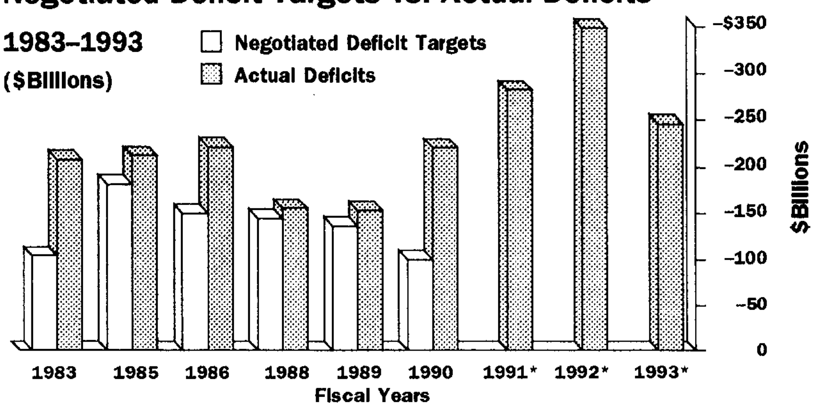
Tax Foundation Vol. 35, No. 9 October 1991

Tax Features

FY'91 Ends on Failing Budget Deal; Deficits and Spending Soar

When fiscal year 1991 closed on September 30th with a deficit $60 billion higher than last year's, American taxpayers had learned another

FAILED BUDGET DEALS:
Negotiated Deficit Targets vs. Actual Deficits



*Fixed deficit targets eliminated. Estimates from OMB Mid-Session Review (see table 1 on p. 3).
Source: Tax Foundation.

hard lesson from the budget summiteers, the President and the Congress. This is the conclusion of a new Tax Foundation Issue Brief titled, *Budget Deal Perpetuates Fiscal Failure*, by Paul G. Merski. As a result of last fall's budget summit, $164 billion in new taxes were raised and promises of spending restraint made, but instead of spending restraint, taxpayers are stuck with a higher tax burden, higher spending, record deficits and a national debt of heroic proportions. Put simply, last year's budget "deal of the century" was not a good deal for the American taxpayer.

Look Back At OBRA'90

The product of intense and prolonged budget summitry between President Bush and congressional leaders, the Omnibus Budget Reconciliation Act of 1990 (OBRA'90) promised $500 billion in deficit reduction over five years. But after only one of those five years has passed, it is already clear the U.S. is in store for the three largest annual deficits in history. For the entire

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Tax Foundation

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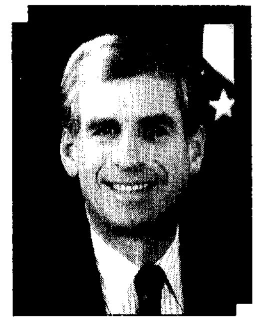
FRONT BURNER

Needed: Stability in Tax Policy



Sen. John Danforth

Each year, taxpayers must guess whether important tax incentives referred to as "extenders" will remain in Federal tax law. In a ritual that is almost institutionalized, members annually proclaim support for their favorite extender provision(s), but fail to act in a timely manner to keep the provisions in force. This year is no different.

Housing Incentives

Many of these provisions have been exceptional tools to encourage beneficial social and economic activities. Their continued existence is absolutely essential. For example, the Low Income Housing Tax Credit (LIHTC) program provides a tax credit for acquisition, rehabilitation and construction of low-income housing. The LIHTC is to expire on December 31, 1991. Since its enactment in 1986, the program has become the principal federal incentive for the production of low-income housing.

Through the credit, state housing finance agencies have helped finance more than 365,000 low-income rental units since 1986, including 126,200 in 1989. In 1989 and 1990, when new multifamily construction was declining across the board, the credit was responsible for approximately 25 percent of all multifamily rental starts. Moreover, credit-assisted production accounts for between 95 and 100 percent of low-income multifamily rental production (units that rent for less than $450/month). The National Association of Home Builders (NAHB) estimates that the credit will result in preservation of 620,000 low-income units in the next decade, and production of 640,000 new low-

See Danforth on page 2

Senator John C. Danforth, Republican from Missouri, is a member of the Senate Finance Committee and Ranking Minority Member of its Subcommittee on International Trade.

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

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income rental units.

The LIHTC has benefits extending beyond providing housing for low-income individuals. Growth in housing stock also is a tool to revitalize local economies. NAHB estimates that the LIHTC generates $140,000 of economic activity per housing unit. In addition, increased wages, property values and tax revenues from increased activity add an estimated $16.8 billion to the economy and $1.2 billion in tax revenues annually.

Planning, structuring and building a tax credit project is complicated, time-consuming and costly. A developer has little incentive to invest in such projects unless the credit is assured of continuing through the life of the project. In addition, much of the money generated for tax credit projects is accumulated through pooled equity funds. The constant uncertainty surrounding the credit's extension stifles investment in these sources of capital. A lapse in the program will severely damage investor confidence. Moreover, Congress has asked state agencies to assume major new responsibilities for the credit, but with no certainty that the program will continue.

Members annually proclaim support for their favorite extender provision(s), but fail to act in a timely manner to keep the provisions in force. This year is no different.

For these reasons, I remain firmly committed to permanent extension of the low-income housing tax credit program. Including myself and Senate Majority Leader George Mitchell, there are 83 Senate cosponsors of legislation to make the credit permanent.

A related provision to encourage housing for middle- and low-income taxpayers also is set to expire at the end of 1991. That provision provides for issuance of qualified mortgage bonds, the proceeds of which are used to finance the purchase (or qualifying rehabilitation or improvement) of single-family, owner-occupied homes within the jurisdiction of the bond issuer. (Because the interest earned on these bonds is exempt from federal income tax, the bonds provide mortgage money at lower than conventional rates.) Ninety-five percent of the bonds issued must provide funds to finance residences for mortgagors who have had no present ownership interest in a principal residence during the three-year period before execution of their respective mortgages. Along with 88 Senators, I support permanent extension of this provision.

Jobs for People with Special Needs

Another important program that will lapse at the end of the year unless action is taken by Congress is the Targeted Jobs Tax Credit (TJTC), which encourages employers to hire persons from targeted groups with special employment needs.

Over the past decade, TJTC has placed well over five million unemployed workers in private sector jobs. Last year's General Accounting Office (GAO) report on TJTC demonstrated that the credit has helped to change hiring practices and to stimulate managers to seek out, recruit, hire and retain employees of the targeted groups.

It is imperative that there be no lapse in the TJTC program. Retroactive reauthorization fails those who need it in the interim. Especially now, with current hiring levels making it more difficult for those with less skill and training to get jobs, TJTC offers disadvantaged people a chance to compete in the job market.

In addition, Job Services offices will not process letters of request for certification if there is a lapse in the program. Moreover, absent a TJTC, state agencies responsible for administering the credit will be idle, and perhaps closed. With 46 Senate colleagues, I have sponsored legislation to make the TJTC permanent.

America's Competitive Edge: R&D

American businesses would be disadvantaged by a lapse of tax incentives to spur research and development (R&D). International competition is a major challenge to the continued growth and vitality of domestic corporations. The quality and extent of domestic research and development is vital to the ability of U.S. businesses to remain competitive in international markets. Japan and Germany spend approximately one-third more of national income to develop commercially useful processes and technologies than does the U.S.

Congress has recognized the need to encourage domestic R&D spending. As a result, the R&D tax credit was developed in 1981 and has remained in the law since then. To maintain the R&D tax credit, Congress has on four occasions enacted extensions. It should not be necessary for Congress to vote on this issue annually. Yet, current budget procedures make it difficult to enact any tax bill, even one as important to our economy as the R&D credit.

Accordingly, Senator Baucus and I have introduced a bill to make permanent the R&D credit. The majority of the Senate has agreed to cosponsor this bill.

Charitable Giving

For a number of charitable organizations, gifts of appreciated property have declined since 1986, when the unrealized appreciation such gifts was made a tax preference item for purposes of the alternative minimum tax (AMT). This change in law directly and negatively affected gifts given to colleges and universities, which use such gifts for scholarship funds, endowed chairs, construction and renovation of classrooms and laboratories.

In 1990, the unrealized appreciation with respect to charitable contributions of tangible personal property was excepted from the AMT calculation. This provision is set to expire at the end of 1991. Accordingly, I have introduced legislation to encourage charitable giving by removing all gifts of appreciated property from the AMT.

Miscellaneous Incentives

Other socially beneficial tax provisions are to expire at the end of 1991. I have supported and cosponsored bills to make permanent the deduction for health insurance costs for self-employed individuals, as well as the exclusion from gross income of the cost of educational assistance to employees. Each of these provisions was enacted many years ago with sunset provisions, and has been extended by Congress numerous times.

It is time to commit ourselves to a stable and predictable policy with respect to these tax incentives. The decision should be made sooner, rather than later. These provisions have demonstrated their worth time and time again. Putting off a decision to make them permanent, yet again, merely undermines their effectiveness today. ■

Budget Summitry from page 1

five-year period governed by the agreement, an estimated $1.08 trillion will be added to the national debt. Last year's agreement contained a little-noticed provision that boosted the federal debt limit more than a trillion dollars to $4.145 trillion. But at the current pace of our deficit spending, the debt ceiling will be surpassed before FY'93, forcing the statutory debt limit to be raised yet again.

The rapidly rising net interest payments on this debt are reaching staggering proportions. In FY'92 alone, net interest on the debt will cost over $200 billion (see table 2). This amounts to 15 cents of every tax dollar sent to Washington and will cost the typical family of four $2,238 in taxes. These interest costs keep taxpayers spinning in the vicious cycle of higher taxes, higher spending, higher deficits, higher debt, and higher interest payments – leading back to higher taxes.

OBRA'90 dismissed deficit targets as a budgeting tool, replacing them with fixed annual spending caps on defense, international and domestic discretionary spending. But despite these much-vaunted spending caps, federal spending will consume a peacetime record 24.9 percent of the gross national product (GNP) in FY1992. The associated flow of deficit red ink will reach a staggering 5.9 percent of GNP, a level exceeded only once since World War II, in 1983.

Table 1

Failed Budget Deals: Negotiated Deficit Targets vs. Actual Deficits

1982–1990

($Billions)

Negotiation Year	Fiscal Year	Negotiation's Target	Actual Deficit
1982	FY'83	–$104	–$208
1984	FY'85	–181	–212
1985	FY'86	–150	–221
1987 (a)	FY'88	–144	–155
	FY'89	–136	–153
1989	FY'90	–100	–220
1990 (b)	Deficit targets eliminated		
	FY'91 (c)	-	–282
	FY'92 (c)	-	–348
	FY'93 (c)	-	–245

(a) Two-year agreement.
(b) Five-year agreement
(c) OMB 1991 Mid-Session review estimates.
Source: Tax Foundation.

The latest Office of Management and Budget figures show that the cumulative deficit for fiscal years 1991-1995 will be $555 billion higher than promised last September. This failure is largely due to the absence of anything in last year's budget agreement that will restrain the largest and fastest growing components of the federal budget. Entitlement spending and net interest payments on the debt comprise nearly 65 percent of total outlays, yet they are completely exempt from any spending caps. This "mandatory" spending will be allowed to climb an average of over 8 percent annually through 1996, more than double the projected rate of inflation during the same period.

Clearly there is little hope of reducing the deficit when 65 percent of spending is left unchecked. This is evident in the $252 billion re-estimate of deficit projections just since the February 1992 Federal Budget release. These higher deficits were primarily fueled by additional five-year cumulative spending increases of $64 billion in Medicaid, $39.2 billion in debt interest, and $11.7 billion in unemployment and food stamps.

Why Budget Deals Have Failed

Last year's budget deal's failure to control Uncle Sam's spendthrift ways comes as no surprise to experienced observers of budget summitry. Budget deals in 1982, 1984, 1985, 1987, and 1989 all fell far short of their stated goals (see table 1 and chart on page 1). OBRA90 may be a different approach to deficit reduction, but its results have been the same: higher taxes, higher spending and higher deficits.

Ironically, fiscal years not preceded by budget summits actually produced the most real deficit reduction. In FY'84, the deficit dropped $23 billion when spending growth was held to 5.4 percent – half the rate of revenue growth, and in FY'87, spending grew only 1.4 percent, enabling the budget deficit to fall a record $71.5 billion.

The new Foundation report (8pp., $5 + $2 p/h) cites three important reasons why budget summits have failed:

When the deficit reduction gets tough, the "tough" change the rules. Frustration with persistent budget deficits had provoked the passage of the original Gramm-Rudman-Hollings law (GRH-I) that promised a balanced budget by 1991, but when the time came for the promised spending cuts, lawmakers avoided any tough choices by raising taxes, rewriting GRH-I, and promising a balanced budget two years down the road in 1993 under GRH-II. When the bite in GRH-II would have forced spending restraint, it was time to rewrite the rules again, and the promised balanced budget was pushed back to 1996.

Table 2

Gross Federal Debt, Public Debt, and Interest Payments

Fiscal Years 1980-1992

($Billions)

Year	Public Debt	Gross Federal Debt	Federal Net Interest Payments
1980	$709.3	$908.5	$52.5
1981	784.8	994.3	68.7
1982	919.2	1,136.8	85.0
1983	1,131.0	1,371.2	89.8
1984	1,300.0	1,564.1	111.1
1985	1,499.4	1,817.0	129.4
1986	1,736.2	2,120.1	136.0
1987	1,888.1	2,345.6	138.6
1988	2,050.3	2,600.8	151.7
1989	2,190.3	2,867.5	169.2
1990	2,410.4	3,206.3	184.2
1991	2,717.6	3,617.8	197.0
1992	2,995.4	4,021.1	206.3

Source: Office of Management and Budget.

Tax increases which take effect immediately are paired with pledged spending reductions in future years. Every budget summit deal has included significant tax increases, and last fall's $164 billion in additional revenues over five years was the second largest tax increase in history. This was "balanced" with large amounts of projected government scrimping and saving, but unlike new taxes which are collected as soon as they're enacted, long-term spending cuts demand constant discipline that has not been witnessed over the past decade. The only spending cuts that can be counted on are cuts in the current fiscal year, not promised future cuts from built-in spending increases.

Government spending has outpaced both revenues and inflation. Between FY'81 and FY'91, revenues have grown a hefty 78.3 percent, but spending levels doubled, rising 22 percentage points faster than revenues. Spending growth averaged 7.9 percent annually, a full 3.2 percentage points higher than needed to keep pace with the decade's 4.7 percent average inflation rate. Clearly, the deficit cannot be reduced if spending is allowed to outpace the growth in revenues and inflation.■

State Tax Collections Break $300 Billion Mark in FY'90

State tax revenues broke the $300 billion barrier in FY'90, up 5.7 percent to $300.5 billion from $284 billion in FY'89, according to a new Tax Foundation Special Report titled *Survey of State Tax Rates and Collections,* by Gregory S. Leong.

Revenue from severance, property, and death and gift taxes grew the fastest, but most of the new funds came from the mainstays of state government finance —personal income tax and general sales tax. State government's take from personal income rose 8.2 percent to $96.1 billion, while sales tax revenue rose 6.6 percent to $99.7 billion. Together, they accounted for more than 65 percent of the tax pie. The third most prodigious revenue producer for state governments is corporate income taxes, which have been increasing rapidly and represented 7.3 percent of total collections in FY'90, or $22 billion.

Over the course of the 1980s, state tax collections grew at an average rate of 8.6 percent, outpacing inflation by more than 3 percentage points and personal income by 0.6 percentage points. Personal income, insurance, and sales taxes grew the fastest, jumping 159 percent, 138 percent, and 131 percent respectively.

Tax Burden Per Capita

The average state tax burden per capita rose $62, from $1,148.52 in FY'89 to $1,211.14 in FY'90. Alaskans paid the highest per capita taxes in the country, $2,811.49 per resident. Hawaii ($2,106.78), Delaware ($1,695.59), and Connecticut ($1,602.62) rank two-three-four in taxes per person. Taxpayers in New Hampshire ($536.67), South Dakota ($718.52), and Texas ($866.36) will shoulder the lightest per capita state tax burdens (see table at right).

Taxes Per $1,000 of Personal Income

In state level taxes, taxpayers paid a national average of $64.87 per $1,000 of personal income earned, or an average effective rate of 6.49 percent. Thirty-one states and the District of Columbia surpassed this national average rate. Alaska, second only to the District of Columbia, had the highest effective rate, 12.9 percent, nearly double the national average. By comparison, taxpayers in New Hampshire paid 2.6 percent of their personal income in state taxes. The ten states which take the highest percentage of personal income were:

Alaska	12.9	Minnesota	8.3
Hawaii	10.4	Wyoming	8.2
New Mexico	9.3	Washington	8.1
West Virginia	9.0	Kentucky	7.7
Delaware	8.5	Wisconsin	7.7

In contrast, the ten states in which taxpayers paid the lowest effective tax rates per $1,000 of personal income were:

New Hampshire	2.6	New Jersey	5.4
South Dakota	4.5	Tennessee	5.5
Colorado	5.0	Missouri	5.5
Texas	5.2	Florida	5.5
Virginia	5.4	Illinois	5.6

[This annual review of state tax developments (6pp., $5 + $2 p/h) can be ordered by phone or mail.] ■

Total State Level Tax Collections Per $1,000 in Personal Income and Per Capita Tax Burden

Fiscal Year 1990

State	Per $1000 of Income	Rank Per Capita	Per Capita (a)	Personal Income (b) ($Millions)	Total Tax Revenue ($Millions)
Total	$64.87	-	$1,211.14	$4,632,380	$300,488.6
Alabama	63.76	44	945.29	59,907	3,819.5
Alaska	129.20	1	2,811.49	11,969	1,546.4
Arizona	73.27	20	1,194.13	59,732	4,376.8
Arkansas	67.65	42	961.80	33,423	2,260.9
California	70.16	9	1,458.98	618,850	43,419.2
Colorado	49.57	45	931.71	61,916	3,069.4
Connecticut	63.20	4	1,602.62	83,355	5,268.0
Delaware	84.62	3	1,695.59	13,349	1,129.6
Florida	55.27	37	1,027.17	240,459	13,289.5
Georgia	64.49	31	1,092.62	109,765	7,078.2
Hawaii	104.02	2	2,106.78	22,446	2,334.8
Idaho	74.61	25	1,131.11	15,262	1,138.7
Illinois	55.55	27	1,127.72	232,071	12,890.5
Indiana	65.26	30	1,100.55	93,494	6,101.6
Iowa	69.17	21	1,193.15	47,897	3,313.1
Kansas	59.89	32	1,077.26	44,562	2,669.0
Kentucky	77.44	24	1,156.13	55,019	4,260.7
Louisiana	67.29	40	968.42	60,730	4,086.7
Maine	73.90	16	1,271.14	21,120	1,560.9
Maryland	61.70	11	1,348.99	104,543	6,450.1
Massachusetts	68.78	7	1,557.26	136,226	9,369.1
Michigan	66.52	19	1,220.34	170,534	11,343.4
Minnesota	83.21	6	1,558.65	81,948	6,819.3
Mississippi	73.11	46	931.08	32,770	2,395.9
Missouri	55.16	41	965.23	89,535	4,939.2
Montana	71.04	33	1,073.36	12,074	857.7
Nebraska	55.66	43	958.53	27,182	1,512.9
Nevada	67.85	15	1,317.39	23,335	1,583.3
New Hampshire	25.82	50	536.67	23,060	595.3
New Jersey	54.06	10	1,349.76	193,008	10,433.9
New Mexico	93.43	14	1,329.34	21,556	2,014.0
New York	72.38	5	1,590.54	395,336	28,614.6
North Carolina	73.23	22	1,186.48	107,403	7,864.7
North Dakota	69.48	35	1,059.97	9,745	677.1
Ohio	60.34	36	1,054.32	189,537	11,436.4
Oklahoma	71.57	29	1,105.31	48,581	3,476.9
Oregon	57.13	39	980.15	48,762	2,785.9
Pennsylvania	59.59	28	1,112.61	221,850	13,219.7
Rhode Island	65.23	18	1,229.05	18,906	1,233.3
South Carolina	74.73	26	1,128.40	52,646	3,934.4
South Dakota	45.27	49	718.52	11,047	500.1
Tennessee	55.09	47	870.38	77,052	4,245.0
Texas	51.70	48	866.36	284,678	14,716.5
Utah	72.87	38	1,026.20	24,263	1,768.0
Vermont	67.85	23	1,183.00	9,812	665.7
Virginia	54.02	34	1,066.77	122,178	6,600.5
Washington	80.88	8	1,525.29	91,774	7,423.1
West Virginia	90.44	17	1,243.25	24,655	2,229.7
Wisconsin	76.59	13	1,340.57	85,620	6,557.7
Wyoming	82.23	12	1,348.39	7,438	611.6
Exhibit: Dist. of Col.	157.43	-	3,806.74	14,675	2,310.3

(a) Population as of June 1990.
(b) Personal income is the sum of the State estimates. It omits the earnings of Federal civilian and military personnel stationed abroad and of U.S. residents employed abroad temporarily by private U.S. firms.
Source: U.S. Department of Commerce, Bureau of the Census, Bureau of Economic Analysis, and Tax Foundation computations.

Seminar Examines Pennsylvania Tax Policy

Pennsylvania's passage in the recently completed legislative session of a budget that will raise $3.3 billion in new revenue occasioned a Tax Foundation conference on state tax policy in Pittsburgh on October 8. Corporate executives, university scholars, concerned taxpayers, and members of the business press met to discuss the role of state tax policy in the local economy.

"Pennsylvania's Ailing Fiscal Condition — Is There a Cure?" was the question posed to the first panel. The subject was addressed by Charles L. Potter, Partner, Rose, Schmidt, Hasley & DiSalle; John Dankosky, Executive Director, Pennsylvania Business Roundtable; Robert P. Strauss, School of Urban and Public Affairs, Carnegie Mellon University; Paul Flora, Regional Economist, PNC Financial Corp.; and Don Eberly, President, The Commonwealth Foundation, with KDKA-TV editor Bill Flanagan moderating.

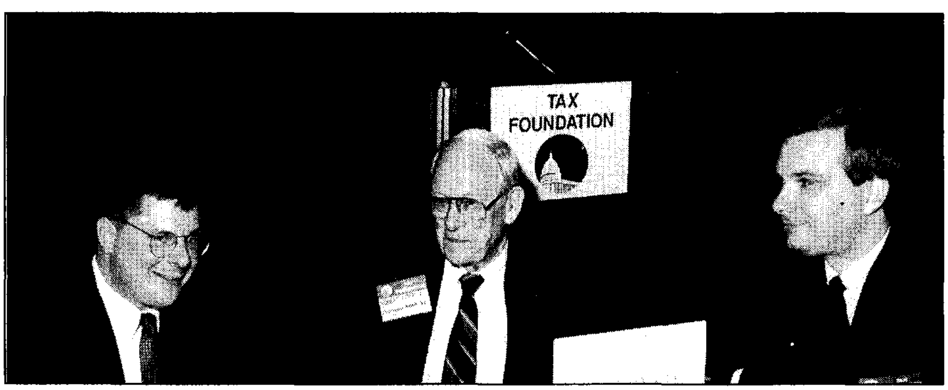
"Mapping Out Long-Term Policies for Economic Growth" was the theme of the second panel. Chet Wade, Business Editor, Pittsburgh Post-Gazette moderated discussion by Kevin C. Sontheimer, Professor and Chairman of Economics, University of Pittsburgh; Lewis B. Lee, Director - State Division, Pennsylvania Economy League, Inc.; Albert E. Germain, Vice President - Taxes & Tax Counsel, Alcoa; and John D. Luffe, Director of U.S. Taxes, PPG Industries, Inc.

▲ *Luncheon speaker John Fund, editorial writer for the* **Wall Street Journal.**

John Fund, an editorial writer for the *Wall Street Journal,* gave a luncheon address on the unresponsiveness of politicians to taxpayer concerns and the resulting deleterious effects on tax policy.

Transcripts are available from the Foundation's offices. ■

◀ *From left: Paul Merski, Director of Fiscal Affairs, Tax Foundation; Don Eberly, President, The Commonwealth Foundation; and Kevin Sontheimer, Professor of Economics, University of Pittsburgh.*



▲ *From left: Dan Witt, executive director of the Tax Foundation, chats with Robert Eberly of Eberly and Meade and John Fund, editorial writer for the Wall Street Journal.*

Foundation to Hold Seminar on Corporate Tax Compliance

In conjunction with the San Francisco and Santa Clara Valley chapters of Tax Executives Institute, the Foundation is presenting a half-day seminar on the subject of corporate tax compliance. The program will be held at the San Francisco Airport Hilton Hotel on Wednesday, December 4, 1991, from 8:30 a.m. to 1:30 p.m. The program represents the initial stage of a major project which the Tax Foundation has undertaken to study the cost and other aspects of corporate tax compliance. The project will include the authorship of a study on the subject by Professor Joel Slemrod, director of the University of Michigan's Office of Tax Policy Research.

See program below; call Ron Bunn with inquiries: 202-863-5454. ■

8:30 a.m.	***Registration***
9:00	***Welcome:*** **W. Ronald Bunn** **Director of Corporate Development, Tax Foundation**
	Session I — Tax Compliance Costs: Industry and Government Perspectives
	Moderator: **Floyd L. Williams, III** **Chief Tax Counsel, Tax Foundation**
	Industry Panel: **Martin Sooper** **Director of Taxes, Pacific Telesis**
	Peter Compagna **Tax Compliance Manager, Intel Corp.**
	J.P. LaCasse **Director of Taxes, American President Cos.**
	Richard C. Lam **Manager – Tax Audit, Chevron Corporation**
	Patricia M. Kaltz **Director of Taxes & Tax Counsel, Nellcor, Inc.**
	Government Panel: **John Monaco** **Executive Director, Office of Coordinated Examination Programs, IRS**
	Scott McLeod **Legislation Counsel, Joint Committee on Taxation**
	Dianne Sullivan (Invited) **Tax Legislative Assistant to Congressman Robert Matsui (D-CA)**
10:15	***Coffee Break***
11:30	***Session II — Getting a Fix on the Cost of Compliance***
	Dr. Joel Slemrod **Director, Office of Tax Policy Research, University of Michigan**
12:30 – 1:30	**Luncheon** ***Speaker:*** **Robert P. Wayman** **Senior Vice President and Chief Financial Officer, Hewlett-Packard**

Tax Foundation's
43rd National Conference/54th Annual Dinner

Fiscal Policies for the New World Order

Wednesday, November 20, 1991, *The Waldorf-Astoria,* New York City

The Waldorf-Astoria is located at 301 Park Avenue, New York, NY 10022

Registration/Light Fare	12:00 noon	Jade Room
Conference Sessions	1:00 p.m.	Jade Room
Reception	6:00 p.m.	Palm Room
Dinner (Black Tie optional)	7:00 p.m.	Starlight Roof

- Professors and students can participate in the conference through the Foundation's College Classroom Program.
- Hotel room reservation deadline for the Waldorf-Astoria is November 7, 1991. Call the Waldorf directly at 212/872-4534.
- Conference and dinner reservations should be received by November 15, 1991. (Written cancellations for refunds accepted through this date only.)
- Questions about the conference and dinner should be directed to: Dee Dee Hannum, 202/863-5454. Fax 202/488-8282.

12:00 **Registration** — ***Light Fare***

1:00 **Welcome** — ***Dan Witt***
Executive Director
Tax Foundation

Session I — ***Tax Progressivity - The Facts of the Fairness Debate***
This session will be devoted to analyzing the distribution of the tax burden among income classes. Will rhetoric or research on the true distribution prevail in the debate on future tax policy?

Panel Chairman — ***Floyd L. Williams***
Chief Tax Counsel
Tax Foundation

Speakers

Bruce R. Bartlett
Deputy Assistant Secretary for Policy Analysis
Department of the Treasury

Wendell Primus
Chief Economist
House Committee on Ways and Means

Norman B. Ture
President
Institute for Research on the Economics of Taxation

Paul W. McCracken
Edmund Ezra Day Professor of Business Administration
University of Michigan

Tony Coelho
Managing Director & Chief Operating Officer
Wertheim, Schroeder & Company

3:00 **Break**

3:15 **Session II** — ***Tax Policy in a Global Economy - How Well Can the U.S. Compete?***
This session will explore the role that tax law plays in the ability of U.S. multinationals to compete in a global market, as well as the ability of foreign-owned U.S. corporations to compete in the U.S. Will U.S. tax policy be out of tune with the global economy after European harmonization?

Panel Chairman — ***William Glasgall***
International Economics Editor, Business Week

Speakers

Lawrence Kudlow
Senior Managing Director and Chief Economist
Bear Stearns & Co.

Alan Auerbach
Professor of Economics
University of Pennsylvania
Consultant to the Joint Committee on Taxation

Sidney L. Jones
Assistant Secretary for Economic Policy
Department of the Treasury

Ray Haas
International Tax Partner
Ernst & Young

5:00 **Adjournment**

Registration Form

Name ______________________________

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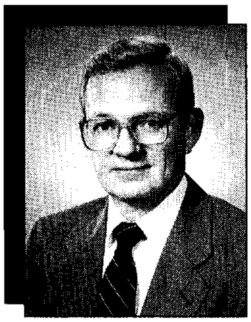
Please return registration form with payment to:

Tax Foundation
470 L'Enfant Plaza, SW, #7400
Washington, DC 20024
Attn: Dee Dee Hannum
Phone: 202/863-5454
Fax : 202/488-8282

Conference Fee:
Member/$100, Non-Member/$125

Reception/Dinner: $250

Paul O'Neill to Receive Distinguished Service Award for Private Sector



Paul O'Neill
Chairman & CEO
Alcoa

Paul O'Neill, director, chairman of the board and chief executive officer of Alcoa, will receive the Tax Foundation's 1991 Distinguished Service Award for the Private Sector at the Foundation's annual dinner to be held on November 20 in New York City. He will be joined on the podium by Senator Max Baucus, whose contributions in the public sector will be recognized.

Mr. O'Neill was serving Alcoa as a director when he was elected chairman and chief executive officer in April 1987.

Prior to joining Alcoa, Mr. O'Neill was president of International Paper Company. He joined International Paper in 1977 as vice president - planning. Four years later, he was named senior vice president - planning and finance, and in 1983, senior vice president of the company's paperboard and packaging segment. Mr. O'Neill was named president in 1985.

He began his career as an engineer for Morrison-Knudsen, Inc., in Anchorage, Alaska. He worked as a computer systems analyst with the U.S. Veterans Administration from 1961 to 1966 and served on the staff of the U.S. Office of Management and Budget from 1967 to 1977. He was deputy director of the OMB from 1974 to 1977.

Mr. O'Neill was born December 4, 1935, in St. Louis, Missouri. He received his B.A. in economics from Fresno State College and a master's degree in public administration from Indiana University. He has participated in graduate programs in economics at Claremont Graduate School and George Washington University.

The award will be presented at a dinner following the Foundation's 43rd annual conference. Panel discussions on tax fairness and global competitiveness will feature the distinguished guests listed on the registration form at left. ■

FOUNDATION MESSAGE

Now Is The Time To Deal With Expiring Tax Provisions

Floyd L. Williams
Chief Tax Counsel

Unless Congress acts by the end of the year, several tax provisions will expire. In fact, one — the rules for allocating and apportioning research expenses — already expired on August 1, 1991. The remaining provisions, which are scheduled to expire after December 31, 1991, are a mixture of exclusions, exemptions, credits, a deduction, and a minimum tax exception.

The expiring exclusions are those for employer-provided educational assistance benefits and group legal services benefits. The expiring exemptions are those for qualified mortgage bonds and qualified small-issue manufacturing bonds. The credits that will not see the sunlight after year's end are the tax credit for qualified research expenditures, the tax credit for low-income rental housing, the targeted jobs tax credit, business energy tax credits for solar and geothermal property, and the tax credit for orphan drug clinical testing expenses. Finally, the deduction for health insurance costs of self-employed individuals and the minimum tax exception for gifts of appreciated tangible property are both set to expire at year's end.

The time has come for Congress to deal with these expiring tax provisions. While the idea of "sunsetting" a provision in order to test its merit may make sense when dealing with a novel matter, most of these tax provisions have been around long enough that they ought either to be extended permanently or allowed to expire and not be resurrected. If allowed to expire, the revenues thus generated could be used for across-the-board tax reduction, thus benefitting the economy as a whole, rather than a particular segment.

As noted by Senator Danforth in the "Front Burner" column (see page 1), each of these provisions has some merit and each has its own constituency. For example, the tax credit for research expenditures encourages American businesses to come up with new innovations and compete better in an increasingly global marketplace. Accordingly, eliminating any one of these provisions would require the Congress to make hard choices.

Decisive Congressional action would add a measure of stability and certainty to the tax law. It is very difficult for businesses to plan more than one year ahead if they do not know whether a tax provision is going to survive from one year to the next. For example, businesses that are planning to undertake long-term research projects should be able to calculate, with some degree of certainty, the cost of that research. Likewise, because construction projects have a relatively long lead-time, builders need to know whether the low-income housing tax credit will be available when an affordable housing project is placed in service sometime in the future. Furthermore, firms that are projecting long-term hiring costs would like to know whether or not they will be able to count on the targeted jobs tax credit being available.

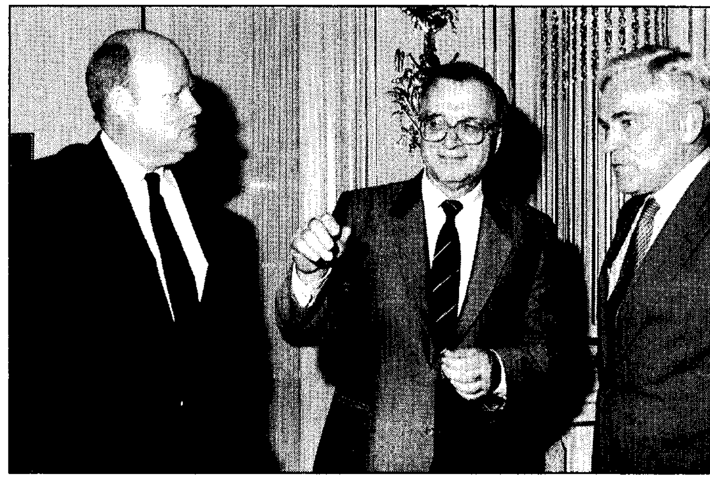
To deal with these temporary tax provisions, once and for all, would fulfill at least four of the Tax Foundation's principles of taxation. First, there would be careful analysis to determine which provisions should be kept, and, if necessary, improved. Moreover, the need for retroactive changes to the tax law would be minimized. Finally, there would be some stability, and, thus, simplicity injected into the Internal Revenue Code.

Press Conference at Soviet Embassy Announces Moscow Business Conference

Soviet President Mikhail S. Gorbachev has invited the Tax Foundation and the Foundation for International Cooperation and Development to sponsor the Moscow Business Conference at the Kremlin, December 2-7, 1991. The event will also serve as the kickoff to a program in Soviet schools run by Junior Achievement.

Viktor Komplektov, the U.S.S.R.'s Ambassador to the United States, made the announcement on October 4 with James B. Hayes, chairman of Junior Achievement; and James C. Miller III, Co-Chairman of the Tax Foundation and former Director of the Office of Management and Budget under President Reagan. Miller and Arkady Volsky, a member of the four-man Committee on Economic Management formed after the failed coup, are co-chairing the Moscow Business Conference.

Miller called the conference, which will unite more than 1,500 Soviet and American business and government leaders, "the first major bilateral conference in the post communist era to discuss banking, finance, ruble convertibility, joint ventures, taxation reforms and property ownership by Soviets and foreign investors." ■



Speaking at center: Viktor Komplektov, Ambassador from the USSR to the United States. Listening at left is James C. Miller III, Co-Chairman of the Tax Foundation and of the Moscow Business Conference. At right is the chairman of Junior Achievement and publisher of Fortune, ***James B. Hayes.***

From left: Dan Witt, Executive Director, Tax Foundation; James C. Miller III, Co-Chairman of the Tax Foundation and of the Moscow Business Conference; and Viktor Komplektov, Ambassador from the USSR to the United States.

To attend the conference, call 202-863-7651.

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