

Tax Savings  
Married Worker with Two Children

<u>Income</u>	<u>Present tax</u>	<u>Tax under Clark Proposal</u>	<u>Percentage Cut</u>
\$10,000	\$378	0	100
12,500	797	89	89
15,000	1247	314	75
20,000	2271	826	64
25,000	3504	1442	59
50,000	12818	6102	52
100,000	39638	19512	51

Unlike some tax "reform" programs which propose to shift the tax burden around, no one will pay higher taxes under the Clark proposal. This is real income tax reform—a tax cut for every American.

This proposal will also cut the capital gains tax in half, a major step toward capital formation and economic growth. When the capital gains tax was increased a few years ago, receipts from the tax actually declined. People made fewer investments in areas subject to capital gains taxation. When the rate was later cut, tax receipts increased, and the U.S. savings rate went up. The rate reduction had a very positive impact on personal savings and investment, producing greater capital formation and economic growth. We can expect the same positive results from further reductions.

2. To encourage capital formation more directly, Clark supports the Capital Cost Recovery Act, already introduced in Congress as H.R. 4646 and S.1435. This legislation would permit more rapid recovery of the capital cost of a depreciable asset. Specifically, buildings and structural components could be depreciated for tax purposes over a ten-year period, machinery and equipment over five years, and vehicles over three years. Econometric analyses predict a \$50 billion increase in business fixed investment, with similar increases in employment and wages, over just a five-year period. With a five-and ten-year phase-in, the government revenue reduction is estimated at \$4.2 billion in the first year.

3. Ed Clark proposes to eliminate the federal estate and gift taxes, one of the cruelest forms of taxation. The

inheritance tax brings in an insignificant amount of federal revenue (\$5.9 billion in 1981), but it has particularly pernicious effects. It is a form of double taxation, since the money taxed at death was also taxed when it was earned. It interferes with a very basic human desire, the wish to help one's children. And it has contributed to economic centralization in many industries because families often must sell a business they have inherited just to pay the taxes. This has contributed to the decline of the family farm, as many farm families have found themselves unable to pay taxes on the land they have inherited, and to centralization of the newspaper industry because heirs are often unable to pay the taxes on family-owned newspapers. This is a particularly cruel and unfair tax, and it should be repealed.

4. As part of a program of free international trade, Clark proposes to eliminate all customs duties. This program will cost the federal treasury only \$8.4 billion, but it will have tremendous positive effects. Consumers will be able to buy goods at the lowest possible prices, giving them some relief from rising prices and raising everyone's standard of living. Specialization and division of labor will be increased on a worldwide basis. American industry will be reinvigorated by new competition; American businesses and workers will be able to concentrate on producing those goods at which America is most efficient. Our relations with the Third World will improve as we take the one action that will help them most: open our doors to their products. Relations with our other trading partners will also improve, and our good faith may lead them to reduce their trade barriers. No other economic program could have a more positive effect on America and the world.

5. To increase domestic energy production and reduce consumer prices, Ed Clark will repeal the demagogic, mis-named "windfall profits" tax. Not a profits tax at all, it is actually an excise tax on domestic oil production and is more accurately referred to as the crude oil excise tax. Its passage could hardly be considered as part of an energy program; rather, it was a political scheme to get more revenue for the federal government while scoring some political points against the oil companies. A tax on any product usually results in reduced supply and higher prices. This is hardly a rational energy program. Consumers will benefit from the Clark administration's repeal of the crude oil excise tax.

6. To improve the quality of education available to all students, Clark proposes a tuition tax credit of up to \$1200 for anyone who pays the expenses of a student in a government or nongovernment school. The full explanation of this program is available in a separate white paper on education. The basic purpose of the tax credit is to give

middle- and lower-income students access to decent education. We have calculated that the revenue loss to the federal government in 1981 would be about \$9.2 billion. That calculation is based on the following figures. There were approximately 4.5 million students enrolled in non-government schools in 1979-80. Industry experts estimate that a significant tax credit program might increase that figure by up to 70 percent in the first year. That would mean about 7.65 million students. If each of them claimed the full \$1,200 credit, the total amount claimed would be \$9.2 billion. However, many church-related schools charge less than \$1,200 per year, so their students would not claim the full credit. Also, parents who have less than \$1,200 in federal income tax obligation—a substantial number under the Clark tax plan—might take only the credit that could be claimed on their own return and not seek additional assistance. So we believe \$9.2 billion would be a high figure for the first year.

The total impact of this program on the budget would be a reduction in federal revenues of \$179.9 billion in 1981. Individual elements of the program would produce the following revenue reductions.

<u>Proposal</u>	<u>Federal revenue reduction</u> <u>(in billions)</u>
1. 50 percent reduction in personal income tax rates combined with \$7500 zero bracket	137.
2. Capital Cost Recovery Act (10-5-3 depreciation with 10-5 phase-in)	4.2
3. Abolition of estate and gift taxes	5.9
4. Elimination of customs duties	8.4
5. Repeal of crude oil excise tax	16.0
6. Education tax credit	<u>9.2</u>
TOTAL	180.7

The major element of the program, of course, is the reduction in individual income tax rates. The budget impact, including feedback, of that proposal is taken from a National Taxpayers Union analysis done by Dr. Norman B. Ture, a