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Regan's tax plan would help nation

By JOSEPH A. PECHMAN
Special to The Washington Post

Ever since Secretary Donald Regan released the Treasury's constructive and far-reaching proposal to reform individual and corporate income taxes and reduce tax rates, the special interests have been blasting it from all sides. Business lobbyists see in it a plot to undermine their firms or industries, labor leaders say that it will hurt the wage earner, governors are arguing that taxpayers in their states will pay billions in higher taxes, nonprofit groups think that charitable contributions will dry up, and so on. Nobody bothers to mention the basic features of the plan that make all these charges look silly.

Take the taxation of business and capital income. Today's tax system is a hodgepodge of preferences that exacts high tax payments from some firms and industries and subsidizes others. The tax shelter industry has mushroomed to take advantage of the loopholes. Investors hesitate to take long-term risks because inflation increases the burden of taxation on capital income. The results are distortions in the economy and slower economic growth.

All of this would be swept away by the Treasury plan. The depreciation allowances would be sufficient to permit every business to recover its investment in full, even at high inflation rates. Capital gains and interest income would be adjusted for inflation, so that taxes would no longer be levied on illusory incomes. Half of all dividends would not be taxed at the corporate level.

The business world would certainly be different from what it is today, but the change would be all to the good. Effective tax rates would be more uniform among different industries. Big, stodgy capital-intensive industries would no longer be favored over growing, innovative industries, particularly those in high technology. Equity financing would become more attractive relative to debt financing. Business decisions would again be made on the basis of market rather than tax considerations. Businessmen and investors should be delighted with these changes.

The elimination of some personal deductions and the exclusions for some fringe benefits will not hurt labor. To offset these changes, the personal exemption would be doubled to $2,000, the standard deduction would be increased from $2,300 to $2,800 for single persons and $3,400 to $3,800 for married couples, and marginal tax rates would be cut for most workers. On the average, taxes would be cut about a third for taxpayers with incomes below $10,000, by a sixth for those with incomes between $10,000 and $15,000, an eighth for those between $15,000 and $30,000, and a tenth for those between $20,000 and $30,000. For all taxpayers, the average tax cut is 8.5 percent. This is as progressive a tax cut as the 1964 tax cut was. How can labor leaders argue that workers will be hurt?

Governors in high-tax states are arguing that their constituents will be losing billions of dollars as a result of the denial of deductions for state and local taxes. This allegation assumes that there would be no cut in tax rates. In fact, the top federal tax rate would go down from 50 percent to 35 percent, a reduction that would still leave the top combined federal and state income tax in all states much lower than it is now. The combined rate would go down from 52.5 percent to 40 percent in a state with a top rate of 5 percent, from 55 percent to 45 percent in a state with a top rate of 10 percent, and from 57.5 percent to 50 percent in a state with a top rate of 15 percent. It is true that taxpayers in high-tax states would pay relatively more taxes than those in low-tax states. But the average taxpayer everywhere would get a tax cut.

Non-profit organizations are saying that the proposed 2 percent floor on the deduction for charitable contributions will discourage philanthropic giving. It's doubtful that the average taxpayer has been motivated by tax considerations in giving to his church, the Red Cross, the local United Givers Fund or the Girl Scouts. The new proposal retains a full deduction for the amount of contributions above the 2 percent of income, thus giving taxpayers a considerable incentive to exceed the threshold. Furthermore, the limit on charitable deductions of 50 percent of income would be lifted, a feature of the plan that would encourage wealthy taxpayers to give more to their alma maters, local operas, symphonies and museums. It's true that the reduction of the marginal tax rates will increase the price of charitable giving, but I doubt that the nation's philanthropists would wish to oppose a general cut in tax rates on this basis.

The federal tax system is unfair, inefficient and complex. There is widespread agreement that something needs to be done to eliminate the distortions and to simplify it. The Treasury's proposal is along the same lines as the Bradley-Gephardt, Kemp-Kasten and other congressional tax reform plans. There is no reason why the differences among these plans cannot be reconciled.

But the steam behind the tax reform movement will evaporate if the general public allows the special interests to take control of the debate. It's time for the average worker, investor or businessman to make his views known. Only then will the administration and Congress listen.

Joseph A. Pechman is former director of economic studies and is now a senior fellow at the Brookings Institution.

Exhibit 3
HB 62
1/14/85
Bradley

(2)

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

January 8, 1985

The first organizational meeting of the Taxation Committee was called to order by Chairman Gerry Devlin on January 8, 1985 at 9:05 a.m. in room 312-1 of the state capitol building.

ROLL CALL: All members were present with the exception of Representative Harp, who was absent. Also present was Dave Bohyer, Legislative Researcher for the Legislative Council.

All members introduced themselves to the committee and gave a brief history of their legislative experience and what district they represented.

Chairman Devlin informed the committee that there were many bills in committee, but they lacked fiscal notes for these bills, that they have been requested and the Budget and Program Planning Office has up to six days to furnish them. He stated that they may be able to have hearings by Thursday or Friday and that there were two bills scheduled to hear tomorrow.

Chairman Devlin requested that if any amendments are being offered that are long and extended, that they be given to the researcher so they can be printed and then the committee will take action on them.

He also stated that they will try to take executive action as soon as possible after a bill has been heard and if any subcommittees are appointed, they will consist of two Republicans and two Democrats. He instructed the committee that any tie votes will go to the floor of the House with no recommendation.

He explained that the committee hearings will consist of an opening by the sponsor, statements from the proponents and the opponents and then questions from the committee. The sponsor will then close and the hearing will be closed. He indicated that there will be no further questions allowed once the hearing has been closed.

He noted that in 1981, there were 190 pieces of legislation that passed through the Taxation Committee and, in 1983, there were 156.

The question was asked if the committee members would be allowed to ask questions of the witnesses for clarification during the executive session. Chairman Devlin responded that if there was no objection from any member of the committee, then they could ask a question - if there was any objection, then it would not be allowed.

ADJOURNMENT: There being no further business, the meeting was adjourned at 9:24 a.m.

Gerry Devlin

GERRY DEVLIN, Chairman

Alice Omang

Alice Omang, Secretary

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date January 8, 1985

NAME	PRESENT	ABSENT	EXCUSED
DEVLIN, GERRY, Chrm.	X		
WILLIAMS, MEL, V. Chrm.	X		
ABRAMS, HUGH	X		
ASAY, TOM	X		
COHEN, BEN	X		
ELLISON, ORVAL	X		
GILBERT, BOB	X		
HANSON, MARIAN	X		
HARRINGTON, DAN	X		
HARP, JOHN		X	
IVERSON, DENNIS	X		
KEENAN, NANCY	X		
KOEHNKE, FRANCIS	X		
PATTERSON, JOHN	X		
RANEY, BOB	X		
REAM, BOB	X		
SANDS, JACK	X		
SCHYE, TED	X		
SWITZER, DEAN	X		
ZABROCKI, CARL	X		