THE ROSTY HORROR TAX BILL SHOW

House Ways and Means Committee Chairman Dan Rostenkowski, fondly known as "Rosty," has labored hard to draft a tax bill. In so doing, he has produced a horror. It differs significantly from the tax reform principles embodied in Ronald Reagan's proposal and is unacceptable to those committed to economic growth, job creation, and a more competitive U.S. economy. It dilutes the Reagan plan's marginal rate cuts, raises the cost of capital to business, reduces savings incentives, and fails even to achieve much simplification. At a time of growing concern about America's ability to compete in the world, the Committee bill imposes new tax burdens on U.S. industry, commerce, and entrepreneurs. The bill achieves neither fairness, growth, nor simplicity. Its most serious flaws are:

1) Tax Rates on Individuals. The bill establishes a higher top rate than that proposed by Reagan--38 percent vs. 35 percent. And Americans, under the Committee bill, will move into higher brackets sooner at lower thresholds than under the Reagan proposal. This means that marginal tax rates will be higher for virtually all taxpayers under the Ways and Means bill. Since it is the marginal tax rate that is most significant in terms of incentives, this is the most serious problem with the bill.

Joint Returns, Taxable Income

Rate	Ways and Means	Reagan Proposal
15 percent	up to $22,500	up to $29,000
25 percent	$22,500 - $43,000	$29,000 - $70,000
35 percent	$43,000 - $100,000	above $70,000
38 percent	above $100,000	

2) The Extra Bracket. The addition of an extra top rate of 38 percent makes little economic sense, since very little revenue will be

generated by it. It seems that it was added solely to appeal to those still interested in the symbols of wealth redistribution.

3) Corporate Rates. The bill would set a higher corporate tax rate than the Reagan plan: 36 percent vs. 33 percent. Higher corporate tax rates simply mean higher taxes on capital.

4) State and Local Tax Deduction. The bill would retain full deductibility of state and local taxes; the Reagan proposal would eliminate it. Retaining deductibility forces taxpayers in low-tax states to subsidize those in high-tax state and forces low-income taxpayers to subsidize high-income taxpayers. Retention of deductibility encourages excessive spending and taxation at the state and local level. Eliminating or scaling back this deduction would allow tax rates to be scaled back as well.

5) Depreciation. Schedules for depreciation of plant and equipment are lengthened from the Reagan proposal, in which they already are longer than current law in most cases. Indexing of depreciation is also eliminated, thus making firms again vulnerable to inflation-generated tax increases. The effect is to raise the cost of capital, slow growth and investment, and reduce American competitiveness.

6) Capital Gains. The bill would raise the maximum tax rate on long-term capital gains from the current 20 percent to 22 percent, significantly above the 17.5 percent rate proposed by Reagan. Evidence strongly indicates that the 1978 and 1981 capital gains tax cuts strongly encouraged growth and investment and, in fact, increased tax revenue. This suggests that the bill may lose, rather than raise, revenue.

7) Minimum Tax. The bill sets a higher minimum tax rate than proposed by Reagan--25 percent vs. 20 percent--and greatly expands the number of tax preferences subject to the tax. The result will be an erosion of investment incentives, higher taxes on capital, and increased complexity in the tax law.

8) Personal Exemption. The $2,000 personal exemption was a cornerstone of the Reagan proposal, designed to relieve some of the tax burden on families. The Ways and Means measure would permit the $2,000 exemption only for those who do not itemize their tax returns; itemizers could take only a $1,500 exemption.

9) Savings Incentives. The bill reduces savings incentives, especially 401K plans. Yet the U.S. needs more saving, not less.

10) Research and Development. The R&D tax credit would be scaled back, with a very damaging impact on U.S. high technology industries.

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