American Federation of Labor and Congress of Industrial Organizations

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March 25, 1986

Honorable Robert Packwood
Chairman, Committee on Finance
United States Senate
219 Dirksen Senate Building
Washington, D.C. 20510

Dear Mr. Chairman:

As you start the committee's work on tax revision, I would like to share with you some of the AFL-CIO's concerns.

Last July, in testimony before your committee, we stated our belief that an equitable tax measure cannot be achieved within the confines of the three administration established parameters of: revenue neutrality, drastic cuts in tax rates for the wealthy, and only a small shift in the tax burden toward corporations and away from individuals. The House-passed bill to some degree challenged those parameters, and at our February meeting the AFL-CIO Executive Council called upon the Congress to retain the constructive provisions of the House bill.

At the same time the Council put forth a series of measures which, added to the House bill, would increase fairness as well as raise revenue to help reduce the deficit. The Council also reiterated the Federation's long-standing opposition to value added taxes, selective excises or other consumption taxes which bear most heavily on low and middle income working families.

The Senate Finance Committee staff option package of March 13 does not, on balance, improve upon H.R. 3838. Rather, it represents a return to the notion that deep cuts in income tax rates on business and wealthy individuals are appropriate, loopholes should be retained and revenue losses offset by a complicated array of provisions, too many of which would adversely and unfairly affect particular groups of workers, states, localities, firms and industries.

We are pleased that the staff package contains no new taxes on employer provided employee benefits. Your leadership on this issue is gratefully acknowledged. The state and local tax deduction, however, does not fare as well and we urge you to re-think this issue and to adopt a tax package which retains the existing deduction and with it the protection of the services of local governments. The AFL-CIO believes that the detrimental effects of the loss of this provision on working individuals and on states and localities far outweighs any perceived advantage gained by the wealthy and corporate tax cut that the revenue from this provision is targeted to provide.

The AFL-CIO is deeply concerned with the effect on working people of the proposal in the area of excise taxes. While the purpose of this provison seems to be raising revenues to offset losses in other areas, by denying business the right to deduct federal excise taxes the proposal violates the notion of net income for tax purposes. Businesses are prohibited from deducting the legitimate cost of doing business. This measure would have particularly harsh effects on certain firms and workers. In addition, the effect of this provision in concert with the proposal's direct increase in some excise taxes will be to put a greater reliance on consumption taxes which, by their nature, burden low and middle income workers.

The Senate staff option also has failed to rectify unduly harsh provisions of H.R. 3838 affecting public employee and other contributory pension plans, unemployment compensation recipients and workers with job-related income averaging problems. The tax bill cannot be truly fair without correcting these inequities.

The Committee must also realize that revenue neutrality, even if it is achieved, does not guarantee fairness. A fair tax system is one which is based on the ability to pay and which raises sufficient revenues to meet the needs of society. These goals can be advanced by building on the House-passed bill.

During consideration by the House Ways and Means Committee, the AFL-CIO suggested a number of proposals that we are convinced would help reach the twin goals of tax fairness and fiscal responsibility. We hope that the Senate Finance Committee gives these proposals serious consideration. Our proposals, in conjunction with the retention of the existing treatment of employee benefits and the deduction for state and local taxes, could increase revenue by more than $40 billion in the first year after passage and more than $200 billion over the first five years. A description of our proposals is attached.

The AFL-CIO has long been an advocate of tax equity. We believe that the proposals we are presenting are consistent with that goal and I urge you to give them serious attention.

Sincerely,

President

cc: Senate Finance Committee