



a report from

A handwritten signature in cursive script that reads "Leo J. Addeo".

2nd congressional district of arizona

Volume XXIV, No. 3

August, 1985

It's Later Than It's Ever Been

There is an old joke my father used to tell about a little boy who once heard his family's broken grandfather clock chime 16 times one night. He ran around the house yelling "Get up everyone, get up! It's later than it's ever been!" That old story came back to me recently when Congress began debating two very thorny issues this year: tax reform and the federal budget deficit. In many ways, it is later than we think when it comes to dealing with these problems.

*** Tax Reform ***

After serving more than 24 years in Congress, I have learned that some issues never seem to go away. Tax reform is one of those issues. Fifteen years ago, I wrote another newsletter on this subject. It was true then and even truer today: the tax code needs a drastic overhaul.

Apparently, most of the residents of Arizona's Second Congressional District agree. A recent district-wide survey showed that 96 percent favor tax reform.

Given the experience of other countries with an income tax, our tax system has been quite a success -- at least until recent years.

A few months ago you and I and 95 million other Americans proved again that the Federal income tax system is the greatest money-collecting operation in the history of the world. By midnight of April 15th, most of us had completed the painful task of reviewing our 1984 incomes and expenses and reporting the results along with any taxes, if owed, to the Internal Revenue Service. Through our combined efforts -- and agonies -- the Federal government will collect about \$330 billion in personal income taxes and \$66 billion in corporate taxes in this fiscal year.

Why has our income tax system been such a money-raising success? The answer is two-fold. For one thing, there is the fear of being audited. But just as importantly, most Americans have felt that the system was basically fair. Americans were confident that people with equal incomes pay about equal taxes. And they knew that our tax system was based, at least in principle, on the ability to pay. The percentage people pay in taxes is supposed to go up as incomes go up. That's how a progressive tax system works.

Unfortunately, public attitudes have changed a lot in recent years. Confidence in the system has been shaken. A public opinion poll conducted last November found that 57 percent of the people think that our federal tax system is unfair. The great majority of those polled, 85 percent, felt that the rich get away with paying too little and the average person gets stuck with paying too much.

There is some truth to that. More and more high-income taxpayers are slipping through the tax net. In 1969, 301 individuals earning more than \$50,000 paid no taxes. By 1979, 8,609 people with incomes of greater than \$50,000 escaped the income tax. And the numbers keep growing: 10,617 people with incomes over \$50,000 paid no taxes in 1982.

And it's not just individuals. A group called the Citizens for Tax Justice reported a few weeks ago that 65 of America's largest corporations paid no income taxes between 1981 and 1983 despite reported profits of more than \$50 billion. In fact, they received \$3.2 billion in refunds or credits against future taxes. General Electric, according to this study, reported a profit of over \$6 billion during that 3-year period, but paid no income taxes. G.E., in fact, collected \$283 million in credits against future taxes. Boeing, the aircraft manufacturer, reported an income of \$1.5 billion and paid no income taxes.

"Since the federal income tax fills such a vital need, it is sad to realize what has happened to it over the years."

A recent political cartoon showed a street person being taken into custody by the police. He says to the arresting officer, "Vagrant? I'm no vagrant. Why I paid more in federal income taxes last year than G.E., Boeing and Dow Chemical all put together." A funny cartoon, perhaps, but a sad commentary on our tax laws.

Since the federal income tax fills such a vital need, it is sad to realize what has happened to it over the years. It has become a kind of topsy-turvy welfare system, unwittingly granting all sorts of favors and benefits to the well-to-do, who don't need them, and imposing unfair burdens on those in the great American middle-class.

No wonder people are cynical about our tax system today. And as people become more cynical, tax evasion becomes an ever more serious problem. No one admits to cheating on their taxes, but more and more Americans are doing it.

The IRS estimates that due to increased cheating, unreported income has jumped from \$94 billion in 1973 to \$250 billion in 1981. As a consequence, we are now losing more than \$100 billion a year in tax revenues. That's not small change, even by the standards of the Federal government.

Unfairness and cheating, however, are not the only problems with our tax laws today. The tax code is becoming more and more complex despite efforts to simplify it. Congress last year "simplified" the tax code with a 1200-page tax reform bill. And so it goes.

It's important to understand how our Federal tax code got so riddled with loopholes. It isn't that Washington is filled with villains and political ogres who believe in robbing the poor to pay the rich. Most tax loopholes have an innocent beginning. Long ago, for some legitimate social or economic reason, a class of taxpayers was given a special deduction or preference. The motive, in most cases, was good. Congress in years past, for instance, has decided to give special deductions to blind persons and the elderly. We also have given a child care deduction to parents. Faced with an energy crisis, we gave tax credits for solar energy and energy conservation. And faced with a declining technology base, we gave a 25% credit to companies for research and development expenditures above a certain base level.

But over the years, some of the tax preferences have become distorted and applied to situations never anticipated thus benefitting persons it never intended to benefit. In some cases, the original purpose has already been fulfilled or forgotten, but the old law remains on the books.

Doing something to correct these inequities is not going to be easy. Closing a loophole, once opened, is like trying to plug a dike at high tide while the ocean is pounding through. The people who benefit, or who have come to depend on tax preferences for their investment or income, will fight long and hard against any change. And the defenders of these loopholes will make good, strong arguments in favor of the status quo.

"Closing a loophole, once opened, is like trying to plug a dike at high tide while the ocean is pounding through."

A few months ago everyone was hoping that Congress would enact a truly comprehensive tax reform bill, a bill that would eliminate all but a few of the existing tax preferences. Everyone seemed to agree that people should be able to deduct the mortgage interest on their home and that charitable contributions should be largely tax deductible. Beyond that, however, everything was on the table for possible elimination.

The final plan approved by the President takes several steps back from that position, but it's still a good starting place for reform efforts. The President's plan, by eliminating a large number of tax loopholes, would lower tax rates from a maximum of 50 percent to a maximum of 35 percent. For married couples filing jointly, the first \$4,000 in income would not be taxed. Income between \$4,000 and \$29,000 would be taxed at a 15 percent rate. Every dollar of income between \$29,000 and \$70,000 would be taxed at a 25 percent rate. Every dollar in excess of \$70,000 would be taxed at a 35 percent rate. In addition, the personal exemption would be raised from \$1,080 per person to \$2,000. The standard deduction would also be increased.

How tax reform affects you depends on your individual circumstances, but the Administration estimates that 58.1 percent of all families would end up paying less in taxes. One out of five families would end up paying more taxes, while 21.2 percent would pay the same amount.

Everyone must recognize, of course, that tax reform demands give and take. If we want lower tax rates, we have to give up many of the special tax breaks that we now enjoy. Most Americans, I think, are prepared to accept that trade-off.

Let me emphasize that the ordinary taxpayer has a real and vital stake in this situation. The effect of the many tax loopholes is to cut the tax base nearly in half -- and thus nearly double the required tax rate. Closing loopholes can mean lower tax rates for all. Our survey of the district reflects that assertion.

Eighty-nine percent of those responding to the questionnaire said they would like to see tax revenues raised by closing loopholes.

If all else fails, we can always fall back on the Udall Tax Simplification plan that I first joked about back in the 60s. There are only three lines on the simplified form. The first line reads "How much did you earn last year?" The second line reads "How much do you have left?" The third line says simply "Send it."

Let me add one final note. A lot of people would like to turn a tax reform bill into a big revenue-losing tax cut. We cannot let that happen. The Federal government this year will run a deficit of nearly \$220 billion. We cannot afford another tax cut.

* Cutting the Deficit *

In February of this year, President Reagan presented to Congress his budget for fiscal year 1986. It called for outlays of \$974 billion, revenues of \$794 billion and a resulting deficit of \$180 billion. The President's plan sought to freeze total federal spending, except for interest on the national debt at the 1985 level. To achieve this goal, the President proposed deep cuts in non-defense programs. Defense spending, however was exempt from his budget freeze.

Congress, in reacting to the President's February budget, felt that the plan did not go far enough in cutting spending, especially defense spending.

Spring 1985 Second Congressional District Budget/Taxes Survey Results

	Support	Oppose
Freezing federal spending at 1985 levels.	72%	28%
Making cuts in the defense program.	70%	30%
Cutting Social Security.	25%	75%
Cutting Medicare benefits.	20%	80%
Raising tax revenues by closing tax loopholes.	89%	11%
Doing whatever it takes to reach a balanced budget by 1989.	60%	40%

In his February budget submission, President Reagan requested a 10 percent increase in defense spending. Our March survey, however, showed that Arizonans feel strongly that the portion of federal dollars allocated for the defense budget needs to be reduced. Thirty-seven percent of those surveyed want to see defense spending cut below 1985 levels, 36 percent favor a freeze on defense expenditures, while a scant 11 percent favor a five percent hike in money for the Pentagon.

The House and the Senate have drafted their own proposed budgets. Neither of the plans went as far as I wanted to go in reducing the deficit, but they represent a good start. Both plans cut projected spending by \$55 billion next year, but there are important differences that need to be worked out.

The Senate plan allows for a three percent growth in budget authority for defense spending to allow for inflation; the House plan, by contrast, freezes Pentagon spending authority at this year's level. Both plans make deep cuts in some non-defense programs. Both, for instance, phase out general revenue sharing for local

governments. The Senate plan, however, cuts deeper into social programs such as education and child nutrition.

On the question of cost-of-living increases (COLAs) for Social Security and other federal retirement plans, the Senate budget resolution would eliminate the 1986 COLAs, while the House plan would retain them.

As I write this newsletter, these and other difficult issues have not been resolved by the House-Senate Conference Committee which is set up to reach a compromise. Sharp differences remain, but I am hopeful that an agreement will still be reached. Even if an agreement is reached, Congress will still have to follow up on the specific measures contained in the budget plan. The budget resolution, by itself, does not have the force of law.

Whatever happens, deficit reduction will remain one of my top priorities. Four years ago, the Congress, in following the President's lead, approved a major tax cut and began a defense buildup that has increased defense spending by nearly 70 percent. Cuts in domestic spending were made, but not enough to prevent a whopping increase in Federal deficits. There is no question that deficit reduction is important to Arizonans -- 98 percent of our recent questionnaire respondents listed cutting the deficit as important.

Six years ago, the Federal government ran a deficit of \$28 billion. And everyone thought that was unacceptably high. This year, the deficit could exceed \$220 billion. And because of these record deficits, the national debt has doubled in the past five years.

And unless we act now, it could double again in the next five years.

The House budget plan, if adopted, would reduce the deficit to \$124 billion by fiscal year 1988, if the economy remains healthy. But even this level is unacceptable by historical standards. Obviously, we need to do more. This year's deficit reduction plan can only be viewed as a down payment. Much more will need to be done in the years ahead.

* * * *

On both these issues -- tax reform and deficit reduction -- I greatly appreciate the letters and comments my office has received from concerned constituents. I was particularly happy with the response to my recent questionnaire; more than 8,000 were returned. Your thoughts and comments are invaluable. The decisions that are

made here in Washington affect your daily lives. Whether it's a question of how much tax you pay or how much Social Security you will receive, I need to know how you feel.

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