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Budget Materials [3]

Budget Materials

PRESIDENT CLINTON'S TAX CUT PROPOSAL

SUMMARY DOCUMENTS

June 30, 1997

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President Clinton's Tax Cut Proposal

June 30, 1997

Today, President Clinton unveils a tax cut proposal. It is a fair proposal that places a priority on education tax cuts and provides a child tax credit to families who work hard and pay taxes. The proposal incorporates Republican priorities in a good faith effort to honor the budget accord and to reach final agreement on a tax cut the American people deserve.

- ✔ ***A 2-year modified $1,500 HOPE Scholarship to make two years of college universally available and a 20% tuition credit to make the third and fourth years of college more affordable and to promote lifelong learning.***
- ✔ ***A $500 child tax credit for tax-paying working families with children under 17 through 2002 and under 19 thereafter. Families could put the credit plus $500 in a Kidsave Account.***
- ✔ ***Two-thirds of the President's tax cut goes to the middle 60 percent of families -- twice as large a share as the congressional alternatives provide these middle-income families.***
- ✔ ***To honor the agreement, the President's plan allows taxpayers to exclude 30% of their long-term capital gains from taxation and provides estate tax relief to small businesses and farmers.***
- ✔ ***Includes no tax time bombs that would explode in cost.***

Major Provisions (Treasury estimates unless otherwise indicated)	**5 Years ($ billion)**	**10 Years ($ billion)**
Education Tax Cuts:		
HOPE Scholarship and 20% Tuition Credit	34.5	94.1
Education and Retirement Savings Accounts	1.3	6.0
Tax Incentives for School Construction	2.9	7.6
Employer-Provided Education Benefits	3.8	8.5
Student Loan Interest Deduction and Forgiveness	1.8	4.4
Deduction for K-12 Computer Donations (JCT)	0.3	0.7
Repeal of bond cap for universities	0.3	1.0
Child Tax Credit	70.2	176.1
Brownfields, EZ/EC Expansion, CDFIs	2.4	3.9
Welfare-to-Work Tax Credit	0.6	0.6
Home Office Deduction	0.6	1.7
Small Business Capital Gains Relief	0.4	1.7
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30% Exclusion of Capital Gains	7.1	15.6
Estate Tax Cut	2.3	7.2
DC Tax Incentives and Other Presidential Initiatives	1.3	6.3
Extensions of expiring provisions	3.9	3.9
GROSS TAX CUT	134.8	341.1
Revenue Raisers	(49.8)	(100.5)
NET TAX CUT	85.0	240.5

President Clinton's Tax Cut Proposal
A Fact Sheet

EDUCATION TAX CUTS

- ***Two-year HOPE Scholarship.*** A maximum $1,500 credit beginning in 1998. Students attending on at least a half-time basis would receive a 100% credit for the first $1,000 of tuition and required fees for enrollment in a post-secondary degree or certificate program and a 50% credit for up to the next $1,000. For example, a student attending a community college with tuition costs of $1,400 would receive a $1,200 HOPE Scholarship. Scholarships would be phased out for joint filers earning between $80,000 and $100,000. Eligible students could receive both a full Pell Grant and a HOPE Scholarship. The previously proposed B-rule has been dropped. After 2002, the HOPE Scholarship increases to a 100% credit for the first $1,500 and a 50% credit for the next $1,000 of tuition and required fees.

- ***20% Tuition Tax Credit.*** Third and fourth year students, graduate students, plus working people going to school to improve their education and skills, would benefit from a 20% tax credit on the first $5,000 of tuition and required fees through the year 2000 and after 2000 a 20% tax credit on the first $10,000 of tuition and required fees. The credit would be phased out for joint filers earning between $80,000 and $100,000.

- ***Education and Retirement Savings Accounts.*** Allows penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expense and the first-time purchase of a home. Additionally, taxpayers are given the opportunity to contribute their child tax credit plus an additional $500, up to $1,000, to a Kidsave Account for the child's education, first-time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the Kidsave Account and no taxes would be due upon withdrawal for an approved purpose.

- ***Tax Incentives for School Construction.*** Provides tax credits to finance construction and/or rehabilitation of elementary or secondary schools in distressed communities. States would be able to allocate a fixed amount of tax credits (based on population) to public schools to help pay for construction or renovation projects. The allocation would be for projects in schools that are in empowerment zones or enterprise communities, or that have a high percentage of low-income students. This program would function similarly to the current low-income housing tax credit program.

- ***Employer-Provided Education Benefits.*** Extends permanently Section 127 of the tax code, which allows people to exclude $5,250 of employer provided education benefits from their taxable income. Both undergraduate and graduate education would be eligible. Additionally, a 10% employer credit for small business training is included. This credit would apply to payments made to third parties to cover expenses of education for employees under employer-provided education assistance programs. The credit would be available to employers with average annual gross receipts of $10 million or less for the prior three years.

- ***Student Loan Interest Deduction and Forgiveness.*** Allows a deduction of up to $2,500 per year of interest on education loans for expenses of students enrolled at least half-time at an institution of higher education. The deduction would be allowed for the first 60 months interest is due on a loan. The deduction would phase out for taxpayers making between $45,000 and $65,000 ($65,000 and $85,000 for married taxpayers filing jointly). This deduction would be available even if the taxpayer does not itemize deductions.

  To encourage people to use their education and training in community service, the income exclusion for student loan forgiveness would be expanded to include loan forgiveness extended by nonprofit tax-exempt charitable or educational institutions, and to loans forgiven under the Direct Loan Program's income-contingent repayment program. Currently, the exclusion generally covers only contingent forgiveness arrangements between students and government entities.

- ***Incentives for K-12 Computer Donations.*** Provides tax incentives for private sector donations of computer equipment to schools. The proposal would work in combination with the Telecommunications Act of 1996 to ensure that public schools have access to modern computer technology.

- ***Repeal Cap on Tax Exempt Bond Issuance by Colleges and Universities.*** Repeals the $150 million bond cap that affects private higher education institutions and certain other charitable institutions. The repeal would apply to tax-exempt bonds issued by these institutions to finance new capital expenditures.

CHILD TAX CREDIT

The President's child tax credit includes the following features:

- **Age.** Covers children under 17 through 2002 and under 19 thereafter.
- **Amount per child.** $400 in 1998, $500 in 1999 and then indexed.
- **Income Limits.** Phased out for families making $60,000 to $75,000 until 2000, and then $80,000 to $100,000 thereafter.
- **Refundability to Cover Out-of-Pocket Income and Payroll Taxes.** Working families who pay out of pocket federal taxes would benefit from the child tax credit. Child tax credit is calculated before the EITC and will be partially refundable. A family will get a child credit for their income taxes plus the extent to which their out-of-pocket (employee share) payroll taxes exceed their EITC.
- **Savings Incentive Feature.** As described above, taxpayers who are entitled to a child credit would be given the opportunity to contribute their child tax credit plus an additional $500 each year to a Kidsave Account for the child's education, first time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the account and no taxes would be due upon withdrawal for an approved purpose.

URBAN REVITALIZATION

- ***Incentives to Clean Up and Redevelop Contaminated Sites (Brownfields).*** Certain environmental remediation costs would be provided tax favorable treatment, allowing them to be fully deducted immediately, to spur clean-up and redevelopment of contaminated sites in high poverty areas. To qualify for this tax incentive, sites would have to satisfy use, geographic, and contamination requirements.

- ***Expand Empowerment Zones and Enterprise Communities.*** The proposal has the three main components that were in the President's budget. First, within 180 days of enactment, two additional urban empowerment zones would be authorized and would benefit from current tax incentives. Second, technical changes would be made to allow a broader range of businesses in EZs and ECs to borrow the proceeds of tax-exempt bonds. Third, the proposal authorizes the additional designation of 20 (15 urban and 5 rural) Empowerment Zones and 80 (50 urban and 30 rural) Enterprise Communities. The newly designated zones would have different available tax incentives than existing zones. The current law wage credit would not be available. The brownfields incentives would be available as would special expensing of business assets and qualification for private-activity bonds.

- ***Community Development Financial Institutions Fund.*** Up to $100 million in tax credits would be made available to the CDFI Fund to allocate for equity investors in community development financial institutions to leverage private investment in distressed areas and to stimulate economic revitalization.

- ***Washington, D.C.*** Provides tax incentives for firms to hire District residents, and a new credit that will be allocated to debt and equity by a new economic development corporation, and to allow the issuance of additional tax-exempt debt to help finance new business activity in the District.

WELFARE-TO-WORK TAX CREDIT

As proposed in the President's budget, to help move people from welfare to work, a new 50% tax credit would be made available on the first $10,000 in annual wages of certain long-term family assistance recipients for two years of employment.

SMALL BUSINESS TAX CUTS:

Home office deduction

The existing home office deduction would be broadened to cover small businesses where: (1) the office is exclusively used to conduct substantial and essential administrative or management activities on a regular basis; and (2) the taxpayer has no other location to conduct these essential administrative or management activities.

Small Business Capital Gains

Increases the existing exclusion for equity investments in small businesses held at least five years to a 75% exclusion for up to $20 million in gains and doubles the eligibility limits on firm size from $50 million to $100 million.

PRESIDENT'S HOME SALES TAX CUT

Provides a $500,000 exclusion for capital gains on home sales for couples, providing tax relief and greatly simplifying record-keeping and compliance. The exclusion for single filers would be $250,000.

30% EXCLUSION FOR CAPITAL GAINS

Taxpayers would be allowed to exclude 30% of their long-term capital gains from taxation. Long-term capital gains will be defined, as under current law, as assets held for more than one year. For example, a family in the 28% income tax bracket would face a capital gains tax rate of 19.6 percent.

ESTATE TAXES

A special exclusion is added for qualified family-owned businesses and farms. Currently, for married couples, only estates valued above $1.2 million pay any estate taxes. A special exclusion of $900,000 would be added to ensure that the first $2.1 a million of family-owned business or farm would not be subject to estate taxes. This is a proposal advanced by Senator Daschle.

OTHER PRESIDENTIAL INITIATIVES

- ***Puerto Rico Tax Credit*** - would be extended indefinitely and modified to provide an incentive for new investments and increase the economic-activity credit.
- ***FSC Software*** - would extend the foreign sales corporation benefit, exempting a portion of income for tax purposes, to include computer software licensed for reproduction abroad.
- ***Equitable Tolling*** - would extend time people are allowed to claim a tax refund to include time that they are medically determined to be mentally or physically impaired.

EXTENSIONS OF EXPIRING PROVISIONS

The R&E tax credit would be extended through the end of 1998. Contributions of appreciated stock to private foundations, the Work Opportunity Tax Credit (including new targeted group), and the orphan drug credit would be extended for one year.

TOBACCO TAXES

The proposal includes a 20 cent increase in tobacco taxes that would be separated into a trust fund and dedicated entirely to expanding health coverage for children, addressing other children's development issues, and improving the overall public health.

Alternative Tax Cut Proposals
A Comparison of Distributional Impact

Income by Quintile	***President Clinton***	***House***	***Senate***
Lowest	1.2%	0.6%	0.4%
Second	10.1	2.5	2.7
Third	22.2	9.6	10.2
Fourth	34.6	20.0	21.3
Highest	31.5	66.8	65.0
Top 10%	11.7	47.3	42.3
Top 5%	6.5	34.9	28.2
Top1%	2.6	18.8	12.5
Middle 60% (Second,third, fourth quintiles)	**66.9%**	**32.1%**	**34.2%**

Source: U.S. Department of Treasury

Tables assumes fully phased-in (2007) law and behavior, in 1998 dollars. It includes major tax cut provisions in each of the plans: HOPE Scholarship, tuition credit, Section 127, Student loan interest deduction, child tax credit, Kidsave accounts, capital gains provisions, home office deduction, distressed areas initiatives, Puerto Rico tax incentives, individual and corporate AMT changes, prepaid tuition programs, IRAs, DC tax incentives, safe harbor for independent contractors, modifications of treatment of company owned life insurance.

How the President's Tax Cut Proposals Benefit Typical American Families

Example #1

Consider a family of four who makes $40,000 a year. The father is a carpenter and makes $25,000 and the mother makes $15,000 working at a local department store. They have two kids, a son who is 14 and a freshman in high school and a daughter enrolled full-time in her first year at the local community college. Her tuition is $1,200 a year.

The President's tax cut proposal will benefit this family in at least two ways. They will receive a child tax credit of $500 for their son plus a HOPE Scholarship of $1,100 for their daughter. In total, they will receive a $1,600 tax cut in the President's proposal.

	Tax Cut under Clinton Proposal
Family of four with two children aged 14 and 18 and $40,000 income:	
Child Tax Credit for 14 year old	$500
HOPE Scholarship for 18 year old	$1,100
Total tax cut:	$1,600

Example #2

Consider a family of three making $55,000 a year. The father has a degree in accounting and works for a local business in the accounting department. The mother works part-time at the local library. They have one daughter aged 14. The father would like to return to school to prepare for his CPA examination. He is going to attend the local liberal arts college. He has signed up for two courses with total tuition of $4,000.

This family will receive a $500 tax child tax credit for their daughter and a $800 tuition tax credit to help pay for the father's course work.

	Tax Cut under Clinton Proposal
Family of three with one child aged 14 and $55,000 income:	
Child Tax Credit for 14 year old	$500
Tuition tax credit	$800
Total tax cut:	$1,300

Example #3:

A single mother lives with her six year old daughter in California. She's been working as a bank teller for several years and her pay is now $20,000 a year. When she tallies up her taxes, she owes $1,200 in federal income taxes. A $1,150 Earned Income Tax Credit offsets much of this income tax. However, she pays $1,530 a year in payroll taxes, not to mention the additional $1,530 the bank pays on her behalf.

Under the President's plan this single mom would receive a $500 child tax credit for her daughter. (Note: This woman and her daughter would receive no tax cut under either the House or Senate plans).

	Tax Cut under Clinton Proposal
Family of two with one child aged 6 and $20,000 income:	
Child Tax Credit for 6 year old	$500
Total tax cut:	$500

Example #4

A teacher with six years experience, earning $40,000 a year, would like to get her masters degree before she marries and has children. Her principal has agreed to adjust her schedule so that she can attend classes in the afternoon and evening. The tuition and fees charged for the program total $6,500.

She will receive a 20 percent tax credit on the first $5,000 of the tuition she pays.

	Tax Cut under Clinton Proposal
Single teacher making $40,000, attending graduate school:	
Tuition Tax Credit:	$1,000
Total Tax Cut:	$1,000

(Note: All examples are for tax year 1999)

IT IS WRONG TO DENY TAX RELIEF TO AMERICA'S WORKING FAMILIES

Compared to the President's proposal, four million working families will largely be denied a child tax credit under the congressional tax plans. The President strongly believes that families who work hard, play by the rules and make approximately $18,000 or $28,000, who pay taxes, and who are trying to do the best for their kids just like everybody else, deserve a tax cut too.

This is an issue that is susceptible to both eye-glazing technical jargon, talk of "stacking," and misleading rhetoric: "It's welfare." Setting aside the jargon and the rhetoric, this is an issue best weighed by looking at real people:

Example -- Family of Four with Two Children

Consider a family of four with two children living in a medium sized southern city. The father is a rookie police officer making $23,000, and the mother is taking a few years off from working. This family pays federal taxes well above the amount of EITC they receive:

Federal Tax Situation Before Any Child Tax Credit:

Income taxes owed before EITC	$675
Payroll Taxes (just employee share)	$1,760
Excise Taxes/1	$354
Federal out of pocket taxes owed before EITC	$2,789
Employer Share of Payroll taxes	$1,760
Federal Taxes before EITC	$4,549
Benefit from EITC	$1,668

	President Clinton's Proposal	House Bill	Senate Bill
Child Tax Credit for family of rookie police officer making $23,000	**$767**	**$0**	**$0**

Notes:
1: Estimate calculated from Congressional Budget Office Data. CBO estimates that in 1998, families with incomes between $20,000 and $30,000 would pay 1.54 percent of their income in federal excise taxes.

Change in Income Tax: Comparison of Current Law with The President's Proposal and the House and Senate Tax Bills

Couple with Income of $23,000 and Two Children
(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI) -- all earnings	23,000	23,000	23,000	23,000
Standard Deduction	7,300	7,300	7,300	7,300
Personal Exemptions	11,200	11,200	11,200	11,200
Taxable Income	4,500	4,500	4,500	4,500
Income Before Tax Credits	675	675	675	675
Employee Payroll Tax (7.65% of earnings)	1,760	1,760	1,760	1,760
Child Credits	0	767	0	0
Earned Income Credit (refundable)	1,668	1,668	1,668	1,668
Income Tax After Credits	-993	-1,760	-993	-993
Tax Savings Compared to Current Law		767	0	0

Department of the Treasury
Office of Tax Analysis

June 27, 1997

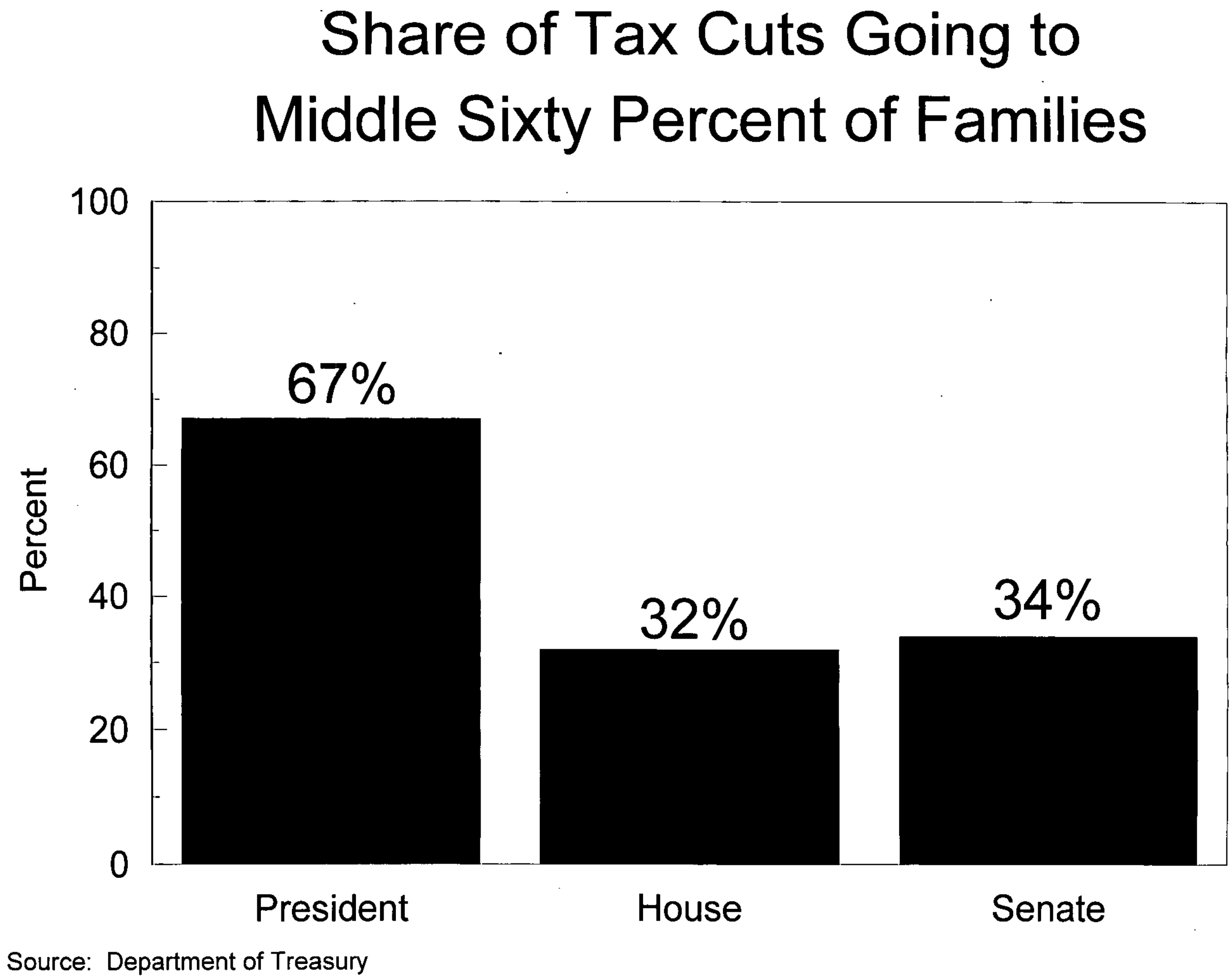
The President's Higher Education Tax Cuts: Greater Benefits for More Families

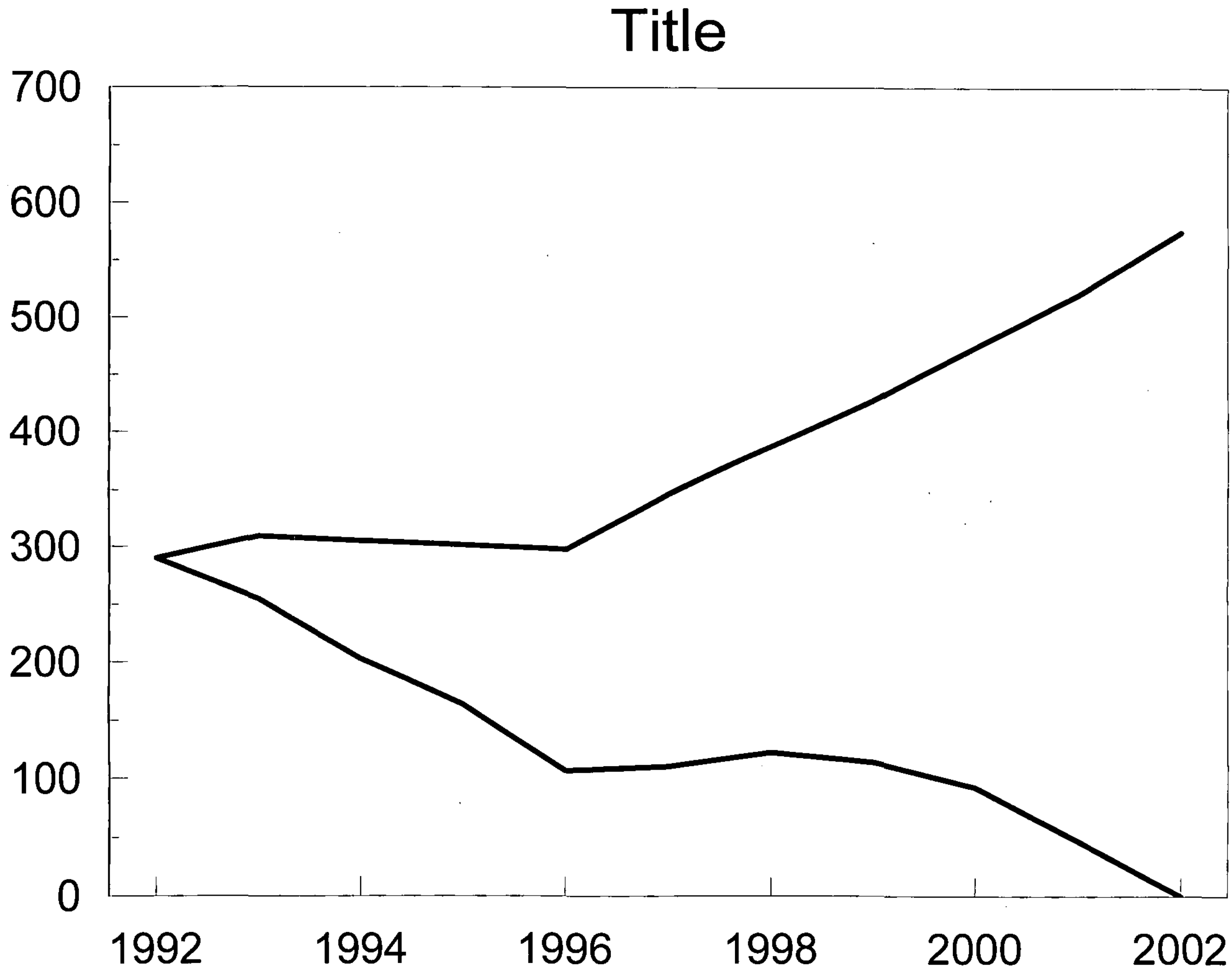
While providing the greatest help in the first two years, the President's plan has always gone *much* further, granting a substantial tax cut for *any* investment in postsecondary education or training. Unlike the Congressional plans, the Administration's higher education tax cut covers *all types and ages of students*, including:

- part-time students;
- students beyond their first two years of undergraduate study;
- graduate students;
- workers who are improving job skills rather than seeking a degree;
- those not fortunate enough to have been able to put a lot of money into savings.

For many situations that families find themselves in, the plans passed by the Senate and the House provide little or no help. Consider the following common situations:

	House Plan	**Senate Plan**	**President**
Family with $50,000 income, one child going to an average two-year community college full-time ($1,200 tuition and fees)	$600	$900	$1,100
Family with $30,000 income, one parent going to a public four-year college less than half-time ($2,000 tuition and fees)	$0	$0	$400
Family with $40,000 income, one child is **junior** at average private college ($12,000 tuition and fees)	$0	$0	$1,000
Homemaker, family income of $70,000, decides to go to graduate school at public university after being out of college for 20 years ($3,500 tuition and fees)	$0	$0	$700


Share of Tax Cuts Going to
Middle Sixty Percent of Families
100
80
60
40
20
0
Percent
67%
32%
34%
President
House
Senate
Source: Department of Treasury


Title
700
600
500
400
300
200
100
0
1992
1994
1996
1998
2000
2002

President Clinton Unveils Tax Cut Proposal

June 30, 1997

President Clinton's tax cut proposal provides needed tax relief to working families who play by the rules, pay taxes, and are trying to do the best for their kids. It includes a major investment in the President's top priority -- education -- by making the first two years of college universally available and doing something the other plans do not: helping those Americans who are working and want to improve their education and upgrade their skills. Lastly, President Clinton's proposal incorporates Republican priorities in a good faith effort to honor the budget accord and to reach final agreement for a tax cut the American people deserve.

THE PRESIDENT'S PROPOSAL IS FAIR. The bulk of the President's tax cut goes to middle-class families -- two-thirds of the President's tax cut goes to the middle sixty percent of families, twice the share the alternative congressional plans provide these middle class families.

THE PRESIDENT PLACES A HIGHER PRIORITY ON EDUCATION TAX CUTS. Education must be America's highest priority and the core of our tax cut plan must help families pay for education. To offer opportunity in the new and rapidly changing economy, we must make the 13th and 14th years of education -- the first two years of college -- as universal as a high school diploma is today. We must also do what we can to help people throughout their lives improve their education and upgrade their skills throughout their lives. The President's plan:

✓ **ADVANCES THE GOAL OF MAKING THE FIRST TWO YEARS OF COLLEGE UNIVERSAL.** The plan includes a modified two-year $1,500 HOPE Scholarship that does more to help community college students than the congressional alternatives. First and second year students would receive a $1,000 credit for the first $1,000 of tuition and fees plus 50% of as much as another $1,000 in tuition and fees. Therefore, a student going to a typical community college with tuition of $1,200 would receive a $1,100 credit under the President's proposal, compared to just $600 and $900 under the House and Senate plans respectively.

✓ **HELPS THIRD AND FOURTH YEAR STUDENTS AND PROMOTES LIFELONG LEARNING.** The congressional plans give virtually no support to families who are struggling to pay college costs out of pocket. Students beyond the second year would benefit only if they had substantial savings or when they paid interest on student loans. Students over 30 -- one-fourth of all undergraduate students -- could not even make use of the education savings accounts that Congress is proposing. At a time when older workers need to improve their education and upgrade their skills, it is critical that the education tax cuts promote lifelong learning. The President's proposal accomplishes this goal: It provides a 20 percent tuition credit on expenses up to $5,000 initially and $10,000 beginning in 2001.

✓ **INCORPORATES OTHER GOOD EDUCATION IDEAS INCLUDED IN VARIOUS PROPOSALS,** such as a permanent extension of the tax preference for employer-provided undergraduate and graduate education, tax incentives for school construction, a student loan interest deduction, and tax exclusion for community service and income-contingent loan forgiveness.

THE PRESIDENT BELIEVES THAT FAMILIES WHO WORK HARD, PAY TAXES, AND TRY TO DO THE BEST FOR THEIR KIDS DESERVE A TAX CUT. HIS PLAN CUTS THE TAXES OF THE 4 MILLION FAMILIES SHORTCHANGED BY CONGRESS. The President's proposal includes a $500 child tax credit for children under 17 through 2002 and under 19 thereafter. The President has a basic disagreement with some members of Congress. Consider *a family of four with two small children: the father is a rookie police officer making $23,000, and the mother is taking a few years off from teaching. They pay out of pocket over $1,000 a year in federal taxes*. The President believes that this family needs and deserves a tax cut just as much as family who makes twice as much. The Congressional plans would deny this family a tax cut. Under the President's plan, this family would receive a $767 child tax credit.

TAX INCENTIVES TO CLEAN-UP AND REVITALIZE DISTRESSED NEIGHBORHOODS BELONG IN THE FINAL TAX PACKAGE. In the balanced budget agreement, President Clinton and Congress agreed to make all efforts to include three programs critical to our urban areas in the final budget package: a Brownfields tax incentive; new Empowerment Zones and Enterprise Communities (EZ/EC); and expansion of the Community Development Financial Institutions (CDFI) fund. Unfortunately, neither the House tax bill nor the Senate tax bill includes the President's Brownfields and EZ/EC initiatives. *Today, the President includes these two vital provisions, plus a new tax credit to encourage investment in CDFIs and an enhanced welfare-to-work tax credit, in his tax cut proposal.*

THE PRESIDENT'S TAX CUT PROPOSAL DELIVERS BIG FOR CITIES

June 30, 1997

In the balanced budget agreement, President Clinton and Congress agreed to make all efforts to include three programs critical to our urban areas in the final budget package: a Brownfields tax incentive; new Empowerment Zones and Enterprise Communities (EZ/EC); and expansion of the Community Development Financial Institutions (CDFI) fund. Unfortunately, neither the House tax bill nor the Senate tax bill includes the President's Brownfields and EZ/EC initiatives. *Today, the President includes these two vital provisions, plus a new tax credit to encourage investment in CDFIs and an enhanced welfare-to-work tax credit, in his tax cut proposal.*

PRESIDENT CLINTON'S TAX PLAN HELPS TO CLEAN UP AND REDEVELOP BROWNFIELDS. The Brownfields tax incentive included in the President's tax cut proposal would reduce the cost of cleaning up thousands of contaminated, abandoned sites in economically distressed areas by permitting clean-up costs to be immediately deducted for tax purposes, rather than requiring this spending to be written off over time. This would, in turn, encourage redevelopment of these areas. *The Treasury Department estimates this $2 billion tax incentive will, over seven years, leverage more than $10 billion for private sector cleanups nationwide, allowing redevelopment of 30,000 brownfields.*

- <u>Chicago Mayor Richard Daley, writing on behalf of the U.S. Conference of Mayors, urged Ways and Means Chairman Archer to include the President's Brownfields proposal in the tax bill</u>: "This is a high priority for communities across this nation and we stand united in urging you and other members of the House Ways and Means Committee to modify the tax bill to include the $2 billion brownfields tax incentive."

THE PRESIDENT'S TAX PLAN CREATES NEW EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES. Under the President's 1993 Empowerment Zones and Enterprise Community initiative, communities develop a strategic plan to spur economic development, and they receive Federal tax benefits, social service grants and flexibility in use of Federal funds in order to put this plan in effect. The EZs and ECs are urban or rural areas with high poverty and unemployment rates.

- *Many communities that were not designated as EZs or ECs in that first round lack the seed capital to begin revitalization efforts. In response, the President proposes a second-round of EZs and ECs--15 urban and 5 rural EZs and 50 urban and 30 rural ECs.* The new EZs and ECs will benefit from a slightly different blend of tax credits than the first-round communities.

THE PRESIDENT'S TAX PLAN ALSO PROVIDES FOR A NEW COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS TAX CREDIT. The President's CDFI Fund is helping to build a national network of community development financial institutions -- including banks, thrifts, and credit unions -- by providing financial and technical assistance to these entities. CDFI dollars are being used to create jobs, rebuild neighborhoods and restore hope in communities from San Francisco to Boston, Louisville to Chicago. The Fund represents a promising model for Federal government action -- investing in local private sector institutions, leveraging private sector resources (to the tune of ten times the initial investment) and generating economic growth in distressed areas. *The President's tax cut proposal creates a new tax credit to encourage investment in CDFIs. This new credit is not included in either the House or Senate versions of the tax legislation.*

THE PRESIDENT'S PLAN INCLUDES A SPECIAL WELFARE-TO-WORK TAX CREDIT. This credit gives employers added incentive to hire welfare recipients. Although the congressional leadership pledged to seek a credit along these lines, the House bill includes only a scaled-back version, and the Senate bill omits it entirely.

Budget materials

6-16-97 Raines Reconciliation Mtg.

1. Immigrant –
Sen - protects disabled for temp time - maybe a yr ??
opposite OK for us? goes beyond deal (better)
deal plus is acceptable - we want to honor agr - if
you're willing to waive, we're happy?
slippery slope problem? Have to be mutual.

2. Medicaid investments - DC or PR provisions
↳ moving separately?
Slushy provision - may go into Senate mark
Agreement was $ - not policy.

3. Medicaid benefits for disabled kids
In House Commerce?
Not in Sen Finance.
May have an amendment

4. Phase-in of home health transfer

5. Food stamps
we negotiated
H - less than half slots (350,000)
S - 100,000 below ours
Privatization
#s in agr built around slots (though not stated)

6. Spectrum - We may get blamed for not having
sufficient policy to produce the $
Kasich cares a lot about this.

7. Welfare-to-work

Ck

complete st. discretion ??

Lots of discussion on minimum wage.

↓

say tomorrow we're working on options memo.

Substate

Budget materials

DRAFT, 7:45 pm
6/26

HOUSE

Items Contrary to the Bipartisan Budget Agreement

- **Immigrant Benefit Restorations** -- The House bill fails to cover legal immigrants who were in the U.S. when the welfare law was signed but who become disabled after that date and falls $0.7 billion short of the amount agreed to in the Budget Agreement.

- **Medicaid Investments** -- The House bill fails to include the Medicaid investments in the agreement (a higher Federal match for the D.C. Medicaid program and inflation adjustments for the Medicaid programs in Puerto Rico and the territories).

- **Assistance for Low-Income Medicare Beneficiaries** -- The House bill spends the $1.5 billion in the Agreement by subsidizing: (1) the entire Part B premium for beneficiaries with incomes between 120% and 135% of poverty and (2) only the increase in the premium due to the home health reallocation for beneficiaries with incomes between 135% and 175%. The Administration continues to object to spending any of this investment to offset only the portion of the premium due to the home health reallocation because it is too administratively complex for the value of the benefit provided.

- **Home Health Reallocation** -- The House bill includes both the Ways and Means and the Commerce versions of the home health transfer from Part A to Part B. The Ways and Means version phases in the transfer and takes two years away from the additional years of Part A Trust Fund solvency that would result from policies in the Agreement. The Commerce version is consistent with the Agreement.

- **Food Stamps** -- Although slightly modified, the House bill still creates only about 190,000 work slots, significantly less than the 350,000 in additional work slots for individuals facing the time limit in the Administration's proposal because it does not include any performance standards, as are included in the Administration and Senate proposals, and does not satisfactorily target the money to work slots for individuals facing the time limit.

- **Spectrum** -- The House-passed bill is estimated to generate $20.3 billion, $6.0 billion short of the Budget Agreement target. There are a variety of reasons for the revenue "shortfall": (1) does not provide a firm date for the termination of analog broadcasting (-$2.9 billion); (2) does not provide for spectrum "penalty fees" (-$2.0 billion); and (3) does not provide for auction of "vanity" toll-free numbers (-$0.7 billion). The bill also contains several objectionable provisions, the most notable of which is failure to reimburse Federal agencies, especially Defense, for the costs of migrating/relocating to new spectrum bands so that the bands that they are now using can be auctioned by the FCC. Failure to provide for reimbursement could lead to multi-billion dollar demands from those agencies for additional discretionary funding. Other objectionable provisions include: overly expansive definition of public safety auction exemptions, lack of adequate bankruptcy provisions, failure to reimburse FCC for its auction costs, and failure to provide FCC with economic options other than auctions, where appropriate.

note

- **Welfare to Work** -- The House bill includes both the Ways and Means proposal (which targets funds to urban areas through its 50/50 split between formula and competitive grants; its formula grant sub-State allocation factors and method of administration; and its reservation of 65 percent of competitive grants for cities) and the Education and Workforce proposal (which reduces the competitive funding share from 50 percent to 5 percent). The Administration continues to strongly prefer the Ways and Means proposal.

- **051/053** -- The House National Security Committee moves $2.6 billion in 1998 budget authority intended to fund environmental privatization projects and to forward fund specific Department of Energy programs (subfunction 053) to Department of Defense military programs (subfunction 051) in HR 1119, the National Defense Authorization Act. The House Appropriations Committee shifts $1.8 billion in BA to the Defense Subcommittee and $.8 billion to the Military Construction Subcommittee. The Budget Agreement assumed that subfunction 053 would be funded at the President's request level, and that the additional spending in the agreement would go to Defense military activities.

- **Land Acquisition** -- The House Appropriations Committee has approved their FY 1998 Interior appropriations bill without any of the $700 million for priority land acquisition.

- **International Affairs Funding** -- The House 602 (b) allocation reduces international affairs funding by $0.5 billion below the level in the Agreement, and the Appropriations Subcommittee-reported bill is approximately $1 billion below the Agreement.

HOUSE

Other Major Objectionable Items

- **Welfare-to-Work Worker Protections and Grievance Procedures** -- The House bill provides that welfare recipients in work experience and community service be paid the minimum wage, but does not include language that would provide enforcement or remedies for violations. The bill contains some protections against discrimination (gender, age, race, and disability) and threats to health and safety, but does not include provisions to ensure that recipients have neutral third-party grievance procedures for appeal or remedies. new

- **Welfare-to-Work Worker Displacement** -- The House bill retains most of the current TANF non-displacement provisions, and applies these provisions to all of TANF. This is an improvement over the Ways and Means proposal, but the Administration prefers the broader worker displacement language in H.R. 1385, the House-passed bill on job training reform. The Administration would like to discuss specific further protections with the Congress. ?

- **Welfare-to-Work Performance Fund** -- The House bill does not include a performance fund, which the Administration supports so that welfare to work funds generate greater levels of placement in unsubsidized jobs than States will achieve with TANF and other funds.

- **DSH Targeting** -- The DSH savings proposal in the House bill does not target the remaining DSH funds to hospitals with the greatest need. Significant savings from DSH payments should be linked to an appropriate targeting mechanism. It is for this reason that we support proposals that assure the targeting of some DSH funds to hospitals that serve a high proportion of low-income and uninsured patients. new

- **MEWAs** -- The House bill adopts a proposal that would allow business members of multiple employer welfare associations (MEWAs) to form "association health plans," as provided for in H.R. 1515, the Expansion of Portability and Health Insurance Coverage Act of 1997. The Administration opposed a version of these provisions last year. The bill as drafted has inadequate consumer protections and has the potential to result in premium increases for small businesses and employees who may bear the burden of adverse selection.

- **Privatization** -- The House bill allows all States to privatize Medicaid and Food Stamps eligibility and enrollment determination functions. The Administration strongly opposes privatization of welfare eligibility determination and related functions.

- **Children's Health (direct services)** -- The House bill spends a portion of the children's health investment funds on direct services. The Administration is concerned that a State could spend all of its money on one benefit or to offset the effects of the DSH cuts on certain hospitals, and children would not necessarily get meaningful coverage. The Administration is also concerned that direct services may not be the most cost-effective way to expand coverage to children, as stated in the Budget Agreement. We believe the final bill should reflect the Senate provisions in this area.

- **Children's Health (abortion)** -- The House bill permanently extends the "Hyde amendment" to the $16 billion children's health investment. The Administration has opposed limiting medically necessary services including abortion services, and wants to work with Congress to address this issue.

- **Medicare Medical Savings Accounts** -- The House bill includes an MSA demonstration that is too large, too expensive, and exposes beneficiaries to any additional charges providers choose to levy without limitation. The Administration strongly believes that the current law limits on balance billing should be applied to this demonstration and that it should be limited geographically for a trial period.

- **Medical Malpractice** -- The House bill adopts the same medical malpractice provisions that the Administration opposed in the vetoed Balanced Budget bill and the House version of the Health Insurance Portability and Accountability Act (HIPAA).

- **Student Loans** -- The House bill adopts an objectionable provision regarding administrative cost allowances (ACAs) to guaranty agencies in the Federal Family Education Loan Program (FFELP). The provision would mandate ACAs to be paid at a rate of 0.85% of new loan volume from mandatory funding authorized under Section 458 of the Higher Education Act of 1965 (HEA), up to a cap of $170 million in FY 1998 and 1999 and $150 million in FY 2000-2002. This provision represents a new entitlement to these agencies not included in the Budget Agreement.

- **Repeal of Maintenance of Effort (MOE) Requirement on State Supplementation of SSI Benefits** -- The House bill repeals the MOE, which would let States significantly cut, or even eliminate, benefits to nearly 2.8 million poor elderly, disabled, and blind persons. The proposal also could put at risk low-income elderly and disabled individuals who could lose SSI entirely and thereby lose Medicaid coverage as well. The Administration opposed this proposal during last year's welfare reform debate.

SENATE

Items Contrary to the Bipartisan Budget Agreement

- **Medicaid Investments** -- The Finance bill includes the Medicaid investments (a higher Federal matching payment for the Medicaid program in the District of Columbia and inflation adjustments for the Medicaid programs in Puerto Rico and the territories), but at spending levels below those in the Budget Agreement. In the case of the District of Columbia, the investment is for only three years.

- **Assistance for Low-Income Medicare Beneficiaries** -- The Senate bill spends the full \$1.5 billion in the agreement, but does so through a block grant. The Administration prefers an approach similar to that in the House bill (i.e., through Medicaid), although without the administrative complexities of subsidizing only a portion of the Part B premium. In addition, the Administration objects to the provision in the Senate bill that sunsets this assistance in 2002. note

- **Medicaid Benefits for Disabled Children** -- The Senate bill fails to include the proposal in the Budget Agreement to restore Medicaid for approximately 30,000 disabled children in FY 1998 who will lose SSI benefits under the new definition of childhood disability.

- **Home Health Reallocation** -- The Senate bill phases in the home health transfer from Part A to Part B, which takes two years away from the additional years of Part A Trust Fund solvency that would result from policies in the Agreement. (The Commerce Committee provision is consistent with the agreement.)

- **Spectrum** -- The Senate-passed bill is estimated to generate \$20.1 billion, \$6.2 billion short of the Budget Agreement target. Like the House (see above), the Senate bill does not contain three provisions that are estimated to yield almost \$6.0 billion in revenues. Otherwise, the Senate bill is significantly better than the House version, even though it contains some objectionable provisions. note

- **Welfare to Work Grants to Cities** -- The House Ways and Means proposal -- which was included in the House-passed bill -- fulfills the terms of the Agreement by targeting funds to urban areas with a 50/50 split between formula and competitive grants; its formula grant sub-State allocation factors and method of administration; and its reservation of 65 percent of competitive grants for cities. The Senate bill reduces the competitive funding share from 50 percent to 25 percent. In addition, the Senate bill provides for local administration of funds only through the TANF agency, rather than mayors and other chief local elected officials working with private industry councils (PICs) and in the bill, HHS rather than DOL acts as the federal Administrating agency. The Administration strongly prefers the Ways and Means proposal.

- **Unemployment Insurance Integrity** -- The Senate bill does not include the provision of the budget agreement that achieves $763 million in mandatory savings over 5 years through an increase in discretionary spending for unemployment insurance "program integrity" activities of $89 million in 1998 and $467 million over five years. The House bill includes this provision.

- **State SSI Administrative Fees** -- The Senate bill does not include a provision in the Budget Agreement to increase the administrative fees that the Federal Government charges States for administering their State supplemental SSI payments and to make the increase available, subject to appropriations, for SSA administrative expenses. Under this proposal, approximately $380 million would be collected over five years, to be spent upon receipt.

- **051/053** -- The Senate National Security Committee in S. 936, the National Defense Authorization Act for FY 1998, moves $2.6 billion in 1998 budget authority intended to fund environmental privatization projects and to forward fund specific Department of Energy programs (subfunction 053) to Department of Defense military programs (subfunction 051).

SENATE

Other Major Objectionable Items

- **Privatization** -- The Senate bill allows the State of Texas to privatize functions for all federal and state health and human services benefit programs -- including Medicaid, Food Stamps, and WIC. The Administration opposes privatization of the certification of eligibility for benefits and related operations (such as obtaining and verifying information about income and other eligibility factors).

- **Medicare Medical Savings Accounts** -- Although an improvement over the House version, the Senate bill includes an MSA demonstration that exposes beneficiaries to any additional charges providers choose to levy. The Administration strongly believes that the current law limits on balance billing should be applied to this demonstration and that it should be limited geographically for a trial period.

- **Balance Billing Protections** -- The Senate bill still includes an objectionable provision that would allow private fee-for-service plans to participate in Medicare Choice without any balance billing protections. The Administration opposed this provision in the vetoed Balanced Budget bill.

- **Student Loans** -- The Senate bill includes an objectionable provision regarding administrative cost allowances (ACAs) to guaranty agencies in the Federal Family Education Loan Program (FFELP). The provision would mandate ACAs to be paid at a rate of 0.85% of new loan volume from mandatory funding authorized under Section 458 of the Higher Education Act of 1965 (HEA), up to a cap of $170 million in FY 1998 and 1999 and $150 million in FY 2000-2002. This provision represents a new entitlement to these agencies not included in the Budget Agreement.

- **Medicaid and Children's Health (abortion).** The Senate bill extends the "Hyde amendment" to managed care organizations under Medicaid and to the children's health investment. The Administration has opposed limiting medically necessary services including abortion services, and wants to work with the Congress to address this issue.

note 2 abortion provisions

- **Medicaid Cost Sharing** -- The Senate bill allows States to require limited cost sharing for certain Medicaid beneficiaries. The Administration is concerned that this proposal may compromise beneficiary access to quality care. The Administration believes that the President's budget language to allow States to charge nominal copayments for HMO enrollees is much preferable.

- **Welfare-to-Work Worker Displacement** -- The Senate bill adopts worker displacement language from HR 1385, the House-passed bill on job training reform, but applies these provisions only to the $3 billion welfare-to-work program and not to TANF. The

Administration prefers to apply these protections to all those making the transition from welfare to work.

- **DSH Targeting** -- The DSH savings proposal in the Senate bill includes a provision to target the remaining DSH funds to hospitals with the greatest need, but that provision needs to be strengthened. The bill does not include a Federal DSH targeting standard. Without Federal standards, hospitals with high-volume Medicaid and low-income utilization may not be sufficiently protected from reductions in the DSH program.

new

The following provisions should be considered in the context of long-term reforms to Medicare:

- **Home Health Copayments** -- The Senate bill imposes a Part B home health copayment of $5 per visit, capped at an amount equal to the annual hospital deductible. These savings are not necessary to balance the budget.

- **Medicare Eligibility Age** -- The Senate bill raises the eligibility age for Medicare from 65 to 67. These savings are not necessary to balance the budget.

- **Means Testing the Medicare premium** -- The Senate bill includes a new income-related premium provision for Part B. These savings are not necessary to balance the budget and introduce significant administrative complexities.

June 26, 1997

Budget materials

~~Bruce~~
From today's
budget meeting.
E.

POTUS NOTES ON TAX MEMO
dated June 26, 1997

Pg 2.

All are basically acceptable--The clearer it is the better--people should be able to understand and access it

Pg 3.

Good opening but not credible to sustain--what happens if gives nearly 30%exclusion
This would pay more than under GOP plan____ ____ let 39.5 up to 30 or 31, whatever 30 % is

Pg. 5

Q: If we wind up with Senate Finance Committee proposals with partial allocations for children's health is that over and above the 16 billion already in our budget?

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 26, 1997

OF THE TREASURY

MEMORANDUM FOR THE PRESIDENT

FROM: Robert Rubin RER
Gene Sperling

SUBJECT: An Offer on Your Tax Package

Your budget team met in Erskine's office today to finalize our recommendations [illegible] package to be offered on Monday. The following memo summarizes issues and highlights choices that need to be made concerning the package. The side-by-side following the options memo compares the features and five-year costs of the competing Administration, House and Senate choices.

Post-Secondary Education

- Option 1 provides a two-year HOPE scholarship of $1,000 and 50 percent of additional expenses up to $1000 starting in 1998. It provides a 20 percent credit on allowable out-of-pocket education expenses of $5,000 through 2000 and $10,000 thereafter. The package is more generous than the House and Senate packages.
  - This costs roughly $34.5 billion through 2002 and $90.6 through 2007 under Treasury's scoring. We expect JCT scoring to be at least $5 billion higher in the first five years.

- Option 2 would give a four year HOPE scholarship of $1,000 for students attending at least half time in a degree or certificate program, and 20 percent of additional expenses up to $1000 starting in 1998. Students not eligible for the HOPE scholarship could get a credit for 20 percent of additional expenses up to $1000 starting in 1998. This package will cost in the neighborhood of $35 billion under Treasury's scoring.

- Option 3 mirrors the proposals offered by the House and Senate Democrats. It gives a HOPE Scholarship of $1000 and 50 percent of additional expenses up to $200 through 1999, $400 in 2000 and $1,000 thereafter. Students must be attending at least half time in the first two years of a degree or certificate program. If a student is not eligible for the HOPE scholarship, we would give a 20 percent tuition credit on expenses up to $4,000 through 1999, $7,500 in 2000 and $10,000 thereafter.
  - This option costs $32.3 ($37.4) billion through 2002 and $88.6 ($87.?) [illegible]

2007 under Treasury (JCT) scoring.

Your advisers are in general agreement that Option 1 makes the most sense at this time. It stays close to the original proposal in your Budget and allows you to stress how the proposal best advances your goal of making the 13th and 14th grades universal, plus it has a strong lifelong learning component. Furthermore, by including the notion of 50 percent of the second $1,000, it addresses the tuition inflation argument and shows us being responsive to suggestions by Daschle and Senate Democrats.

Many of your advisers believe that in the end, we may wish to fall back to a single, simpler four-year option -- such as Option 2. Most of your advisers would rather lead with Option 1 and use a version of Option 2 (perhaps with a more generous lifelong learning provision) as a fall-back. Frank Raines, however, would favor moving to this option sooner rather than later as a means of showing our immediate willingness to offer a compromise suggestion on our tax priority.

√ prefer Option 1 ____ prefer Option 2 ____ prefer Option 3

General Capital Gains Relief

- **Option 1** would provide a 30 percent exclusion. This holds the top rate at 28 percent, but gives a rate cut to all taxpayers in the 36 percent bracket and lower. Taxpayers in the 28 percent and 15 percent brackets get as much relief as they do under the 20/10 separate rate schedule. The proposal would include the President's home sale provision.
  - Costs $8.2 billion through 2002 and $17.5 billion through 2007 (Treasury scoring). We expect the JCT to score this as costing several billion less through 2002.
- **Option 2** would provide a separate rate schedule approach (using rates of 24/12), retain 28 percent rate for collectibles, depreciation recapture at 26 percent, AMT adjustment to tax gains at 24 percent, President's home sale provision.
  - Treasury estimates that this proposal would raise $3.6 billion through 2002 and $4.6 billion through 2007. We expect the JCT to score this as losing roughly $2 billion through 2002 and roughly $20 billion through 2007.
- **Option 3** is the proposal that came out of the Finance Committee, which had a separate rate schedule of 20/10, depreciation recapture at 24 percent and the President's home sales provision. An AMT feature will need to be addressed.
  - JCT estimates that the Senate Finance proposal would lose $3.3 billion through 2002 and $23.9 through 2007.

Your advisers recommend Option 1. This proposal provides a broad based capital gains tax cut to all but the people at the very top of the income scale. The Republicans will not like it because it does not provide relief to the roughly half percent of taxpayers who are in the 39.6 percent bracket, but it will put them in an awkward message situation, help with our distribution, and most importantly, give us room to move in exchange for coming our way on the higher education tax cut and the "stacking" on EITC.

Good opening but not credible to sustain – [illegible]

✓ prefer Option 1 ___ prefer Option 2 ___ prefer Option 3

good opening but not credible to sustain

Child Credit

The child credit is the piece that moves to fit the rest of the package.

- Option 1 would do the following. First, the child credit would be stacked before the EITC, ensuring that working families who pay income taxes receive the benefit of the child credit. Moreover, the child credit would be partially refundable to the extent the employee share of payroll taxes exceeds their EITC. Thus, the child credit will offset income taxes and payroll taxes, to the extent the latter exceeds the EITC. Second, we will cover children under 17, as is the case in the Congressional packages. Third, we would keep the optional Kidsave feature that allows parents to contribute up to the amount of the credit plus $500 to a nondeductible, backloaded IRA-type savings vehicle. Earnings would be distributed tax free for the child's education and possibly child related events, or for the parent's retirement. Fourth, the income phaseouts will be as in the FY98 budget ($60,000 to $75,000) through 2002 and higher thereafter. Fifth, the credit will be phased in (starting at $300 in 1998 and phasing up to $500) to fit the $85 billion budget agreement.

- Option 2 would drop refundability, stack the child credit before the EITC and include the optional Kidsave feature. The proposal should first phase-in at a level comparable to the Republican proposal (no credit in 1997, $400 in 1998 and $500 thereafter). It should then cover children under 17 (though we could cover 17 year olds) and then use whatever money is remaining to increase the income limits beyond the $60,000-$75,000 range in the FY98 Budget (we will increase the income limits after 2002).

- Option 3 incorporates a more generous Kidsave feature. It would give a child credit of $500 for families that do not contribute to a Kidsave account, and a $600 child credit to families that contribute at least $600 to the Kidsave account. This proposal would need to be somewhat less generous in some dimension than Option 2 in order to finance the saving subsidy.

Your advisers recommend Option 1. The major issue of the discussion was to what extent our proposal should be refundable. Focusing strictly on stacking would allow us a cleaner message because it would keep the debate on the young police officer you discussed at the press conference. On the other hand, going with refundability would allow us to stay close to our Democrats, plus leave room to move later.

All of us agree that we did not want to allow the Republicans to be able to frame the message as Democrats for welfare payments at the expense of Republicans for tax credits for teens in middle class families. We reached consensus around a proposal that would give the tax credit to teenagers, and have partial refundability -- but only to the degree that people paid payroll and income taxes beyond what they get in their EITC. In this way, we take away the Republican message on teenagers, keep some element of refundability, but keep our message that this is a tax cut only for people who owe federal payroll and income taxes. While this may not be as strong on refundability as some Democrats will like, it has partial refundability, keeps our message advantage, and can be described as taking characteristics from both the Rangel and Daschle packages. In order to afford all this, however, we have to phase in the $500 credit -- but that is consistent with your original child credit proposal.

✓ prefer Option 1 ___ prefer Option 2 ___ prefer Option 3

Airport and Airways Trust Fund

- Option 1 would follow the President's FY 1998 budget by extending the airline ticket tax through 2007 and wait for the National Civil Aviation Review Commission to propose a more long-term solution to meet the FAA's long-term needs with user fees.

- Option 2 would adopt changes from the Finance Committee mark, which raise an additional $2.9 billion through 2002 and $8 billion through 2007. While no airline supports increased fees, low-cost carriers prefer the Senate approach versus the "head tax" provisions proposed in the House.

Your advisers recommend that you choose Option 1, which sticks with what was in your budget and keeps you out of this fight.

✓ prefer Option 1 ___ prefer Option 2

Tobacco Taxes

- Option 1 would impose a 20 cents/pack increase in the tobacco excise tax as included in the Finance Committee package, but dedicate the revenue to a trust fund for children's and health expenditures. Under this option tobacco taxes would not displace other raisers needed to finance the tax cuts that are sought.

- Option 2 would impose a 20 cent/pack increase in the tobacco tax and use it to fund other measures.

o **Option 3** would not include a tobacco tax increase.

Your advisers recommend Option 1. We believe we should include a tobacco tax increase but insist that it go to help advance your goals for children. We will discuss with Bruce Reed and others the best tactical strategy for deciding how we should describe what such children's concerns these funds should go to.

✓ prefer Option 1 ___ prefer Option 2 ___ prefer Option 3

Q: If we wind up w/ Sen Fin Cte proposed 6 b's ~~[illegible]~~ per fine allocation to Ch. Health is that over and above the 16b. already in our budget?

Last page w/ marks.

Cynthia A. Rice 06/27/97 03:33:33 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: Gene's Plan for Tax Rollout -- Monday

Key points from Sperling's rollout meeting today:

1) Bruce -- Gene indicated that you and/or Mike Smith may need to make some education press calls on Monday, since Secretary Riley is in Ireland. I'll fax you the media plan.

2) Paul -- Emily Bromberg and crew will talk to mayors, and are planning to set up some media roundtables with them for Tuesday.

3) Current logistics involve the President making his statement Monday a.m. on departure to Boston. There's some debate about whether to leak or not and concern that Hong Kong will dominate the news on Monday.

4) Per Jen -- the plan does not make the dependent care tax credit refundable; however, unlike the GOP plans, families can get the DCTC and the child tax credit. No adoption provisions.

Message Sent To:

Bruce N. Reed/OPD/EOP
Elena Kagan/OPD/EOP
Michael Cohen/OPD/EOP
Paul J. Weinstein Jr./OPD/EOP
Jennifer L. Klein/OPD/EOP
Cathy R. Mays/OPD/EOP

TAX CUT ROLLOUT PLAN

This plan spells out our tax rollout strategy and the key tasks that must be completed on Sunday, Monday and Tuesday. The tax rollout serves to achieve the following two goals: (1) frame President Clinton's plan as a new offer ("Clinton Unveils Tax Cut Plan") and (2) as the Conference negotiations approach, shift the focus from the differences between the House plan and the Senate plan to the differences between the President's plan and the more regressive Congressional plans.

SATURDAY/SUNDAY

Complete and Be Prepared to Distribute Final Paper

- Talking points
- Fact sheet and summary table
- Detailed revenue table
- Distribution table (comparison)
- Examples of how the tax cuts impact real people
- Internal Q&A

Weekend Press

Sunday Show Strategy:
1. *Do we make news and in what context?*
2. *Brief Sunday show pundits*

MONDAY/TUESDAY

POTUS ANNOUNCEMENT -- TBD for Monday morning

BUDGET TEAM

➪ ***Press Briefing***

- Budget/Economic team briefs press corps Monday on tax plan details

- Press office recommends waiting until noon so that White House press corps can hear live feed from filing center in Boston

➪ ***Regional Press Strategy***

- Media Affairs targets radio and television in top markets and assigns budget team, Cabinet members, and senior White House staff to cover

- Regional newspapers

  -- Separate conference calls with regional editorial writers by Rubin, Summers, or Raines (Tuesday)
  -- Roundtable with bureau chiefs/political editors of major regional papers on Tuesday (Sperling)
  -- Editorial board mailing to top 100 regional newspapers with charts and fact sheets (to go out Monday)

- Specialty Press

➪ ***National Press Strategy/Calls***

Sec. Rubin
- Network pundits: Tim Russert, Cokie Roberts, Bob Schieffer

Frank Raines
- Network correspondents: David Bloom, Rita Braver, and John Donvan.
- Editorial boards: LA Times and USA Today

John Hilley
- Hill correspondents: Lisa Myers, John Cochran
- Congressional budget reporters: Eric Pianin (Post); Christopher Georges (WSJ), David Rogers (WSJ), Adam Clymer (NY Times)

Gene Sperling
- Wires: Terry Hunt or Alan Fram of Associated Press

- Budget reporters: Dick Stevenson (NY Times), Clay Chandler (Post), Jackie Calmes (WSJ), Bill Nichols or Bill Welch (USA Today), and Art Pine or Jonathan Peterson (LA Times)
- Editorial boards: Weinstein (NY Times) and Peter Milius (Washington Post)

Rahm Emanuel
- Wires/CNN: John King and/or Wolf Blitzer at CNN
- White House political reporters: John Harris (Post), Alison Mitchell (NY Times), Elizabeth Shogren (LA Times), and Hilary Stout (WSJ)
- Columnists: E.J. Dionne (Post.)

Larry Summers
- Wires: Larry McQuillen or Arshad Mohammad of Reuters
- Magazines and columnists: Michael Duffy (Time), Jim Fallows (US News), Evan Thomas (Newsweek), and Owen Ullman (Business Week) **-- could call later in the week; Gerry Seib** (Wall Street Journal)

Janet Yellen
- Magazines and columnists: Peter Passell (Times), Jonathan Alter (Newsweek) and John Judis (New Republic)

Jack Lew
- Magazines and columnists: Matt Miller (US News) and Susan Denzter (Business Week.)

➪ ***Validation Strategy***

- Sperling calls Bob Greenstein, Al From
- Summers calls Robert McIntyre (Citizens for Tax Justice)
- Riley calls higher education leaders, including Ikenberry, Munitz, David Pierce, David Warren, and others
- Riley calls regional college presidents

CABINET ROLLOUT (Marshall; Higgins; Silverman; McHugh)

- Cabinet Affairs faxes talking points and tax plan packet to all Cabinet members and subcabinet on Monday morning
- Cabinet Affairs sets up conference call with agency communications directors and Chiefs of Staff
  - -- Lew, Baer, Marshall conduct tax package briefing on conference call
  - -- Silverman and McHugh assign list of key regional media markets

- Carol Browner and Andrew Cuomo conduct media/events around Brownfields, other urban/enviro issues with mayors

GOVERNORS AND MAYORS (Ibarra)

- Ibarra and Intergovernmental team make key first calls to mayors and governors
- Organize separate conference calls for key governors, mayors, and county officials (Sperling and Lew will brief them on tax package)
- Hook mayors into events conducted by Carol Browner and Andrew Cuomo on Brownfields, other urban/enviro issues
- Provide specific one-pager to mayors and governors on tax package (e.g., Brownfields, CDFI)

CONSTITUENCIES: Labor, Minority and Ethnic (Echaveste)

- Call Major Labor Leaders -- Podesta, Echaveste, and others coordinate calls regarding overall tax package; paper faxed to appropriate labor leaders

- Other Calls

  -- Echaveste develops list of additional calls for senior White House staff to make

EDUCATION TEAM (Smith; Longanecker; Shireman)

- Call Education Leaders on higher education tax cuts

  -- Gov. Miller
  -- Barry Munitz (Smith/Longanecker)
  -- Stan Ikenberry (Smith/Longanecker)
  -- Ed Elmendorf (Shireman)
  -- David Pierce (Shireman)
  -- Cornelius Pings (Smith/Longanecker)
  -- David Warren (Smith/Longanecker)
  -- Student groups (Shireman)

- Call Key Education Reporters

  -- Robert Greene, AP (Smith, Longanecker)
  -- Applebome, NY Times (Smith, Shireman)
  -- Richard Whitmire, Gannett (Smith, Longanecker)
  -- Paul Nyhan, Bloomberg (Smith, Longanecker)
  -- Doug Lederman, Chronicle of Higher Education (Shireman)
  -- Rebecca Weiner, Education Daily (Shireman)

Budget materials

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

June 23, 1997

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

As the Senate begins consideration of S. 947, the spending-related portion of this year's budget reconciliation legislation, I am writing to transmit the Administration's views. We will transmit separately the Administration's views on the tax reconciliation bill.

While many provisions of the bill are consistent with the Bipartisan Budget Agreement, in some key areas others are not. We understand there are ongoing efforts to resolve as many issues as possible through a bipartisan Leadership amendment. Such an amendment would advance the bipartisan process which began last month with the Budget Agreement. The Administration intends to continue working closely with the Leadership on remedial amendments.

Key areas where the bill is inconsistent with the Budget Agreement include the failure to: "restore SSI [Supplemental Security Income] and Medicaid eligibility for all disabled legal immigrants who are or become disabled and who entered the U.S. prior to August 23, 1996"; assist low-income Medicare beneficiaries in paying premiums; provide Medicaid benefits for certain disabled children and the full 70 percent Federal match for Medicaid in the District of Columbia; properly implement the Medicare home health reallocation; provide for State SSI administrative fees; and achieve the agreed-upon levels of savings from spectrum auctions and related provisions.

In addition, we have significant concerns about a number of issues which the Budget Agreement did not specifically address: the lack of quality standards and protections against balance billing in private fee-for-service plans in Medicare Choice and in Medical Savings Accounts (MSAs); the added burden of new copayments for certain Medicare Part B and Medicaid beneficiaries; the higher eligibility age for Medicare recipients and the income-relating of the Medicare deductible; the failure to include all of the Administration's prudent purchasing reforms; the lack of a Federal Disproportionate Share Hospital (DSH) targeting standard; the failure to put the proper parties in charge of administering the welfare-to-work program; the proposal to privatize eligibility determinations in Texas; and the lack of adequate maintenance-of-effort requirements for Food Stamps.

The Bipartisan Budget Agreement is good for America, its people, and its future, and we are fully committed to working with Congress to see all of its provisions enacted into law by the August recess.

Items Contrary to the Bipartisan Budget Agreement

Continued SSI and Medicaid Benefits for Legal Immigrants -- While the Senate reported provision giving benefits to new applicants for a limited time is preferable to the House provision, it fails to provide sufficient assistance for the most vulnerable individuals. The Budget Agreement explicitly states: "Restore SSI and Medicaid eligibility for all disabled legal immigrants who are or become disabled and who enter the U.S. prior to August 23, 1996." As the President stated in a June 20, 1997 letter, he views this issue as of paramount importance. As the letter states: "To achieve our common goal of a signable bill that balances the budget, it is essential that the legislation that is presented to me include these provisions. I will be unable to sign legislation that does not." The reported bill fails to reflect the Agreement. As a result, in 2002 it would protect an estimated 55,000 fewer immigrants than the Budget Agreement calls for.

In addition, the President's strong preference is to cover both elderly and disabled immigrants. We will work with you to identify the necessary resources to do so.

Assistance for Low-Income Medicare Beneficiaries -- Recognizing that premiums represent a significant burden on low-income beneficiaries, the Budget Agreement allocated $1.5 billion to ease the impact on this population of increasing Medicare premiums related to the home health reallocation. The reported bill does not include this provision.

Medicaid Benefits for Certain Disabled Children -- The Budget Agreement clearly includes the proposal to restore Medicaid for current disabled children losing SSI because of the new, more strict definition of childhood eligibility. The reported bill failed to include this proposal. We strongly urge the Senate to include this provision and retain Medicaid benefits for about 30,000 children who could lose their health care coverage in FY 1998.

DC Medicaid -- We are pleased that the reported bill includes a higher matching payment for the Medicaid program in the District of Columbia, but we are concerned that the increase is not sufficient. The matching rate proposed in the reported bill sunsets at the end of FY 2000 and is 10 percentage points lower than the matching rate of 70 percent in the FY 1998 President's budget. A 60 percent matching rate would still leave the District paying more to the Medicaid program than any other local government.

Home Health Reallocation -- The home health reallocation in the Budget Agreement is not properly reflected in the reported bill. During the negotiations, we discussed at great length the shift of home health expenditures to Part B, and all sides clearly understood that it would be immediate. The Committee's phase-in would cost two years of solvency on the Part A trust fund -- two years that we can ill afford to lose. We urge the Senate to incorporate the same provision included in the House Commerce Committee reported title.

State SSI Administrative Fees -- The reported bill fails to reflect the provision of the Budget Agreement which calls for increasing the administrative fees that the Federal Government charges States for administering their supplemental SSI payments -- the proceeds of which would be available, subject to appropriations, for Social Security Administration (SSA) administrative expenses.

Spectrum -- While the Senate reported provisions are a substantial improvement over counterpart House legislation, we continue to have serious concerns. The reported language would not achieve the full $26.3 billion in savings and policies described in the Budget Agreement. In addition, the bill does not include two of the proposals included in the Budget Agreement -- auction of "vanity" toll free telephone numbers and the spectrum penalty fee. Additionally, the bill does not provide a firm date for terminating analog broadcasting, thus causing significant savings reductions.

We also have the following additional concerns with the reported spectrum language: the lack of authority for the Federal Communications Commission (FCC) to use economic mechanisms, other than auctions, where appropriate (i.e., user fees to create incentives for efficient spectrum management); a very expansive definition of public safety that would create loopholes permitting too many entities to be exempted from auctions; language that would protect spectrum for use by the National Aeronautics and Space Administration and the National Oceanic and Atmospheric Administration, which is contrary to the Administration's policy on managing spectrum across the government through a process managed by the National Telecommunications and Information Administration; and the lack of authority for the FCC to revoke and reauction licenses when an entity declares bankruptcy, which is essential to preserving licenses awarded in previous auctions.

Additional Concerns

Although the Budget Agreement did not specifically address the following items, the Administration has significant concerns about them. The Administration urges the Senate to address these concerns during Floor action.

Medicare

Private Fee for Service in Medicare Choice. While the Administration supports the introduction of new plan options for Medicare beneficiaries, we believe that any new options must be accompanied by appropriate beneficiary protections. We believe that inclusion of private fee-for-service plans in Medicare Choice without balance billing or quality assurance protections is bad policy. Beneficiaries should not be exposed to billing in excess of current law protections. Also, we are concerned that this option will attract primarily healthy and wealthy beneficiaries and leave sicker and poorer beneficiaries in the more expensive, traditional Medicare program.

Medical Savings Accounts. We believe that any demonstration of this concept should be limited in order to minimize potential damage and costs to the Medicare program. We commend the Finance Committee for limiting the demonstration to 100,000 participants, but still believe that a geographically limited demonstration would be much preferable. We are also pleased that the cost-sharing and deductibles for MSAs that have been reported are similar to the provisions that were enacted under the Health Insurance Portability and Accountability Act (HIPAA). We also strongly believe that the current law limits on balance billing should be applied to this demonstration to protect beneficiaries from being subjected to any additional charges providers choose to assess. We believe this demonstration should be limited geographically for a trial period which would enable us to design the demonstration to answer key policy questions.

Home Health Copayments. We note that the bill would impose a Part B home health copayment of $5 per visit, capped at an amount equal to the annual hospital deductible. Medicare beneficiaries who use home health services tend to be in poorer health than other Medicare beneficiaries. Two-thirds are women, and one-third live alone. Forty-three percent have incomes under $10,000 per year. We are concerned that a copayment could limit beneficiary access to the benefit. Imposing a home health copay is not necessary to balance the budget, and any further consideration of this policy should be part of a bipartisan process to address the long-term financing challenges facing Medicare.

Medicare Eligibility Age. Raising the eligibility age for Medicare is not necessary to balance the budget, and any further consideration of this policy should be part of a bipartisan process to address the long-term financing challenges facing Medicare. Moreover, this proposal does not contain provisions to address the fact that early retirees between the ages of 65-67 may not be able to obtain affordable insurance in the private market.

Prudent Purchasing. We applaud the bill's inclusion of our inherent reasonableness and competitive bidding proposals. However, we urge the Senate to take advantage of all the prudent purchasing proposals. The Medicare program is governed by a strict set of provider payment rules that have the effect of limiting the ability of the Federal government to secure the most competitive terms available to other payers in the marketplace. We have advanced a set of proposals to allow Medicare, the nation's largest health insurer, to also take advantage of lower rates providers offer to other payers.

Income-related Deductible. The reported bill includes a proposal to income-relate the Medicare Part B deductible. While the Administration is not opposed to income relating Medicare in principle, we have a number of concerns about this proposal. First, as the President mentioned yesterday, we believe this provision is outside the confines of the underlying budget agreement. Second, we are concerned that the proposal has design flaws. It would be extremely difficult to administer. Moreover, it may not achieve its intended purpose of reducing unnecessary utilization of services because the vast majority of beneficiaries have supplemental "Medigap" policies that pay for Part B deductible costs. While we do have serious concerns about this proposal, we remain interested in discussing it, or proposals like it, in the broader context of reforms to address the long-term financing and structural challenges facing the program.

Medicare Commission. The reported bill would establish a Medicare commission. Establishing a bipartisan process that is mutually agreeable is essential to successfully address the challenges facing Medicare. We look forward to working with you on the development of the best possible bipartisan process to address the long-term financing challenges facing Medicare while simultaneously ensuring the sound restructuring of the program to provide high-quality care for our nation's senior citizens.

Medicare Choice Payments. We would prefer to limit the growth in Medicare Choice payments to Fee-for-Service Medicare, rather than having two separate growth targets. To do so may lead to an erosion of the value of the Medicare choice benefit package and expose beneficiaries to increased premiums.

Medicaid

Disproportionate Share Hospital Savings. We have concerns about the details of the allocation of the disproportionate share hospital (DSH) payment reductions among States. The bill may have unintended distributional effects among States. We recommend that the Congress revisit the FY 1998 President's budget proposal, which achieves savings by taking an equal percentage reduction off of states' total DSH spending, up to an "upper limit." Although the reported bill includes a provision to require States to develop DSH targeting plans, we are concerned that the bill does not include a federal DSH targeting standard. Without federal standards, providers with high-volume Medicaid and low-income utilization may not be sufficiently protected from reductions in the DSH program.

Medicaid Cost Sharing. The bill would allow States to require limited cost sharing for optional benefits. We are concerned that this proposal may compromise beneficiary access to quality care. Low-income Medicaid beneficiaries may forgo needed services if they cannot afford the copayments. We urge the Senate to revisit the FY 1998 President's budget proposal, which would allow nominal copayments only for HMO enrollees. This proposal would grant States some flexibility and would allow HMOs to treat Medicaid enrollees in a manner similar to non-Medicaid enrollees, without compromising access to care.

Criminal Penalties for Asset Divestiture. The reported bill would amend Section 217 of the HIPAA of 1996 to provide sanctions against those who assist people in disposing of assets in order to qualify for Medicaid. We would prefer to repeal Section 217 because we believe that the Medicaid laws in effect before the enactment of the Health Insurance and Portability and Accountability Act are sufficient to protect the Medicaid program against inappropriate asset divestiture.

Return to Work. We are pleased that the reported bill includes a provision allowing States to permit workers with disabilities to buy into Medicaid. We recommend the President's Budget proposal which would not limit eligibility for this program to people whose earnings are below 250 percent of poverty. We believe that this limit in the reported bill would not allow States sufficient flexibility to remove disincentives to work for people with disabilities.

Medicaid Payments to Puerto Rico and the Territories. We are pleased that the reported bill includes adjustments for the Medicaid programs in Puerto Rico and the territories, but we would prefer the language included in the FY 1998 President's Budget.

Children's Health

We are encouraged that the Senate reported bill includes notable improvements over the provisions reported by the House Commerce Committee. Specifically, we commend the decision not to allow use of the $16 billion investment in areas other than insurance coverage. In addition, we are pleased to note the improved definition of benefits relative to the House Commerce Committee provisions.

While the Senate-reported bill represents a positive step forward, we are particularly concerned about the benefits definition and the lack of low income protections. It is our hope that the intent of this legislation was to ensure that children receive a benefit package that is at least commensurate with the standard Blue Cross/Blue Shield FEHBP benefit. However, the actual statutory language is much more limiting and would permit much less significant coverage. In addition, while the HHS Secretary would have discretion to define whether or not the benefit package meets the statutory requirement, she would not have the ability to ensure that low income children do not have to shoulder unrealistically high cost sharing that could lead to reduced access to needed health care. We also want to ensure that this investment is properly targeted to cover children who do not currently have health insurance. Finally, as the Administration has stated many times, we do not support limiting access to medically necessary benefits, including abortion services. We look forward to working with the Congress to resolve these important issues.

Welfare to Work

Local Program Administration -- The challenge of welfare reform -- moving welfare recipients into permanent, unsubsidized employment -- will be greatest in our Nation's large urban centers, especially those with the highest number of adults in poverty. Mayors and other local elected officials, working with private industry councils, have been entrusted by Congress with the responsibility for administration of other Federal job training funds. The Administration strongly believes that a substantial amount of all Welfare to Work funds should be managed by these entities, which have the experience to address most effectively the challenge of moving long-term welfare recipients into lasting unsubsidized employment that reduces or eliminates dependency.

The committee reported bill, however, would provide for local administration of formula grant funds only through the Temporary Assistance for Needy Families (TANF) agency. The bill's competitive grant structure would not ensure that an appropriate portion of funds outside rural areas will be administered by cities with high concentrations of adults in poverty. The Administration is concerned that the reported bill provides that the competitive grant portion would be only 25 percent of the total funds available, still further limiting resources for cities with the greatest need. The Administration urges the Senate to follow the approach taken by the House Ways & Means Committee which would increase the share of competitively awarded funds to 50 percent and set aside a substantial portion of these funds for cities with the highest poverty populations.

Performance Bonus. The Administration is pleased that the Finance Committee included a performance bonus concept. We are concerned, however, that the performance fund simply augments the existing TANF performance fund without establishing any new expectations on grantees for additional performance using these welfare-to-work funds, or rewards for placing the hardest-to-serve in lasting, unsubsidized jobs that promote self-sufficiency. In addition, the Administration agrees with the House that the way to administer welfare-to-work grant funds so as to have the greatest likelihood of success is through the Department of Labor, the mayors, and the private industry council system.

Federal Administering Agency. The reported bill would place the program under the authority of the Secretary of Health and Human Services. While consistency with Federal TANF strategies is essential, Welfare to Work program activities should be closely aligned with the workforce development system overseen by the Secretary of Labor. The Administration therefore believes that the Secretary of Labor should administer this program in consultation with the Secretaries of HHS and HUD (as in the House bill).

Non-displacement. We understand the Senate adopted non-displacement provisions during committee action. However, we strongly urge the Senate to adopt, at a minimum, the provisions included in the House Education and the Workforce Committee-reported bill, which apply both to activities under the new Welfare-to-Work grants and TANF.

Distribution of Funds by Year. It does not appear that the bill's allocation of $3 billion in budget authority over fiscal years 1998-2000 would, when combined with the program structure, result in an outlay pattern consistent with an estimate of zero outlays in FY 2002, as provided in the budget agreement. The Department of Labor is available to work with staff to craft provisions that satisfy this agreement.

We are pleased that the reported bill includes provisions that would address priorities, including: the provision of formula grant funds to States based on poverty, unemployment, and adult welfare recipients; a sub-state allocation of the formula grant to ensure targeting on areas of greatest need; appropriate flexibility for grantees to use the funds for a broad array of activities that offer promise of resulting in permanent placement in unsubsidized jobs; funds awarded on a competitive basis; a substantial set-aside for evaluation; and a performance fund to reward States that are successful in placing long-term welfare recipients. We look forward to working with the Congress during conference to refine these provisions.

Minimum Wage and Workfare

The reported bill appropriately refrains from modifying current law with respect to the application of the minimum wage and other worker protections for working welfare recipients under TANF. The Administration believes strongly that everyone who can work must work, and everyone who works should earn at least the minimum wage and receive the protections of existing employment laws -- whether or not they are coming off welfare.

Privatization of Health and Welfare Programs

The reported bill would allow the eligibility and enrollment determination functions of Federal and State health and human services benefits programs in the State of Texas -- including Medicaid, WIC, and Food Stamps -- to be privatized. The Administration believes that changes to current law would not be in the best interest of program beneficiaries and strongly opposes this provision. While certain program functions, such as computer systems, can currently be contracted out to private entities, the certification of eligibility for benefits and related operations (such as obtaining and verifying information about income and other eligibility factors) should remain public functions.

Food Stamps

While we support much of the Committee's approach to implementing the Agreement we are concerned that the proposal would create an estimated 100,000 fewer work opportunities over five years than proposed by the Administration's bill, which includes a specific target of 70,000 new slots each year. We are pleased that the Senate adopted a performance-based structure to reward States that provide employment and training (E&T) opportunities for individuals facing the 3-month food stamp time limit. This is highly preferable to the less accountable provisions in the House bill. The Senate's proposal should also be strengthened by conditioning receipt of the new 100 percent Federal E&T funds provided in the agreement upon a State maintaining 100 percent of their 1996 E&T spending. CBO estimates that the Senate's proposed 75 percent maintenance-of-effort requirement would result in States decreasing their E&T spending by $89 million over 5 years. We urge the Senate to adopt provisions similar to the House maintenance-of-effort provisions.

Student Loans

We are pleased that the reported bill includes $1.763 billion in outlay savings, including $1 billion in Federal reserves recalled from guaranty agencies, $160 million from eliminating a fee paid to institutions in the Direct Loan program, and $603 million in reduced Federal student loan administrative costs. All these savings are being achieved without increasing costs or reducing benefits to students and their families.

However, the Administration opposes a new provision, unrelated to the Budget Agreement, requiring administrative cost allowances (ACAs) to guaranty agencies in the Federal Family Education Loan (FFEL) Program at a rate of .85% of new loan volume, to be paid from mandatory funding authorized under Section 458 of the Higher Education Act of 1965 (HEA) in FY 1998-2002. This provision would represent a new federal entitlement. It would also limit inappropriately the funds available to the Secretary to manage the FFEL Program effectively. Any allowance to these agencies should bear some relationship to the costs these agencies incur and not be based on an arbitrary formula. This is an issue for the upcoming HEA Reauthorization.

The Bipartisan Budget Agreement reflects compromise on many important and controversial issues, and challenges the leaders on both sides of the aisle to achieve consensus under difficult circumstances. It is critical that we do so on a bipartisan basis.

I look forward to working with you to implement this historic agreement.

Sincerely,

Franklin D. Raines
Director

IDENTICAL LETTER SENT TO HONORABLE THOMAS A. DASCHLE, HONORABLE PETE V. DOMENICI, HONORABLE FRANK LAUTENBERG

Addendum: Additional Comments

Housing

We are concerned that the bill's provisions regarding FHA multifamily housing restructuring would not transform this housing in the most effective and efficient fashion. By ruling out the possibility of providing portable tenant-based assistance, the bill would limit the ability of tenants to seek out the best available housing and prevent projects from developing a more diverse mix of income levels. By establishing a preference for delegating restructuring tasks to housing finance agencies, the bill places an unnecessary constraint on HUD's ability to design the most effective partnerships. Finally, by failing to address tax issues explicitly, the bill does not resolve impediments that could discourage owners from participating in a restructuring process.

The administration is also concerned about Section 2203 of the Senate reconciliation bill which repeals federal preferences for the Section 8 tenant-based and project-based programs. The Administration has supported these repeals only if they are combined with income targeting that would replace the federal preferences. That targeting would ensure: 1) that the tenant-based program continues to serve predominantly extremely low income families with incomes below 30 percent of the area median income and 2) that all developments in the project-based program are accessible to a reasonable number of extremely low income families.

Unemployment Insurance Integrity

The reported bill fails to support the provision of the Budget Agreement that achieves $763 million in mandatory savings over five years through an increase in discretionary spending for Unemployment Insurance program integrity activities of $89 million in 1998 and $467 million over five years. We urge the Senate to include in the bill provisions to authorize and guarantee the discretionary activities and the resulting savings. The Admininstration separately transmitted draft legislative language on June 6th to implement this provision of the Budget Agreement.

Vocational Education and TANF

The Administration is concerned with the reported bill's provision on vocational education in TANF. The agreement did not address making changes in the TANF work requirements regarding vocational education and educational services for teen parents.

Smith-Hughes

The reported bill does not include a provision that would repeal the Smith-Hughes Act of 1917, although the bill finds the agreed-upon $29 million savings from other sources. In light of the $1.2 billion annual appropriations under the Carl D. Perkins Vocational and Applied Technology Education Act, there is no justification for mandatory spending of $7 million per year under the Smith-Hughes Act. We urge the Senate to adopt the provision included in the House Education and Workforce Committee reported title, which is consistent with the Budget Agreement.

Refugee and Asylee Eligibility

The Agreement would extend the exemption period from five to seven years for refugees, asylees, and those who are not deported because they would likely face persecution back home. The Administration supports the reported language, which implements this policy and also extends the exemption to Cuban and Haitian entrants.

Other Immigrant Provisions

We urge the adoption of a provision that would provide the same exemption period for Amerasian immigrants as provided to refugees. Amerasian immigrants share many of the problems and barriers confronted by refugees and have the same level of need as refugees. The Administration is pleased that the Committee bill exempts permanent resident aliens who are members of an Indian tribe from SSI program restrictions. We urge the Senate to extend this exemption to include the five year ban on eligibility for those who enter the country after August 22, 1996. Neither of these provisions will change the spending estimates associated with the Committee bill.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

File: Budget materials

Copy for Bruce - From this morning's budget meeting. B.

June 23, 1997

MEMORANDUM FOR SECRETARY ROBERT E. RUBIN
DEPUTY SECRETARY SUMMERS

FROM: **DON LUBICK** DL/JFS
ACTING ASSISTANT SECRETARY (TAX POLICY)

SUBJECT: First-Round Decision Memo for Friday Tax Offer

There are several issues that need to be resolved as we try to influence the tax bill that comes out of Conference. This memo summarizes the issues that arise in each portion of the tax package, and, where decisions are needed, highlights the choices that need to be made. We start with a summary table of our initial suggested choices, followed by a discussion of alternative options.

Initial Suggestions for Tax Offer, June 23, 1997 (** indicates that options follow the table)

Provision	Cost 97-2002	Cost 97-2007
Education** HOPE Scholarship: 100 percent of the first $1000 of tuition expenses and 50 percent of additional expenses up to $200 through 1999, $400 in 2000 and $1,000 thereafter. Tuition credit: 20 percent on expenses up to $4,000 through 1999, $7,500 in 2000 and $10,000 thereafter.	$32.3 (OTA) JCT is likely to exceed $35	$88.6 (OTA) JCT is likely to be higher
Permanent extension of Section 127	$3.5 (JCT)	$8.0 (JCT)
Allocable school construction credits	$2.5 (Rangle spent 1.7)	$9.0
Student loan interest deduction	$1.1 (JCT)	$3.3 (JCT)
Repeal of the $150 million tax-exempt bond cap	$0.3 (JCT)	$1.0 (JCT)
Subsidy for Internet access for K-12 schools.	$0.3 (?)	$0.8 (?)
Child Credit** Drop refundability, but insist that the child credit be stacked before the EITC. Child credit is not phased in, so it gives a $500 per child credit starting in 1997. The $500 is indexed starting in 1998. Covers children 17 and under. Optional Kidsave feature, allowing parents to contribute the child credit plus $500 ($1,000 annual contribution limit) to a nondeductible, backloaded IRA-type savings vehicle. Earnings would be distributed tax free for the child's education and possibly child related events, or for the parent's retirement.	$83.7 (preliminary OTA)	$164.4 (preliminary OTA)
Education and Household Saving Allow penalty-free withdrawals of existing IRAs to finance education expenses.	$0.8 (JCT)	$1.7 (JCT)
Kidsave accounts, with $1,000 contribution limit, described above. As in the Senate, education expenses financed by Kidsave withdrawals would reduce allowable expenses for the HOPE scholarship.	Included above	
Capital Gains** Separate rate schedule approach (using rates of 24/12), retain 28% rate for collectibles, depreciation recapture at 26%, AMT adjustment to tax gains at 24%, President's home sale provision.	+$3.6 (OTA) -$2 (guess at JCT)	+$4.6 (OTA) -$20 (guess at JCT)

Hilley - not enough room in this plan to negotiate / want 15b to give back

Expand targeted small business capital gains relief on qualified stock held 5 years.	\$0.4 (OTA)	\$1.7 (OTA)
Estate Tax Relief Give special exemption for \$900,000 of value in qualified farm and small business in addition to \$600,000 value of unified credit; increase estates eligible for liquidity relief in payment as proposed in the Administration's FY 98 budget	\$2.3 (OTA)	\$7.2 (OTA)
Home Office Deduction Allow deduction for home office expenses if substantial management and administration takes place at home, even if primary business activities are conducted outside the home as long as no other office is available for management and administration.	\$0.6 (OTA)	\$1.7 (OTA)
Distressed Areas and Welfare-to-Work Credit Expansion of EZs and ECs, Brownfields, CDFI and the welfare-to-work tax credit	\$2.3 (JCT)	\$4.4 (JCT)
Other tax incentives FSC software, D.C., and Puerto Rico incentives, and the equitable tolling provision.	\$1.3 (JCT)	\$9.4 (JCT)
Extensions of Expiring Provisions R&E tax credit, deduction for contributions of appreciated stock to private foundations, the work opportunity tax credit and the orphan drug tax credit.	\$2.8 (JCT)	\$2.9 (JCT)
Gross Tax Cut	\$136.2	\$324.4
Raiser Package** To be specified	\$50.0	\$110.5
Net Tax Cut Child credit can be phased in to meet target	\$86.2	\$213.9
Tobacco Tax** 20 Cents per pack excise tax increase	\$14.8 (JCT).	\$29.9 (JCT)

Brief Discussion of Options

Education

Option 1 (shown above): Give a HOPE Scholarship of 100 percent of the first $1000 of tuition expenses and 50 percent of additional expenses up to $200 through 1999, $400 in 2000 and $1,000 thereafter. Students must be attending at least half time in the first two years of a degree or certificate program. If a student is not eligible for the HOPE scholarship, give a 20 percent tuition credit on expenses up to $4,000 through 1999, $7,500 in 2000 and $10,000 thereafter.

Option 2: Give a somewhat less generous HOPE scholarship for 4 years (the HOPE credit described above costs $21.1 billion over 5 years). Students must be attending at least half time in the first two years of a degree or certificate program. We do not yet have Treasury scoring, but our initial, speculative guess is that you could give a HOPE Scholarship of 100 percent of the first $800 of tuition expenses and 50 percent of additional expenses up to $400 through 2000 and $1,000 thereafter with $35 billion. Students must be attending at least half time in a degree or certificate program.

- Option 2 has the advantage of being easier to understand since it is a single program. In contrast to Option 1, it would not support graduate education and "lifelong learning."

Child Credit

Option 1 (shown above): Drop refundability, but insist that the child credit be stacked before the EITC. Use the money not spent by refundability to allow the child credit for kids under 18. Adopt an optional Kidsave feature that allows parents to contribute up to the amount of the credit to a nondeductible, backloaded IRA-type savings vehicle. Earnings would be distributed tax free for the child's education and possibly child related events, or for the parent's retirement.

Option 2: Apply to child under 13 through 2002, child under 18 thereafter; refundable to families who have at least $2,000 of earned income, but do not have sufficient tax liability to use full credit; keep the optional Kidsave feature. Cost is $77.8 through 2002 and $193.5 through 2007.

- Option 2 is more progressive. Option 1 supports children up to 17 earlier than does option 2 and will attract less criticism from those not fond of redistributive policies.

Capital Gains

Option 1 (shown above): Adopt a separate rate schedule approach (using rates of 24/12), retain 28% rate for collectibles, depreciation recapture at 26%, AMT adjustment to tax gains at 24%, President's home sale provision.

Option 2: Adopt a 30 percent exclusion. This holds the top rate at 28 percent, but gives a rate cut to all taxpayers in the 36 percent bracket and lower. Cost (OTA estimate), $7.1 billion through 2002 and $15.6 billion through 2007.

- If the goal is to have a low cost capital gains proposal, the provision reported out of the Senate Finance committee is attractive. Option 2 is distributionally most appealing, is likely to have smaller out-year costs and provides as much capital gains relief to 28 and 15 percent bracket taxpayers as the Senate version. It surely will not satisfy those who want to cut capital gains taxes.

<u>Revenue Options: Airport and airway trust fund excise taxes</u>

A more detailed description of other revenue measures will be included in a subsequent memo.

Option 1: As in the Presidents's FY 1998 budget, extend through 2007 and wait for commission to propose a more long-term solution.

Option 2: Adopt changes from Finance Committee mark, which raise an additional $2.9 billion through 2002 and $8 billion through 2007.

<u>Tobacco Taxes</u>

All revenue from a tobacco tax should be placed in a trust fund dedicated to expenditures for children. Tobacco taxes should not displace other raisers needed to finance the tax cuts that are sought.

Option 1: Adopt 20 cents/pack increase as included in Finance package, but dedicate to trust fund for child health

Option 2: Adopt 20 cent/pack increase and use to fund other measures.

Option 3: Do not include tobacco tax increase.

Tax Cut Package - Decisions to be Made

Education Tax Cuts

Decision #1: Structure of HOPE Scholarship and tuition deduction

Options:

a) Original proposal with possible Rangel/Daschle modifications. work on (a)

- i) Substitute 20% credit for deduction
- ii) Anti-tuition inflation feature (100% first $1,000 then 50% of remaining up to $1,500 limit)

b) A melded 4 year HOPE

Decisions #2: Outside the $35 billion - yes/no

- Make Section 127 permanent — come out of our 35 - do we push for?
- School Construction
- Student Loan Interest Deduction

Child Tax Credit

Decision #1: Refundability

Options:

a) yes - maximize progressivity — funding lots who pay little taxes — 20-30 b. more.
b) no - focus on stacking, e.g. cop making $23,000
c) partial

24m fams who work, pay taxes
Sene wants (b)
Sen + H. dems will have refundability

Other Decisions: Prioritize other parameters

a) Amount of credit and speed of phase-in
b) Age limit: teenagers right away or phased in
c) Income limits

Capital Gains

Options:

1) A 30 percent exclusion - emphasize fairness Erskine / Hilley says: do This
2) Two rates: 12% and 24% - broad cut with room
3) Roth plan of two rates of 10% and 20% coupled with concession on HOPE or stacking or both. - can't do - gives us no leverage

but Treas says costs too much - need to work on this.

IRAs

Decisions (yes/no)

- Kidsave and Kidsave matching component
- Penalty free withdrawals for education

Tobacco Taxes

Decision #1: $20 billion Increase (Yes/No)

Hb Decision #2: Children's Trust Fund or Children's Health plus stacking and other

Hilley - need to see what happens on the floor

Comparing Tax Plans
(Percent of Benefits)

Family Class	Original President	Friday Package	Archer	Rangel	Roth Initial	Roth Reported	Daschle (30% excl.)
Bottom 20%	-1.3	5.9	0.5	4.9	0.4	-0.9	5.1
Next 20 %	10.2	16.3	2.4	16.1	2.3	1.5	16.3
Middle 20%	27.3	20.4	9.2	20.7	10.0	9.6	25.0
Fourth 20%	43.0	26.9	19.5	25.9	21.3	21.3	32.3
Highest 20%	20.8	29.9	67.9	31.8	65.5	68.2	20.8
Top 10%	-1.9	19.3	48.3	22.7	42.8	44.4	8.8
Top 5%	-6.7	14.9	35.8	19.1	28.7	29.8	4.8
Top 1%	-5.4	9.4	19.3	12.2	13.1	13.7	1.4