MEMORANDUM 4/19/86 Sat 14:35:54

TO: DISTRIBUTION

FROM: FRED PANZER

SUBJECT: CITIZENS FOR TAX JUSTICE PRESS COVERAGE

Enclosed is your set of 18 full-size copies of clippings from newspapers in Senate Finance Committee states. They were generated by CTJ's press statement or follow up op-ed article, both of which provided the first and sharpest criticism of the excise deductibility proposal. Some of the coverage reflects how columnists, economists or trade association executives quoted CTJ to support their opposition.

These press clippings may be helpful information for further distribution to Members of Congress, congressional staff, state and local elected officials, allied groups, and, of course, our TI field staff and lobbyists.

Later this week, I expect to have a more complete set of clippings, more attractively reproduced too.

Enclosure
cc: Samuel D. Chilcote, Jr.
William Kloepfer
Robert Lewis
Roger Mozingo
Peter Sparber
9.25

Fred — mailing to Ex Comm [illegible]

P

Press Cuttings

Citizens for Tax Justice

op-ed

&

Press Conference

Week of April 14-18

MAGNOLIA, AR
BANNER-NEWS
D. 4,400

APR 1 1986

Tax reform: Act III

The president has made his tax reform proposal, the House has passed its version, and now it's the Senate's turn – starting from a working draft unveiled a few days ago by Senate Finance Committee Chairman Bob Packwood. If it's fairness and simplicity the Senate is after, it has a long row to hoe.

Packwood, a Republican, was trying to please both the president, who's adamant about lowering the tax rates of the rich, and the Finance Committee's members, who refuse to close their favorite business tax loopholes to pay for those lower rates. The combination was lethal.

Moreover, Packwood had to cope with those aspects of the president's plan that are simply bad, or broadly unpopular, as social policy – like the president's proposal to eliminate the deductibility of state and local taxes and of employee health benefits. The House sensibly retained those deductions – and made up the difference by cutting less from top tax rates than the president had wanted and by closing more corporate loopholes than he had proposed. But neither route would meet Packwood's political needs.

Under the circumstances, what Packwood came up with was clever. But compared to the House's package, it's hardly fair or simple. Packwood proposes to meet all those demands for revenue-losing income-tax breaks by raising consumption taxes commensurately. He wants to make all excise taxes and tariffs – on wine, alcohol, tobacco, motor fuels, trucks, buses, trailers, air fares and telephone service and on various imported goods, notably textiles and apparel – non-deductible for corporations. The net effect on consumers, economists estimate, would be the same as a direct increase in these excise taxes and tariffs of as much as 50 percent. And that hidden tax increase would not be levied, like an income tax, according to one's ability to pay; it would fall hardest, like all consumption taxes, on those least able to pay.

There are circumstances in which excise tax increases might make sense anyway. A fuel tax increase, while oil prices are dropping, would keep the country on the energy-conservation course on which its future energy security depends. Alcohol and tobacco tax increases, to the extent they cut consumption, could be useful public health measures. Even a more general tax increase would be acceptable, if it were part of a national belt-tightening in which everyone has to sacrifice equitably to help bring the federal deficit under control.

But to propose a general increase in an indiscriminate assortment of consumption taxes that hit harder the poorer one is – and all for the purpose of preserving corporate tax loopholes and bringing the top income tax rate paid by the rich down by another few percentage points – is the height of unfairness. To sell this as tax reform, and with the promise of lowering everyone's tax bills, is the height of duplicity.

The House was far more staightforward – and more successful – in coming up with a tax reform package that actually would be fairer than current law and sounder, in terms of its social policy effects, than the president's proposal. The Senate has its work cut out for it.

DETROIT, MI
FREE PRESS
D. 647,130—S. 803,714
DETROIT METROPOLITAN AREA

APR 7 1986

Tax 'reform' or trade-offs? Senators can't say

By PATRICIA O'BRIEN
Free Press Washington Staff

WASHINGTON — Members of the Senate Finance Committee were picking away listlessly at the details of a provision in the tax overhaul bill protecting large home builders recently when suddenly Sen. Steven Symms, R-Idaho, slapped his fist on the hearing table.

"We're taking a huge gamble with this," Symms said, pointing to the thick working document prepared by committee chairman Sen. Bob Packwood, R-Ore. "We've lost simplicity. We're just transferring money from somebody to somebody else and there is no integrity to the process. This is an absolute sham."

Pointing to Packwood, he said: "You've had a situation put on you that's impossible to do."

Symms' outburst illustrates the dimensions of the trouble ahead for Packwood as he tries to win consensus for a document that meets President Reagan's dream of tax reform without tax increases — and has some chance of passage by the Senate.

Packwood's challenge is to preserve tax breaks for numerous interests favored by committee members while keeping the top tax rate at 35 percent, a juggling act that is fraying tempers during the drafting of a bill. It involves trade-offs few want to make.

"It's like giving a starving man a steak," said Symms, referring to Packwood's inclusion of breaks for the building industry while subjecting it to a minimum corporate tax. "Just as he starts to take a bite, it's taken away from him."

WHEN COMMITTEE members sit down again to wrestle with the bill on Tuesday, arguments are certain to erupt on several fronts:

- Should municipal bonds, vital vehicles to pay for everything from schools to stadiums, lose their tax-exempt status? Packwood's initial effort to make them do so virtually sent the bond market into cardiac arrest. In their first and only vote on the bill, committee members ruled out the idea of taxing existing municipal bonds. But no decision has been reached on whether bonds issued after Jan. 1 could be subject to the minimum tax.

- What about depreciation schedules for businesses? Several committee members want to give real estate developers and auto companies a chance to write off their investments in land and machinery faster. Sen. Lloyd Bentsen, D-Tex., complained to his colleagues that auto rental companies in particular need the break. "I've heard of one man who cleaned quail in his rental car," said Bentsen. "If depreciation is kept at five years, I'll be driving some awful old rental cars."

- Some members object that Packwood's plan to buy off corporate investment tax credits is too expensive. The credit has been a generous subsidy for business in which the government picks up 10 percent of new equipment and machinery costs. It would be repealed as part of the trade-off for lower rates — but Packwood wants the government to dole out more than $30 billion in unused credits to the hurting steel and agricultural industries.

- The issue at the top of the list, the one expected to generate the most heat, is Packwood's plan to raise $75 billion through increasing the tax on wine and ending businesses' deduction for excise taxes.

"Without that revenue, or a net equivalent revenue," said Packwood, "then the things I tried to do in the draft cannot be done."

Some say Sen. Bob Packwood, left, is deliberately heading into the eye of the storm to demonstrate the futility of the entire effort to reform the tax code.

UNCONVINCED, more than 50 of Packwood's Senate colleagues wrote him last month saying his proposal means corporations will pass on the cost of the taxes to consumers, in effect forcing a tax increase on low- and middle-income people.

Americans would then pay more for gasoline, food, telephone service and airline tickets. They also would pay more for a range of life's small enjoyments, everything from baseball games to a glass of beer.

"This issue is the one of greatest interest," said Sen. Bill Bradley, D-N.J. "We've got 10 or 11 senators on the committee who have serious reservations about excise taxes."

"It's bizarre, preposterous," said Robert McIntyre, a representative of Citizens for Tax Justice, a union-backed lobbying group, at a press conference called to denounce the excise tax plan.

"For a few days, most people sputtered about how silly it was. But it's quite clearly an increase in taxes, a very large one," he said. "That's not what tax reform was supposed to be all about."

Packwood's chief aide on the finance committee, Bill Diefenderfer, dismisses the complaints.

"There's no proof the taxes will be passed on," he said. "Even if they are, that's what happens with excise taxes. People didn't object when the cigaret tax was increased."

SOME SAY PACKWOOD is deliberately heading into the eye of the storm to demonstrate the futility of the entire effort to reform the tax code.

"He's a smart man who thinks the whole exercise is unnecessary and fruitless," said one food industry lobbyist. "The clamor being raised now could be proving his point."

"That's not logical," responded Diefenderfer. "It's just stupid."

As the protests mount, Packwood is standing firm.

"All of life is a trade-off," he told objecting committee members before Easter recess. "This committee has to make a decision. It has to find some way to produce a revenue-neutral bill."

TI18211639

AUSTIN, TX
AMERICAN-STATESMAN
D. 160,000 — S. 180,000
AUSTIN METROPOLITAN AREA

APR 3 1986

Phrasing in polls geared at getting positive response

New York Times Service

WASHINGTON — A favorite technique of lobbyists in the capital is to commission opinion polls on political issues and phrase the questions in such a way that the responses will buttress their position.

Citizens for Tax Justice, a group that is working against tax breaks for business, last week issued the results of a new poll.

A typical question: "Do you agree or disagree that large corporations should start paying their fair share of taxes before there are any increases in any taxes that ordinary, working and middle-income Americans pay?" Not surprisingly, 86 percent of the respondents agreed.

But sometimes the technique backfires. To battle legislative efforts to increase business taxes, *Nation's Business*, the monthly magazine of the U.S. Chamber of Commerce, asked its readers this question: "Should Congress enact a tax bill that could hobble economic growth?"

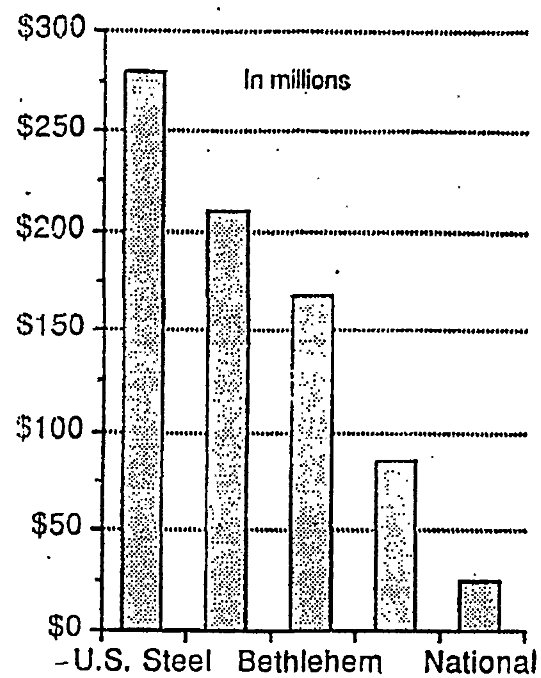
Fifty-six percent of the readers who responded said "no." But remarkably, given the readership of the publication, 31 percent seemed to think hobbling growth might not be so bad and answered "yes." Thirteen percent were undecided.

HAMMOND, IN
TIMES
D. 69,815–S. 76,325
CHICAGO METROPOLITAN AREA
MAR 19 1986

Tax break sought

Repayments

Amounts that would be repayed to steel companies for unused tax credits under proposed legislation:



By DAVID GOUREVITCH
Times Washington Bureau

WASHINGTON — The steel industry could reap a $1 billion windfall under a new tax overhaul plan.

The plan, if enacted, would require the federal government to write U.S. Steel Corp. a check for $280 million.

LTV Corp. and Bethlehem Steel Corp. would receive refund checks for $210 million and $168 million, respectively, while Inland Steel Co. and National Steel Corp. would get $86 million and $25 million, respectively.

The proposal by Sen. Robert Packwood, chairman of the Senate Finance Committee, would repeal the investment tax credit and require the federal government to give businesses refunds for 70 percent of the credits they've accumulated.

Such a provision would be a bonanza for the nation's largest steelmakers. In recent years, the companies have accumulated many millions of dollars in investment tax credits, but were unable to use them because they had had no taxable income.

Bethlehem had $240 million in accumulated investment tax credits at the end of 1985. Company officials estimate that Bethlehem would receive a rebate of 70 percent of its total tax credits, or $168 million, if the Packwood plan is approved.

U.S. Steel, meanwhile, had $400 million in accumulated investment tax credits and LTV had $300 million. Inland and National Steel reported $120 million and $37 million in December 1985.

Not surprisingly, steel industry executives generally support Packwood's reimbursement plan. John Meagher, an LTV vice president, praised the plan as a vital and timely "infusion of capital at a time when the industry needs it badly."

DAILY COMMERCE
LOS ANGELES, CA
D.5,200

MAR 12 1986

STUDY: TAX BREAKS DON'T AID EXPORTS

Corporate tax breaks intended to spur exports have in fact undermined U.S. export competitiveness, a liberal tax study group said Wednesday.

A report released by Citizens for Tax Justice based on a survey of 31 top exporters showed companies which pay the highest taxes tend to export the most, while companies which avoid paying federal taxes tend to have the least success in export markets.

The tax reform study group found that 11 of the 31 top exporters paid no federal taxes or got money back from the government because of corporate tax "loopholes" and incentives designed to increase competitiveness aboard.

They were indentified as Boeing Corp, Dow Chemical, General Electric, DuPont, Lockheed, Northrop, Union Carbide, Weyerhaeuser, International Paper, Allied Corp. and International Minerals and Chemical. The 11, who had a combined negative tax rate of 3.6 percent, reduced their total exports between 1981 and 1984 by 15 percent, the study showed. In contrast, the top 10 exporters in the group increased exports by an average of 22 percent during the period despite a 26.7 percent average federal tax bite, CTJ reported. (UPI)

TI18211642

HAZLETON, PA
STANDARD-SPEAKER
—D. 24,511—
NORTHEAST PA. METROPOLITAN AREA
MAR 25 1986

Consumers will ultimately pay the costs

Editor, Standard-Speaker,

The latest fiasco out of Washington now comes to us in the form of yet another tax proposal - a bizarre tax on a tax which ultimately will be passed on to the consumer.

This time, Senator Packwood (R-OR) has introduced a new tax package that he says will be a boon to both consumers and small business alike.

Included in the Senator's litany of so-called reforms is a proposal to eliminate business deductibility of excise taxes.

The liquor industry is particularly sensitive to the federal excise tax issue. Last October the federal excise tax rose 19 percent for our product. If the Packwood proposal were to become law, this proposal on top of last year's tax hike would mean an effective FET hike of 73 percent.

Senator Packwood's press statements have billed his proposal as a tax on business. Nothing could be further from the truth. Citizens for Tax Justice, a national organization supported by both labor and consumer groups, picked up on this when it said last week that the Senator's excise tax proposal "is nothing but a huge consumption tax that will fall heavily on middle and low income families — excise taxes," they said, "unlike income taxes, will be passed on to consumers in higher prices."

And the line on these price increases is not drawn on alcohol beverages alone. The Packwood proposal will negatively affect gasoline and diesel fuels, the cost of trucks and trailers, airline passenger tickets and shipping costs, crude oil and gasoline, feedstocks, coal, fishing and hunting gear, telephone service, tobacco products and others.

The impact on the distilled spirits industry will be devastating. We estimate that in Pennsylvania 920 jobs will be lost and 680 small businesses will be foreced to close.

On the surface, it would appear that the Senator from Oregon is trying to close some "loopholes." As for the Federal excise, he's really calling for implementation of a totally regressive tax system that will cost jobs, hurt low and middle level income people the most, slam the doors for many small businesses and cost consumers millions more for many kinds of products they use every day of the week.

Senator Packwood's tax package is anti-consumer, anti-business and totally inconsistent with the Administration's policy of no tax increases. We're all for progressive tax measures, but the excise idea, which amounts to nothing more than a tax, needs to be stricken from the record before it creates more problems than it already has.

We think your readers should know, as even Senate Finance Committee member Dave Durenberger (R-NM) has stated, "the increased costs resulting from this idea will be passed on to wholesalers and, ultimately, to consumers."

F.A. Meister,
President—CEO

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STANDARD-SPEAKER
—D. 24,511—
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TI18211644

WALL STREET JOURNAL
NEW YORK, NY
—D. 757,135—
NEW YORK CITY METROPOLITAN AREA
APR 2 1986

Away From Takeovers, to 'Value Accounting'

By LEE BERTON

With the tide of takeovers, leveraged buyouts and asset sales or divestitures continuing, U.S. corporations appear blinded by the alleged benefits of mergers and really don't have a proper grasp of how to run a company to improve its value.

The fault, say many critics, may lie with an accounting model that focuses on ways to enhance historical values in today's marketplace and ignores the most important charge of management: to improve the value and potential of the company's assets.

"Passing assets back and forth doesn't appear to be creating better values for shareholders, customers or employees," says Scott Cowen, dean of the Weatherhead School of Management at Case Western Reserve University in Cleveland. Instead, says Dean Cowen, companies should devote more effort to turning out better products at a lower cost and to stimulating higher output by their employees.

False Values?

The National Association of Accountants, a trade group of 85,000 management accountants, has joined the ranks of those wondering whether false values are being created by the profession. It has just issued new guidelines to measure company performance that place less emphasis on financial measures like earnings per share and return on investment.

"Companies should put more stress on nonfinancial measures such as market share, innovation, quality of service, productivity, and employee development," says Louis Bisgay, the NAA's director of accounting practice. If they did, adds Mr. Bisgay, "companies would be less likely to depend on merger partners to bail them out of bad business decisions."

"Accounting should highlight the potential value of assets to shareholders," says Anthony Tinker, a professor of accounting at Baruch College in New York. "Because it now stresses historical value, raiders are drawn to depreciated assets like moths to a flame."

A study by the Citizens for Tax Justice, a public-policy group opposed to business tax breaks, shows that 11 companies that were listed among the top 25 acquirers last year spent a total of about $40 billion for the takeovers. That was more than they devoted to new buildings and equipment from 1982 through 1984, according to the study. By reducing capital spending, the study says, the companies were able to squirrel cash away for future takeovers and to sharply raise the pay of their top executives.

Felix Pomerantz, director of the Center for Accounting, Auditing and Tax Studies at Florida International University in Miami, recalls the early 1970s when the accounting profession became enamored of "social accounting." He adds: "We wanted to look beyond financial measurements to the benefits to society of business decisions and judgments."

But interest waned as accountants discovered that they could gain few allies in the business world by talking about a social balance sheet that measured "community action," "employee loyalty" and the "public good."

Today the concepts in social accounting are being reconsidered, and concerns about social welfare are giving way to more hard-nosed worries that accounting may not really be measuring real value.

"If anything, the concerns about social accounting have been replaced by a new discipline called 'value accounting,' which is focusing not so much on dressing up the financial statement but on stimulating management to create real value," says Yuji Ijiri, a professor of accounting and economics at Carnegie-Mellon University's Graduate School of Industrial Administration in Pittsburgh.

Prof. Ijiri says that colleges are beginning to realize that an overemphasis on finance in education for a master's of business administration has contributed to the "waste of industry resources from society's standpoint." He adds: "We were training future businessmen how to keep debt off their balance sheets and structure pooling-of-interest mergers that provided window dressing for financial statements. But we weren't telling them how to make better products, which will in the final analysis produce real profits and genuine company growth."

Ilker Baybars, an associate dean at Carnegie-Mellon, notes that over the past few years, the school has introduced new courses for MBAs in production, operations management and artificial intelligence to balance for the heavily finance-oriented courses of the past. "The craze over the past few years was to show the students how to make fast money, and now we're putting more stress on output, strategic planning and decision-support systems for manufacturing," he says.

The decision to shift curriculum emphasis was made by the school after its faculty began faulting the curriculum for producing facile financial managers who couldn't start a business from scratch. Carnegie-Mellon now requires an MBA candidate to take two course units in manufacturing management. "Five years ago, few students were attracted to courses in production management, but now more than 20% of our enrollment are interested," observes Dean Baybars.

Carnegie-Mellon dean: "The craze over the past few years was to show students how to make fast money."

Robert Kaplan, a professor of accounting at the Harvard Business School in Boston, questions "whether mergers do create or enhance value beyond reshuffling ownership claims." Existing accounting systems, he says, conceal the underlying cost structure of operations and prevent many managers from recognizing that their companies need new production methods rather than new owners.

"Companies should analyze the fastest-growing cost categories, overhead and capital accounts and reemphasize new product and process development," says Prof. Kaplan. He notes that current accounting systems lean too heavily on direct labor costs. Companies would be wiser to study how often manufacturing setups must be changed to produce new products, he adds.

"Financial executives should be forced to spend more time on the production floor," asserts Prof. Kaplan. The old cost-accounting systems that allocated expenses based on labor content are "moribund," he says.

However, Prof. Kaplan cautions against opposing all mergers, buyouts and restructurings. "What we may be seeing in this wave of mergers is a reaction to too much diversification," he says. "By going private or rearranging ownership, companies may reverse the trend of the '60s and '70s and do a better job of managing assets. Only time will tell whether aggressive acquirers can properly trim the acquisitions, apply new technologies and processes and acquire new customers."

Highlight Deficiencies

Accounting, says Prof. Tinker, should highlight through disclosure in financial reports the deficiencies in companies that permit insiders to make money, no matter whether the price of company stock goes up or down. If the stock price rises, management benefits from stock options. If it falls, then management has an inside track to structure a leveraged buyout of undervalued assets, he notes.

Before corporate mergers swallow up a lot more targeted assets, maybe the time is ripe for a closer look at value accounting, the more acceptable version of social accounting. Rather than focusing only on whether mergers, asset purchases or leveraged buyouts overburden the new management, maybe we should examine whether asset restructurings add value to the surviving business entities.

Business would be better able to prune the trees if it learned more about the forest.

Mr. Berton covers accounting from the Journal's New York bureau.

CHICAGO, IL
SUN-TIMES
D. 639,134—S. 669,426
CHICAGO METROPOLITAN AREA

Senate tax reform plan hit

Business loopholes rapped

By Jerome Idaszak
Sun-Times Bureau

WASHINGTON—The average American would be asked to pay higher taxes to support write-offs for steel, oil, timber and other businesses in a tax bill taking shape in the Senate, a lobbying group charged yesterday.

The bill is being drafted by the Senate Finance Committee and its chairman, Bob Packwood (R-Ore.).

"Sen. Packwood has given the public a stark choice—he wants to raise sales taxes to pay for loopholes for timber companies, oil companies, defense contractors and $32 billion in aid to dependent corporations," said Robert S. McIntyre, director of federal tax policy for Citizens for Tax Justice.

McIntyre referred to differences between Packwood's proposal and a bill passed last December by the House. Packwood would end deduction of excise taxes for businesses, which would raise $62 billion over five years. It is presumed that businesses would pass along the cost of these taxes to consumers.

Packwood would use the $62 billion to preserve write-offs for his home-state timber companies as well as other natural resource businesses whose employees, he said, would be hurt by the House bill.

The senator's proposal also would allow companies with investment tax credits on their books to use them next year to collect cash from the U.S. Treasury, rather than taking the credits in future years. This idea would amount to $32 billion for such hard-hit industries as steelmakers.

McIntyre, who said he favors the House bill, blasted the Packwood proposal at a press conference held by the lobbying group, which is backed by labor unions and consumer groups. To back up his arguments, McIntyre released results of a telephone survey of 603 voters done in mid-March that showed overwhelming opposition to an increase in taxes on consumers.

As the consumer group criticized the Packwood bill, the National Federation of Independent Business said the bill would "offer incentives that could spawn numbers of new firms in the near future."

The federation, which represents 500,000 members, praised Packwood for cutting corporate tax rates and for reducing the paper work burden for small businesses.

The group says 71 percent of the nation's 4.7 million small businesses are engaged in retail, wholesale and services and would face "unprecedented growth" through the Packwood plan's proposal to lower the top corporate tax rate from 46 percent to 35 percent.

Packwood's committee is due to resume debate of the tax bill when Congress returns next week. His goal is to get a bill to the Senate by June.

While Citizens for Tax Justice favors the House bill and the business federation likes aspects of both versions, a new study by economists at Washington University in St. Louis said that both bills would hurt the U.S. economy.

"Both proposals would involve substantial increases in the cost of capital that in turn would undermine investment and retard overall economic growth through 1991," the economists said.

TI18211646

FORT WAYNE, IN
NEWS-SENTINEL
—D. 62,447—
FT. WAYNE METROPOLITAN AREA

APR 9 1986

Senators grappling with problems of tax reform

By PATRICIA O'BRIEN
Of Our Washington Bureau

WASHINGTON — Members of the Senate Finance Committee were picking away listlessly at the details of a provision in the tax overhaul bill protecting large homebuilders recently when suddenly Sen. Steven Symms, R-Idaho, slapped his fist on the hearing table.

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"For a few days, most people sputtered about how silly it was. But it's quite clearly an increase in taxes, a very large one," he said. "That's not what tax reform was supposed to be all about."

Packwood's chief aide on the finance committee dismisses the complaints.

"There's no proof the taxes will be passed on," he said. "Even if they are, that's what happens with excise taxes. People didn't object when the cigarette tax was increased."

Some say Packwood, known to be lukewarm on the need for tax revision, is deliberately heading into the eye of the storm to demonstrate the futility of the entire effort to reform the tax code.

"He's a smart man who thinks the whole exercise is unnecessary and fruitless," said one lobbyist. "The clamor being raised now could be proving his point."

"That's not logical," responded the Packwood aide. "It's just stupid."

"All of life is a trade-off," Packwood said. "This committee has to make a decision. It has to find some way to produce a revenue-neutral bill."

Details sure to cause argument

■ Should municipal bonds, vital vehicles to pay for everything from schools to stadiums, lose their tax-exempt status? Sen. Bob Packwood's initial effort to do this virtually sent the bond market into cardiac arrest. Senate Finance Committee members hastily ruled out the idea of taxing existing municipal bonds. But no decision has been reached on whether bonds issued after Jan. 1 could be subject to the minimum tax.

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TI18211647

DAILY BOND BUYER
NEW YORK, N.Y.
D. N/A

APR 3 1986

Change in Excise Taxes Would Cut State Revenues, Taxpayer Group Official Says

By Dave Ahearn

WASHINGTON, April 2 — Excise tax changes proposed by Sen. Bob Packwood, R-Ore., would force up the cost of goods to consumers, restricting consumption and reducing revenues that states and localities receive from taxes on sales of goods, a taxpayer group official said today.

"It's a big problem for the states," said Robert S. McIntyre, the Citizens for Tax Justice federal tax policy director.

The Packwood plan calls for repealing the federal income tax deduction that corporations now can take on excise taxes and tariffs. Many economists and members of Congress expect that corporations would pass the cost of losing the tax break on to consumers, in the form of higher prices.

That would tend to reduce overall consumption of goods and shrink state and local general sales tax collections, Mr. McIntyre said.

Sen. Packwood, the Senate Finance Committee chairman, also has proposed that the tax on wine be raised, from 17 cents an ounce to about 70 cents.

In addition, he proposes that taxes on such items as alcohol, motor fuels, and tobacco products be changed from a flat rate per unit to a percentage of the price, so federal excise tax collected per unit would rise every time prices rose.

Those increases in federal excise taxes "would hurt state consumption taxes" that specifically target those goods, Mr. McIntyre predicted.

Sen. Packwood's proposals have run into strong opposition within his own committee, where a majority of senators have signed a letter expressing concern that "low- and middle-income taxpayers will bear the brunt of these excessive tax hikes."

The Packwood excise tax plan would raise $75 billion over the next five years, which would be used to offset revenue losses resulting from his plan to provide tax breaks for certain industries.

He wants to retain tax breaks for the timber, oil, and gas industries that the House voted to delete from the current federal income tax code. If the excise tax plan is approved, the Senate tax reform plan could include the tax breaks for those industries and still raise about the same amount of revenue as the House plan and current law.

Mr. McIntyre noted that if the Packwood excise tax plan is defeated, as many protesting senators on the committee wish, those senators will have to put forward a substitute revenue-raising measure to pay for continued tax breaks for the timber and other industries.

Those substitute revenue-raising plans are likely to be just as objectionable to states as the excise tax plan, he indicated, saying it is likely that substitute proposals will include suggestions for a federal retail sales tax or for a value added tax.

A federal retail sales tax would be levied at the point of sale to consumers and would thus be visible to them. A VAT would be levied on the value added at each stage of production of any good. But the consumer would still be paying the VAT, because it would be included in the retail price of the good.

States have protested strongly that such federal levies would intrude on a taxing area that historically has been reserved to states and localities: the retail sales tax.

Mr. McIntyre said that federal retail sales and VAT levies were rejected by the Treasury Department, when it wrote the original version of the tax reform plan unveiled in 1984, and by the House in its version of tax reform passed last December.

He noted, though, that the House-passed tax reform plan would provide "a windfall for the states," because states that levy income taxes usually key their return forms to information that is provided by taxpayers on federal tax returns.

Because the House tax reform plan would broaden the federal income bases on which individuals and corporations must pay taxes, repeal of many existing tax deductions and exemptions would broaden state tax bases, he noted.

That would mean states would receive greater revenues, without having to enact legislation imposing higher tax rates, he concluded.

PORTLAND, OR
OREGONIAN
D. 315,000—S. 436,000
PORTLAND METROPOLITAN AREA

APR 3 1983

Tax reformer believes businesses should pay fairer share

By STEVE JENNING
of The Oregonian staff

Unless loopholes and tax credits are eliminated for the nation's largest corporations, the tax burden on middle-income taxpayers will continue to increase as Congress seeks ways to balance the federal budget, a spokesman for a public interest tax lobby said Wednesday.

Fritz Wiecking, director of organizing for Citizens for Tax Justice, based in Washington, D.C., argued that dozens of Fortune 500 companies paid little or no taxes last year thanks to a plethora of tax code amendments ranging from accelerated asset depreciation to research and development credits.

That kind of free ride, said Wiecking, increases pressure for tax receipts from individual taxpayers, including poor persons but particularly middle-income filers.

The group's recently completed study found that between 1981 and 1984, 44 corporations "completely eliminated their federal tax liabilities.

"In fact, these companies enjoyed $2.1 billion in total tax rebates, on top of their pretax profits of $53.6 billion," read the group's report.

Besides Boeing, local companies on that list paying no corporate taxes in 1984 included Weyerhaeuser Corp. and Tektronix Inc.

Wiecking, in Portland as part of an eight-state tour focusing on the home districts of members of the Senate Finance Committee, said that a change in tax laws is needed.

His group proposes elimination of most of the tax credits for big business, and a few that favor individual taxpayers — especially the wealthy.

"In very specific instances, individual tax credits do help (the general economy)," Wiecking said. "But it's bad public policy. If you have to do it (earmark help for specific businesses), it should be done on the expenditure side."

The complicated web of corporate tax credits and deductions cost the federal government about $140 billion in lost tax revenue during 1985, Wiecking said. He labeled those most offensive to his group as being accelerated asset depreciation allowances, investment

FRITZ WIECKING
Wants change in tax laws

tax credits and the completed contract method of accounting for taxation of government contracts to weapons builders.

Accelerated depreciation allows asset owners, particularly real estate property holders, to depreciate for tax reasons the full value of their property at a rate much in excess of real rates of depreciation. Tax credits are a method of avoiding paying taxes on profits, Wiecking argued. The completed contract method of accounting on defense projects has meant that some big companies such as General Dynamics and Boeing have avoided paying taxes for years.

Corporate taxpayers argue these tax credits and exemptions are needed as incentives for capital investment to build plants needed in the national defense, encouragement of home construction and ownership, renovation of downtown core areas and to help some industries remain competitive against foreign concerns that may be government subsidized.

Wiecking was critical of tax reform strategies seemingly favored by the Senate. He called an excise tax plan by Sen. Bob Packwood, R-Ore., the finance committee's chairman, "a way to sneak in a business tax increase that was really an individual tax increase."

Wiecking's organization was founded seven years ago, mostly through support by California-based public employee unions. The group has broadened its base since then to include support from a variety of citizen tax interest groups and some small business groups.

"I think we recognize that there are real problems within the tax system," Wiecking said. "The idea was to find affirmative ways to fix the system," without resorting to dramatic tax reduction plans like California's state Proposition 13, a measure that greatly reduced property tax assessments and was the harbinger of the so-called citizen's tax revolt of the late 1970s.

"We think there ought to be a minimum tax on everyone," Wiecking said. The group also supports maintenance of tax credits for state and local taxes, and an interest deduction credit for mortgage payments on a principal residence.

But the group is opposed to a national sales tax or a national value-added tax, two current "revenue enhancement" proposals for balancing the federal budget.

"No matter how you try to doctor a VAT or a sales tax, it's still a regressive method," Wiecking said.

ST. LOUIS, MO
POST-DISPATCH
D 264,721—S 479,075
ST LOUIS METROPOLITAN AREA

Group Says Business Tax Breaks Don't Work

By Claudia MacLachlan
Of the Post-Dispatch Staff

The 1981 tax breaks for corporations have not resulted in the jobs or capital investment promised by their backers, according to a recent study by Citizens for Tax Justice, a Washington-based tax lobbying group.

Instead, the tax breaks have been used by many corporations to increase dividend payouts, acquire other companies, buy back stock or increase corporate pay, says Fritz Wiecking, organizing director for the group.

In a study of 259 non-financial companies from the Fortune 500 list, Citizens for Tax Justice found that they paid an average federal tax rate of 17 percent between 1981 and 1984. That rate was based on profits of $350.8 billion and taxes of $59.5 billion.

The 259 companies cut jobs by an average of 2 percent and investment by 1 percent. Dividend payouts were up 24 percent over the 4-year period. The 44 companies that paid no federal taxes at all reduced aggregate capital spending by 4 percent and cut employment by 6 percent, according to the study.

In contrast, the 43 companies that paid the highest taxes increased capital spending by an average of 23 percent, said Wiecking. "The bottom line conclusion is that investment decisions are not determined by tax breaks. They are influenced by the market," he said.

Eight St. Louis-based companies were included in the study, and spokesmen for most either disputed the findings or questioned the numbers. The local companies ranged from General Dynamics Corp., which the study said paid no taxes and got $103.8 million in tax refunds, to Ralston Purina Co. which paid a tax rate of 42.1 percent.

"The tax credits are a very significant factor in being able to finance the Callaway" nuclear plant, said James M. Bridge, tax manager for Union Electric Co. According to Tax Justice, Union Electric earned $1.4 billion in pre-tax profits between 1981 and 1984 and paid taxes of $2.6 million, for a rate of less than 0.2 percent.

Bridge disputed the profit figure, which Tax Justice took from the company's annual reports. "Most of our earnings were non-cash earnings. At least $1 billion of that $1.4 billion was non-cash and went into Calloway," he said. "All financing costs are recorded as earnings."

Bridge also took issue with the way Tax Justice computed dividend payouts. The group added up total dividend payouts instead of comparing the per share rate. For companies like Union Electric and Ozark Air Lines — both of which issued new stock in the last four years — the dividend payouts showed large increases while the per share rate did

See TAXES, Page 8

From page one

not increase as much.

"That means nothing. We're paying 5 million new shareholders," said Charles R. Ehlert, a spokesman for Ozark. "We feel the tax incentives are an absolute must, especially to expand in the airline industry, which is very competitive and very capital intensive."

Ozark paid $400,000 in taxes on profits of $59.7 million in the 4-year period. Tax Justice said Ozark increased capital investment by 312 percent over that period. Ehlert said it had increased 78 percent.

Even the companies that rank above average in federal tax payments support the 1981 tax breaks. A spokesman for Ralston Purina, which was among the top four taxpayers in the study, said the tax legislation was "philosophically correct" because it promotes corporate investment.

The spokesman said Ralston was unable to get much benefit from the tax breaks because the company was in the midst of restructuring and selling off businesses, which accounted for the employment drop. Tax Justice reported that Ralston's investment was down 15 percent and its employment down 21 percent, while dividend payouts were up 5 percent.

Richard Overton, corporate tax director at Monsanto Co., called the Tax Justice study "invalid but eye-catching." Overton asked what would have happened had the cuts not been passed — a question often asked in defense of the cuts.

"We thought the '81 Act was clearly the right direction. It made the tax code neutral between consumption and savings," by allowing corporations to retain a greater portion of their profits, Overton said.

Anheuser-Busch Cos. Inc., which paid 13.9 percent of its profits in taxes during the 4-year period, credited the tax breaks with helping the company expand. At Anheuser-Busch, employment was up 116 percent, investment was up 23 percent and dividend payouts were up 128 percent.

"During the past five years, Anheuser-Busch has invested more than $2.3 billion to modernize production capacity, expand existing facilities and build new breweries," said a spokesman. "There is no question that the tax incentives of the act were a major influence on our aggressive capital expenditure program."

Busch, however, is siding with Tax Justice against the tax bill introduced by Sen. Robert Packwood, R-Oregon. Packwood's bill would increase excise taxes on a variety of commodities, including beer and wine. According to Tax Justice, Packwood's bill would raise about $75 billion over the next five years, most of which would be used to retain the 1981 corporate incentives.

ALTOONA, PA
MIRROR
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ALTOONA METROPOLITAN AREA

APR 4 1986

Packwood tax reform plan would burden middle class

By David Wilhelm
Executive Director
Citizens for Tax Justice

The "loophole lobby" is resting more easily now that Senator Bob Packwood, chairman of the Senate Finance Committee, has finally revealed his version of "tax reform."

Under Packwood's plan, federal sales taxes on a wide array of commonly-used products would be hiked by more than 50 percent. American consumers would be forced to pick up the tab in the form of higher prices for gasoline, cigarettes, airline tickets, beer, wine, and many other items.

In fact, Packwood hopes to raise $75 billion over the next five years by boosting these federal sales taxes.

What would this money be used for?

Reducing the deficit, you say? No such luck.

The Packwood tax plan is revenue-neutral, adhering to the dictates of the White House. Instead, the money raised from higher taxes on consumers would be used to finance the retention of some of the biggest corporate loopholes on the books today.

Defense contractors are jubilant because Packwood proposes to keep the special accounting rules that permit them to avoid paying taxes year after year. General Dynamics, a Missouri-based company, hasn't paid any federal income tax since 1972. Seemingly proud of this achievement, General Dynamics' home-state senator, John Danforth, R-Cal., has heralded Packwood for doing "a remarkable job in correcting flaws in the House bill."

Last December the House passed a tax bill that confounded the experts, the skeptics and the lobbyists by closing many of the loopholes that allow large corporations and wealthy individuals to avoid paying taxes. The House bill would, for example, repeal those special accounting rules used by defense contractors.

Senator Russell Long, D-Louisiana, a long-time friend of the lobbyists for the oil and gas industry, has expressed his approval of the Packwood effort to retain their special tax breaks. "On the whole," Long told Packwood, "you've made a major improvement over the House bill."

The House bill would scale back some of the tax loopholes that have become the special province of the oil and gas industry.

Packwood proposes to keep the accelerated cost-recovery system, the form of super-fast depreciation that has been the cornerstone of much of the corporate tax avoidance that has taken place in recent years. The House bill substitutes a depreciation system that more closely approximates the way that machines and buildings actually wear out or become obsolete.

Packwood has come up with the idea of allowing a one-time cashing out of unused investment tax credits — at a cost to the federal treasury of $32 billion. This particular provision represents the largest new welfare initiative since the days of the Great Society. No-tax companies like General Electric, with more credits than they can use, would receive large refund checks under the plan.

Evidently, Rackwood believes that welding together a coalition of

In choosing this course, Packwood has opted to boost the kind of taxes that are unrelated to the abiltiy to pay. As a result, whatever tax relief that lower- and middle-income families would receive from long-overdue increases in the personal exemption and standard deduction will be eaten away.

According to the Bureau of Labor Statistics, the poorest 20 percent of American families spend 3½ times as much of their incomes on gasoline and motor oil as the richest 20 percent of all families.

Moreover, as a share of family income, the poorest 20 percent of all households spend seven times as much money on tobacco and smoking supplies, four times as much on alcoholic beverages, and three times as much on clothing, as the richest 20 percent.

Therefore, Packwood's attempt to raise federal sales taxes will have an extremely regressive impact — disproportionately affecting wage-earners and the poor, leaving the

avoiders like Boeing, General Dynamics, and Dow, Inc. back on the tax rolls for the firsat time in years. It would provide real, lasting releif to middle- and lower-income families.

The House bill reflected the growing recognition that burgeoning corporate tax loopholes simply have not worked as intended.

The loopholes haven't helped investment, employment, or America's trade performance.

Ever since the House bill passed, the loophole lobbyists have been busily and nervously marshalling their forces for a last stand before the Senate. And they are putting their muscle behind Senator Packwood's proposal.

Over the next few weeks, the Senate has to make a choice. It can raise regressive sales taxes on hard-working American families to protect unfair and counterproductive corporate loopholes. Or, like the House, it can close the loopholes and tell the corporate tax avoiders to go

DENVER, CO
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MAR 2' 1986

Tax breaks for corporations breaking rest of us

By Philip M. Stern

THE tax-reform bill passed by the House last year eliminated or tightened provisions used by corporations to reduce their tax burden by billions of dollars. Now it's the Senate's turn, and already corporate lobbyists are prowling Senate corridors warning that if the Senate fails to reopen those loopholes, corporate investment in new plant and equipment will wither and thousands of Americans will lose their jobs.

But there's fresh evidence that senators should treat those warnings with skepticism. According to a study by Citizens for Tax Justice, a tax-reform organization, corporate tax savings written into the 1981 tax law have not, contrary to administration predictions, stimulated major new investments in plant and equipment by the companies who most fully enjoyed these breaks.

The study compares Boeing and R. J. Reynolds. During President Reagan's first term, Boeing stood near the top in taking advantage of the tax incentives. On $2 billion in profits, Boeing paid no tax whatever. In fact, the company got a quarter-billion refund. Yet Boeing's expenditures for new plant and equipment declined 38%, and jobs at Boeing fell 18%.

Reynolds, by contrast, paid almost the highest taxes among the companies surveyed. But tha' did not prevent Reynolds from nearly tripling its new investment and adding 18% more jobs. Boeing and Reynolds are not unusual. The study also found that the 44 lowest-taxed companies reduced their investments and payrolls, while the 43 highest-taxed firms increased their plant outlays and their payrolls.

That reversal of the Reagan script should cause no surprise. For one thing, decisions on plant and job expansion are governed far more by market prospects than by taxes. For another, the tax law does not require a company to spend on new plant and equipment the money it saves from, say, highly favorable laws governing the write-off of old plant and equipment. A firm can spend its savings as it pleases: to give its executives a raise; to increase dividends to shareholders; to buy out another company.

Consider General Electric. During the first Reagan term, G. E. made nearly $10 billion in profits, yet paid not a penny of tax. G. E. gave its shareholders a 30% dividend increase and its chief executive officer a 141% pay raise (from $825,000 a year to just under $2 million). It also increased plant outlays somewhat. But did G. E. need the tax subsidy to afford that? It's questionable, because late last year G. E. executives considered the firm flush enough to spend $6 billion to buy RCA. For that $6 billion, nary a new machine will be bought, and nary a new job created (except, perhaps, for lawyers and accountants). In fact, despite what amounted to a $4.5 billion tax subsidy, G. E. ended the first Reagan term with 18% fewer jobs.

G. E. is no aberration. The study found that the 44 companies that paid no tax on their $57 billion of profits during the first Reagan term enjoyed an 11% increase in pre-tax profits. At the same time, capital investments by those 44 tax-free companies declined by 4% and their payrolls shrank by 6%.

G. E.'s multibillion buyout of RCA caps a tidal wave of mergers. In 1980, corporations spent $44 billion buying out other

companies. By 1984, the figure had tripled, and in 1985 it leaped to an estimated $180 billion. Such a buying mania hardly suggests that corporate America is cash-poor, requiring subsidies for new plant outlays.

The tax preferences G. E. and other corporations enjoy represent just as much a government subsidy as, say, the dairy or tobacco subsidies; they add to the federal deficit in precisely the same way those direct subsidies do. Since Ronald Reagan took office, corporate tax subsidies have tripled — from $40 billion to $120 billion. They currently account for more than half the federal deficit.

Yet since they are tax subsidies, they are not included in the president's budget, and they are immune from the cuts mandated by the Gramm-Rudman-Hollings deficit-reduction law. That's unfortunate for us taxpayers, because we aren't getting our money's worth.

Special Features

Philip M. Stern, Washington, is author of "The Rape of the Taxpayer."

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APR 3 1986

Commentary

The failure of corporate tax 'incentives'

The House approved in December a tax reform bill which goes a long way toward restoring fairness to the tax code by closing loopholes for rich corporations and individuals and by providing some relief for low and moderate-income families.

The battle for tax justice now is in the Senate, where corporate lobbyists and the Reagan administration plan to reshape the House bill more to their liking. The House bill, they complain, goes too far in curbing the huge corporate tax breaks in the 1981 tax cuts.

If corporations are made to pay more taxes, they warn, they'll have less money for capital investment, which will threaten economic growth. Let corporations off the hook and make up the difference in lost revenue by such "reforms" as taxing workers' health insurance benefits, limiting the widely-used deduction for state and local taxes, and imposing a national sales tax, they argue.

However, a recent study by Citizens for Tax Justice (CTJ) refutes the well-worn "supply-side economics" argument that corporate tax breaks stimulate investment, productivity and job creation. CTJ is a widely-respected research and lobbying group supported by unions, churches, public interest and community groups.

Titled "Money for Nothing: The Failure of Corporate Tax Incentives, 1981-1984," the report analyzes the investment and employment effects of the Reagan-initiated 1981 tax changes — the largest corporate tax cut in U.S. history and mostly in force today despite 1982 and 1983 modifications.

Surveying 259 of the nation's largest and most profitable non-financial corporations over the 1981-84 period, the study found that 44 of them took advantage of so many loopholes that they paid no federal income taxes at all or actually received net tax refunds.

Despite their billions in tax "incentives," these same 44 companies reduced investment in plant and equipment by 4 percent and cut their total number of employees by 6 percent from 1981 through 1984. These companies included Boeing, Dow Chemical, ITT, Tenneco, Weyerhauser, Union Carbide and Greyhound.

On the other hand, the 43 companies which paid the highest taxes, each paying at least 33 percent of its profits into the Treasury boosted their capital investment by an average 21 percent and added 4 percent more workers to their payrolls.

"Other factors far outweigh the importance of taxes in investment decisions," the study continued. It said these factors include demand for a company's products, management's commitment to long-term growth, interest rates, technology, and overcapacity.

"If anything, an excessive management focus on chasing after tax shelters seems to have a negative effect on investment and job creation, as the poor performance of the no-tax companies illustrates," the report said.

What did the 44 no-tax corporations do with their tax bonanza? The study found that they increased their dividends to stockholders by an average 22 percent and raised the compensation of their chief executive officers by a spectacular 54 percent. In addition, 11 of these companies spent nearly $40 billion in the non-productive monopoly game of taking over other companies in 1985 alone.

The tax "incentives" not only have failed to produce the promised investment boom; they have harmed both the economy and the fairness of the federal tax system, the report said. Since 1981, corporate tax loopholes have tripled to $120 billion a year, well over half the current budget deficit.

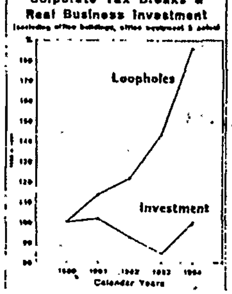
The record budget deficits of the Reagan years, in turn, have kept real interest rates at record levels. These high rates inflated the value of the dollar, which helped cause record trade deficits and lost manufacturing jobs, the report noted.

Corporate tax loopholes currently amount to more than $1,500 annually for every taxpaying American family, the report said.

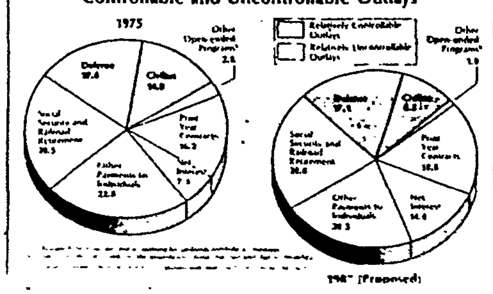
If the House tax bill is approved by the Senate and signed into law, "it will mean that for the first time in years, General Electric, Boeing, and Dow Chemical will be paying as much in taxes as the people who work their assembly lines, type their letters, and wax their floors. And there will be significant tax relief for the vast majority of hardworking Americans," the report said.

"It is now up to the Senate," it continued, "to resist the blandishments of the loophole lobbyists, to face up to the hard economic sanity to our country's tax system."

Corporate Tax Breaks & Real Business Investment



Controllable and Uncontrollable Outlays[1]



DAILY COMMERCE
LOS ANGELES, CA.
D. 5,200

MAR 22 1986

Keep the Bite On Corporations

By PHILIP M. STERN

WASHINGTON — The tax reform bill passed by the House last year eliminated or tightened provisions used by corporations to reduce their tax burden by billions of dollars. Now it's the Senate's turn, and already corporate lobbyists are prowling Senate corridors warning that if the Senate fails to reopen those loopholes, corporate investment in new plant and equipment will wither and thousands of Americans will lose their jobs.

But there's fresh evidence that senators should treat those warnings with skepticism. According to a study by Citizens for Tax Justice, a tax reform organization, corporate tax savings written into the 1981 tax law have not, contrary to administration predictions, stimulated major new investments in plant and equipment by the compaines who most fully enjoyed these breaks.

The study compares Boeing and R.J. Reynolds. During President Reagan's first term, Boeing stood near the top in taking advantage of the tax incentives. On $2 billion in profits, Boeing paid no tax whatever. In fact, the company got a quarter-billion *refund*. Yet Boeing's expenditures for new plant and equipment declined 36 percent, and jobs at Boeing fell 18 percent.

Reynolds, by contrast, paid almost the highest taxes among the companies surveyed. But that did not prevent Reynolds from nearly tripling its new investment and adding 18 percent more jobs.

Boeing and Reynolds are not unusual. The study also found that the 44 lowest-taxed companies reduced their investments and payrolls, while the 43 highest-taxed firms increased their plant outlays and their payrolls.

That reversal of the Reagan script should cause no surprise. For one thing, decisions on plant and job expansion are governed far more by market prospects than by taxes. For another, the tax law does not require a company to spend on new plant and equipment the money it saves from, say, highly favorable laws governing the write-off of old

Commentary

plant and equipment. A firm can spend its savings as it pleases: to give its executives a raise; to increase dividends to shareholders; to buy out another company.

Consider General Electric. During the first Reagan term, GE made nearly $10 billion in profits, yet paid not a penny of tax. GE gave its shareholders a 30 percent dividend increase and its chief executive officer a 141 percent pay raise (from $825,000 a year to just under $2 million). It also increased plant outlays somewhat. But did GE need the tax subsidy to afford that? It's questionable, because late last year GE executives considered the firm flush enough to spend $6 billion to buy RCA For that $6 billion, nary a new machine will be bought, and nary a new job created (except, perhaps, for lawyers and accountants). In fact, despite what amounted to a $4.5 billion tax subsidy, GE ended the first Reagan term with 18 percent *fewer* jobs.

GE is no aberration. The study found that the 44 companies that paid no tax on their $57 billion of profits during the first Reagan term enjoyed an 11 percent increase in pretax profits. At the same time, capital investments by those 44 tax-free companies declined by 4 percent and their payrolls shrank by 6 percent.

GE's multibillion buyout of RCA caps a tidal wave of mergers. In 1980, corporations spent 44 billion buying out other companies. By 1984, the figure had tripled, and in 1985 it leaped to an estimated $180 billion. Such a buying mania hardly suggests that corporate America is cash-poor, requiring subsidies for new plant outlays.

The tax preferences GE and other corporations enjoy represent just as much a government subsidy as, say, the dairy or tobacco subsidies; they add to the federal deficit in precisely the same way those direct subsidies do. Since Ronald Reagan took office, corporate tax subsidies have tripled — from $40 billion to $120 billion. They currently account for more than half the federal deficit.

Yet since they are tax subsidies, they are not included in the president's budget, and they are immune from the cuts mandated by the Gramm-Rudman-Hollings deficit-reduction law. That's unfortunate for us taxpayers, because we aren't getting our money's worth.

Philip M. Stern is author of "The Rape of the Taxpayer." This article reprinted from The New York Times.

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APR 1 986

Who pays taxes?

Some of the things happening to a tax reform measure in the U.S. Senate makes one wonder if many senators are really serious about the matter. The House bill scrubbed a host of loopholes in the current tax laws but the Senate Finance Committee has been busy restoring these special interest jewels.

Item: Under the tax measure developing in the Senate, some of the biggest corporate loopholes on the books today that the House deleted have been retrieved by the upper chamber. The Citizens for Tax Justice, a sort of Washington watchdog organization, says the restoration will put smiles on the faces of defense contractors. You would smile too if special accounting rules permitted your company to avoid paying taxes year after year on defense projects.

One of the largest defense contractors in the country, General Dynamics, a Missouri-based corporation, hasn't paid any federal income tax since 1972. Also a super-fast depreciation schedule, officially called the Accelerated Cost Recovery System, provides remarkable tax concessions for the oil and gas industry. The House bill is designed to scale back some of these lucrative loopholes; the Senate proposal seeks to retain them.

Furthermore, Citizens for Tax Justice points out, the House tax bill would put major corporate tax avoiders such as Boeing, General Dynamics and Dow Chemical back on the tax rolls for the first time in years.

These companies would join consumers who have never left the tax rolls. What's more, the Senate Finance Committee's idea of tax reform would have consumers paying a great deal more tax.

The plan would boost federal sales taxes up to 50 percent on an array of consumer products — gasoline, cigarettes, airline tickets, beer, wine and many other items. Collections from these excise taxes are projected to increase by $75 billion over five years. So in a way consumers would be financing the retention of corporate loopholes. How nice.

BINGHAMTON, NY
PRESS & SUN-BULLETIN
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APR 6 1986

Packwood favors loophole lobby

Guest Viewpoint

By DAVID WILHELM

The loophole lobby is resting a little more easily these days now that Senator Bob Packwood, R-Oregon, Chairman of the Senate Finance Comittee, has finally revealed his version of tax "reform."

Under Packwood's plan, federal sales taxes on a wide array of commonly-used products would be hiked by more than 50 percent. As a result, American consumers would be forced to pick up the tab in the form of higher prices for gasoline, cigarettes, airline tickets, beer, wine, and many other items.

In fact, Packwood hopes to raise $75 billion over the next five years by boosting these federal sales taxes.

And what would this money be used for? Reducing the deficit, you say? No such luck. The Packwood tax plan is revenue-neutral, adhering to the dictates of the White House. Instead, the money raised from higher taxes on consumers would be used to finance the retention of some of the biggest corporate loopholes on the books today.

Defense contractors are jubilant because Packwood proposes to keep the special accounting rules that permit them to avoid paying taxes year after year. General Dynamics, a Missouri-based company, hasn't paid any federal income tax since 1972.

Last December the House passed a tax bill that confounded the experts, the skeptics, and the lobbyists by closing many of the loopholes that allow large corporations and wealthy individuals to avoid paying taxes. The House bill would, for example, repeal those special accounting rules used by defense contractors.

The House bill would scale back some of the tax loopholes that have become the special province of the oil and gas industry.

Packwood proposes to keep the Accelerated Cost Recovery System, the form of super-fast depreciation that has been the cornerstone of much of the corporate tax avoidance that has taken place in recent years. The House bill substitutes a depreciation system that more closely approximates the way that machines and buildings actually wear out or become obsolete.

Packwood has opted to boost the kind of taxes that are unrelated to the ability-to-pay. As a result, whatever tax relief that lower-and middle-income families would receive from long-overdue increases in the personal exemption and standard deduction will be eaten away.

According to the federal Bureau of Labor Statistics, the poorest 20 percent of American families spend 3½ times as much of their incomes on gasoline and motor oil as the richest 20 percent of all families.

Moreover, as a share of family income, the poorest one-fifth of all households spend 7 times as much money on tobacco and smoking supplies, 4 times as much on alcoholic beverages, and 3 times as much on clothing, as the richest one-fifth.

Therefore, Packwood's attempt to raise federal sales taxes will have an extremely regressive impact — disproportionately affecting wage-earners and the poor, leaving the well-to-do largely unscathed.

Unlike the Packwood proposal, the bill that passed the House last year actually was serious about tax reform. If enacted into law, the House bill would put major corporate tax avoiders like Boeing, General Dynamics, and Dow Chemical back on the tax rolls for the first time in years. It would provide real, lasting relief to middle-and lower-income families.

The House bill reflected that growing recognition that burgeoning corporate tax loopholes simply have not worked as intended. Instead, by adding $120 billion a year to the budget deficit, they are a big part of the problem.

Ever since the House bill passed, the loophole lobbyists have been busily marshaling their forces for a last stand before the Senate.

Over the next few weeks, the Senate has to make a choice. It can raise regressive sales taxes on hardworking American families to protect unfair and counterproductive corporate loopholes. Or, like the House, it can close the loopholes and tell the corporate tax avoiders to go back to making money the old-fashioned way — by earning it.

Wilhelm is executive director of Citizens for Tax Justice, a coalition pressing for broad-based federal tax reform.

MEMORANDUM 4/19/86 Sat 14:35:54

TO: DISTRIBUTION

FROM: FRED PANZER

SUBJECT: CITIZENS FOR TAX JUSTICE PRESS COVERAGE

Enclosed is your set of 18 full-size copies of clippings from newspapers in Senate Finance Committee states. They were generated by CTJ's press statement or follow up op-ed article, both of which provided the first and sharpest criticism of the excise deductibility proposal. Some of the coverage reflects how columnists, economists or trade association executives quoted CTJ to support their opposition.

These press clippings may be helpful information for further distribution to Members of Congress, congressional staff, state and local elected officials, allied groups, and, of course, our TI field staff and lobbyists.

Later this week, I expect to have a more complete set of clippings, more attractively reproduced too.

Enclosure
cc: Samuel D. Chilcote, Jr.
William Kloepfer
Robert Lewis
Roger Mozingo
Peter Sparber
9.25

Fred — to mailing c̄ x Comm. Sam
P

TI18211636

Press Cuttings

Citizens for Tax Justice

op-ed

&

Press Conference

Week of April 14-18

MAGNOLIA, AR
BANNER-NEWS
D. 4,400

APR 1 1986

2

Tax reform: Act III

The president has made his tax reform proposal, the House has passed its version, and now it's the Senate's turn – starting from a working draft unveiled a few days ago by Senate Finance Committee Chairman Bob Packwood. If it's fairness and simplicity the Senate is after, it has a long row to hoe.

Packwood, a Republican, was trying to please both the president, who's adamant about lowering the tax rates of the rich, and the Finance Committee's members, who refuse to close their favorite business tax loopholes to pay for those lower rates. The combination was lethal.

Moreover, Packwood had to cope with those aspects of the president's plan that are simply bad, or broadly unpopular, as social policy – like the president's proposal to eliminate the deductibility of state and local taxes and of employee health benefits. The House sensibly retained those deductions – and made up the difference by cutting less from top tax rates than the president had wanted and by closing more corporate loopholes than he had proposed. But neither route would meet Packwood's political needs.

Under the circumstances, what Packwood came up with was clever. But compared to the House's package, it's hardly fair or simple. Packwood proposes to meet all those demands for revenue-losing income-tax breaks by raising consumption taxes commensurately. He wants to make all excise taxes and tariffs – on wine, alcohol, tobacco, motor fuels, trucks, buses, trailers, air fares and telephone service and on various imported goods, notably textiles and apparel – non-deductible for corporations. The net effect on consumers, economists estimate, would be the same as a direct increase in these excise taxes and tariffs of as much as 50 percent. And that hidden tax increase would not be levied, like an income tax, according to one's ability to pay; it would fall hardest, like all consumption taxes, on those least able to pay.

There are circumstances in which excise tax increases might make sense anyway. A fuel tax increase, while oil prices are dropping, would keep the country on the energy-conservation course on which its future energy security depends. Alcohol and tobacco tax increases, to the extent they cut consumption, could be useful public health measures. Even a more general tax increase would be acceptable, if it were part of a national belt-tightening in which everyone has to sacrifice equitably to help bring the federal deficit under control.

But to propose a general increase in an indiscriminate assortment of consumption taxes that hit harder the poorer one is – and all for the purpose of preserving corporate tax loopholes and bringing the top income tax rate paid by the rich down by another few percentage points – is the height of unfairness. To sell this as tax reform, and with the promise of lowering everyone's tax bills, is the height of duplicity.

The House was far more staightforward – and more successful – in coming up with a tax reform package that actually would be fairer than current law and sounder, in terms of its social policy effects, than the president's proposal. The Senate has its work cut out for it.

TI18211638

DETROIT, MI
FREE PRESS
D. 647,130—S. 803,714
DETROIT METROPOLITAN AREA

APR 7 1986

Tax 'reform' or trade-offs? Senators can't say

By PATRICIA O'BRIEN
Free Press Washington Staff

WASHINGTON — Members of the Senate Finance Committee were picking away listlessly at the details of a provision in the tax overhaul bill protecting large home builders recently when suddenly Sen. Steven Symms, R-Idaho, slapped his fist on the hearing table.

"We're taking a huge gamble with this," Symms said, pointing to the thick working document prepared by committee chairman Sen. Bob Packwood, R-Ore. "We've lost simplicity. We're just transferring money from somebody to somebody else and there is no integrity to the process. This is an absolute sham."

Pointing to Packwood, he said: "You've had a situation put on you that's impossible to do."

Symms' outburst illustrates the dimensions of the trouble ahead for Packwood as he tries to win consensus for a document that meets President Reagan's dream of tax reform without tax increases — and has some chance of passage by the Senate.

Packwood's challenge is to preserve tax breaks for numerous interests favored by committee members while keeping the top tax rate at 35 percent, a juggling act that is fraying tempers during the drafting of a bill. It involves trade-offs few want to make.

"It's like giving a starving man a steak," said Symms, referring to Packwood's inclusion of breaks for the building industry while subjecting it to a minimum corporate tax. "Just as he starts to take a bite, it's taken away from him."

WHEN COMMITTEE members sit down again to wrestle with the bill on Tuesday, arguments are certain to erupt on several fronts:

- Should municipal bonds, vital vehicles to pay for everything from schools to stadiums, lose their tax-exempt status? Packwood's initial effort to make them do so virtually sent the bond market into cardiac arrest. In their first and only vote on the bill, committee members ruled out the idea of taxing existing municipal bonds. But no decision has been reached on whether bonds issued after Jan. 1 could be subject to the minimum tax.

- What about depreciation schedules for businesses? Several committee members want to give real estate developers and auto companies a chance to write off their investments in land and machinery faster. Sen. Lloyd Bentsen, D-Tex., complained to his colleagues that auto rental companies in particular need the break. "I've heard of one man who cleaned quail in his rental car," said Bentsen. "If depreciation is kept at five years, I'll be driving some awful old rental cars."

- Some members object that Packwood's plan to buy off corporate investment tax credits is too expensive. The credit has been a generous subsidy for business in which the government picks up 10 percent of new equipment and machinery costs. It would be repealed as part of the trade-off for lower rates — but Packwood wants the government to dole out more than $30 billion in unused credits to the hurting steel and agricultural industries.

- The issue at the top of the list, the one expected to generate the most heat, is Packwood's plan to raise $75 billion through increasing the tax on wine and ending businesses' deduction for excise taxes.

"Without that revenue, or a net equivalent revenue," said Packwood, "then the things I tried to do in the draft cannot be done."

Some say Sen. Bob Packwood, left, is deliberately heading into the eye of the storm to demonstrate the futility of the entire effort to reform the tax code.

UNCONVINCED, more than 50 of Packwood's Senate colleagues wrote him last month saying his proposal means corporations will pass on the cost of the taxes to consumers, in effect forcing a tax increase on low- and middle-income people.

Americans would then pay more for gasoline, food, telephone service and airline tickets. They also would pay more for a range of life's small enjoyments, everything from baseball games to a glass of beer.

"This issue is the one of greatest interest," said Sen. Bill Bradley, D-N.J. "We've got 10 or 11 senators on the committee who have serious reservations about excise taxes."

"It's bizarre, preposterous," said Robert McIntyre, a representative of Citizens for Tax Justice, a union-backed lobbying group, at a press conference called to denounce the excise tax plan.

"For a few days, most people sputtered about how silly it was. But it's quite clearly an increase in taxes, a very large one," he said. "That's not what tax reform was supposed to be all about."

Packwood's chief aide on the finance committee, Bill Diefenderfer, dismisses the complaints.

"There's no proof the taxes will be passed on," he said. "Even if they are, that's what happens with excise taxes. People didn't object when the cigaret tax was increased."

SOME SAY PACKWOOD is deliberately heading into the eye of the storm to demonstrate the futility of the entire effort to reform the tax code.

"He's a smart man who thinks the whole exercise is unnecessary and fruitless," said one food industry lobbyist. "The clamor being raised now could be proving his point."

"That's not logical," responded Diefenderfer. "It's just stupid."

As the protests mount, Packwood is standing firm.

"All of life is a trade-off," he told objecting committee members before Easter recess. "This committee has to make a decision. It has to find some way to produce a revenue-neutral bill."

AUSTIN, TX
AMERICAN-STATESMAN
D. 160,000 — S. 180,000
AUSTIN METROPOLITAN AREA

APR 3 1986

Phrasing in polls geared at getting positive response

New York Times Service

WASHINGTON — A favorite technique of lobbyists in the capital is to commission opinion polls on political issues and phrase the questions in such a way that the responses will buttress their position.

Citizens for Tax Justice, a group that is working against tax breaks for business, last week issued the results of a new poll.

A typical question: "Do you agree or disagree that large corporations should start paying their fair share of taxes before there are any increases in any taxes that ordinary, working and middle-income Americans pay?" Not surprisingly, 86 percent of the respondents agreed.

But sometimes the technique backfires. To battle legislative efforts to increase business taxes, *Nation's Business,* the monthly magazine of the U.S. Chamber of Commerce, asked its readers this question: "Should Congress enact a tax bill that could hobble economic growth?"

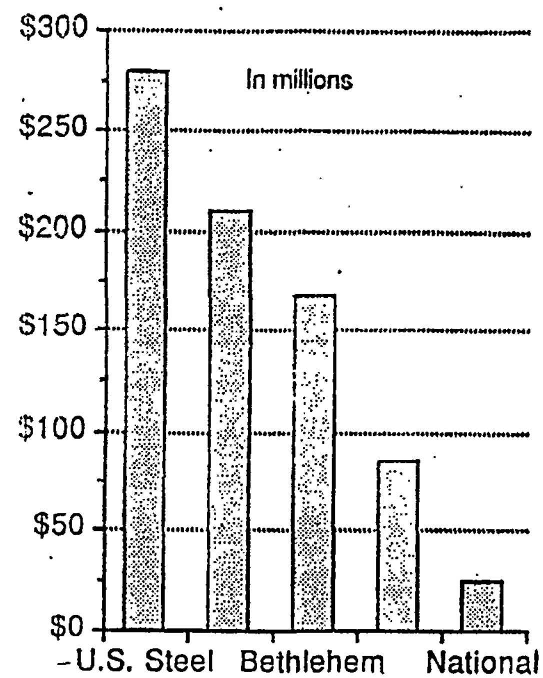
Fifty-six percent of the readers who responded said "no." But remarkably, given the readership of the publication, 31 percent seemed to think hobbling growth might not be so bad and answered "yes." Thirteen percent were undecided.

HAMMOND, IN
TIMES
D. 69,815–S. 76,325
CHICAGO METROPOLITAN AREA
MAR 19 1986

Tax break sought

Repayments

Amounts that would be repayed to steel companies for unused tax credits under proposed legislation:



By DAVID GOUREVITCH
Times Washington Bureau

WASHINGTON — The steel industry could reap a $1 billion windfall under a new tax overhaul plan.

The plan, if enacted, would require the federal government to write U.S. Steel Corp. a check for $280 million.

LTV Corp. and Bethlehem Steel Corp. would receive refund checks for $210 million and $168 million, respectively, while Inland Steel Co. and National Steel Corp. would get $86 million and $25 million, respectively.

The proposal by Sen. Robert Packwood, chairman of the Senate Finance Committee, would repeal the investment tax credit and require the federal government to give businesses refunds for 70 percent of the credits they've accumulated.

Such a provision would be a bonanza for the nation's largest steelmakers. In recent years, the companies have accumulated many millions of dollars in investment tax credits, but were unable to use them because they had had no taxable income.

Bethlehem had $240 million in accumulated investment tax credits at the end of 1985. Company officials estimate that Bethlehem would receive a rebate of 70 percent of its total tax credits, or $168 million, if the Packwood plan is approved.

U.S. Steel, meanwhile, had $400 million in accumulated investment tax credits and LTV had $300 million. Inland and National Steel reported $120 million and $37 million in December 1985.

Not surprisingly, steel industry executives generally support Packwood's reimbursement plan. John Meagher, an LTV vice president, praised the plan as a vital and timely "infusion of capital at a time when the industry needs it badly."

DAILY COMMERCE
LOS ANGELES, CA
D.5,200

MAR 12 1986

STUDY: TAX BREAKS DON'T AID EXPORTS

Corporate tax breaks intended to spur exports have in fact undermined U.S. export competitiveness, a liberal tax study group said Wednesday.

A report released by Citizens for Tax Justice based on a survey of 31 top exporters showed companies which pay the highest taxes tend to export the most, while companies which avoid paying federal taxes tend to have the least success in export markets.

The tax reform study group found that 11 of the 31 top exporters paid no federal taxes or got money back from the government because of corporate tax "loopholes" and incentives designed to increase competitiveness aboard.

They were indentified as Boeing Corp, Dow Chemical, General Electric, DuPont, Lockheed, Northrop, Union Carbide, Weyerhaeuser, International Paper, Allied Corp. and International Minerals and Chemical. The 11, who had a combined negative tax rate of 3.6 percent, reduced their total exports between 1981 and 1984 by 15 percent, the study showed. In contrast, the top 10 exporters in the group increased exports by an average of 22 percent during the period despite a 26.7 percent average federal tax bite, CTJ reported. (UPI)

TI18211642

HAZLETON, PA
STANDARD-SPEAKER
—D. 24,511—
NORTHEAST PA. METROPOLITAN AREA
MAR 25 1986

Consumers will ultimately pay the costs

Editor, Standard-Speaker,

The latest fiasco out of Washington now comes to us in the form of yet another tax proposal - a bizarre tax on a tax which ultimately will be passed on to the consumer.

This time, Senator Packwood (R-OR) has introduced a new tax package that he says will be a boon to both consumers and small business alike.

Included in the Senator's litany of so-called reforms is a proposal to eliminate business deductibility of excise taxes.

The liquor industry is particularly sensitive to the federal excise tax issue. Last October the federal excise tax rose 19 percent for our product. If the Packwood proposal were to become law, this proposal on top of last year's tax hike would mean an effective FET hike of 73 percent.

Senator Packwood's press statements have billed his proposal as a tax on business. Nothing could be further from the truth. Citizens for Tax Justice, a national organization supported by both labor and consumer groups, picked up on this when it said last week that the Senator's excise tax proposal "is nothing but a huge consumption tax that will fall heavily on middle and low income families — excise taxes," they said, "unlike income taxes, will be passed on to consumers in higher prices."

And the line on these price increases is not drawn on alcohol beverages alone. The Packwood proposal will negatively affect gasoline and diesel fuels, the cost of trucks and trailers, airline passenger tickets and shipping costs, crude oil and gasoline, feedstocks, coal, fishing and hunting gear, telephone service, tobacco products and others.

The impact on the distilled spirits industry will be devastating. We estimate that in Pennsylvania 920 jobs will be lost and 680 small businesses will be foreced to close.

On the surface, it would appear that the Senator from Oregon is trying to close some "loopholes." As for the Federal excise, he's really calling for implementation of a totally regressive tax system that will cost jobs, hurt low and middle level income people the most, slam the doors for many small businesses and cost consumers millions more for many kinds of products they use every day of the week.

Senator Packwood's tax package is anti-consumer, anti-business and totally inconsistent with the Administration's policy of no tax increases. We're all for progressive tax measures, but the excise idea, which amounts to nothing more than a tax, needs to be stricken from the record before it creates more problems than it already has.

We think your readers should know, as even Senate Finance Committee member Dave Durenberger (R-NM) has stated, "the increased costs resulting from this idea will be passed on to wholesalers and, ultimately, to consumers."

F.A. Meister,
President—CEO

TI18211643

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HAZLETON, PA
STANDARD-SPEAKER
—D. 24,511—
NORTHEAST PA METROPOLITAN AREA

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President—CEO

TI18211644

WALL STREET JOURNAL
NEW YORK, NY
—D. 757,135—
NEW YORK CITY METROPOLITAN AREA
APR 2 1986

Away From Takeovers, to 'Value Accounting'

By Lee Berton

With the tide of takeovers, leveraged buyouts and asset sales or divestitures continuing, U.S. corporations appear blinded by the alleged benefits of mergers and really don't have a proper grasp of how to run a company to improve its value.

The fault, say many critics, may lie with an accounting model that focuses on ways to enhance historical values in today's marketplace and ignores the most important charge of management: to improve the value and potential of the company's assets.

"Passing assets back and forth doesn't appear to be creating better values for shareholders, customers or employees," says Scott Cowen, dean of the Weatherhead School of Management at Case Western Reserve University in Cleveland. Instead, says Dean Cowen, companies should devote more effort to turning out better products at a lower cost and to stimulating higher output by their employees.

False Values?

The National Association of Accountants, a trade group of 95,000 management accountants, has joined the ranks of those wondering whether false values are being created by the profession. It has just issued new guidelines to measure company performance that place less emphasis on financial measures like earnings per share and return on investment.

"Companies should put more stress on nonfinancial measures such as market share, innovation, quality of service, productivity, and employee development," says Louis Bisgay, the NAA's director of accounting practice. If they did, adds Mr. Bisgay, "companies would be less likely to depend on merger partners to bail them out of bad business decisions."

"Accounting should highlight the potential value of assets to shareholders," says Anthony Tinker, a professor of accounting at Baruch College in New York. "Because it now stresses historical value, raiders are drawn to depreciated assets like moths to a flame."

A study by the Citizens for Tax Justice, a public-policy group opposed to business tax breaks, shows that 11 companies that were listed among the top 25 acquirers last year spent a total of about $40 billion for the takeovers. That was more than they devoted to new buildings and equipment from 1982 through 1984, according to the study. By reducing capital spending, the study says, the companies were able to squirrel cash away for future takeovers and to sharply raise the pay of their top executives.

Felix Pomerantz, director of the Center for Accounting, Auditing and Tax Studies at Florida International University in Miami, recalls the early 1970s when the accounting profession became enamored of "social accounting." He adds: "We wanted to look beyond financial measurements to the benefits to society of business decisions and judgments."

But interest waned as accountants discovered that they could gain few allies in the business world by talking about a social balance sheet that measured "community action," "employee loyalty" and the "public good."

Today the concepts in social accounting are being reconsidered, and concerns about social welfare are giving way to more hard-nosed worries that accounting may not really be measuring real value.

"If anything, the concerns about social accounting have been replaced by a new discipline called 'value accounting,' which is focusing not so much on dressing up the financial statement but on stimulating management to create real value," says Yuji Ijiri, a professor of accounting and economics at Carnegie-Mellon University's Graduate School of Industrial Administration in Pittsburgh.

Prof. Ijiri says that colleges are beginning to realize that an overemphasis on finance in education for a master's of business administration has contributed to the "waste of industry resources from society's standpoint." He adds: "We were training future businessmen how to keep debt off their balance sheets and structure pooling-of-interest mergers that provided window dressing for financial statements. But we weren't telling them how to make better products, which will in the final analysis produce real profits and genuine company growth."

Ilker Baybars, an associate dean at Carnegie-Mellon, notes that over the past few years, the school has introduced new courses for MBAs in production, operations management and artificial intelligence to balance for the heavily finance-oriented courses of the past. "The craze over the past few years was to show the students how to make fast money, and now we're putting more stress on output, strategic planning and decision-support systems for manufacturing," he says.

The decision to shift curriculum emphasis was made by the school after its faculty began faulting the curriculum for producing facile financial managers who couldn't start a business from scratch. Carnegie-Mellon now requires an MBA candidate to take two course units in manufacturing management. "Five years ago, few students were attracted to courses in production management, but now more than 20% of our enrollment are interested," observes Dean Baybars.

Carnegie-Mellon dean: "The craze over the past few years was to show students how to make fast money."

Robert Kaplan, a professor of accounting at the Harvard Business School in Boston, questions "whether mergers do create or enhance value beyond reshuffling ownership claims." Existing accounting systems, he says, conceal the underlying cost structure of operations and prevent many managers from recognizing that their companies need new production methods rather than new owners.

"Companies should analyze the fastest-growing cost categories, overhead and capital accounts and reemphasize new product and process development," says Prof. Kaplan. He notes that current accounting systems lean too heavily on direct labor costs. Companies would be wiser to study how often manufacturing setups must be changed to produce new products, he adds.

"Financial executives should be forced to spend more time on the production floor," asserts Prof. Kaplan. The old cost-accounting systems that allocated expenses based on labor content are "moribund," he says.

However, Prof. Kaplan cautions against opposing all mergers, buyouts and restructurings. "What we may be seeing in this wave of mergers is a reaction to too much diversification," he says. "By going private or rearranging ownership, companies may reverse the trend of the '60s and '70s and do a better job of managing assets. Only time will tell whether aggressive acquirers can properly trim the acquisitions, apply new technologies and processes and acquire new customers."

Highlight Deficiencies

Accounting, says Prof. Tinker, should highlight through disclosure in financial reports the deficiencies in companies that permit insiders to make money, no matter whether the price of company stock goes up or down. If the stock price rises, management benefits from stock options. If it falls, then management has an inside track to structure a leveraged buyout of undervalued assets, he notes.

Before corporate mergers swallow up a lot more targeted assets, maybe the time is ripe for a closer look at value accounting, the more acceptable version of social accounting. Rather than focusing only on whether mergers, asset purchases or leveraged buyouts overburden the new management, maybe we should examine whether asset restructurings add value to the surviving business entities.

Business would be better able to prune the trees if it learned more about the forest.

Mr. Berton covers accounting from the Journal's New York bureau.

CHICAGO, IL
SUN-TIMES
D. 639,134—S. 669,426
CHICAGO METROPOLITAN AREA

Senate tax reform plan hit

Business loopholes rapped

By Jerome Idaszak
Sun-Times Bureau

WASHINGTON—The average American would be asked to pay higher taxes to support write-offs for steel, oil, timber and other businesses in a tax bill taking shape in the Senate, a lobbying group charged yesterday.

The bill is being drafted by the Senate Finance Committee and its chairman, Bob Packwood (R-Ore.).

"Sen. Packwood has given the public a stark choice—he wants to raise sales taxes to pay for loopholes for timber companies, oil companies, defense contractors and $32 billion in aid to dependent corporations," said Robert S. McIntyre, director of federal tax policy for Citizens for Tax Justice.

McIntyre referred to differences between Packwood's proposal and a bill passed last December by the House. Packwood would end deduction of excise taxes for businesses, which would raise $62 billion over five years. It is presumed that businesses would pass along the cost of these taxes to consumers.

Packwood would use the $62 billion to preserve write-offs for his home-state timber companies as well as other natural resource businesses whose employees, he said, would be hurt by the House bill.

The senator's proposal also would allow companies with investment tax credits on their books to use them next year to collect cash from the U.S. Treasury, rather than taking the credits in future years. This idea would amount to $32 billion for such hard-hit industries as steelmakers.

McIntyre, who said he favors the House bill, blasted the Packwood proposal at a press conference held by the lobbying group, which is backed by labor unions and consumer groups. To back up his arguments, McIntyre released results of a telephone survey of 603 voters done in mid-March that showed overwhelming opposition to an increase in taxes on consumers.

As the consumer group criticized the Packwood bill, the National Federation of Independent Business said the bill would "offer incentives that could spawn numbers of new firms in the near future."

The federation, which represents 500,000 members, praised Packwood for cutting corporate tax rates and for reducing the paper work burden for small businesses.

The group says 71 percent of the nation's 4.7 million small businesses are engaged in retail, wholesale and services and would face "unprecedented growth" through the Packwood plan's proposal to lower the top corporate tax rate from 46 percent to 35 percent.

Packwood's committee is due to resume debate of the tax bill when Congress returns next week. His goal is to get a bill to the Senate by June.

While Citizens for Tax Justice favors the House bill and the business federation likes aspects of both versions, a new study by economists at Washington University in St. Louis said that both bills would hurt the U.S. economy.

"Both proposals would involve substantial increases in the cost of capital that in turn would undermine investment and retard overall economic growth through 1991," the economists said.

TI18211646

FORT WAYNE, IN
NEWS-SENTINEL
—D. 62,447—
FT. WAYNE METROPOLITAN AREA

APR 9 1986

Senators grappling with problems of tax reform

By PATRICIA O'BRIEN
Of Our Washington Bureau

WASHINGTON — Members of the Senate Finance Committee were picking away listlessly at the details of a provision in the tax overhaul bill protecting large homebuilders recently when suddenly Sen. Steven Symms, R-Idaho, slapped his fist on the hearing table.

"We're taking a huge gamble with this," Symms declared, pointing to the thick working document prepared by committee chairman Sen. Bob Packwood, R-Ore. "We've lost simplicity. We're just transferring money from somebody to somebody else, and there is no integrity to the process. This is an absolute sham."

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Americans would then pay more for gasoline, food, telephone service and airline tickets. They would also be digging deeper into their pockets to pay for a range of life's small enjoyments, everything from baseball games to a glass of beer.

"This issue is the one of greatest interest," said Sen. Bill Bradley, D-N.J. "We've got 10 or 11 senators on the committee who have serious reservations about excise taxes."

"It's bizarre, preposterous," declared Robert McIntyre, a representative of Citizens for Tax Justice, a union-backed lobbying group, at a midweek press conference called to denounce the excise tax plan.

"For a few days, most people sputtered about how silly it was. But it's quite clearly an increase in taxes, a very large one," he said. "That's not what tax reform was supposed to be all about."

Packwood's chief aide on the finance committee dismisses the complaints.

"There's no proof the taxes will be passed on," he said. "Even if they are, that's what happens with excise taxes. People didn't object when the cigarette tax was increased."

Some say Packwood, known to be lukewarm on the need for tax revision, is deliberately heading into the eye of the storm to demonstrate the futility of the entire effort to reform the tax code.

"He's a smart man who thinks the whole exercise is unnecessary and fruitless," said one lobbyist. "The clamor being raised now could be proving his point."

"That's not logical," responded the Packwood aide. "It's just stupid."

"All of life is a trade-off," Packwood said. "This committee has to make a decision. It has to find some way to produce a revenue-neutral bill."

Details sure to cause argument

■ Should municipal bonds, vital vehicles to pay for everything from schools to stadiums, lose their tax-exempt status? Sen. Bob Packwood's initial effort to do this virtually sent the bond market into cardiac arrest. Senate Finance Committee members hastily ruled out the idea of taxing existing municipal bonds. But no decision has been reached on whether bonds issued after Jan. 1 could be subject to the minimum tax.

■ What about depreciation schedules for businesses? Several committee members want to give real estate developers and auto companies a chance to write off their investments in land and machinery faster.

■ Some members object that Packwood's plan to buy off corporate investment tax credits is too expensive. The credit has been a generous subsidy for business where the government picks up 10 percent of new equipment and machinery costs. It would be repealed as part of the trade-off for lower rates — but Packwood, R-Ore., wants the government to dole out more than $30 billion in unused credits to the hurting steel and agricultural industries.

■ The issue at the top of the list, the one expected to generate the most heat, is Packwood's plan to raise $75 billion through two means — increasing the tax on wine and no longer allowing businesses to deduct excise taxes.

"Without that revenue, or a net equivalent revenue," insists Packwood, "then the things I tried to do in the draft cannot be done."

DAILY BOND BUYER
NEW YORK, N.Y.
D. N/A

APR 3 1986

Change in Excise Taxes Would Cut State Revenues, Taxpayer Group Official Says

By Dave Ahearn

WASHINGTON, April 2 — Excise tax changes proposed by Sen. Bob Packwood, R-Ore., would force up the cost of goods to consumers, restricting consumption and reducing revenues that states and localities receive from taxes on sales of goods, a taxpayer group official said today.

"It's a big problem for the states," said Robert S. McIntyre, the Citizens for Tax Justice federal tax policy director.

The Packwood plan calls for repealing the federal income tax deduction that corporations now can take on excise taxes and tariffs. Many economists and members of Congress expect that corporations would pass the cost of losing the tax break on to consumers, in the form of higher prices.

That would tend to reduce overall consumption of goods and shrink state and local general sales tax collections, Mr. McIntyre said.

Sen. Packwood, the Senate Finance Committee chairman, also has proposed that the tax on wine be raised, from 17 cents an ounce to about 70 cents.

In addition, he proposes that taxes on such items as alcohol, motor fuels, and tobacco products be changed from a flat rate per unit to a percentage of the price, so federal excise tax collected per unit would rise every time prices rose.

Those increases in federal excise taxes "would hurt state consumption taxes" that specifically target those goods, Mr. McIntyre predicted.

Sen. Packwood's proposals have run into strong opposition within his own committee, where a majority of senators have signed a letter expressing concern that "low- and middle-income taxpayers will bear the brunt of these excessive tax hikes."

The Packwood excise tax plan would raise $75 billion over the next five years, which would be used to offset revenue losses resulting from his plan to provide tax breaks for certain industries.

He wants to retain tax breaks for the timber, oil, and gas industries that the House voted to delete from the current federal income tax code. If the excise tax plan is approved, the Senate tax reform plan could include the tax breaks for those industries and still raise about the same amount of revenue as the House plan and current law.

Mr. McIntyre noted that if the Packwood excise tax plan is defeated, as many protesting senators on the committee wish, those senators will have to put forward a substitute revenue-raising measure to pay for continued tax breaks for the timber and other industries.

Those substitute revenue-raising plans are likely to be just as objectionable to states as the excise tax plan, he indicated, saying it is likely that substitute proposals will include suggestions for a federal retail sales tax or for a value added tax.

A federal retail sales tax would be levied at the point of sale to consumers and would thus be visible to them. A VAT would be levied on the value added at each stage of production of any good. But the consumer would still be paying the VAT, because it would be included in the retail price of the good.

States have protested strongly that such federal levies would intrude on a taxing area that historically has been reserved to states and localities: the retail sales tax.

Mr. McIntyre said that federal retail sales and VAT levies were rejected by the Treasury Department, when it wrote the original version of the tax reform plan unveiled in 1984, and by the House in its version of tax reform passed last December.

He noted, though, that the House-passed tax reform plan would provide "a windfall for the states," because states that levy income taxes usually key their return forms to information that is provided by taxpayers on federal tax returns.

Because the House tax reform plan would broaden the federal income bases on which individuals and corporations must pay taxes, repeal of many existing tax deductions and exemptions would broaden state tax bases, he noted.

That would mean states would receive greater revenues, without having to enact legislation imposing higher tax rates, he concluded.

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PORTLAND, OR
OREGONIAN
D. 315,000—S. 436,000
PORTLAND METROPOLITAN AREA

APR 3 1986

Tax reformer believes businesses should pay fairer share

By STEVE JENNING
of The Oregonian staff

Unless loopholes and tax credits are eliminated for the nation's largest corporations, the tax burden on middle-income taxpayers will continue to increase as Congress seeks ways to balance the federal budget, a spokesman for a public interest tax lobby said Wednesday.

Fritz Wiecking, director of organizing for Citizens for Tax Justice, based in Washington, D.C., argued that dozens of Fortune 500 companies paid little or no taxes last year thanks to a plethora of tax code amendments ranging from accelerated asset depreciation to research and development credits. That kind of free ride, said Wiecking, increases pressure for tax receipts from individual taxpayers, including poor persons but particularly middle-income filers.

The group's recently completed study found that between 1981 and 1984, 44 corporations "completely eliminated their federal tax liabilities.

"In fact, these companies enjoyed $2.1 billion in total tax rebates, on top of their pretax profits of $53.6 billion," read the group's report.

Besides Boeing, local companies on that list paying no corporate taxes in 1984 included Weyerhaeuser Corp. and Tektronix Inc.

Wiecking, in Portland as part of an eight-state tour focusing on the home districts of members of the Senate Finance Committee, said that a change in tax laws is needed.

His group proposes elimination of most of the tax credits for big business, and a few that favor individual taxpayers — especially the wealthy.

"In very specific instances, individual tax credits do help (the general economy)," Wiecking said. "But it's bad public policy. If you have to do it (earmark help for specific businesses), it should be done on the expenditure side."

The complicated web of corporate tax credits and deductions cost the federal government about $140 billion in lost tax revenue during 1985, Wiecking said. He labeled those most offensive to his group as being accelerated asset depreciation allowances, investment tax credits and the completed contract method of accounting for taxation of government contracts to weapons builders.

FRITZ WIECKING
Wants change in tax laws

Accelerated depreciation allows asset owners, particularly real estate property holders, to depreciate for tax reasons the full value of their property at a rate much in excess of real rates of depreciation. Tax credits are a method of avoiding paying taxes on profits, Wiecking argued. The completed contract method of accounting on defense projects has meant that some big companies such as General Dynamics and Boeing have avoided paying taxes for years.

Corporate taxpayers argue these tax credits and exemptions are needed as incentives for capital investment to build plants needed in the national defense, encouragement of home construction and ownership, renovation of downtown core areas and to help some industries remain competitive against foreign concerns that may be government subsidized.

Wiecking was critical of tax reform strategies seemingly favored by the Senate. He called an excise tax plan by Sen. Bob Packwood, R-Ore., the finance committee's chairman, "a way to sneak in a business tax increase that was really an individual tax increase."

Wiecking's organization was founded seven years ago, mostly through support by California-based public employee unions. The group has broadened its base since then to include support from a variety of citizen tax interest groups and some small business groups.

"I think we recognize that there are real problems within the tax system," Wiecking said. "The idea was to find affirmative ways to fix the system," without resorting to dramatic tax reduction plans like California's state Proposition 13, a measure that greatly reduced property tax assessments and was the harbinger of the so-called citizen's tax revolt of the late 1970s.

"We think there ought to be a minimum tax on everyone," Wiecking said. The group also supports maintenance of tax credits for state and local taxes, and an interest deduction credit for mortgage payments on a principal residence.

But the group is opposed to a national sales tax or a national value-added tax, two current "revenue enhancement" proposals for balancing the federal budget.

"No matter how you try to doctor a VAT or a sales tax, it's still a regressive method," Wiecking said.

ST. LOUIS, MO
POST-DISPATCH
D 264,721—S 479,075
ST. LOUIS METROPOLITAN AREA

Group Says Business Tax Breaks Don't Work

By Claudia MacLachlan
Of the Post-Dispatch Staff

The 1981 tax breaks for corporations have not resulted in the jobs or capital investment promised by their backers, according to a recent study by Citizens for Tax Justice, a Washington-based tax lobbying group.

Instead, the tax breaks have been used by many corporations to increase dividend payouts, acquire other companies, buy back stock or increase corporate pay, says Fritz Wiecking, organizing director for the group.

In a study of 259 non-financial companies from the Fortune 500 list, Citizens for Tax Justice found that they paid an average federal tax rate of 17 percent between 1981 and 1984. That rate was based on profits of $350.6 billion and taxes of $59.5 billion.

The 259 companies cut jobs by an average of 2 percent and investment by 1 percent. Dividend payouts were up 24 percent over the 4-year period. The 44 companies that paid no federal taxes at all reduced aggregate capital spending by 4 percent and cut employment by 6 percent, according to the study.

In contrast, the 43 companies that paid the highest taxes increased capital spending by an average of 23 percent, said Wiecking. "The bottom line conclusion is that investment decisions are not determined by tax breaks. They are influenced by the market," he said.

Eight St. Louis-based companies were included in the study, and spokesmen for most either disputed the findings or questioned the numbers. The local companies ranged from General Dynamics Corp., which the study said paid no taxes and got $103.8 million in tax refunds, to Ralston Purina Co. which paid a tax rate of 42.1 percent.

"The tax credits are a very significant factor in being able to finance the Callaway" nuclear plant, said James M. Bridge, tax manager for Union Electric Co. According to Tax Justice, Union Electric earned $1.4 billion in pre-tax profits between 1981 and 1984 and paid taxes of $2.6 million, for a rate of less than 0.2 percent.

Bridge disputed the profit figure, which Tax Justice took from the company's annual reports. "Most of our earnings were non-cash earnings. At least $1 billion of that $1.4 billion was non-cash and went into Calloway," he said. "All financing costs are recorded as earnings."

Bridge also took issue with the way Tax Justice computed dividend payouts. The group added up total dividend payouts instead of comparing the per share rate. For companies like Union Electric and Ozark Airlines — both of which issued new stock in the last four years — the dividend payouts showed large increases while the per share rate did

See TAXES, Page 8

From page one

not increase as much.

"That means nothing. We're paying 5 million new shareholders," said Charles R. Ehlert, a spokesman for Ozark. "We feel the tax incentives are an absolute must, especially to expand in the airline industry, which is very competitive and very capital intensive."

Ozark paid $400,000 in taxes on profits of $59.7 million in the 4-year period. Tax Justice said Ozark increased capital investment by 312 percent over that period. Ehlert said it had increased 78 percent.

Even the companies that rank above average in federal tax payments support the 1981 tax breaks. A spokesman for Ralston Purina, which was among the top four taxpayers in the study, said the tax legislation was "philosophically correct" because it promotes corporate investment.

The spokesman said Ralston was unable to get much benefit from the tax breaks because the company was in the midst of restructuring and selling off businesses, which accounted for the employment drop. Tax Justice reported that Ralston's investment was down 15 percent and its employment down 21 percent, while dividend payouts were up 5 percent.

Richard Overton, corporate tax director at Monsanto Co., called the Tax Justice study "invalid but eye-catching." Overton asked what would have happened had the cuts not been passed — a question often asked in defense of the cuts.

"We thought the '81 Act was clearly the right direction. It made the tax code neutral between consumption and savings," by allowing corporations to retain a greater portion of their profits, Overton said.

Anheuser-Busch Cos. Inc., which paid 13.9 percent of its profits in taxes during the 4-year period, credited the tax breaks with helping the company expand. At Anheuser-Busch, employment was up 116 percent, investment was up 23 percent and dividend payouts were up 128 percent.

"During the past five years, Anheuser-Busch has invested more than $2.3 billion to modernize production capacity, expand existing facilities and build new breweries," said a spokesman. "There is no question that the tax incentives of the act were a major influence on our aggressive capital expenditure program."

Busch, however, is siding with Tax Justice against the tax bill introduced by Sen. Robert Packwood, R-Oregon. Packwood's bill would increase excise taxes on a variety of commodities, including beer and wine. According to Tax Justice, Packwood's bill would raise about $75 billion over the next five years, most of which would be used to retain the 1981 corporate incentives.

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ALTOONA, PA
MIRROR
—D. 35,929—
ALTOONA METROPOLITAN AREA

APR 4 1986

Packwood tax reform plan would burden middle class

By David Wilhelm
Executive Director
Citizens for Tax Justice

The "loophole lobby" is resting more easily now that Senator Bob Packwood, chairman of the Senate Finance Committee, has finally revealed his version of "tax reform."

Under Packwood's plan, federal sales taxes on a wide array of commonly-used products would be hiked by more than 50 percent. American consumers would be forced to pick up the tab in the form of higher prices for gasoline, cigarettes, airline tickets, beer, wine, and many other items.

In fact, Packwood hopes to raise $75 billion over the next five years by boosting these federal sales taxes.

What would this money be used for?

Reducing the deficit, you say? No such luck.

The Packwood tax plan is revenue-neutral, adhering to the dictates of the White House. Instead, the money raised from higher taxes on consumers would be used to finance the retention of some of the biggest corporate loopholes on the books today.

Defense contractors are jubilant because Packwood proposes to keep the special accounting rules that permit them to avoid paying taxes year after year. General Dynamics, a Missouri-based company, hasn't paid any federal income tax since 1972. Seemingly proud of this achievement, General Dynamics' home-state senator, John Danforth, R-Cal., has heralded Packwood for doing "a remarkable job in correcting flaws in the House bill."

Last December the House passed a tax bill that confounded the experts, the skeptics and the lobbyists by closing many of the loopholes that allow large corporations and wealthy individuals to avoid paying taxes. The House bill would, for example, repeal those special accounting rules used by defense contractors.

Senator Russell Long, D-Louisiana, a long-time friend of the lobbyists for the oil and gas industry, has expressed his approval of the Packwood effort to retain their special tax breaks. "On the whole," Long told Packwood, "you've made a major improvement over the House bill."

The House bill would scale back some of the tax loopholes that have become the special province of the oil and gas industry.

Packwood proposes to keep the accelerated cost-recovery system, the form of super-fast depreciation that has been the cornerstone of much of the corporate tax avoidance that has taken place in recent years. The House bill substitutes a depreciation system that more closely approximates the way that machines and buildings actually wear out or become obsolete.

Packwood has come up with the idea of allowing a one-time cashing out of unused investment tax credits — at a cost to the federal treasury of $32 billion. This particular provision represents the largest new welfare initiative since the days of the Great Society. No-tax companies like General Electric, with more credits than they can use, would receive large refund checks under the plan.

Evidently, Rackwood believes that welding together a coalition of

In choosing this course, Packwood has opted to boost the kind of taxes that are unrelated to the abiltiy to pay. As a result, whatever tax relief that lower- and middle-income families would receive from long-overdue increases in the personal exemption and standard deduction will be eaten away.

According to the Bureau of Labor Statistics, the poorest 20 percent of American families spend 3½ times as much of their incomes on gasoline and motor oil as the richest 20 percent of all families.

Moreover, as a share of family income, the poorest 20 percent of all households spend seven times as much money on tobacco and smoking supplies, four times as much on alcoholic beverages, and three times as much on clothing, as the richest 20 percent.

Therefore, Packwood's attempt to raise federal sales taxes will have an extremely regressive impact — disproportionately affecting wage-earners and the poor, leaving the

avoiders like Boeing, General Dynamics, and Dow, Inc. back on the tax rolls for the firsnt time in years. It would provide real, lasting releif to middle- and lower-income families.

The House bill reflected the growing recognition that burgeoning corporate tax loopholes simply have not worked as intended.

The loopholes haven't helped investment, employment, or America's trade performance.

Ever since the House bill passed, the loophole lobbyists have been busily and nervously marshalling their forces for a last stand before the Senate. And they are putting their muscle behind Senator Packwood's proposal.

Over the next few weeks, the Senate has to make a choice. It can raise regressive sales taxes on hard-working American families to protect unfair and counterproductive corporate loopholes. Or, like the House, it can close the loopholes and tell the corporate tax avoiders to go

DENVER, CO
ROCKY MOUNTAIN NEWS
D. 271,100 — S. 293,000
DENVER METROPOLITAN AREA

MAR 2 1986

Tax breaks for corporations breaking rest of us

By Philip M. Stern

THE tax-reform bill passed by the House last year eliminated or tightened provisions used by corporations to reduce their tax burden by billions of dollars. Now it's the Senate's turn, and already corporate lobbyists are prowling Senate corridors warning that if the Senate fails to reopen those loopholes, corporate *investment in new plant and equipment will wither* and thousands of Americans will lose their jobs.

But there's fresh evidence that senators should treat those warnings with skepticism. According to a study by Citizens for Tax Justice, a tax-reform organization, corporate tax savings written into the 1981 tax law have not, contrary to administration predictions, stimulated major new investments in plant and equipment by the companies who most fully enjoyed these breaks.

The study compares Boeing and R. J. Reynolds. During President Reagan's first term, Boeing stood near the top in taking advantage of the tax incentives. On $2 billion in profits, Boeing paid no tax whatever. In fact, the company got a quarter-billion refund. Yet Boeing's expenditures for new plant and equipment declined 38%, and jobs at Boeing fell 18%.

Reynolds, by contrast, paid almost the highest taxes among the companies surveyed. But tha' did not prevent Reynolds from nearly tripling its new investment and adding 18% more jobs. Boeing and Reynolds are not unusual. The study also found that the 44 lowest-taxed companies reduced their investments and payrolls, while the 43 highest-taxed firms increased their plant outlays and their payrolls.

That reversal of the Reagan script should cause no surprise. For one thing, decisions on plant and job expansion are governed far more by market prospects than by taxes. For another, the tax law does not require a company to spend on new plant and equipment the money it saves from, say, highly favorable laws governing the write-off of old plant and equipment. A firm can spend its savings as it pleases: to give its executives a raise; to increase dividends to shareholders; to buy out another company.

Consider General Electric. During the first Reagan term, G. E. made nearly $10 billion in profits, yet paid not a penny of tax. G. E. gave its shareholders a 30% dividend increase and its chief executive officer a 141% pay raise (from $825,000 a year to just under $2 million). It also increased plant outlays somewhat. But did G. E. need the tax subsidy to afford that? It's questionable, because late last year G. E. executives considered the firm flush enough to *spend $6 billion to* buy RCA. For that $6 billion, nary a new machine will be bought, and nary a new job created (except, perhaps, for lawyers and accountants). In fact, despite what amounted to a $4.5 billion tax subsidy, G. E. ended the first Reagan term with 18% fewer jobs.

G. E. is no aberration. The study found that the 44 companies that paid no tax on their $57 billion of profits during the first Reagan term enjoyed an 11% increase in pre-tax profits. At the same time, capital investments by those 44 tax-free companies declined by 4% and their payrolls shrank by 6%.

G. E.'s multibillion buyout of RCA caps a tidal wave of mergers. In 1980, corporations spent $44 billion buying out other companies. By 1984, the figure had tripled, and in 1985 it leaped to an estimated $180 billion. Such a buying mania hardly suggests that corporate America is cash-poor, requiring subsidies for new plant outlays.

The tax preferences G. E. and other corporations enjoy represent just as much a government subsidy as, say, the dairy or tobacco subsidies; they add to the federal deficit in precisely the same way those direct subsidies do. Since Ronald Reagan took office, corporate tax subsidies have tripled — from $40 billion to $120 billion. They currently account for more than half the federal deficit.

Yet since they are tax subsidies, they are not included in the president's budget, and they are immune from the cuts mandated by the Gramm-Rudman-Hollings deficit-reduction law. That's unfortunate for us taxpayers, because we aren't getting our money's worth.

Special Features

Philip M. Stern, Washington, is author of "The Rape of the Taxpayer."

SAINT LOUIS/SOUTHERN ILLINOIS
LABOR TRIBUNE
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W. N/A

APR 3 1986

Commentary

The failure of corporate tax 'incentives'

The House approved in December a tax reform bill which goes a long way toward restoring fairness to the tax code by closing loopholes for rich corporations and individuals and by providing some relief for low and moderate-income families.

The battle for tax justice now is in the Senate, where corporate lobbyists and the Reagan administration plan to reshape the House bill more to their liking. The House bill, they complain, goes too far in curbing the huge corporate tax breaks in the 1981 tax cuts.

If corporations are made to pay more taxes, they warn, they'll have less money for capital investment, which will threaten economic growth. Let corporations off the hook and make up the difference in lost revenue by such "reforms" as taxing workers' health insurance benefits, limiting the widely-used deduction for state and local taxes, and imposing a national sales tax, they argue.

However, a recent study by Citizens for Tax Justice (CTJ) refutes the well-worn "supply-side economics" argument that corporate tax breaks stimulate investment, productivity and job creation. CTJ is a widely-respected research and lobbying group supported by unions, churches, public interest and community groups.

Titled "Money for Nothing: The Failure of Corporate Tax Incentives, 1981-1984," the report analyzes the investment and employment effects of the Reagan-initiated 1981 tax changes — the largest corporate tax cut in U.S. history and mostly in force today despite 1982 and 1983 modifications.

Surveying 259 of the nation's largest and most profitable non-financial corporations over the 1981-84 period, the study found that 44 of them took advantage of so many loopholes that they paid no federal income taxes at all or actually received net tax refunds.

Despite their billions in tax "incentives," these same 44 companies reduced investment in plant and equipment by 4 percent and cut their total number of employees by 6 percent from 1981 through 1984. These companies included Boeing, Dow Chemical, ITT, Tenneco, Weyerhauser, Union Carbide and Greyhound.

On the other hand, the 43 companies which paid the highest taxes, each paying at least 33 percent of its profits into the Treasury boosted their capital investment by an average 21 percent and added 4 percent more workers to their payrolls.

"Other factors far outweigh the importance of taxes in investment decisions," the study continued. It said these factors include demand for a company's products, management's commitment to long-term growth, interest rates, technology, and overcapacity.

"If anything, an excessive management focus on chasing after tax shelters seems to have a negative effect on investment and job creation, as the poor performance of the no-tax companies illustrates," the report said.

What did the 44 no-tax corporations do with their tax bonanza? The study found that they increased their dividends to stockholders by an average 22 percent and raised the compensation of their chief executive officers by a spectacular 54 percent. In addition, 11 of these companies spent nearly $40 billion in the non-productive monopoly game of taking over other companies in 1985 alone.

The tax "incentives" not only have failed to produce the promised investment boom; they have harmed both the economy and the fairness of the federal tax system, the report said. Since 1981, corporate tax loopholes have tripled to $120 billion a year, well over half the current budget deficit.

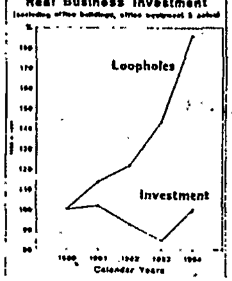
The record budget deficits of the Reagan years, in turn, have kept real interest rates at record levels. These high rates inflated the value of the dollar, which helped cause record trade deficits and lost manufacturing jobs, the report noted.

Corporate tax loopholes currently amount to more than $1,500 annually for every taxpaying American family, the report said.

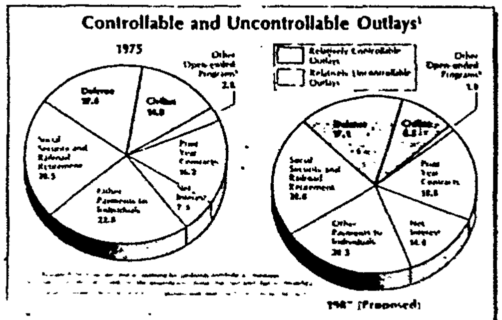
If the House tax bill is approved by the Senate and signed into law, "it will mean that for the first time in years, General Electric, Boeing, and Dow Chemical will be paying as much in taxes as the people who work their assembly lines, type their letters, and wax their floors. And there will be significant tax relief for the vast majority of hardworking Americans," the report said.

"It is now up to the Senate," it continued, "to resist the blandishments of the loophole lobbyists, to face up to the hard economic sanity to our country's tax system."

Corporate Tax Breaks & Real Business Investment



Controllable and Uncontrollable Outlays[1]



DAILY COMMERCE
LOS ANGELES, CA.
D. 5,200

MAR 22 1986

Keep the Bite On Corporations

By PHILIP M. STERN

WASHINGTON — The tax reform bill passed by the House last year eliminated or tightened provisions used by corporations to reduce their tax burden by billions of dollars. Now it's the Senate's turn, and already corporate lobbyists are prowling Senate corridors warning that if the Senate fails to reopen those loopholes, corporate investment in new plant and equipment will wither and thousands of Americans will lose their jobs.

But there's fresh evidence that senators should treat those warnings with skepticism. According to a study by Citizens for Tax Justice, a tax reform organization, corporate tax savings written into the 1981 tax law have not, contrary to administration predictions, stimulated major new investments in plant and equipment by the compaines who most fully enjoyed these breaks.

The study compares Boeing and R.J. Reynolds. During President Reagan's first term, Boeing stood near the top in taking advantage of the tax incentives. On $2 billion in profits, Boeing paid no tax whatever. In fact, the company got a quarter-billion *refund*. Yet Boeing's expenditures for new plant and equipment declined 36 percent, and jobs at Boeing fell 18 percent.

Reynolds, by contrast, paid almost the highest taxes among the companies surveyed. But that did not prevent Reynolds from nearly tripling its new investment and adding 18 percent more jobs.

Boeing and Reynolds are not unusual. The study also found that the 44 lowest-taxed companies reduced their investments and payrolls, while the 43 highest-taxed firms increased their plant outlays and their payrolls.

That reversal of the Reagan script should cause no surprise. For one thing, decisions on plant and job expansion are governed far more by market prospects than by taxes. For another, the tax law does not require a company to spend on new plant and equipment the money it saves from, say, highly favorable laws governing the write-off of old

Commentary

plant and equipment. A firm can spend its savings as it pleases: to give its executives a raise; to increase dividends to shareholders; to buy out another company.

Consider General Electric. During the first Reagan term, GE made nearly $10 billion in profits, yet paid not a penny of tax. GE gave its shareholders a 30 percent dividend increase and its chief executive officer a 141 percent pay raise (from $825,000 a year to just under $2 million). It also increased plant outlays somewhat. But did GE need the tax subsidy to afford that? It's questionable, because late last year GE executives considered the firm flush enough to spend $6 billion to buy RCA For that $6 billion, nary a new machine will be bought, and nary a new job created (except, perhaps, for lawyers and accountants). In fact, despite what amounted to a $4.5 billion tax subsidy, GE ended the first Reagan term with 18 percent *fewer* jobs.

GE is no aberration. The study found that the 44 companies that paid no tax on their $57 billion of profits during the first Reagan term enjoyed an 11 percent increase in pretax profits. At the same time, capital investments by those 44 tax-free companies declined by 4 percent and their payrolls shrank by 6 percent.

GE's multibillion buyout of RCA caps a tidal wave of mergers. In 1980, corporations spent 44 billion buying out other companies. By 1984, the figure had tripled, and in 1985 it leaped to an estimated $180 billion. Such a buying mania hardly suggests that corporate America is cash-poor, requiring subsidies for new plant outlays.

The tax preferences GE and other corporations enjoy represent just as much a government subsidy as, say, the dairy or tobacco subsidies; they add to the federal deficit in precisely the same way those direct subsidies do. Since Ronald Reagan took office, corporate tax subsidies have tripled — from $40 billion to $120 billion. They currently account for more than half the federal deficit.

Yet since they are tax subsidies, they are not included in the president's budget, and they are immune from the cuts mandated by the Gramm-Rudman-Hollings deficit-reduction law. That's unfortunate for us taxpayers, because we aren't getting our money's worth.

Philip M. Stern is author of "The Rape of the Taxpayer." This article reprinted from The New York Times.

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GLOBE
D. 60,000 — S. 62,000
JOPLIN METROPOLITAN AREA

APR 1 986

Who pays taxes?

Some of the things happening to a tax reform measure in the U.S. Senate makes one wonder if many senators are really serious about the matter. The House bill scrubbed a host of loopholes in the current tax laws but the Senate Finance Committee has been busy restoring these special interest jewels.

Item: Under the tax measure developing in the Senate, some of the biggest corporate loopholes on the books today that the House deleted have been retrieved by the upper chamber. The Citizens for Tax Justice, a sort of Washington watchdog organization, says the restoration will put smiles on the faces of defense contractors. You would smile too if special accounting rules permitted your company to avoid paying taxes year after year on defense projects.

One of the largest defense contractors in the country, General Dynamics, a Missouri-based corporation, hasn't paid any federal income tax since 1972. Also a super-fast depreciation schedule, officially called the Accelerated Cost Recovery System, provides remarkable tax concessions for the oil and gas industry. The House bill is designed to scale back some of these lucrative loopholes; the Senate proposal seeks to retain them.

Furthermore, Citizens for Tax Justice points out, the House tax bill would put major corporate tax avoiders such as Boeing, General Dynamics and Dow Chemical back on the tax rolls for the first time in years.

These companies would join consumers who have never left the tax rolls. What's more, the Senate Finance Committee's idea of tax reform would have consumers paying a great deal more tax.

The plan would boost federal sales taxes up to 50 percent on an array of consumer products — gasoline, cigarettes, airline tickets, beer, wine and many other items. Collections from these excise taxes are projected to increase by $75 billion over five years. So in a way consumers would be financing the retention of corporate loopholes. How nice.

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Packwood favors loophole lobby

Guest Viewpoint

By DAVID WILHELM

The loophole lobby is resting a little more easily these days now that Senator Bob Packwood, R-Oregon, Chairman of the Senate Finance Comittee, has finally revealed his version of tax "reform."

Under Packwood's plan, federal sales taxes on a wide array of commonly-used products would be hiked by more than 50 percent. As a result, American consumers would be forced to pick up the tab in the form of higher prices for gasoline, cigarettes, airline tickets, beer, wine, and many other items.

In fact, Packwood hopes to raise $75 billion over the next five years by boosting these federal sales taxes.

And what would this money be used for? Reducing the deficit, you say? No such luck. The Packwood tax plan is revenue-neutral, adhering to the dictates of the White House. Instead, the money raised from higher taxes on consumers would be used to finance the retention of some of the biggest corporate loopholes on the books today.

Defense contractors are jubilant because Packwood proposes to keep the special accounting rules that permit them to avoid paying taxes year after year. General Dynamics, a Missouri-based company, hasn't paid any federal income tax since 1972.

Last December the House passed a tax bill that confounded the experts, the skeptics, and the lobbyists by closing many of the loopholes that allow large corporations and wealthy individuals to avoid paying taxes. The House bill would, for example, repeal those special accounting rules used by defense contractors.

The House bill would scale back some of the tax loopholes that have become the special province of the oil and gas industry.

Packwood proposes to keep the Accelerated Cost Recovery System, the form of super-fast depreciation that has been the cornerstone of much of the corporate tax avoidance that has taken place in recent years. The House bill substitutes a depreciation system that more closely approximates the way that machines and buildings actually wear out or become obsolete.

Packwood has opted to boost the kind of taxes that are unrelated to the ability-to-pay. As a result, whatever tax relief that lower-and middle-income families would receive from long-overdue increases in the personal exemption and standard deduction will be eaten away.

According to the federal Bureau of Labor Statistics, the poorest 20 percent of American families spend 3½ times as much of their incomes on gasoline and motor oil as the richest 20 percent of all families.

Moreover, as a share of family income, the poorest one-fifth of all households spend 7 times as much money on tobacco and smoking supplies, 4 times as much on alcoholic beverages, and 3 times as much on clothing, as the richest one-fifth.

Therefore, Packwood's attempt to raise federal sales taxes will have an extremely regressive impact — disproportionately affecting wage-earners and the poor, leaving the well-to-do largely unscathed.

Unlike the Packwood proposal, the bill that passed the House last year actually was serious about tax reform. If enacted into law, the House bill would put major corporate tax avoiders like Boeing, General Dynamics, and Dow Chemical back on the tax rolls for the first time in years. It would provide real, lasting relief to middle-and lower-income families.

The House bill reflected that growing recognition that burgeoning corporate tax loopholes simply have not worked as intended. Instead, by adding $120 billion a year to the budget deficit, they are a big part of the problem.

Ever since the House bill passed, the loophole lobbyists have been busily marshaling their forces for a last stand before the Senate.

Over the next few weeks, the Senate has to make a choice. It can raise regressive sales taxes on hardworking American families to protect unfair and counterproductive corporate loopholes. Or, like the House, it can close the loopholes and tell the corporate tax avoiders to go back to making money the old-fashioned way — by earning it.

Wilhelm is executive director of Citizens for Tax Justice, a coalition pressing for broad-based federal tax reform.

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