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UNCLASSIFIED [CULL]  
FM WASHINGTON 022301Z AUG 82  
TO ROUTINE FCO  
TELEGRAM NUMBER 2638 OF 2 AUGUST

USA

U S TAX INCREASES

SUMMARY

1. THE HOUSE OF REPRESENTATIVES INDICATED IT'S WILLINGNESS TO INCREASE TAXES ON 28 JULY WHEN IT VOTED TO GO TO CONFERENCE ON A BILL PASSED EARLIER BY THE SENATE. THE BILL, KNOWN AS THE TAX EQUITY AND FISCAL RESPONSIBILITY BILL OF 1982, INCLUDES SOME 100 CHANGES IN LAW THAT WILL INCREASE REVENUES SOME DOLLARS 21BN AND REDUCE EXPENDITURE DOLLARS 4BN IN FY83. THE HOUSE ACTION SUBSTANTIALLY INCREASES THE CHANCES THAT CONGRESS WILL PASS A TAX INCREASE PACKAGE THIS SESSION. THE PRESIDENT IS EXPECTED TO APPROVE THE BILL IF IT IS SENT TO HIM FOR SIGNATURE.

DETAIL

2. THE TAX BILL, ACCORDING TO ITS AUTHOR SENATE FINANCE COMMITTEE CHAIRMAN DOLE, WAS DESIGNED TO INCREASE REVENUE WHILE AT THE SAME TIME INTRODUCING GREATER EQUITY INTO THE TAX SYSTEM, REMOVING SOME ECONOMIC DISTORTIONS AND MOVING TOWARDS ECONOMIC PRICING FOR GOVERNMENT SERVICES. THE LARGE NUMBER OF CHANGES IS CLEARLY A TACTICAL MEASURE INTENDED TO INCREASE THE CHANCES OF CONGRESSIONAL APPROVAL.

3. THE FOLLOWING ARE ITS MAIN PROVISIONS (FY83 PRELIMINARY REVENUE/EXPENDITURE EFFECTS IN BRACKETS).

A. INCREASING BUSINESS TAXES IN SUCH AREAS AS DEPRECIATION, SAFE HARBOUR LEASING, AND THE OVERSEAS DEPRECIATION ALLOWANCES FOR U S OIL COMPANIES (DOLLARS 0.2BN)

B. INCREASING INDIVIDUAL INCOME TAX REVENUES BY RAISING TO 7 PERCENT OF INCOME THE THRESHOLDS BEFORE MEDICAL AND CASUALTY COSTS CAN BE DEDUCTED FROM TAXABLE INCOME, WHILE REDUCING THE CAPITAL GAIN HOLDING PERIOD TO SIX MONTHS (DOLLARS 5.9BN).

C. CHANGES DESIGNED TO REDUCE THE INCIDENCE OF TAX EVASION, INCLUDING THE WITHHOLDING AT SOURCE OF 10 PERCENT OF INTEREST AND DIVIDENDS INCOME (DOLLARS 6.7BN).

D. CHANGES IN THE RULES GOVERNING THE TAX TREATMENT OF PENSION PLANS AND LIFE INSURANCE COMPANIES (DOLLARS 1.7 BN)

E. HIGHER EXCISE TAXES ON CIGARETTES, AIRLINE OPERATIONS, AND TELEPHONES (DOLLARS 2.5BN).

F. OVER 50 DETAILED CHANGES IN THE OPERATION OF FEDERAL ENTITLEMENT PROGRAMMES (DOLLARS 4.2BN IN SAVINGS).

4. IT WAS UNUSUAL FOR THE DEMOCRAT CONTROLLED HOUSE TO ACCEPT THE SENATE VERSION OF THE TAX BILL RATHER THAN WRITING ITS OWN VERSION. THIS WAS POSSIBLE BECAUSE THE SENATE IN FACT TACKED THIS BILL ON TO AN EARLIER SMALL TAX BILL THAT HAD ORIGINATED IN THE HOUSE. EVEN SO, SOME HOUSE MEMBERS FELT THAT THEY HAD ABROGATED THEIR CONSTITUTIONAL DUTY TO ORIGINATE TAX LEGISLATION. BUT THE DEMOCRAT MAJORITY, MINDFUL OF THE NOVEMBER CONGRESSIONAL ELECTIONS, SAW POLITICAL ADVANTAGE IN GIVING THE PRESIDENT WHAT HE HAD ASKED FOR SO THEY COULD PUT THE BLAME FIRMLY ON HIM LATER ON FOR WHAT THEY CONFIDENTLY EXPECT WILL BE THE FAILURE OF HIS ECONOMIC POLICY. HOUSE REPUBLICANS ON THE OTHER HAND WERE UNHAPPY AT THE BILL PASSED BY THE REPUBLICAN CONTROLLED SENATE BECAUSE IT TOOK THE PRESSURE OFF DEMOCRATS TO VOTE FOR REDUCTIONS IN EXPENDITURE.

5. THE HOUSE/SENATE CONFERENCE COMMITTEE IS EXPECTED TO ADDRESS THE TAX BILL TOMORROW. THERE ARE BOUND TO BE SUBSTANTIAL PRESSURES FROM THE SPECIAL INTEREST GROUPS TO REDUCE THE BURDEN OF THE BILL EG THE TOBACCO INDUSTRY AND LARGE OIL COMPANIES AND SOME FURTHER CHANGES SEEM LIKELY. IF THE CONFERENCEES CAN AGREE, A REVISED BILL WILL BE SENT BACK TO THE HOUSE AND SENATE FOR A FINAL VOTE, PROBABLY BEFORE THE START OF THE SUMMER RECESS ON 19 AUGUST.

6. FCO PLEASE PASS TO BOTTRILL (TREASURY) AND WATSON (BANK OF ENGLAND)

THOMAS

[ADVANCED AS REQUESTED]

FINANCIAL

HAD