SUMMARY OF ADMINISTRATION'S REVENUE PROPOSALS IN THE FISCAL YEAR 1984 BUDGET PROPOSAL

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INTRODUCTION

This document, prepared by the staff of the Joint Committee on Taxation, provides a summary of the Administration's revenue proposals made in the Fiscal Year 1984 Budget, submitted to the Congress on January 31, 1983. The Senate Committee on Finance has scheduled a public hearing on the Administration's budget proposal on February 3, 1983.

The first part of the document is an overview of the Administration's revenue proposals. The second part is a brief summary of the budget proposal. The third part is a summary of the revenue proposals, including present law and a reference to prior Congressional action (if any) on the topic. Finally, the fourth part presents the Administration's estimates of the revenue effect of their proposals.

The staff summary is based upon information available from the Fiscal Year 1984 Budget and from the Treasury Department's "Fact Sheet" with respect to the revenue proposals.

I. OVERVIEW OF ADMINISTRATION'S REVENUE PROPOSALS

The Administration's fiscal year 1984 budget document includes several revenue-related proposals.

Revenue increase items

The Administration's budget includes three general revenue increases:

(1) Social security-related tax proposals--social security tax acceleration, expanded coverage, taxation of a portion of social security benefits, and revision of the self-employment tax;

(2) Limitation on the exclusion for employer-provided health insurance premiums (i.e., inclusion of part of such premiums in taxable income and in the social security tax base); and

(3) Contingency tax increases beginning in fiscal year 1986--an excise tax on crude oil, domestic and imported, and an income tax surcharge, to be imposed only under certain budgetary and economic conditions.

The Administration estimates that these revenue-increase proposals will raise about $10.5 billion in fiscal year 1984, $10.2 billion in fiscal year 1985, and $60.9 billion in fiscal year 1986 (including the contingency taxes).

Revenue reduction items

The Administration's budget also includes proposals involving revenue reductions in five areas:

(1) Tax exclusion for interest and dividends earned on amounts deposited in qualified education savings accounts, with a phaseout of the exclusion for taxpayers with adjusted gross income (AGI) of $40,000-$60,000;

(2) Nonrefundable tuition tax credit, also with a phaseout of the credit for taxpayers with AGI of $40,000-$60,000;

(3) Caribbean Basin Initiative--(a) transfer of rum excise tax payments to Puerto Rico and the Virgin Islands, and (b) business expense deductions for attending conventions held in certain Caribbean countries;

(4) Enterprise zone tax incentives--including capital gains exemption on certain qualified property, tax credits for employees and employers, increase in regular investment tax credit, a new investment tax credit for new construction and reconstruction of buildings, and continued tax-exempt bond financing beyond the current 1986 sunset date for small issue bonds; and

(5) A temporary jobs tax credit for the long-term unemployed.

The Administration estimates that these revenue reduction proposals will reduce budget receipts by about $0.6 billion in fiscal year 1984, $1.2 billion in fiscal year 1985, and $2 billion in fiscal year 1986.

User fees/PBGC premiums

User fees.--The Administration's budget also includes various proposed user fees (new and increased fees) that are not treated as budget receipt items in the budget, but rather are treated as expenditure offsets for the particular Departmental budget (e.g., Coast Guard fees, deep water port fees, Corps of Engineers fees, cotton and tobacco market fees, etc.) The user fee proposals are not described in this summary document.

PBGC premiums.--In addition, the Administration's budget includes a request to increase the premiums paid to the Pension Benefit Guaranty Corporation (PBGC) for single-employer plans to a level that would be sufficient to cover both current and projected claims. These premium amounts are treated as expenditure offsets in the budget. The PBGC premium proposal is not described in this document.

Other revenue-related item

The Administration's budget also includes a proposal for an increase in the Civil Service employee retirement contribution, which is included in the budget as a revenue (non-tax) item. (See the revenue table in Part III of this document.) This proposal is not described in this document.

II. SUMMARY OF ADMINISTRATION'S BUDGET PROPOSAL

A. Budget Receipts and Outlays

Total budget outlays in fiscal year 1984 are estimated to be $848.5 billion, an increase of about 5 percent over the $805.2 billion of outlays estimated for 1983. As shown in Table 1, budget outlays are expected to be 24.3 percent of the gross national product (GNP) in 1984, declining to 24.1 percent in 1985, and to 23.9 percent of GNP in 1986.

Table 1

Budget Receipts and Outlays, Fiscal Years 1982-86
(Dollar amounts in billions)

Fiscal year	GNP	Receipts		Outlays		Deficit	
		Amount	% GNP	Amount	% GNP	Amount	% GNP
1982	3033.0	617.8	20.4	728.4	24.0	110.7	3.6
1983*	3193.7	597.5	18.7	805.2	25.2	207.7	6.5
1984*	3488.7	659.7	18.9	848.5	24.3	188.8	5.4
1985*	3806.7	724.3	19.0	918.5	24.1	194.2	5.1
1986*	4144.6	841.9	20.3	989.6	23.9	147.7	3.6

*Estimate

The 24.3 percent of GNP estimated to be spent by the Federal Government in 1984 is significantly less than the 25.2 percent estimated for 1983, although government outlays remain high by historical standards. These estimates do not include the outlays of off-budget Federal entities which are projected to decline dramatically from $17.3 billion in 1982 to $9.4 billion in 1986. These projected outlays include the effects of the 6-month freeze in the cost-of-living adjustment recommended in the social security plan, a proposed $55 billion in defense savings, and specific cuts or freezes in entitlement and certain discretionary programs.

Total Federal receipts in fiscal year 1984 are estimated to be $659.7 billion, an increase of about 10 percent from the $597.5 billion estimated for 1983. As shown in Table 1, receipts are estimated at 18.9 percent of GNP in 1984, rising gradually to

19.0 percent in 1985, and to 20.3 percent in 1986. Although Federal receipts are expected to rise, as a percent of GNP, over the 1983-1986 period, the Federal Government's claim on national income will not rise above the 1981 peak of 20.9 percent. These receipt estimates take into account the tax cuts put into place by the Economic Recovery Tax Act of 1981, the revenue gains provided in the Tax Equity and Fiscal Responsibility Act of 1982, the increase in Highway Trust Fund revenues arising from the Highway Revenue Act of 1982, the proposed social security plan, and the contingency tax proposal. As shown in Table 2, the net of effect of the three major tax laws enacted in 1981-82 is a reduction in tax receipts of $35.6 billion in 1982, rising to $88.2 billion in 1984, and to $146.3 billion in 1986.

Table 2

Net Effect of Major Tax Legislation Enacted in 1981-82[1]
(Fiscal years; billions of dollars)

	1982	1983	1984	1985	1986	1982-1986
ERTA of 1981	-35.6	-82.6	-130.3	-158.2	-202.3	-609.0
TEFRA of 1982	*	17.3	38.3	42.2	52.1	149.9
Highway Rev Act of 1982	--	1.7	3.8	3.9	3.9	13.2
Net tax reduction	-35.6	-63.5	-88.2	-112.1	-146.3	-445.9

*$50 million or less.

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects are taken into account for forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

The Federal deficit in fiscal year 1984 is estimated to be $188.8 billion, a decrease of 9 percent from the $207.7 billion estimated for 1983. As shown in Table 1, the deficit is projected to be 5.4 percent of GNP in 1984, narrowing to 5.1 percent in 1985, and to 3.6 percent in 1986. Deficits in the range of 5 percent of GNP are quite high by historical standards, but are significantly lower than the record 6.5 percent deficit estimated for 1983. Moreover these deficits cannot be attributed to adverse cyclical conditions. The Administration estimates that the major portion of the out-year deficits is structural, and, consequently, will persist even if high employment is attained.

The annual growth rate of budget outlays over the 1982-1986 period is estimated to be 8 percent. As shown in Table 3, the fastest growing part of the budget is national defense which rises, at an annual rate of 14.6 percent, from 25.7 percent to 32.6 percent of budget outlays in this period. Payments to individuals rise at 6.8 percent per year, and decline from 47.9 percent to 45.8 percent of total outlays.

Table 3

Composition of Federal Budget Outlays, Fiscal Years 1982-86
(Percent of Total Budget Outlays)

Fiscal year	National Defense	Payments to individuals	Net interest	Other	Total
1982	25.7	47.9	11.6	14.8	100.0
1983*	26.7	48.7	11.0	13.6	100.0
1984*	28.9	47.3	12.2	11.7	100.0
1985*	31.1	46.3	12.4	10.2	100.0
1986*	32.6	45.8	12.4	9.1	100.0
Annual growth rate	14.6	6.8	9.7	-4.3	8.0

*Estimate

The annual growth rate of budget receipts over the 1982-1984 period is estimated to be 3.3 percent. As shown in Table 4, the fastest growing source of Federal receipts is social insurance taxes and contributions which rises, at an annual rate of 9.8 percent, from 32.6 percent to 36.8 percent of total receipts in this period. Excise taxes (including the Windfall Profits Tax) also rise as a proportion of Federal receipts, from 5.9 percent in 1982 to 6.1 percent in 1984. Both the individual and corporate income taxes contribute a smaller share of Federal receipts in 1984. The individual income tax share declines from 48.2 to 44.8 percent, and the corporate income tax declines from 8.0 to 7.9 percent of Federal receipts from 1982 to 1984.

Table 4

Composition of Federal Budget Receipts, Fiscal Years 1982-84
(Percent of total receipts)

Fiscal year	Individual income tax	Corporate income tax	Social insurance taxes & contributions	Excise taxes	Estate & gift taxes	Custom duties	Misc. receipts	Total
1982	48.2	8.0	32.6	5.9	1.3	1.4	2.6	100.0
1983*	47.7	5.9	35.2	6.2	1.0	1.5	2.4	100.0
1984*	44.8	7.9	36.8	6.1	0.9	1.4	2.1	100.0
Annual growth rate	-0.4	2.6	9.8	5.5	-14.1	1.7	-1.7	3.3

*Estimate

(Corrected)

B. Economic Assumptions

The Administration's 1984 budget forecasts assume that real GNP growth will be 3.1 percent in 1983 (fourth quarter over fourth quarter) and 4.0 percent in 1984 through 1988. This represents a substantial rebound from the 0.7 percent GNP growth recorded in 1981, and the 1.2 percent decline in GNP during 1982. Thus, the upswing in the business cycle originally forecast for 1982 is now anticipated in 1983. As shown in Table 5, the Administration forecasts a gradual improvement in employment in conjunction with the economic recovery.

Table 5

Economic Assumptions
(calendar years)

	Actual		Forecast					
	1981	1982[1]	1983	1984	1985	1986	1987	1988
GNP (1972 $) percent change	0.7	-1.2	3.1	4.0	4.0	4.0	4.0	4.0
CPI percent change[2]	9.4	4.4	5.0	4.4	4.7	4.5	4.5	4.4
Unemployment rate (percent)[3]	8.1	10.5	10.4	9.5	8.5	7.8	7.0	6.2
Interest rate 91-day Treasury bills (percent)[4]	14.1	10.7	8.0	7.9	7.4	6.8	6.5	6.1

[1] Preliminary actual data.

[2] CPI for urban wage earners and clerical workers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living (COL) increases for indexed Federal programs. The figures in this table reflect the actual CPI for December 1982, released January 21, 1983, which was 0.7% lower than had been projected, consequently, the COL adjustments estimated in the budget are higher than the actual adjustments will be.

[3] Percent of total labor force, including armed forces stationed in the U.S.

[4] Average rate on new issues within period, on a bank discount basis. These projections assume, by convention, that interest rates decline with the rate of inflation. They do not represent a forecast of interest rates.

[5] Growth rates are measured as the 4th quarter of the current year over the 4th quarter of the previous year.

The unemployment rate is expected to decline slightly to 10.4 percent in the fourth quarter of 1983, and more rapidly to 9.5 percent in 1984, 8.5 percent in 1985, and 7.8 percent in 1986. The inflation rate is expected to rise slightly from 4.4 percent in 1982 to 5.0 percent in 1983. In the out-years, inflation levels off in the 4.4 to 4.7 percent range. At these lower inflation rates, the budget assumes that the 91-day Treasury bill rate will decline from an average of 10.7 percent in 1982 to 8.0 percent in 1983, and thereafter decrease steadily to 6.1 percent in 1988.

Small differences in the estimated rate of GNP growth have a large impact on projected deficits. The Administration estimates that if real GNP growth is 1.0 percent less than predicted, then the deficit will be 6 percent above forecast in 1984, 10 percent above forecast in 1985, rising to 25 percent above forecast in 1988. Conversely, as shown in Table 6, if real GNP growth is 1.0 percent more than predicted, then the deficit is estimated to be 5 percent below forecast in 1984, 10 percent below forecast in 1985, falling to 26 percent below forecast in 1988.

Table 6

Impact of Higher or Lower Growth on the Deficit
(Percent of current services budget deficit)

GNP Growth Rate	Fiscal Year					
	1983	1984	1985	1986	1987	1988
1% above forecast[1]	-1.5	-5.4	-10.0	-14.9	-19.8	-26.3
1% below forecast[1]	1.7	5.6	10.0	14.6	19.2	25.4

[1]Beginning January 1983.

C. Current Services Budget

One perspective on the fiscal year 1984 budget proposal is the level of outlays and receipts relative to the current services budget (CSB). The CSB measures the budget receipts and outlays which would occur if current spending and tax programs were continued without change. In 1984 the CSB deficit is projected at $232 billion, or $43 billion more than the proposed budget deficit. As shown in Table 7, $32 billion of the savings come from outlay reductions, of which $30 billion is the direct result of programmatic reductions, and $2 billion is attributable to reduced borrowing costs. The deficit is narrowed, relative to the continuation of current law, by an additional $11 billion as a result of the proposed increases in social security contributions. In the absence of the spending and revenue programs proposed in the fiscal year 1984 budget, the Administration estimates that the deficit would rise to $300 billion in 1988, $183 billion more than the proposed budget. Relative to the CSB, the Administration budget achieves markedly lower deficits in the out-years primarily as a result of large defense savings, the contingency tax plan, and increases in retirement contributions.

Table 7

The 1984 Fiscal Plan
(in billions of dollars)

	1984	1985	1986	1987	1988
Current services deficit	232	253	271	292	300
Proposed budget deficit	189	194	148	142	117
Proposed deficit reduction	43	59	123	150	183
Total outlay reduction	32	48	62	82	100
Programmatic reduction	30	42	49	60	67
Net interest savings	2	6	13	22	33
Total receipt increase	11	11	61	67	84
Other revenue changes	11	11	15	18	32
Contingency tax plan	--	--	46	49	51

III. SUMMARY OF ADMINISTRATION'S REVENUE PROPOSALS

A. Revenue Increases

1. Tax proposals relating to social security[1]

a. Expansion of social security coverage

Present Law

Under present law, (1) Federal civilian employees, (2) employees of State and local governments, and (3) employees of religious, charitable, educational, and certain other tax-exempt organizations are exempt from mandatory social security coverage. However, effective on January 1, 1983, Federal civilian employees became subject to the medicare tax (Hospital Insurance Trust Fund) of 1.3 percent.

Employees of a State or local government may be covered under social security to the extent provided by voluntary agreements entered into by the State with the Secretary of Health and Human Services. A State may terminate a coverage agreement by giving two years advance notice to terminate, if the coverage agreement has been in effect for at least five years at the time the notice is given.

A tax-exempt organization generally may waive the exemption from mandatory social security coverage for services performed by its employees.

Administration Proposal

Under the Administration proposal, mandatory social security coverage would be extended to all new Federal civilian employees and to employees of tax-exempt organizations effective January 1, 1984. State and local governments currently participating in the social security system would no longer be allowed to terminate a coverage agreement.

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[1] These social security tax proposals are the same as recommended in the report by the majority of the National Commission on Social Security Reform.

b. Acceleration of increases in OASDI payroll tax rate

Present Law

The Federal Insurance Contributions Act (FICA) imposes two taxes--old age, survivors and disability insurance (OASDI), and hospital insurance (HI)--on employees and employers. The current OASDI rate is 5.4 percent (a combined employee and employer rate of 10.8 percent). This rate is scheduled to increase to 5.7 percent (a combined rate of 11.4 percent) in 1985 and to 6.2 percent (a combined rate of 12.4 percent) in 1990.

Under present law, employees do not receive an income tax credit for OASDI taxes paid.

Administration Proposal

The Administration proposal would accelerate to 1984 the scheduled OASDI rate increase for 1985, and would increase the scheduled OASDI rate for 1988 and 1989. The rate increases would apply both to employee and employer OASDI taxes, but not to HI taxes.

Under the proposal, the OASDI rate would be increased from the current 5.4 percent (a combined rate of 10.8 percent) to 5.7 percent (a combined rate of 11.4 percent) with respect to wages received during calendar years 1984 through 1987. The OASDI rate would be increased further to 6.06 percent (a combined rate of 12.12 percent) with respect to wages received during calendar years 1988 and 1989 and 6.2 percent (a combined rate of 12.4 percent) with respect to wages received after December 31, 1989.

For 1984, employees would receive a refundable tax credit equal to the 1984 increase in OASDI tax rates (_i.e._, .3 percent of includible wages).

c. Self-employment OASDI tax rate increases

Present Law

The Self-Employment Contributions Act imposes two taxes (OASDI and HI) on self-employed individuals. The current OASDI rate for self-employed individuals is 8.05 percent. This rate is scheduled to increase to 8.55 percent in 1985.

Under present law, self-employed individuals do not receive an income tax deduction for self-employed OASDI taxes paid.

Administration Proposal

Under the Administration proposal, the OASDI rate for self-employed individuals would be equal to the combined employer-employee OASDI rate, beginning in 1984. Thus, the self-employed OASDI rate would be 11.4 percent for taxable years beginning after December 31, 1983, and before January 1, 1988. The tax rate would be 12.12 percent for taxable years beginning after December 31, 1987, and before January 1, 1990. Finally, for taxable years beginning after December 31, 1989, the rate would be 12.4 percent.

Under the proposal, self-employed individuals would be permitted to deduct for income tax purposes an amount equal to 50 percent of self-employment OASDI taxes paid. This deduction would be allowed in computing adjusted gross income.

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d. Taxation of social security benefits

Present Law

Under a series of rulings in 1938 and 1941 by the Internal Revenue Service, social security benefits are excluded from gross income for purposes of the income tax.

Administration Proposal

Under the Administration proposal, one-half of an individual's social security benefit would be included in adjusted gross income if other adjusted gross income exceeds the base amount. The base amount would be $25,000 in the case of married couples filing a joint return and $20,000 in the case of a single taxpayer.

2. Exclusion for employer-provided health insurance premiums

Present Law

Under present law, employer contributions to accident or health plans to compensate employees for personal injuries or sickness (through insurance or otherwise) are excluded from an employee's gross income. Amounts paid to or on behalf of an employee under an employer's accident or health plan to reimburse the employee for expenses incurred for medical care (including medical care provided the employee's spouse or dependents) also are generally excluded from the employee's income.

Under present law, employer contributions to accident or health plans for employees, and payments made to employees under such plans, generally are not subject to social security taxes.

Administration Proposal

Under the Administration proposal, for taxable years beginning after December 31, 1983, employer contributions to accident or health plans for an employee would be included in the employee's income to the extent they exceed (1) $175 per month ($2,100 per year) if the plan covers the employee and his family, or (2) $70 per month ($840 per year) if the plan covers only the employee. The $175 and $70 amounts would be indexed to increase with inflation.

Amounts included in the employee's income under the proposal would also be subject to social security taxes.

There would be a transition rule to exempt premiums paid under collective bargaining agreements signed before January 31, 1983.

3. Contingent taxes: oil excise tax and income tax surcharge

Present Law

Present law imposes several excise taxes on petroleum and petroleum products, the revenues from which are dedicated to various trust funds. Gasoline, diesel fuel and other motor fuels are taxed at 4 cents per gallon (9 cents, beginning April 1, 1983), and revenues are transferred principally to the Highway Trust Fund. Gasoline and nongasoline fuels used in noncommercial aviation are taxed at 12 and 14 cents per gallon, respectively, and revenues are transferred to the Airport and Airway Trust Fund. Crude oil is taxed at 0.79 cents per barrel, and revenues are transferred to the Hazardous Substance Response Trust Fund. Diesel fuel and other liquid fuels used for commercial cargo vessels on inland or intracoastal waterways are taxed at 6 cents per gallon (8 cents, beginning October 1, 1983, and 10 cents, beginning October 1, 1985). Revenues from this tax are transferred to the Inland Waterways Trust Fund.

Under the Trade Expansion Act of 1962, the President can impose oil import fees or other import restrictions if he finds that imports threaten the nation's security. Congress may roll back the fees by passing a joint resolution of disapproval. This resolution can be vetoed by the President, in which case the fees would continue unless the veto is overridden by a two-thirds vote of both Houses of Congress. (The presidential import fee authority was used by Presidents Nixon, Ford and Carter.) Nominal oil import duties are now in effect, none of which was imposed under this authority.

Present law makes no provision for contingent income tax surcharges.

Administration Proposal

The Administration proposes two new contingent taxes. The first is an excise tax on oil, both domestically produced and imported, that would be designed to raise revenues of about $5 per barrel. The second is a surcharge on individuals and corporations approximately equivalent to 1 percent of taxable income. This tax could be structured as a 1-percent tax on taxable income or as a 5-percent surtax on taxes paid.

Both contingent taxes would become effective only if three conditions are met: (1) Congress adopts the Administration's spending reductions and structural changes of federal entitlement programs, (2) the Administration forecasts on July 1, 1985, that the fiscal year 1986 unified budget deficit will exceed 2-1/2 percent of the gross national product, and (3) the economy is growing on July 1, 1985.

The Administration proposes that these contingency taxes be enacted in 1983. They would be effective on October 1, 1985, and would last for up to 3 years.

B. Revenue Reductions

1. Education savings accounts

Present Law

Under present law, there is no general provision which permits deductions for amounts contributed to a trust to pay education expenses of the taxpayer or a child of the taxpayer or for income from assets in such a trust. However, certain types of "job-related" education expenses may be deducted as ordinary and necessary business expenses.

Administration Proposal

The Administration proposal would create a permanent tax exclusion for all interest and dividends earned on amounts deposited in qualified education savings accounts, after December 31, 1983, provided the deposits are used for eligible education expenses. If amounts are withdrawn from the account and not applied to eligible education expenses, the tax otherwise due on the earnings will be recaptured and a penalty tax generally will be imposed.

In general, eligible education expenses are tuition and room and board incurred on behalf of a full-time undergraduate student and paid directly to a university or college. However, amounts paid to schools that follow a racially discriminatory policy will not be treated as eligible expenses. Certain reporting obligations would be imposed on the financial institutions maintaining the accounts and the colleges or universities receiving withdrawals from such accounts.

Deposits to these accounts are subject to a number of limitations. First, under the proposal, the maximum annual contribution to a qualified education savings account would be $1,000 per child. However, the $1,000 limit would be reduced by 5 percent of the amount by which the taxpayer's adjusted gross income exceeds $40,000. Thus, no contribution could be made by a taxpayer whose adjusted gross income exceeds $60,000. Second, no contribution may be made on behalf of a child over the age of 18, and in no case may an account be maintained for a child over the age of 25.

2. Tuition tax credits

Present Law

Present law provides no tax credit or deduction for personal educational expenses. However, certain types of "job-related" education expenses may be deducted as ordinary and necessary business expenses.

Administration Proposal

The Administration proposal would provide a nonrefundable tax credit for 50 percent of certain tuition expenses paid to private elementary and secondary schools for qualified dependents of the taxpayer. The maximum credit would be $100 in 1983, $200 in 1984, and $300 in 1985 and subsequent years. Additionally, the maximum credit would be phased down for taxpayers with adjusted gross incomes greater than $40,000, with no credit being allowed to taxpayers with adjusted gross incomes in excess of $60,000.

For tuition expenses to be creditable, a school could not follow a racially discriminatory policy. An eligible school would be required to include a statement of its nondiscriminatory policy in any published by-laws, admissions materials, and advertising and to file annually with the Treasury Department a statement that it has not followed a racially discriminatory policy. Generally, a copy of this statement would have to be furnished to each individual who pays tuition to the school and would have to be attached to any return on which credits were claimed. In addition, the proposal would disallow credits for payments to any school found to be following a racially discriminatory policy in a declaratory judgment action brought by the Attorney General.

This proposal would be effective for expenses incurred after July 31, 1983.

Prior Congressional Action

During the 97th Congress, the Senate Finance Committee reported a similar proposal as an amendment in the nature of a substitute to H.R. 1635 (S. Rep. 97-597, Sept. 23, 1982), but it was not considered by the Senate.

3. Caribbean Basin Initiative

Present Law

Rum excise tax payments to Puerto Rico and the Virgin Islands

The United States imposes excise taxes of $10.50 per proof gallon on all distilled spirits, including rum, manufactured in or brought into the United States. The excise taxes paid on rum made in Puerto Rico and the U.S. Virgin Islands and brought into the United States are transferred to the Treasury of the island where the rum was made.

Caribbean conventions

The Internal Revenue Code generally disallows deductions for business expenses incurred while attending a convention held outside the North American area (the United States, the U.S. possessions, the Trust Territory of the Pacific Islands, Canada and Mexico). Deductions for attending conventions held outside the North American area are allowable only if the taxpayer can show that it was as reasonable to hold the convention outside the North American area as within it. Business expense deductions of up to $2,000 per individual are allowable for conventions held on U.S. flag cruise ships that call on ports only in the United States and the U.S. possessions. The income tax treaty with Jamaica allows business expense deductions for attending conventions held in Jamaica.

Administration Proposal

The Administration's Caribbean Basin Initiative, as included in the Fiscal Year 1984 Budget Document, includes both tax and nontax proposals. This Summary describes only the tax proposals.

Rum excise tax payments to Puerto Rico and the Virgin Islands

The Administration proposal would require that all excise taxes collected on foreign rum brought into the United States (whether or not from Caribbean countries) would be transferred to the Treasuries of Puerto Rico and the Virgin Islands. The Secretary of the Treasury would prescribe a formula for allocating these taxes between Puerto Rico and the Virgin Islands. This provision would apply to rum imported into the United States on or after April 1, 1983.

Caribbean conventions

The Administration proposal would allow business expense deductions for attending conventions held in certain Caribbean countries. Such treatment would apply only for a Caribbean country that met certain criteria.

First, the country would have to be a "beneficiary country" as defined in the trade portion of the Caribbean Basin Initiative proposal. That is, it would have to be among the 28 Caribbean Basin countries listed in section 102(b) of H.R. 7397 (as it passed the House of Representatives in 1982) and it would have to be designated by the President as a beneficiary country. In addition, a deduction would be provided for conventions held in Bermuda provided that Bermuda met the other criteria.

Second, the country would have to enter into an executive agreement with the United States to provide for the exchange of tax information. The agreement would be negotiated by the Secretary of the Treasury. It would provide, on a reciprocal basis, for information relating to U.S. tax matters to be made available to U.S. tax officials. The agreement would have to apply to both civil and criminal tax matters. It would have to override any local rules requiring secrecy about the ownership of bank accounts or bearer shares. The agreement would impose on the officials of each country a duty not to disclose this information other than to those involved in its tax administration.

Third, no deduction would be available for attending a convention in a country found by the Secretary of the Treasury to discriminate in its tax laws against conventions held in the United States.

This provision would apply to conventions beginning after December 31, 1982, but only if an exchange of information agreement were in effect on the day the convention began.

Prior Congressional Action

The proposal described above (with one difference in effective date), together with nontax portions of the Caribbean Basin Initiative, passed the House of Representatives on December 17, 1982, as H.R. 7397. The Senate Finance Committee ordered that bill reported on December 20, 1982, with modifications to certain nontax provisions of the bill but without modifications to the tax provisions, by a vote of 11 to 5. The Senate did not consider the reported bill before adjournment sine die of the 97th Congress.

The tax portion of the Administration's current proposal differs from the tax portion of H.R. 7397 in one way: under H.R. 7397, excise taxes collected on all rum imported into the United States on or after January 1, 1983 would have been transferred to Puerto Rico and the Virgin Islands. The corresponding date in the Administration's proposal is April 1, 1983.

4. Enterprise zone tax incentives

Present Law

Under present law, the only tax incentive for the redevelopment of economically distressed areas is a relaxation of limitations on tax-exempt financing for facilities receiving assistance under the Urban Development Action Grant (UDAG) program.

Administration Proposal

The Administration proposes that beginning in 1983 up to 25 small areas per year (not to exceed 75 in total) be designated "enterprise zones." Effective January 1, 1984, the following tax incentives would be available for economic redevelopment in the zones: an exemption from tax of capital gains on certain qualified property, a tax credit for employees equal to 5 percent of the first $10,500 of wages earned, a tax credit for employers equal to 10 percent of any increases in their payrolls (up to $1,750 per employee) a separate tax credit for employers of certain disadvantaged individuals equal to 50 percent of the wages of such persons for the first three years of employment (the percentage declines by 10 points in the fourth year and each year thereafter), an increase of 50 percent in the regular investment tax credit for investment in equipment, a 10-percent investment tax credit for new construction and reconstruction of buildings, and continued availability of tax-exempt bond financing beyond the 1986 sunset date for small issue bonds. These incentives generally would remain fully in effect for 20 years and would be phased out over the succeeding four years. (An enterprise zone could be designated for a period of less than 20 years.)

Prior Congressional Action

A similar proposal was reported by the Senate Finance Committee in the 97th Congress (H.R. 7094 as reported; Sen. Rep. No. 97-662, Oct. 18, 1982), but was not considered by the Senate.

5. Jobs tax credit for the long-term unemployed

Present Law

Under present law, the targeted jobs credit is available to employers for a portion of wages paid to members of nine target groups of individuals. All groups are defined with reference to low family income, receipt of means-tested transfer payments, or disability.

Administration Proposal

The Administration proposes a six-month extension and modification of the Federal Supplemental Compensation program with an option for recipients to receive assistance in securing work through a system of tax credits to employers. To be qualified, individuals must have exhausted their regular, and, where available, extended Unemployment Insurance benefits.

Effective April 1, 1983, individuals who meet the eligibility requirements for the additional unemployment payments may elect to receive vouchers equivalent in value to the unemployment payments. These vouchers will entitle an employer to receive the credit for hiring qualified individuals for full-time employment within six months of their eligibility. Although payment of the additional benefits will end on September 30, 1983, individuals will be able to become eligible for vouchers until March 31, 1984. Employers will be able to receive a tax credit for any qualified individuals hired before April 1, 1984.

III. ADMINISTRATION'S ESTIMATES OF BUDGET EFFECTS OF REVENUE PROPOSALS 1/

(Fiscal Years, 1983-1986; in Billions of Dollars)

Item	1983	1984	1985	1986
Revenue increases				
1. Social security related tax proposals	--	8.2	5.8	8.9
2. Exclusion for employer-provided health insurance premiums	--	2.3	4.4	6.0
3. Contingency tax plan: Oil tax Income tax surcharge	--	--	--	46.0
Subtotal, revenue increase provisions	--	10.5	10.2	61.0
Revenue reductions				
1. Education savings accounts	--	2/	-.1	-.2
2. Tuition tax credit	--	-.2	-.5	-.8
3. Caribbean Basin Initiative	2/	2/	2/	2/
4. Enterprise zone tax incentives	--	-.1	-.4	-.8
5. Tax credit for hiring long-term unemployed	2/	-.2	-.2	-.1
Subtotal, revenue reduction provisions	2/	-.5	-1.2	-1.7
Total, tax provisions	2/	10.0	9.0	59.2
Civil Service retirement contributions	--	1.2	2.3	2.1
Total, Revenue Provisions, Including Civil Service Retirement Provisions 3/	2/	11.1	11.2	61.3

1/ These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects are taken into account for forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

2/ Revenue reduction of $50 million or less.

3/ These totals do not include miscellaneous budget receipts of $22 million for 1984 and 1985 and $23 million in 1986 from Migratory Bird Hunting Stamps and Iranian Court costs.

Source: Budget of the United States Government, Fiscal Year 1984