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Box 78, Folder 8, American Jewish Committee on tax bill, 1986.

# THE AMERICAN JEWISH COMMITTEE

date January 21, 1986

to Irving Levine and Yehuda Rosenman

from Steven Bayme and Gary Rubin

subject AJC Positions on Pending Tax Bills

Following a discussion at the Staff Advisory Council and in consultation with Bookie in our Washington office, we have reached the following conclusions about the Tax Reform Bill passed by the House of Representatives and the Administration's version (commonly called Treasury II), both of which will be debated in the Senate this year:

## I. General Principles

Pending recommendations of our Social Policy Task Force, AJC's current policy would support tax reform which would accomplish the following objectives:

1. It should strengthen families in the U.S. by favoring necessary family responsibilities such as child rearing and education and, at minimum, not penalize people who live in intact family units.
2. It should seek to help the poor and near poor by decreasing their liabilities, not imposing a disproportionate tax burden on them, and encouraging them to work.
3. It should target especially vulnerable populations such as single-parent families and large families below the poverty line for special relief.
4. It should decrease the burden on middle-class families, especially young parents raising children on moderate incomes.

## II. Benefits of the House-Passed Tax Bill

By these criteria, several aspects of the House-passed tax bill are preferable to Treasury II. These include:

1. The House bill would end tax liabilities for working poor families whose incomes are below or slightly above the poverty line. In all, about 6.5 million households in this status would have their tax liabilities eliminated.

2. This would provide significant relief to poor families. Under current law, a family of four earning at the projected poverty line of \$12,000 in 1987 would owe \$1,271 in income and payroll tax. This liability under the House Bill would be reduced to \$399 in Social Security taxes. In addition to providing relief, this would also encourage these families to work since they would keep a larger share of their earnings.
3. This reduction of tax burdens for families earning under \$20,000 of \$30 billion over the next five years would be accomplished by three provisions: the personal deduction would nearly double, to \$2,000 for those who do not itemize; the standard deduction would be significantly raised; and the Earned Income Tax Credit would be enlarged.
4. Moreover, unlike the current system, the House Bill would not allow these gains to be eroded by rising costs of living. All three major provisions are indexed for inflation.
5. These benefits for the poor are not new policy. The House Bill restores the tax situation of the poor to levels that existed in the late 1970s before inflation eroded many provisions that had kept tax liability low for low income families.
6. The House Bill also provides relief to larger families near the poverty line and to families headed by single parents, who are especially vulnerable under the current tax system.
7. Treasury II also provides some significant tax relief for the poor and near poor, but not as much as the House Bill. The House version results in a tax liability of 33% less than Treasury II for a family of four at the poverty line and sets its income tax threshold about \$1000 higher.
8. The House Bill also provides greater relief to middle class families, many of them young with child-rearing responsibilities. The House version provides greater tax cuts than Treasury II to every income class earning less than \$75,000, while giving lesser cuts to those making more than this amount. Both the House Bill and Treasury II would transfer tax burdens from individuals to corporations by restoring the corporate share of federal taxes to about the level they were at in 1980.
9. The House Bill would continue full deductibility of state and local taxes, preserving revenues that fund many programs for families and the poor. Treasury II would eliminate much of this deduction which would threaten these programs.

### III. Benefits of Treasury II

While the House version would provide greater relief to all families earning less than \$75,000, Treasury II incorporates two features that provide both substantive and symbolic support for families. AJC policy would support these pro-family provisions:

1. Treasury II raises the personal exemption to \$2000 for all taxpayers, while the House Bill contains this provision only for non-itemizers, increasing the exemption to only \$1500 for those who itemize. Treasury II would both materially aid larger families and younger middle class families with children who would itemize to save on mortgage and interest deductions but who would lose with smaller personal exemptions.
2. Treasury II increases the Individual Retirement Account for non-working spouses from \$250 to \$2000 while the House Bill retains a \$250 ceiling. The Treasury approach would especially aid families that opt to have one spouse stay at home to care for children. While AJC has consistently endorsed day care and other measures that support working parents, we should also back proposals, such as the Treasury II IRA provisions, that benefit families that defer work for childrearing.

While the personal exemption issue and the IRA increase for non-working spouses mean much to individual families, they are not big money items in the context of the whole bill. Revenue lost through retention of Treasury II's provisions can easily be made up by adjustments elsewhere in the legislation.

### IV. Other Considerations

Both the House Bill and Treasury II drop the current 10% exemption on spousal income which was designed to eliminate the "marriage tax," that is to assure that married couples do not pay more in taxes than two people living together without marriage. The rationale for the new proposals is that flattening tax brackets will reduce taxes for all families. Still, under both proposals, unmarried couples making \$30,000 each will be in the 25% bracket, while if combined in one family income the \$60,000 total will place them in the 35% bracket. Marriages should not be penalized in this way.

### V. Recommendation

We do not believe AJC has policy authorization to take a position on the overall tax legislation. But our record of statements on poverty and family values leads us to recommend that we advocate for the House Bill's provisions on tax burden distribution, Treasury II's on special family considerations and for continued provisions to mitigate the marriage tax. This can be done in a letter to the Senate Finance Committee, Majority Leader Dole and Minority Leader Byrd, along the lines of the attached draft.

February 26, 1986

To Senate Finance Committee:

The American Jewish Committee has for decades advocated fair treatment of the poor and near poor in the U.S. and a national policy aimed at strengthening family life. Tax legislation now being considered by the Senate offers a rare opportunity to help accomplish both goals.

We do not presume to be experts on the full range of tax legislation nor do we have a position on the overall bills currently before you. But our system of taxation does have a major impact on the economic status of the poor, families raising children and incentives to work. We are vitally interested in these areas and hope that new tax legislation will have a positive effect on them.

We see some merit in both major proposals now before the Senate: the House-passed bill and the Administration plan, widely known as Treasury II. We believe that the tax burden distribution in the House bill would greatly improve the position of the poor and near poor and enhance incentives to work, while Treasury II contains some important features that benefit families.

The allocation of tax liabilities in the House Bill would have several advantages. It would, through raising the personal exemption, increasing the standard deduction and enlarging the Earned Income Tax Credit remove tax burdens for families below and slightly above the poverty line and free 6.5 million poor households from tax liability.

It would also index this relief so that its benefits are not eroded by inflation in the future. Since it would allow people near the poverty line to retain more of their earnings, it would constitute an incentive for them to work. Moreover, its lower tax rates for middle class families would especially benefit young parents raising children.

While many similar provisions are contained in Treasury II, the House bill provides greater benefits to lower and middle income families with children who ought to be our primary social concern. Both proposals raise similar amounts of money to our current system so that these benefits can be achieved without revenue loss.

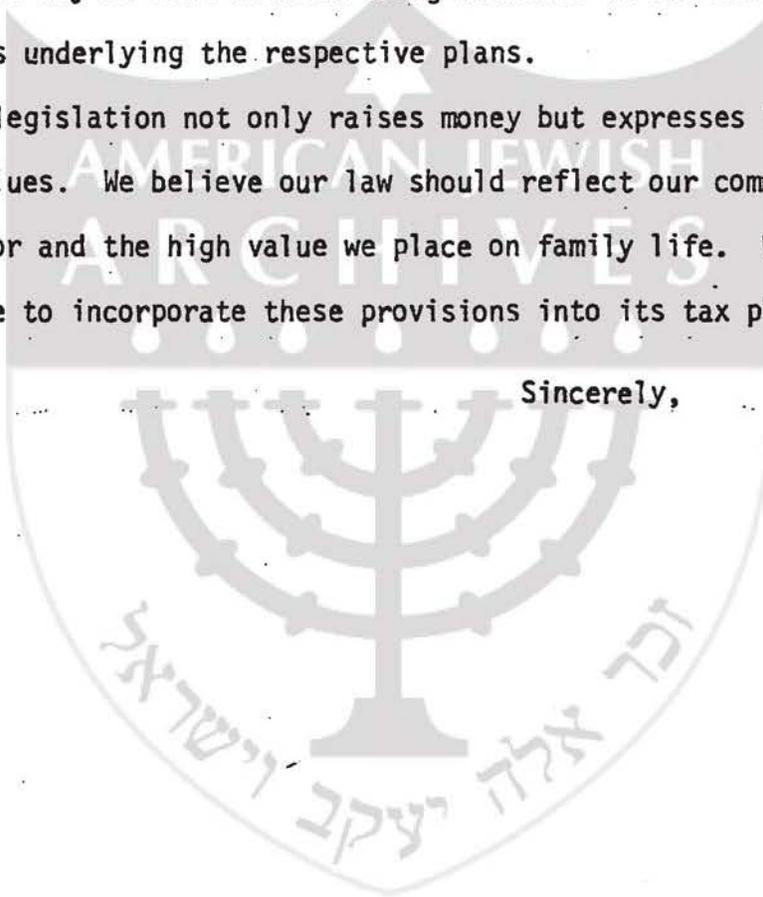
Treasury II contains two proposals not in the House Bill which we believe strengthen families and so should be incorporated into final legislation. It sets the personal exemption at \$2000 for all families rather than just for itemizers, which would materially aid large families and young families raising children, and it allows an increase in the Individual Retirement Account for \$250 to \$2000 which would benefit families that elect to have one spouse stay at home to care for children. While we have consistently supported measures to aid working parents, we believe it also necessary to be sensitive to the needs of families that defer work for childrearing.

We are also concerned that both the House and Treasury proposals drop the current 10% spousal exemption to offset the "marriage tax," which would under the new provisions force married couples to pay more

in taxes than two people living together without marriage. In our view, this exemption should be retained. Inasmuch as both plans preserve revenue neutrality, we believe that the modifications suggested here will require adjustments in other sections of the Bill. This may be done without doing violence to the basic principles underlying the respective plans.

Tax legislation not only raises money but expresses important social values. We believe our law should reflect our commitment to the poor and the high value we place on family life. We urge the Senate to incorporate these provisions into its tax plan.

Sincerely,



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