Tax Foundation Vol. 36, No. 8 September 1992

Tax Features

Clinton Tax Plan Would Edge 1982 Act As Biggest Tax Hike Ever

The economic plan presented by presidential candidate Bill Clinton includes a tax hike that would be the largest tax increase in modern times. It would raise a record $219 billion in 1992 dollars over four years, $84 billion of which constitutes the net employer cost of spending 1.5 percent of payroll on education and training. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) stands as the largest tax increase passed to date.

The confusion over which tax increases are the largest stems from a failure to measure federal revenue gains in comparable terms. The Tax Foundation has compared the revenue impact of the 14 major tax bills passed by the federal government since 1981 with the projected impact of the plans offered by President Bush and Governor Clinton, measured in current dollars, as a percentage of GDP and in constant 1992 dollars (see table on page 3).

The pledge-breaking tax increase President Bush signed into law in 1990, the Omnibus Budget Reconciliation Act of 1990 (OBRA'90), will raise over $125 billion in new tax revenues by 1994 and currently ranks as the second largest tax increase after TEFRA.

While TEFRA's tax hikes followed the largest tax cut ever, the proposed Clinton tax hikes would overlap with the major tax increases enacted under OBRA'90. Most of Clinton's tax increases would come from higher income taxes on individuals earning over $200,000 per year, increased Medicare-B payments, and additional taxes on domestic and foreign corporations.

While President Bush has failed to quantify his recent pitch for across-the-board tax relief, the measurable components of his Budget's tax proposals would result in a $13.6 billion revenue reduction in four years, or 0.3 percent of GDP. While his capital gains tax reduction and his flexible IRA items are scored as a small revenue gain in the short term, most of the reduced revenues would be the result of his investment tax allowance, family tax allowance, and first-time homebuyer tax credit. ■

FRONT BURNER

Encourage Savings by Expanding IRA Incentives

William V. Roth, Jr.

As a strong supporter of individual retirement accounts (IRAs) for years, I was very disappointed in 1986 when the U.S. Congress, over my objections, subjected them to severe limits. Those limits have made IRAs much less attractive than when they were originally enacted. For example, under current law, a taxpayer without a pension plan can be denied an IRA because his or her spouse has a pension plan at work and their joint income exceeds specified levels. Since 1986, I have been working hard to restore IRAs to their former position as an incentive for individual savings. Early in 1991, Senator Lloyd Bentsen, Chairman of the Committee on Finance, joined me in an effort to do just that — and more. Our proposal was to offer taxpayers the choice of a new kind of IRA. If chosen by the taxpayer, contributions to this new IRA would not be tax deductible; however, savings could be withdrawn free of tax if the contributions remain in the account for at least five years. Similar to present law, annual contributions to either IRA combined could not exceed $2,000, indexed for inflation.

American families, today, are facing an uphill battle when it comes to saving money for life's big essentials, such as a college education, buying a first home, excessive medical bills, or even that lapse between jobs when they often find themselves short. That is why, for several years now, I have been pushing my plan to improve American families' ability to save through IRAs.

Why do I think that IRAs are so important, not only to American families but also to the

See Roth on page 2

William V. Roth, Jr., Republican senator from Delaware since 1971, serves on the Senate Finance Committee and is Ranking Minority Member of its Subcommittee on Taxation.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

TAX FOUNDATION

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American economy as a whole? It is because IRAs encourage savings, self reliance, and an opportunity for Americans to invest in, and prepare for, the future. It is sound economic policy that promotes savings in a way that allows Americans to meet their unique and individual requirements.

The Bentsen-Roth IRA proposal is particularly significant because of the choices that it offers families who save through IRAs. Americans could realize tax savings either up front when they open an IRA, or when they withdraw from it. They could use their savings before retirement, without penalty, to pay for college educations, first-time home purchases, catastrophic health care costs, and periods of long unemployment. Through the Bentsen-Roth IRA, families could work together, and the benefits would be multi-generational. For example, grandparents could withdraw from their IRAs to help their grandchildren through college. Moreover, parents could help their children buy a first home. It would even be possible for grandchildren to make penalty-free withdrawals to help their grandparents pay for catastrophic medical bills.

Contributions to this new IRA would not be tax deductible; however, savings could be withdrawn free of tax if the contributions remain in the account for at least five years.

Public support for my proposal has been very strong. I have received thousands of letters supporting the restoration of IRAs. Americans need the IRA to be restored today. IRAs are a tried and true method of creating more savings in this country. An increased savings rate will create economic growth, and a growing economy will create jobs.

When the Senate Finance Committee recently approved H.R. 11, the "Revenue Act of 1992," it broadened the IRA provision, at my urging, to allow families receiving subsidies under the Aid to Families with Dependent Children (AFDC) program to save a limited amount in an IRA account. Currently, AFDC recipients are not allowed assets of more than $1,000. I believe that savings and education are the means by which lower-income families can break out of the welfare dependency cycle, and that my IRA proposal will help give these families a way out of the welfare trap.

Grandparents could withdraw from their IRAs to help their grandchildren through college, and it would even be possible for grandchildren to make penalty-free withdrawals to help their grandparents pay for catastrophic medical bills.

The Bentsen-Roth IRA jumped another hurdle this August when the Senate, by a vote of 72-25, beat back a proposal that would have struck the provision from the 1992 Revenue Act. The bill was later modified by agreement on a Metzenbaum amendment, placing caps of $80,000 for a single taxpayer and $120,000 for a joint return, indexed for inflation. While I would have preferred to see the Bentsen-Roth Super IRA pass in its original form, I am pleased by the major improvements to the current IRA that would be made by the Senate's agreement.

The recent Senate action represents a three-fold increase over previous limitations placed on IRAs. In other words, where once only families earning under $40,000 could benefit from IRAs, the Senate bill would allow families earning up to $120,000 to participate. Furthermore, the $120,000 income limit would be indexed for inflation.

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While I would like to see IRAs made available to all Americans, I am encouraged that the Senate's compromise will increase the number of eligible families from approximately 50 percent to almost 90 percent. The fact that the Senate's bill would expand the eligibility of IRAs to cover about 90 percent of Americans represents a major step toward our objective of increasing the amount of savings for capital investment — investment that our nation seriously needs to realize its own bright economic future, and to remain first among equals in the emerging global community.

I must admit, of course, that the Senate's compromise provision is not without its flaws. I am concerned, for example, that placing a cap on who can and who cannot save will create inconsistencies for families in their financial planning. I am also concerned about the lack of fairness that results from excluding those families that will not be able to participate. Take the farmer who has a good year and might earn $120,000, and then has one or two bad years. In his good year, he will not be allowed to save; in his bad years, he may not have enough to save. This same example could apply for other men and women engaged in professions such as acting, real estate, athletics, etc., where annual income is unstable and often unpredictable.

The Senate's bill would expand the eligibility of IRAs to cover about 90 percent of Americans — a major step toward our objective of increasing savings for capital investment.

It is my opinion that America needs a stable, long-lasting program with strong congressional support — a program Americans can count on. While the Senate's version of Bentsen-Roth is a step in the right direction, it leaves more to be done. I hope that when the moment is appropriate, we will complete our full objective. ■

Major Federal Tax Legislation, 1981 – 1991, Compared to the Tax Plans of President George Bush and Presidential Candidate Bill Clinton

Revenue Impact Expressed in Current Dollars, Percent of GDP, and 1992 Dollars (a)

Dollar Amounts in $Billions

Fiscal Year	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Economic Recovery Tax Act of 1981															
In current dollars	-35.6	-91.1	-136.8	-170.3	-209.8	-238.5	-258.7	-282.0	-309.4						
As % of GDP	-1.1	-2.7	-3.6	-4.2	-4.9	-5.3	-5.3	-5.4	-5.6						
In 1992 dollars	-52.0	-128.9	-185.4	-222.9	-269.7	-295.5	-308.0	-320.1	-333.4						
Tax Equity and Fiscal Responsibility Act of 1982															
In current dollars		16.6	36.0	39.2	46.7	56.5	57.3	55.7	57.2	61.2					
As % of GDP		0.5	1.0	1.0	1.1	1.2	1.2	1.1	1.0	1.1					
In 1992 dollars		23.5	48.8	51.3	60.0	70.0	68.2	63.2	61.6	63.3					
Highway Revenue Act of 1982															
In current dollars		1.5	4.1	4.2	4.5	4.7	4.9	5.1	5.1						
As % of GDP		b	0.1	0.1	0.1	0.1	0.1	0.1	0.1						
In 1992 dollars		2.1	5.6	5.5	5.8	5.8	5.8	5.8	5.5						
Social Security Amendments of 1983															
In current dollars			5.7	8.7	10.2	12.1	24.6	30.9	23.4	23.8	25.2				
As % of GDP			0.2	0.2	0.2	0.3	0.5	0.6	0.4	0.4	0.4				
In 1992 dollars			7.7	11.4	13.1	15.0	29.3	35.1	25.2	24.6	25.2				
Railroad Retirement Revenue Act of 1983															
In current dollars			0.2	0.7	1.1	1.1	1.2								
As % of GDP			b	b	b	b	b								
In 1992 dollars			0.3	0.9	1.4	1.4	1.4								
Deficit Reduction Act of 1984															
In current dollars			0.9	9.3	16.1	22.0	25.4	27.7	31.0	33.8					
As % of GDP			b	0.2	0.4	0.5	0.5	0.5	0.6	0.6					
In 1992 dollars			1.2	12.2	20.7	27.3	30.2	31.4	33.4	35.0					
Consolidated Omnibus Budget Reconciliation Act of 1985															
In current dollars					0.9	2.7	3.0	3.0	3.0	3.2	3.5				
As % of GDP					b	0.1	0.1	0.1	0.1	0.1	0.1				
In 1992 dollars					1.2	3.3	3.6	3.4	3.2	3.3	3.5				
Omnibus Budget Reconciliation Act of 1986															
In current dollars						2.6	2.4	2.0	1.0	0.1	1.0				
As % of GDP						0.1	b	b	b	b	b				
In 1992 dollars						3.2	2.9	2.3	1.1	0.1	1.0				
Continuing Resolution for 1987															
In current dollars							2.8	3.0	2.6	2.6	2.6				
As % of GDP							0.1	0.1	b	b	b				
In 1992 dollars							3.3	3.4	2.8	2.7	2.6				
Tax Reform Act of 1986															
In current dollars						18.6	-8.9	-24.4	-20.3	-16.4	-20.9				
As % of GDP						0.4	-0.2	-0.5	-0.4	-0.3	-0.4				
In 1992 dollars						23.0	-10.6	-27.7	-21.9	-17.0	-20.9				
Omnibus Budget Reconciliation Act of 1987															
In current dollars							8.6	13.9	16.1	15.4	12.2				
As % of GDP							0.2	0.3	0.3	0.3	0.2				
In 1992 dollars							10.2	15.8	17.3	15.9	12.2				
Continuing Resolution for 1988 and Family Support Act of 1988															
In current dollars							2.0	2.8	2.8	3.0	3.0	2.9			
As % of GDP							b	0.1	0.1	0.1	0.1	b			
In 1992 dollars							2.4	3.2	3.0	3.1	3.0	2.8			
Omnibus Budget Reconciliation Act of 1990															
In current dollars										22.5	35.2	32.7	37.5	38.6	31.0
As % of GDP										0.4	0.6	0.5	0.6	0.5	0.4
In 1992 dollars										23.3	35.2	31.7	35.2	35.1	27.3
Tax Extension Act of 1991 and Emergency Unemployment Compensation Act of 1991															
In current dollars											3.5	0.7	0.2	0.8	1.3
As % of GDP											0.1	b	b	b	b
In 1992 dollars											3.5	0.7	0.2	0.7	1.1
President George Bush's *Fiscal 1993 Budget of the U.S.*															
In current dollars											-5.2	-3.7	-1.5	-3.8	-4.1
As % of GDP											-0.1	-0.1	b	-0.1	-0.1
In 1992 dollars											-5.2	-3.6	-1.4	-3.5	-3.6
Bill Clinton's *National Economic Strategy for America* (c)															
In current dollars												52.7	59.1	61.2	65.4
As % of GDP												0.8	0.9	0.9	0.9
In 1992 dollars												51.1	55.5	55.6	57.6
Fiscal Year	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**

a) Revenue effect estimates prepared by the Office of Management and Budget for the purpose of budget presentation. They measure the direct effect of tax legislation on receipts with feedback effect limited to the overall income forecast and its impact on receipts by major source. 1992 dollar figures adjusted by CPI-X1.

b) Less than 0.1 percent of GDP.

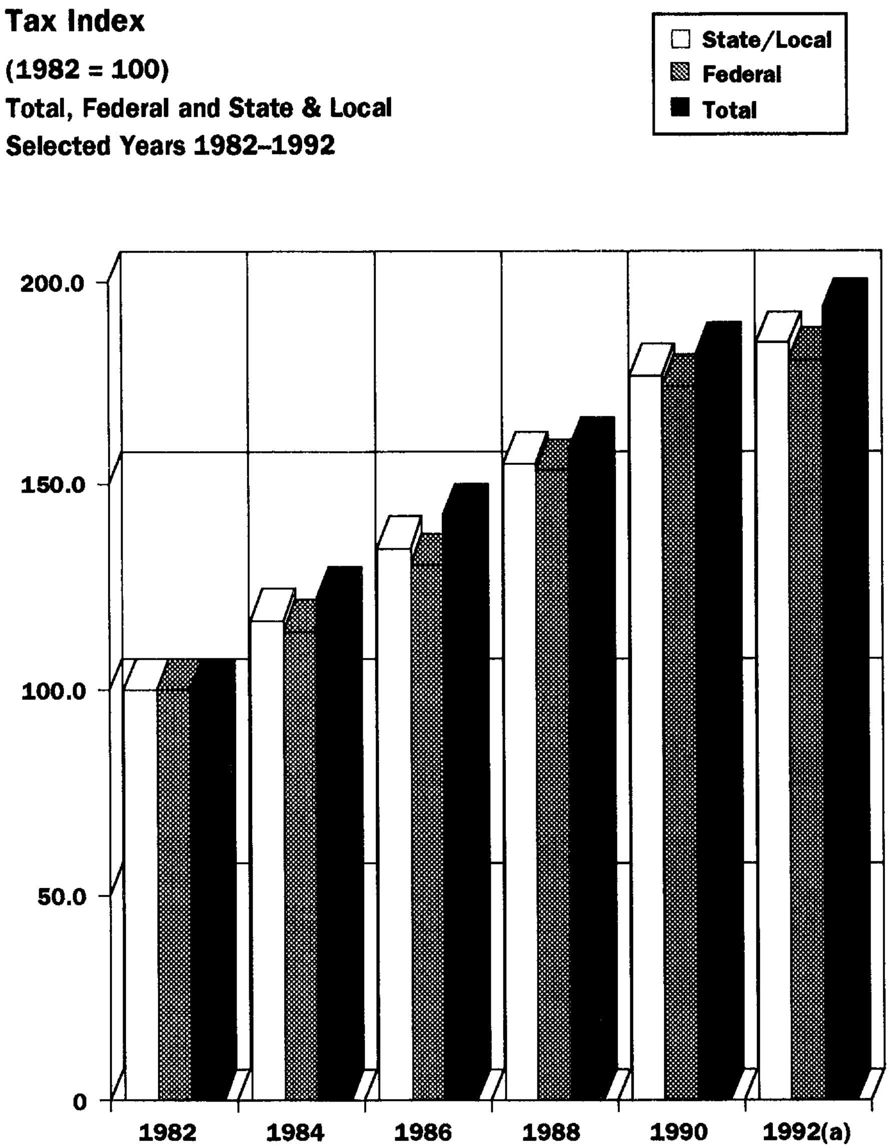
c) Includes $21 billion per year for net new cost to employers from Clinton's mandate that 1.5% of payroll be spent on education and training.

Sources: Tax Foundation; Office of Management and Budget, Budget of the U.S. Government (FY1964 – 1993); and *A National Economic Strategy for America* issued by Arkansas Gov. Bill Clinton, 6/21/92.

U.S. Tax Index At Record High; Corporate Taxes Grow Fastest Over Decade

The U.S. Tax Index climbed to a new high of 185.0 in the second quarter of 1992 (1982 = 100), representing a total tax bill 85 percent greater than the amount collected in 1982. During the first half of this year, federal, state, and local taxes were collected at a rate that would total a record $1.781 trillion if continued for the remainder of the year.

Tax Index
(1982 = 100)
Total, Federal and State & Local
Selected Years 1982–1992



(a) Based on annualized data, Q1 and Q2 1992.
Source: Tax Foundation.

The Tax Index is a fiscal yardstick designed by Tax Foundation economists to provide a continuing current measure of the trends in taxes at the federal, state, and local levels. It is similar to other economic indicators such as the familiar Consumer Price Index. Over the past decade, the state/local Tax Index (now at 193.2), shows that state tax increases have continued to outpace federal tax growth. The federal Tax Index now stands at 180.8. While federal taxes showed 6.14 percent average annual increases since 1982, state/local taxes increased even faster at 6.84 percent.

Because of continued weak economic growth, the bulk of recent tax revenue growth is actually the result of legislated tax increases at both the federal and state levels. The Omnibus Budget Reconciliation Act passed by the President and Congress on November 5, 1990, increased federal taxes by $164 billion over five years. States have collectively legislated $35.3 billion worth of tax increases since 1990.

Tax Growth Outpaces Economy

Tax increases, mirrored in the average 6.4 percent annual increases in the total Tax Index over the past decade, have outpaced the 2.5 percent annual growth in personal income, the 3.9 annual average growth in the Consumer Price Index, and Gross Domestic Product (GDP) which grew an average of 2.7 percent annually during this same period. Thus, total taxes have risen faster than individuals' incomes, inflation, and the economy as a whole.

Corporate Taxes Rise Fastest

Examination of the Tax Index since the trough of the previous recession (fourth quarter 1982), reveals that corporate profit taxes increased 126.1 percent by 1992—far outpacing the growth in all other sources of tax revenues. Other significant increases for this period are seen in Social Security taxes, up 103.4 percent; personal property and estate taxes, up 97.5 percent; and sales and indirect business taxes (excises, customs and real property taxes), up 93.5 percent. While Uncle Sam saw the fastest growth rate in tax revenues from corporations, state/local governments witnessed the sharpest growth in their personal income tax levies. The accompanying table and chart provide further detail. ■

Tax Index

(1982 = 100)

Total, Federal, and State and Local

Selected Periods 1965 – 1992

Calendar Year	All Taxes	Personal Income Taxes	Corporate Profits Taxes	Sales & Indirect Business Taxes(a)	Social Insurance Contributions	All Other Taxes(b)
Total Tax Index						
1965	19.1	16.0	49.0	23.5	11.5	24.1
1970	30.5	28.7	54.4	35.4	22.4	33.6
1975	48.6	41.2	80.7	54.6	43.9	55.6
1980	85.9	84.2	134.4	82.6	80.3	83.4
1981	97.7	97.4	128.5	97.2	93.2	91.3
1982	100.0	100.0	100.0	100.0	100.0	100.0
1983	105.9	99.4	122.3	109.2	107.6	98.3
1984	116.9	106.4	149.4	120.7	120.5	106.2
1985	126.7	117.6	153.1	128.7	131.2	117.4
1986	134.2	123.2	168.8	134.7	140.8	129.5
1987	146.2	138.0	201.4	142.3	148.6	136.9
1988	154.9	141.9	217.1	150.3	164.1	146.5
1989	168.4	159.6	223.9	161.7	175.6	161.4
1990	176.9	166.1	216.5	173.2	186.3	183.8
1991	181.8	164.9	196.5	185.3	196.1	191.3
1992 (c)	185.0	164.0	226.1	193.5	203.4	197.5
Federal Tax Index						
1965	19.6	17.3	58.9	31.2	11.1	37.3
1970	30.3	30.1	62.3	36.6	21.9	49.3
1975	46.4	40.8	88.8	48.7	43.5	65.3
1980	87.0	84.5	143.2	79.7	79.9	86.7
1981	100.6	98.3	133.8	115.3	93.6	92.0
1982	100.0	100.0	100.0	100.0	100.0	100.0
1983	103.8	97.1	124.8	107.6	108.0	77.3
1984	114.2	102.2	153.6	116.3	121.8	80.0
1985	124.1	113.9	155.4	117.9	133.0	85.3
1986	130.1	118.6	170.7	107.6	142.2	93.3
1987	143.8	133.2	210.2	117.5	150.3	96.0
1988	153.1	136.4	226.1	122.5	167.0	101.3
1989	166.7	153.4	238.5	124.5	179.0	118.7
1990	174.3	159.4	232.0	132.8	190.3	154.7
1991	176.6	156.5	208.8	157.3	200.3	146.7
1992 (c)	180.8	153.8	241.3	160.0	207.7	144.7
State and Local Tax Index						
1965	18.1	8.5	14.3	21.7	14.0	18.1
1970	30.9	21.0	26.4	35.2	25.7	26.5
1975	53.0	43.4	52.1	56.0	46.9	51.2
1980	83.7	82.1	103.6	83.3	83.0	81.9
1981	92.2	92.3	110.0	92.8	90.8	91.0
1982	100.0	100.0	100.0	100.0	100.0	100.0
1983	109.9	112.3	113.6	109.6	105.3	107.8
1984	122.1	130.1	135.0	121.7	112.3	118.1
1985	131.8	138.9	145.0	131.2	119.6	131.9
1986	142.1	149.1	162.1	141.2	132.1	145.8
1987	150.9	165.7	170.7	148.2	137.4	155.4
1988	158.5	173.2	185.7	156.9	145.0	166.9
1989	171.8	195.4	172.9	170.6	153.1	180.7
1990	182.2	204.2	162.1	182.9	160.1	197.0
1991	191.8	212.5	153.6	192.0	169.3	211.4
1992 (c)	193.2	221.9	172.9	201.5	176.0	221.4

(a) Indirect business taxes consist primarily of excises, customs levies, and real property taxes.
(b) Primarily estate and gift and personal property taxes.
(c) Based on annualized data, Q1 and Q2 1992.
Source: Tax Foundation and U.S. Department Of Commerce, Bureau of Economic Analysis.

Tax Foundation Policy Council Meets in NYC

At right, Senator Harry F. Byrd, Jr., Policy Council member and recipient of the Tax Foundation's Distinguished Service Award, greets Congressman Bill Frenzel who led the Foundation's recent delegation to Moscow (see p. 7).

At left, Foundation Co-Chairman James C. Miller III speaks with Lawrence Kudlow, chief economist for Bear Stearns and new member of the Foundation's Policy Council.

From left: Kendyl K. Monroe, Partner, Sullivan & Cromwell; Gwain Gillespie, Vice Chairman, UNUM Corporation; and Ronald Bunn, Director of Corporate Development at the Tax Foundation.

Top Tenth of U.S. Taxpayers Pay Over Half of Federal Income Taxes

The top ten percent of income earners paid 53.9 percent of all federal individual income taxes, according to Tax Foundation analysis of recently released 1990 tax return data from the IRS.

The share of the tax burden borne by those at the upper end of the income scale has steadily increased over the decade, from 48.6 percent in 1980 to 53.9 percent in 1990, despite claims that tax legislation during the 1980s was kindest to those at the top. Their average 1990 tax payment of $22,342 was 9 percent greater than in 1980 after adjusting for inflation. The top 10 percent of income earners may conjure up images of high society to some people, but actually the adjusted gross income (AGI) for this group reached down to $63,818, not far from 1990's two-earner median family income of $50,898.

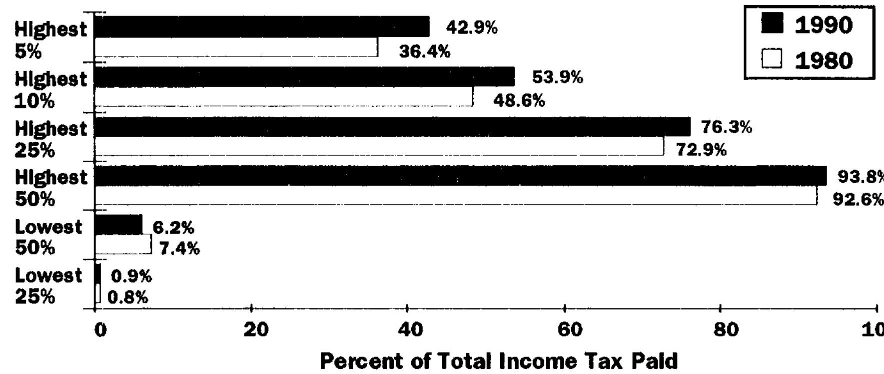
The income necessary to place in the top 5 percent of income earners in 1990 was $80,867. Even this level hardly qualifies for "Lifestyles of the Rich and Famous." Furthermore, among all taxpayers, those in this income group saw their federal individual income tax burdens rise the fastest. Their portion of individual income taxes climbed 17 percent, from 36.4 percent in 1980 to 42.9 percent in 1990.

At the other end of the spectrum, taxpayers in the bottom 50 percent of income earners saw their share of income taxes decline 16.2 percent, from 7.4 percent in 1980 to 6.2 percent of the federal take in 1990. In the face of allegations that the benefits of the Economic Recovery Tax Act of 1981 and Tax Reform Act of 1986 went mostly to the wealthy, these numbers demonstrate clearly that tax policies during the 1980s maintained the progressivity of the federal income tax system, as top income earners continue paying a larger share of federal tax collections.

Recent tax changes aimed at this group are likely to extract an even greater chunk of the tax take. Starting in 1991, the Omnibus Budget Reconciliation Act of 1990 increased the tax rate on top earners from 28 percent to 31 percent, restricted their itemized deductions, phased out the value of their personal exemptions, increased the alternative minimum tax rate from 21 percent to 24 percent, and subjected more of their income to Medicare payroll taxes.

Lowering tax rates and broadening the income tax base have actually led to greater federal revenues. In 1990, the 113.8 million tax returns reported an AGI of $3.4 trillion, up $140 billion over 1989. Taxation of unemployment compensation leaped 28.6 percent from $12.1 billion in 1989 to $15.6 billion in 1990. Taxable IRA distributions climbed 27 percent as a result of the Tax Reform Act of 1986, and taxable Social Security benefits rose 13.5 percent. Salaries and wages, by far the largest component of AGI (72.6 percent), increased $148 billion in 1990. In the end, the total income tax take for the federal government was a record $451.4 billion. ■

Percent of Federal Individual Income Taxes Paid by High and Low Income Taxpayers, 1980 and 1990



Source: Tax Foundation computations based on Statistics of Income, Internal Revenue Service, U.S. Department of the Treasury.

Federal Income Taxes Paid by High and Low-Income Taxpayers, 1980 and 1990[a]

Adjusted Gross Income Class	Income Level 1980	Income Level 1990	Percent of Tax Paid 1980	Percent of Tax Paid 1990	Average Tax 1980	Average Tax 1990
Highest 5%	42,079 or more	80,867 or more	36.4%	42.9%	19,327	35,558
Highest 10%	35,965 or more	63,818 or more	48.6	53.9	12,893	22,342
Highest 25%	23,603 or more	39,865 or more	72.9	76.3	7,737	12,668
Highest 50%	12,980 or more	19,616 or more	92.6	93.8	4,911	7,784
Lowest 50%	12,979 or less	19,615 or less	7.4	6.2	395	514
Lowest 25%	5,930 or less	8,721 or less	0.8	0.9	86	145
Lowest 10%[b]	2,250 or less	3,205 or less	0.1	0.2	27	67

[a] Data for 1990 are preliminary.
[b] Includes returns showing no adjusted gross income.
Source: Tax Foundation computations based on Statistics of Income, Internal Revenue Service, U.S. Department of the Treasury.

1990 Income Tax Data

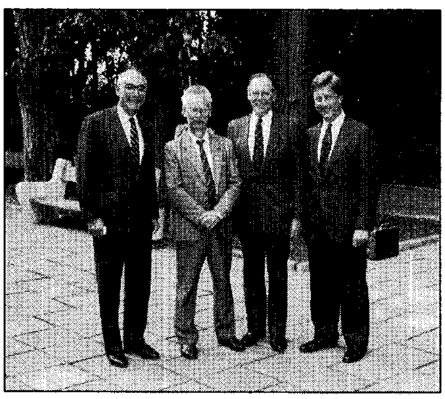
Adjusted Gross Income Class	Total Individual Returns (thousands)	Total Adjusted Gross Income ($billions)	Percent of Adjusted Gross Income	Average Tax Rate
Highest 5%	5,690	958	27.93%	21.11%
Highest 10%	11,380	1,320	38.45	19.27
Highest 25%	28,450	2,154	62.77	16.73
Highest 50%	56,899	2,951	86.00	15.01
Lowest 50%	56,899	480	14.00	6.08
Lowest 25%	28,450	92	2.67	4.49
Lowest 10%[a]	11,380	-7	-	-

[a] Includes returns showing no adjusted gross income.
Source: Tax Foundation computations based on Statistics of Income, Internal Revenue Service, U.S. Department of the Treasury.

Foundation Delegation Helps Russia with Taxation Of Foreign Investment

Accepting an invitation from Russia's State Committee on Taxation and Ministry of Finance to help develop guidelines for future laws governing the taxation of foreign investment in Russia, the Tax Foundation led a delegation of noted tax experts to Moscow from July 1-7, 1992.

Former Soviet President Mikhail Gorbachev speaks to Tax Foundation Executive Director Dan Witt (c.) and George Reardon, Director of Taxes, Archer Daniels Midland Company.



From left: Alan J. Lipner, Senior Vice President - Corporate Taxes, American Express Company; Mikhail Mitiukov, Chairman, Committee on Legislation, Supreme Soviet of Russia; James Q. Riordan, Esq.; and David C. Jory, Vice President, Citicorp/Citibank, N.A.

Vice President Aleksandr Rutskoi (l.) greets Foundation Executive Director Dan Witt.

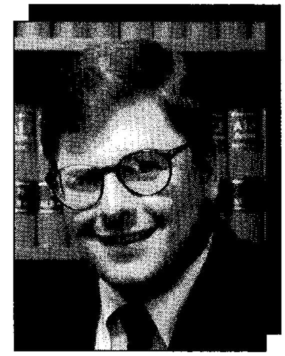
The delegation's statement has been published as a Foundation Special Report titled *Tax Aspects of Improving the Investment Climate in Russia.*

The delegation was led by Congressman Bill Frenzel and included Dr. Charles C. McLure, Jr., Hoover Institution, Stanford University; Edward Lieberman, Esq., Pepper, Hamilton & Scheetz; Bruce S. Brown, Philip Morris Companies Inc.; Ken Crawford, KPMG Peat Marwick; Robert S. Enright, PepsiCo, Inc.; Richard Gordon, Arthur Andersen & Co.; David C. Jory, Citicorp/Citibank, N.A.; Ian Lee-Leviten, RJR Nabisco, Inc.; Alan J. Lipner, American Express Company; Daniel H. Payne, BHP Minerals Incorporated; George W. Reardon, Archer Daniels Midland Company; James Q. Riordan, Esq.; Jack R. Skinner, Halliburton Co; and Dan Witt, Tax Foundation.

Russian officials involved included: Aleksandr V. Rutskoi, Vice President; A.G. Shapovaliantz, Deputy Minister of the Economy; Aleksandr Pochinok, Chairman, Committee on Budget and Prices, Supreme Soviet of Russia; Sergei Filatov, First Deputy Chairman, Supreme Soviet of Russia; and I.A. Lazarev, Chairman, State Committee on Taxation. ■

FOUNDATION MESSAGE

Applying the Principles of Taxation to the Russian Economy



Dan Witt
Executive Director

A successful Russian transition to a free market is important for many reasons, most notably because it will improve the living standard of the Russian people and enhance the prospects for world peace. That is why the Foundation accepted the invitation from Russia's State Committee on Taxation and Ministry of the Economy to assemble a delegation of tax experts which could guide the new Russian government in the most reasonable way to tax foreign investment. On July 7, we submitted recommendations to Vice President Aleksandr V. Rutskoi and I.A. Lazarev, chairman of the Russian State Tax Committee.

The statement urges the Russian government to make Western companies partners in Russia's transition by structuring its tax code to make investing in Russia competitive with other international investment opportunities. To achieve this, the Russian tax system must satisfy the objectives of taxpayers and the government. In short, prosperity in Russia requires that the tax system encourage the saving and investment that are necessary for economic progress.

In all the delegation's meetings with representatives of the government, the Parliament, and the State Tax Service, the views we shared are consistent with the Tax Foundation's long-established "Principles of Taxation." These principles include moderate tax rates, stability, reliability, simplicity, clarity, economic neutrality, the need for open discussions of policy, fair taxation of international transactions, and the importance of applying these principles to the taxes of subnational as well as national governments.

We realize, of course, that major changes in the Russian tax code are made for more reasons than the advice of American experts, but we are nonetheless gratified to see that three days after we submitted our statement, the Russian Supreme Soviet voted to reduce the maximum personal income tax rate from 60 percent to 40 percent. Then less than a week later, the Supreme Soviet reduced the value-added tax on a variety of consumer goods, and the Russian parliament rejected President Boris Yeltsin's bid to impose a VAT specifically on imports. The VAT will remain 28 percent for most goods and services until 1993, when the rate will be lowered to 20 percent for most goods.

The delegation appreciated the difficulty of reducing public expenditures, including subsidies to state enterprises, but made clear that this is exactly the course needed to stimulate the private sector's ability to grow and create employment. Naturally, this lesson is not just for Russians. Public expenditures in the U.S. have exceeded the federal government's revenue-raising ability every year since 1969, and our sermons on keeping tax codes simple would have been more persuasive if our own were not a monument to complexity.

Students and Young Researchers Learn Public Finance Ropes at Tax Foundation

Alide Roede, a citizen of the Netherlands who spent time with the Tax Foundation this past winter and spring, recently completed work on a final thesis for her master of law in taxation. Her research compared the taxation of gains from dealings in property under U.S. and Netherlands law.

Alide Roede

Fortunately, her internship coincided with congressional consideration of H.R. 4210, the "Tax Fairness and Economic Growth Act of 1992." She was able to view first hand the federal legislative process and prepare a detailed report of various capital gains taxation proposals.

Elizabeth Gutierrez, a Princeton undergraduate, studied entitlement financing during her summer stint.

Christopher Nelson, a senior at Duquesne University School of Law and a Charles G. Koch Charitable Foundation Summer Fellow, authored a comparison of the presidential candidates' economic platforms (see Aug. *Tax Features*) as well as a paper on alternative tax systems.

Peter J. Neff devoted much of his time to the Foundation's annual *Facts and Figures on Government Finance*, and worked on a variety of regular Tax Foundation research stories, such as tax collections by income class (see p. 6) and the tax index (see pp. 4-5). ■

From left: Christopher Nelson, Charles G. Koch Charitable Foundation Summer Fellow; Paul Merski, Tax Foundation's director of fiscal affairs; and Peter J. Neff, recent accounting graduate of Catholic University.

Elizabeth Gutierrez, undergraduate economics student at Princeton University.

Mark Your Calendar
for the
Tax Foundation's 55th Annual Dinner and Conference
November 18, 1992
at the Waldorf-Astoria in New York City

Recent Foundation Publications

Tax Aspects of Improving the Investment Climate in Russia	**4 pp.; $8 + $2 p/h**
Seminar Proceedings: EC'92 and Its Implications for Global Competitiveness	**24 pp.; $10 + $2 p/h**
Facts and Figures on Government Finance, 1992	**Cloth; 359 pp.; $55 + $2 p/h**

Tax Features

Tax Features (ISSN 0883-1335) is published by the Tax Foundation, an independent 501(c)(3) organization chartered in the District of Columbia. Original material is not copyrighted and may be reproduced. Please credit Tax Foundation.

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