THE TOBACCO INSTITUTE
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E. J. BATTISON, Ph.D.
Economist

August 14, 1984.

To: Pete Sparber

re: Comparative Effects Of Proposed Flat Tax Plans On Corporate Business Taxes

A comparison of the various so-called "flat-tax" proposals follows, with regard to the ways in which they would handle corporate taxes.

Bradley-Gephardt:

Corporations would be taxed at a flat rate of 30 percent, and most existing tax deductions, credits, and exemptions would be repealed. A new depreciation method would be applicable to six classes of equipment under a 250 percent declining balance method, with different depreciable lives. Industrial development and mortgage subsidy bond provisions would be repealed but, more important, the investment and rehabilitation tax credit and extended depreciation periods would be discarded.

Kemp Kasten FAST Plan: (Fair And Simple Tax)

Major deductions are retained and indexing for inflation is considered. There would be full taxation of capital gains and full deduction of capital losses, with a taxpayer's option to have 25 percent exclusion without indexing. Corporate taxation would be at a 30 percent rate applied to a tax base that eliminated most deductions, credits, exemptions, and exclusions except for charitable, mortgage, interest real estate taxes, and major medical expenses. Capital costs would be recoverable with current schedules. Corporate capital gains tax rates would be cut from 28 to 20 percent, and foreign investment tax credit retained. But the investment and the research & development tax credits would be abolished, and capital gains taxes will be payable on the full amounts.

Quayle SELF Plan: (Simple, Efficient, Low tax rates, Fair)

The SELF plan has no specific proposals to make as yet, and is awaiting the Treasury study ordered by the President on alternatives to the present tax system. As preliminary guidelines, Quayle feels that double taxation of corporate tax burden should be reduced and spread more evenly, with a single rate applicable to all firms at about 30 percent. He is considering recommending expensing for depreciation, which would be unique.

Hall-Rebushka-Deconcini (Low, simple, flat tax plan):

This plan proposes a very low rate of 19 percent tax on business income, separation of subsidiaries for tax purposes, and a carry forward of losses to be offset against taxes paid in future, without limit on the duration of carry forward. These losses are also augmented with a rate of interest based on 3-month Treasury bills for the first year. Since there are no other deductions or allowances such as home mortgages, charities and builders would be in crisis. This bill is almost business tax free because of immediate

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deductible outlays for inventories and investments.

~~Siljander Populist 10 Percent Flat Tax Plan (FLAT 10):~~

This plan eliminates all progressive rates and taxes at a very low 10 percent, while maintaining almost all current deductions and exclusions. This plan will not likely be revenue neutral because of its liberal concessions. It has little chance of endorsement in its present form.

Consumption Tax:

This tax would have its primary and major effects on the work force by elimination of taxes on savings and investments. This type of tax would not necessarily simplify the system, but it would be a strong incentive to invest. Revenues would not probably be any higher than under the present system. It is very regressive if applied only to wage income.

Value Added Tax (V.A.T.) Or National Sales Tax:

The V.A.T. levied on value added at each stage of production and passed forward to retail prices would certainly raise selling prices and provide substantial additions to revenues. It would avoid changing marginal income tax rates, but it is regressive unless food and basic essentials are exempt. Low income working people would bear a relatively heavier tax burden. It is inflationary, and it would reduce the options of state and local governments to increase their tax rates. A V.A.T. is easier to increase with regard to rates because it is a relatively hidden tax. Because it provides additional revenues with unequal relative burdens, some form of payback to lower income families is needed.

In summary, it would appear that there is some merit or at least some advantage for corporations in a consumption tax because it would stimulate investment in plant and equipment through a greater availability of funds. Certainly, the Hall-Rebushka-Deconcini plan is of significant merit to corporate business. because of its low rate and carry forward of losses.

cc: Milway.

Please request further explanation relevant to your objectives on tax discussion.

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