 would be ineligible.

Other Individual Tax Incentives

The second largest category in the Gore plan is a set of targeted cuts aimed at lower- and middle-income families, totalling $144.1 billion. The Vice President proposes $66.2 billion in marriage penalty relief and another $31.0 billion to expand the child and dependent care tax credit. The other large item in this category is a provision to expand the Earned Income Tax Credit.

Another set of tax credits is aimed at dealing with perceived health care problems. Under the plan, $48.0 billion would provide a tax credit so that individuals without employer-provided health insurance could purchase coverage. The plan would also spend $26.6 billion to provide a tax credit for long-term care.

The Gore plan includes $54.9 billion in education-related tax incentives. The bulk of it, $36.0 billion, would be a tax deduction of up to $10,000 for post-secondary educational expenses. The plan would also provide tax credits for school construction and after-school care for children 16 years of age and younger.

Stimulating the Economy

The Gore plan also has tax incentives aimed at business. They are intended to encourage environmental restoration and the development of energy-efficient devices as well as other new technologies. Like Gov. Bush, the Vice President would make the research and experimentation tax credit permanent. The Gore plan also provides some estate tax relief for small businesses and family farms.

Publication Summary

General: Special Report No. 100; ISSN 1068-0306; 6pp.; $10 or $50/yr. for 10 issues on varied fiscal topics

Title: Comparing the Bush and Gore Tax Plans

Author: Patrick Fleenor

Date: October 2000

Subject: Calculation of how the tax plans of Vice Pres. Al Gore and Gov. George Bush would affect Tax Freedom Day, which measures America's overall tax burden. Includes a straightforward exposition of the plans, each presented on its own terms.

Tables & Charts: Projections of Tax Freedom Day Under Current Law, the Gore Plan, the Bush Plan, and the Bush Plan with Personal Retirement Accounts, 1990–2010; Tax Freedom Day & Total Effective Tax Rate, Selected Years 1902–2010; Number of Days Americans are Working to Pay for Government and Other Major Expenses, 2000; Targeted Tax Cuts in the Gore Tax Plan, FY 2001–2010; Various Forms of Tax Relief in the Bush Tax Plan, FY 2001–2010

Promoting Basic Research With a Permanent R&E Tax Credit

by U.S. Rep. Robert T. Matsui (D-CA)

Research and development (R&D) is widely seen as a cornerstone of technological innovation, which in turn serves as a primary engine of long-term economic growth.

What is the R&E tax credit?

The federal government supports business research and development in a variety of ways, direct and indirect. One notable indirect source of support is the R&E tax credit, Section 41 of the Internal Revenue Code. It was enacted as a temporary 25 percent credit as part of the Economic Recovery Tax Act of 1981. The Tax Reform Act of 1986 extended it but reduced it to 20 percent. It has been repeatedly extended at the 20-percent level since then and was recently extended to June 30, 2004. I believe that to maintain current levels of research and development and encourage future advancements, the credit should be made permanent.

Robert T. Matsui is the third-ranking Democrat on the House Ways and Means Committee.

At first glance, it may not seem realistic that private firms need any prodding or incentive to do something that leads to new products. After all, being first to market with a new product can amount to significant profits. However, according to standard economic theory, when firms invest in R&D, the benefits to society as a whole are far greater than the benefits to the firms themselves. A well-known example of this is the mapping of the human genome. Certainly the firm doing the mapping will recoup its costs and make a substantial profit, but the economic benefits overflowing to other firms and society at large are likely to be much larger.

Since R&D is essentially an investment decision for businesses, they will invest in R&D projects only if their expected real after-tax rate of return exceeds their real cost of capital. Firms cannot take into account the 'spillover' benefits to other firms and society at large. Because of this discrepancy, firms are likely to invest less in research than would be warranted by its economic benefits. Therefore, government support for business R&D is justified, but how much to provide how to provide it are perennial problems in Congress.

The R&E tax credit seeks to stimulate increased business R&D investment by lowering the cost of capital for the firms doing the research. Since the idea of the credit is not to reward firms for doing R&D that they would have done anyway but to motivate them to engage in extra R&D, the credit is "incremental." That means the credit only applies to a firm's spending on qualified research above a base amount. That way, the firms have to increase their R&D spending every year to benefit from the credit.

Critics of the credit view it as a form of corporate welfare that should be curbed or abolished. They contend that it rewards firms for doing what they would do in any event and often applies to R&D projects with little or no external benefits. While the credit is not perfect, both of these assertions are largely unwarranted.

The R&E tax credit is a necessary component of our nation's comprehensive strategy to remain competitive in the global marketplace.

Recent studies suggest that one dollar of the credit's revenue cost leads to a one dollar increase in business R&D spending. Others point to the conclusion that the credit may be responsible for somewhere between 6.5 percent and 13 percent of business R&D spending. And as for the possibility that some research doesn't cause the kind of spillover benefits that the mapping of the human genome will, that possibility exists, but obviously the positive effects of basic research cannot be predicted with any precision. We just know that if enough basic research is undertaken, the positive spillover benefits to society are enormous.

Recent studies suggest that one dollar of the credit's revenue cost leads to a one dollar increase in business R&D spending. Others point to the conclusion that the credit may be responsible for somewhere between 6.5 percent and 13 percent of business R&D spending.

Is the R&E Credit Perfect?

Certainly the credit is not perfect. Its design contains flaws that reduce its effectiveness as an R&D subsidy, three in particular. First, because of certain rules governing the use of the credit, its maximum marginal effective rate is substantially lower than its statutory rate. Second, the credit has never been made a permanent feature of the federal tax code. And third, the credit confers uneven marginal benefits among firms performing qualified research.

The Credit Level is Too Low

Although the R&E tax credit has a positive effect on business R&D investment, I believe that the effect is too modest to generate the level of R&D investment warranted by its economic benefits. Businesses cannot even know with certainly in advance that they can use the R&E tax credits they earn because the credit is not refundable. And if a business has to lower its R&D spending compared to the previous year, it loses the credit even if R&D spending is a higher percentage of its total spending than in the previous year.

The Credit is Temporary

The credit's temporary status limits its effectiveness as a R&D subsidy. Undertaking basic research is unavoidably expensive and risky. The unreliability of the credit exacerbates this already substantial uncertainty surrounding the expected returns to prospective R&D projects.

Make the research and experimentation tax credit better, and make it permanent.

The Impact of the Credit is Uneven

Some firms derive more tax benefits from the credit than others for no apparent reason. In fact, even among specific research projects conducted by the same firm, the credit applies quite unevenly. This hurts the credit's credibility as a sound tax policy and creates the impression that, in its current design, the credit subsidizes business R&D in an inequitable and arbitrary manner.

Proposed Solutions

A total of eight bills pending in the current Congress would permanently extend the credit. The R&E credit should be made a permanent feature of the tax code and there are other possible changes that could be considered. For instance, it probably makes economic sense - as noted by a recent CRS report - to ensure that the credit is refundable, especially for smaller, newer firms suffering from cash flow troubles.

However, the credit should not be expanded—either legislatively or administratively—so that corporations receive tax benefits for routine, non-innovative research expenses. The credit should be targeted to produce the maximum research bang for the buck. Not only is that the right tax policy but it will make permanently extending the R&E credit less costly and therefore easier to accomplish.

Conclusion

The R&E tax credit is a necessary component of our nation's comprehensive strategy to remain competitive in the global marketplace. Clearly, the R&E tax credit promotes research and experimentation in additional to that already underway, leading to new technological innovations that might not have been developed otherwise.

The R&E tax credit also counters one of the primary disincentives to private sector research and experimentation — the financial disadvantage incurred by a firm that conducts research, only to have their competitors gain access to the new technology without having incurred the research expense themselves. In a sense, the R&E tax credit "reimburses" those industries whose research benefits the economy as a whole.

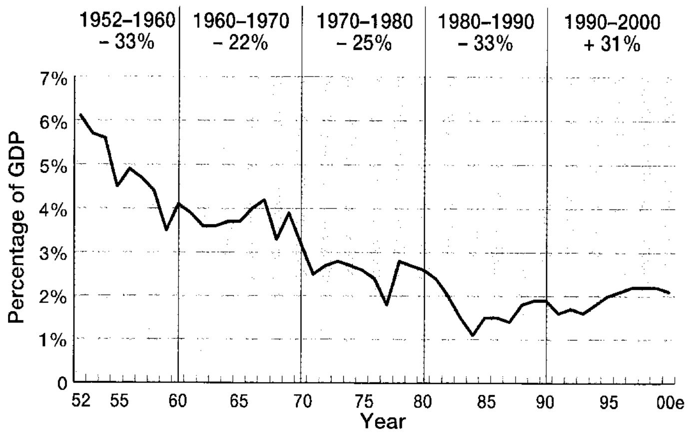
The R&E tax credit provides a mechanism for the government to encourage private sector development of a strong research base on which to build future economic stability. Also, the tax incentive relies on existing research resources already available, rather than establishing costly, new programs.

I urge my fellow Members of Congress and the incoming President not to allow this valuable tax provision to languish in a series of temporary extensions. Make the research and experimentation tax credit better, and make it permanent.

The Tax Foundation invites a national leader to provide a "Front and Center" column each month in Tax Features. *The views expressed are not necessarily those of the Tax Foundation.*

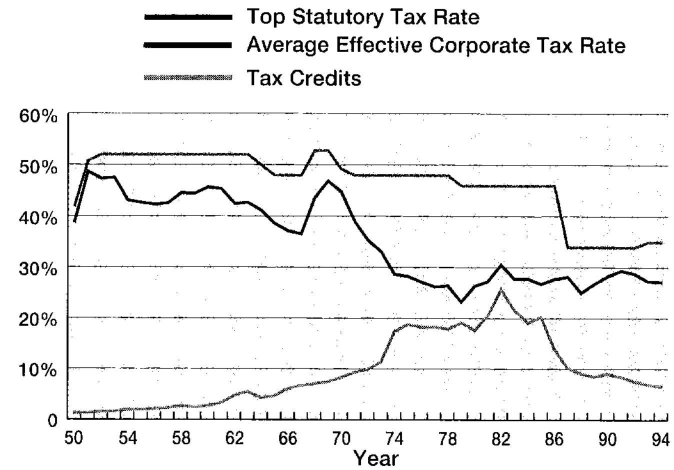
Corporation Income Tax Collections Trend Up

Figure 1: Corporate Income Tax Collections As a Percentage of GDP Rising After A 32-Year Decline



Sources: Tax Foundation, Office of Management and Budget .

Figure 2: Corporate Tax Rates and Tax Credits 1950 – 1994



Sources: Tax Foundation, Internal Revenue Service.

Table 1: Federal Corporate Income Tax Rates, 1950 – Present

1950	First $25,000 (Normal Rate)	23%
	Over $25,000 (Add Surtax of 19%)	42%
	Excess Profits Tax	30%
1951	First $25,000 (Normal Rate)	28.75%
	Over $25,000 (Add Surtax of 22%)	50.75%
	Excess Profits Tax	30%
1952	First $25,000 (Normal Rate)	30%
	Over $25,000 (Add Surtax of 22%)	52%
	Excess Profits Tax	30%
1953-1963	First $25,000 (Normal Rate)	30%
	Over $25,000 (Add Surtax of 22%)	52%
1964	First $25,000 (Normal Rate)	22%
	Over $25,000 (Add Surtax of 28%)	50%
1965-1967	First $25,000 (Normal Rate)	22%
	Over $25,000 (Add Surtax of 26%)	48%
1968-1969	First $25,000 (Normal Rate)	22%
	Over $25,000 (Add Surtax of 26%)	48%
	With 10% Surcharge	
	First $25,000 (Normal Rate)	24.20%
	Over $25,000 (Add Surtax of 26%)	52.80%
1970	First $25,000 (Normal Rate)	22%
	Over $25,000 (Add Surtax of 26%)	48%
	With 2.5% Surcharge[a]	
	First $25,000 (Normal Rate)	22.55%
	Over $25,000 (Add Surtax of 26%)	49.20%
1971-1974	First $25,000 (Normal Rate)	22%
	Over $25,000 (Add Surtax of 26%)	48%
1975-1978	First $25,000 (Graduated Normal Rate)	20%
	Next $25,0000 (Graduated Normal Rate)	22%
	Over $50,000 (Add Surtax of 26%)	48%
1979-1981[b]	First $25,000	17%
	$25,000 to $50,000	20%
	$50,000 to $75,000	30%
	$75,000 to $100,000	40%
	Over $100,000	46%
1982	First $25,000	16%
	$25,000 to $50,000	19%
	$50,000 to $75,000	30%
	$75,000 to $100,000	40%
	Over $100,000	46%
1983-1984	First $25,000	15%
	$25,000 to $50,000	18%
	$50,000 to $75,000	30%
	$75,000 to $100,000	40%
	Over $100,000	46%
1985-1986	First $25,000	15%
	$25,000 to $50,000	18%
	$50,000 to $75,000	30%
	$75,000 to $100,000	40%
	$100,000 to $1,000,000	46%
	$1,000,000 to $1,405,000[c]	51%
	Over $1,405,000	46%
1987[d]-1993	First $50,000	15%
	$50,000 to $75,000	25%
	$75,000 to $100,000	34%
	$100,000 to $335,000[e]	39%
	Over $335,000	34%
1994-Present	First $50,000	15%
	$50,000 to $75,000	25%
	$75,000 to S100,000	34%
	$100,000 to $335,000	39%
	$335,000 to $10,000,000	34%
	$10,000,000 to $15,000,000	35%
	$15,000,000 to $18,333,333[f]	38%
	Over $18,333,333	35%

[a] The Tax Reform Act of 1969 extended the Surcharge at a five percent rate from January 1, 1970 through June 30, 1970. On an annualized basis, the Surcharge would be 2.5 percent.
[b] The Revenue Act of 1978 repealed the corporate normal tax and surtax and in their place imposed a graduated rate structure with five brackets.
[c] The Deficit Reduction Act of 1984 placed an additional 5 percent to the tax rate in order to phase out the benefit of the lower graduated rates for corporations with taxable income between $1,000,000 and $1,405,000. Corporations with taxable income above $1,405,000, in effect, pay a flat marginal rate of 46 percent.
[d] Rates shown effective for tax years beginning on or after July 1, 1987. Taxable income before July 1, 1987 was subject to a two tax rate schedules or a blended tax rate.
[e] An additional 5 percent tax, not exceeding $11,750, is imposed on taxable income between $100,000 and $335,000 in order to phase out the benefits of the lower graduated rates.
[f] An additional 3 percent tax, not exceeding $100,000, is imposed on taxable income between $15,000,000 and $18,333,333 to phase out the benefits of the lower graduated rates.

Source: Tax Foundation.

FOUNDATION MESSAGE

Tax Law Meets Moore's Law

Scott A. Hodge
Executive Director
Tax Foundation

A frequent complaint of corporate tax professionals is the difficulty in managing the realities of today's ever-changing technology with the rigid rules imposed by an industrial era tax code. How, for instance, do companies square the law of straight-line depreciation—which requires them to depreciate high-tech equipment over five years—with Moore's law, which states that the speed and power of a computer chip will double every eighteen months?

Individual taxpayers are also discovering that the tax code is out of step with the changing composition of the "typical" family. A soon to be released report by the U.S. Census Bureau shows that for the first time ever, the number of families with children in which both the husband and wife work is now greater than the number of single-earner families. Moreover, 55 percent of these dual-income couples had annual incomes of $50,000 and over, compared to 40 percent of the single-income couples.

The rise in dual-income couples likely explains the popularity of repealing the so-called marriage penalty. It may also explain why some polls show that voters are unmoved by the highly publicized charges that Governor George W. Bush's tax cut plan would deliver most of its benefits to the "richest" taxpayers. The fact is that many of these dual-income couples have actually entered tax brackets that were once reserved only for the "rich."

The latest Internal Revenue Service data shows that the threshold for entering the top 25 percent of all taxpayers—who pay about 83 percent of all income taxes—is $50,607. Based on Bureau of Labor Statistics surveys of occupational earnings, an average-paid kindergarten teacher married to a entry-level firefighter would easily find themselves within the top 25 percent of taxpayers.

Should this school teacher become an assistant principal and the firefighter become an assistant fire chief, their combined income of $97,106 would easily surpass the $83,200 threshold to enter the top 10 percent of all taxpayers. While folks in these professions may never reach the $269,496 in earnings it would take to put them into the top one percent of taxpayers, they are not far from the $114,729 threshold that would put them into the top five percent.

Ironically, while these families are clearly in the "elite" of taxpayers, most if not all still consider themselves solidly middle class. So imagine their surprise when they learn that they earn more than the political definition of middle class and are thus ineligible for many of the "targeted" tax cuts promoted by candidates this year—including most of the measures in Al Gore's tax cut plan.

The proliferation of tax credits in recent years has also had the unintended consequence of increasing the number of families with Alternative Minimum Tax (AMT) liabilities. According to the Joint Tax Committee (JTC), there are currently about one million taxpayers affected by the AMT, but that number is expected to rise to 10.5 million by 2010 under current law. JTC determined that Bush's tax cut plan would increase the number of AMT-affected taxpayers by 16 percent by 2010. While JTC has not performed a similar analysis of the Vice President's tax plan, it is a certainty that Gore's credit-laden plan would exacerbate the AMT problem to an even greater degree.

Estate tax repeal is another issue that has transended traditional class lines because of the rise of a new class—the investor class. During this years' congressional debate over Rep. Jennifer Dunn's estate tax repeal legislation, many mainstream journalists marveled at the breadth of bipartisan support she had garnered. But the old model doesn't work any longer. With more than half of all American households now invested in the stock market, lawmakers are realizing that millions of average families (who vote) are reconsidering the fairness of the estate tax. Some obviously think they could save enough to be hit by the tax, and some may own a home whose appreciated value will put them over the top; but many have simply rethought the issue and concluded that the tax is unfair on principle.

Of course, the hallmark of the New Economy are the Internet entrepreneurs working out of their basements in the hopes of designing the next dot-com success story. But a recent General Accounting Office report indicates that these would-be e-millionaires are spending as much time complying with the tax code as they are writing computer code. GAO found that a small business can face up to 200 different IRS forms, schedules and requirements depending on how they organize, if they hire employees, and what kind of products or services they plan to offer.

Doubters will say that the near-term prospects of Washington enacting fundamental tax reform are slim to none—even should a candidate who supports reform be elected. But the daily evidence that the current tax code is incompatible with the vibrant and dynamic New Economy may force Washington to stop talking about the problem and start solving it.

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Tax Foundation
(202) 783-2760
(202) 783-6868 Fax
www.TaxFoundation.org
TF@TaxFoundation.org

Rep. Jennifer Dunn to Be Honored for Distinguished Service at Tax Foundation's 63rd Annual Dinner

Rep. Jennifer Dunn (R-WA)

Congresswoman Jennifer Dunn (R-WA) will accept a Distinguished Service Award at the Tax Foundation's 63rd Annual Dinner, November 16 at the Four Seasons Hotel in Washington, DC.

Each year the Foundation honors a public official and a private citizen who have contributed notably to the national discussion of sensible tax policies. Congresswoman Dunn will share the stage with Charles G. Koch, Chairman and Chief Executive Officer of Koch Industries, Inc.

Congresswoman Dunn made history in 1998 as the first woman of either party to run for House Majority Leader. She was the only freshman in the 103rd Congress to hold a seat on the Joint Committee on the Organization of Congress, and in just her second term, she won appointment to the Ways and Means Committee.

A champion of tax relief and budget balancing, Dunn has also advocated IRS reform, tax simplification, retirement security and expanded international trade. Her recent bipartisan work on the estate tax is well-known.

Treasury Secretary Lawrence Summers to Keynote Conference on Corporate Tax Shelters

Treasury Secretary Lawrence Summers will keynote the Tax Foundation's 63rd National Conference the afternoon of November 16 at the Four Seasons Hotel in Washington, DC.

The conference will present views of corporate tax shelters from the perspectives of Capitol Hill, the Judiciary, and tax practitioners.

Registration begins at 11:30, and Secretary Summers will speak at 12:30. At 1:30, Joseph Luby, Jr., Assistant General Tax Counsel, Exxon-Mobil Corporation, will moderate a panel on the distinctions between legitimate business transactions and tax shelters. Speaking to this subject are Prof. Ronald Pearlman from Georgetown University Law School; Kenneth Kies, Managing Partner, Federal Tax Policy Group, PricewaterhouseCoopers LLP; and John E. Chapoton, Esq., Managing Partner at Vinson & Elkins, LLP.

A second panel on the legislative outlook, moderated by Richard Grafmeyer, Partner, Arthur Andersen LLP, will feature Mark Prater, Majority Chief Tax Counsel, Senate Finance Committee; Timothy Hanford, Tax Counsel, House Ways and Means Committee; and Russ Sullivan, Minority Chief Tax Counsel, Senate Finance Committee.

Judge David Laro of the U.S. Tax Court will speak on the judicial outlook at 4:00 pm.

For details on the conference and dinner, check www.taxfoundation.org or call us at 202-783-2760. Ask for Renée Nowland or Jan Rogers.

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