

CTJ's Presidential Candidate Tax Policy Scorecard

In the past two decades, Congress has frequently discussed, and often enacted, substantial revisions to the federal tax code. During this period, members of both houses have had many opportunities to vote on legislation that promised to reshape the federal tax system for better or for worse. CTJ has selected ten of the most important tax-related bills debated between 1981 and 1999 that allowed legislators to express and define their positions on issues of tax equity, economic efficiency and fiscal responsibility through important roll call votes. The tax votes included in our analysis of candidate voting records include all of the major pieces of tax legislation enacted in the past two decades and several major bills which were passed by Congress and subsequently vetoed by the President. In what follows, we describe the details, political environment and consequences of each of the bills selected for our analysis. The attached candidate profiles describe each candidate's vote on the bills, coupled with relevant quotes (if any) from the Congressional Record that help explain each candidate's position. For each bill, we also have specified which position (that is, "yes" or "no") best supports the goals of tax equity, economic efficiency and fiscal responsibility. Throughout the analysis, we refer to this preferred vote as the "best" vote on each bill.

Important Congressional Tax Votes, 1981-1999

The Economic Recovery Tax Act of 1981.

The Economic Recovery Tax Act of 1981 (ERTA) embodied the "supply-side" vision of the newly elected President Ronald Reagan. ERTA was designed to reduce federal tax collections by \$872.6 billion over the 1981-86 period. Among the provisions of ERTA were:

- # An across-the-board reduction in personal income tax rates of 25 percent, phased in over three years.
- # Dozens of new corporate tax breaks, led by a new system of depreciation that actually produced negative effective tax rates on the profits from new investments.
- # A reduction in the top estate tax rate and a phased-in increase in the exemption.
- # Numerous new tax breaks for individuals with savings.

Many of the corporate tax breaks enacted in ERTA were ultimately repealed by loophole-closing legislation later in the 1980s. The long-term legacy of the 1981 Act including declining federal tax revenues, decreased progressivity in the federal tax system and a much higher national debt.

The best vote on the conference committee report of ERTA was "NO."

The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982.

Soon after the enactment of the 1981 tax cuts, the economy entered a deep recession, as the Federal Reserve tightened monetary policy in response to the huge budget deficits that the tax cuts engendered. Meanwhile, stories about widespread corporate tax avoidance stemming from the 1981 corporate tax breaks were causing a public outcry. Congressional tax-policy makers, led by Sen. Bob Dole (R-Kan.), decided that many of the 1981-enacted corporate tax loopholes would have to be scaled back to address the deficit problem and get the economy back on track. Following passage of the 1982 Tax Equity and Fiscal Responsibility Act, the Fed lowered interest rates and the economy began to recover from the 1981-82 recession. The bill's revenue-increasing, loophole-closing measures also helped provide a blueprint for the larger-scale loophole-closing provisions later enacted in the 1986 Tax Reform Act.

The best vote on the conference committee report of TEFRA was "YES."

The Deficit Reduction Act of 1984 (DEFRA)

The tax provisions of the Deficit Reduction Act of 1984 represented Congress's continued efforts to stem rising federal budget deficits. The bill added \$103 billion to revenues over five years, mainly by loophole-closing measures directed at corporate tax abuses.

The best vote on the conference committee report of DEFRA was "YES."

The Tax Reform Act of 1986

The Tax Reform Act of 1986 was a monumental piece of tax reform legislation designed to close loopholes and lower income tax rates, while maintaining revenues and enhancing progressivity. The bill curbed the most egregious high-income and corporate tax shelters that had become endemic after the 1981 supply-side tax act, and turned hundreds of large, profitable corporate tax freeloaders back into corporate taxpayers again. Overall, the bill closed an estimated \$500 billion in loopholes over five years, and used those revenues to reduce tax rates.

The bill reduced personal income taxes for all income groups, including a major expansion of the earned-income tax credit for low-income working families. Despite a sharp reduction in the corporate tax rate, the bill's corporate loophole-closing measures increased net corporate tax payments by enough to offset the personal tax cuts.

The key House vote on the Tax Reform Act came on December 11, 1985, when the House voted on passage of its version of the measure. Realizing that the bill represented a fundamental reversal of the loophole mentality that underlay the 1981 tax act, recalcitrant supply-siders in the House led a revolt against the bill. In fact, they succeeded in defeating the rule allowing House consideration of the measure. Only intense lobbying by the Reagan administration (which had repudiated its

enthusiasm for loopholes after 1981) was able to reverse that defeat on the House floor. The bill was passed and sent to the Senate a few days later. In mid-1986, the House and Senate passed the Tax Reform Act of 1986, and it was signed by President Reagan.

The best vote on the House rule—and on final passage of the conference committee report—was “YES.”

The Omnibus Budget and Reconciliation Act of 1987.

This was the first House vote on taxes after passage of the 1986 Tax Reform Act. Trying to stay true to the spirit of tax reform, the House Ways and Means Committee reported a bill to the House floor that avoided any significant changes in personal income taxes other than a measure capping mortgage interest deductions at \$1 million in debt. Most of the revenues needed to meet the budget targets were raised through further corporate tax reforms, plus small increases in various federal excise taxes. As a result, the overall bill was generally progressive in its distribution, although the deficit reduction achieved by the bill was comparatively modest.

The best vote on the conference report of OBRA was “YES.”

The Omnibus Budget and Reconciliation Act of 1990.

This is the bill that most people remember as President Bush’s breaking of his “no new taxes” campaign pledge. An initial version of the bill concentrated on increases in regressive excise taxes to meet deficit-reduction targets, but that version was rejected by the House. Subsequently, the Ways and Means Committee crafted a bill that scaled back the excise tax hikes, increased the top income tax rate from 28 percent to 31 percent (on all income other than capital gains), raised the wage cap on the Medicare-financing portion of payroll taxes (to help sustain Medicare), and added income tax reforms, including a reduction in itemized deductions for the best-off taxpayers and an expanded earned-income tax credit for low-income working families to offset the excise tax increases. As a result, the final bill actually reduced taxes, on average, for the bottom 40% of families. The excise tax hikes did mean higher taxes on families in the middle, but only by about \$100 a year. Although President Bush suffered politically from reneging on his ill-advised anti-tax pledge, the 1990 tax increases were progressive in their impact and helped reduce the budget deficit.

The best vote on the conference committee report was “YES.”

The Urban Aid Tax Bill of 1992. This bill was initially conceived as a response to the Los Angeles riots of early 1992. The bill’s inclusion of provisions creating 50 “enterprise zones” reflected this concern. But as the bill made its way through each house of Congress, costly provisions were added that had little (if anything) to do with urban aid. These provisions included the repeal of luxury taxes on yachts, furs,

jewelry and airplanes, the restoration and expansion of IRA deductions, the extension of several expiring tax expenditures, and the provision of a 14-year writeoff period for most intangible assets. The bill also included \$27 billion in revenue raisers, including an extension of the existing top estate tax rates and modifications in the taxation of securities and real estate.

President Bush, embroiled in a heated presidential election campaign, repeatedly expressed his opposition to the tax-raising provisions of the bill and followed through by vetoing the bill passed by the conference committee.

The best vote on the conference committee report was “NO.”

The Omnibus Budget and Reconciliation Act of 1993. This bill represented a substantial step toward deficit reduction. It raised income tax rates at the very top of the income scale, adding new brackets of 36 percent and 39.6 percent above the then top rate of 31 percent. It eliminated the \$125,000 earnings cap on the Medicare-financing portion of payroll taxes and included some modest corporate tax reforms. The bill also expanded the earned-income tax credit for lower-income working families. In addition, about four million better-off seniors were required have to pay taxes on a higher portion of their Social Security benefits.

For most families, the only tax increase in the bill was the 4.3-cent-a-gallon boost in the gasoline tax. That may have been politically ill-advised, but it raised middle-income families’ taxes by an average of only about \$40 a year.

The 1993 deficit reduction bill was arguably the single biggest legislative contribution to the budget surpluses that have been achieved in the late 1990s. Overall, the 1993 tax changes took back about 40 percent of the remaining Reagan-era tax cuts enjoyed by the best-off one percent of all families, which seems to be the main complaint of those who opposed the bill.

The best vote on the conference committee report was “YES.”

Was the 1993 tax act “the largest tax increase in history?”

In a word, no. Expressed as a share of Gross Domestic Product (GDP), the 1993 Act’s tax hikes are dwarfed by several tax increases levied in the past. For example, the surtax enacted at the end of the Johnson administration to finance the Vietnam War amounted to 2.1 percent of the GDP. That’s three and a half times larger than Clinton’s annual tax boost. More recently, the 1982 Tax Equity and Fiscal Responsibility Act (TEFRA) resulted in tax increases representing one percent of the GDP—half again bigger than the 1993 tax act.

Just as important, the 1993 tax changes were very progressive, concentrating mainly on taking back a portion the supply-side tax cuts that had gone to the very rich. In fact, except for a 4.3 cent increase in the gasoline tax, most families didn’t pay a penny more in federal taxes as a result of the 1993 act. The boost in the top personal income tax rate affected only the best-off one percent of all families, and the expanded taxation of Social Security benefits hit only 3% of all families (also generally better-off ones).

Overall, only 4.2% of all families saw an increase in their personal income taxes as a result of the 1993 tax act. In contrast, 14.9% of all families got an income tax cut, due to the expanded earned-income tax credit for working families. In other words, Clinton’s 1993 tax act cut income taxes for far more families than it raised them.

The Taxpayer Relief Act of 1997

This bill represented a substantial net tax reduction—\$275 billion over ten years by the official estimates and more than \$400 billion over ten years by CTJ's estimate. The bulk of the bill's tax reductions were targeted toward the wealthiest taxpayers, with about half the bill's benefits accruing to the wealthiest five percent of Americans.

Among the bill's provisions were:

- # A bewildering array of new preferential tax rates on capital gains;
- # An array of new corporate tax breaks, including the elimination of most of the corporate Alternative Minimum Tax.
- # A \$500 tax credit (\$400 in 1998) for children age 16 or under. While this credit is quite valuable to families that qualify, only about 57 percent of all dependent children are eligible for even a partial credit.
- # An increase in the estate tax exemption from \$600,000 to \$1 million (over 9 years).

The best vote on the conference committee report was "NO."

The Taxpayer Refund and Relief Act of 1999

As 1999 began, Congressional leaders expressed their intention to enact large-scale, "across the board" tax relief in the form of a 10 percent income tax rate reduction. Public concern over the skewed distributional consequences of the proposal forced the leadership to withdraw it, but a similarly-distributed and expensive tax bill took shape during the summer of 1999. This bill was projected to reduce federal revenues by \$792 billion over ten years. It lowered income tax rates, expanded the width of the lowest tax bracket and increased the standard deduction for married couples. It also repealed the Alternative Minimum Tax and substantially reduced the estate tax. In addition, the bill reserved roughly 10 percent of its benefits for provisions primarily benefitting corporations rather than individuals. The conference bill received narrow majorities in both houses, and was passed by a 50 to 49 vote in the Senate. Following the passage of the bill, Republican leaders in both houses traveled to their districts to lobby their constituents for support of HR 2488. As expected, President Clinton vetoed the bill when the Senate forwarded it to him in early September.

The best vote on the conference committee report was "NO."