Collection: Deaver, Michael
Folder Title: Tax Bill
Box: 58

THE WHITE HOUSE

WASHINGTON

August 10, 1982

MEMORANDUM FOR WHITE HOUSE STAFF

FROM MIKE BAROODY MB
Director of Public Affairs

Attached are two documents which discuss the President's position on the all-important tax bill now pending in Congress. We thought it important that you have all the facts and a clear understanding of the President's strong support for this measure. The attached are 1) a letter approved by the President, outlining his position, and 2) talking points on the bill.

Hope you find them helpful.

August 9, 1982

Dear friend:

I'm writing to you because I know there is great concern in some quarters about the progress of our economic plan and I wanted personally to get the facts to you -- and to ask your help in maintaining the progress we have made so far.

In 1981, we charted a course to turn this economy around, away from policies of high taxes and spending and toward a future of higher growth in the economy and slower growth in government. We've gotten a lot done in 18 months -- reducing tax rates, federal spending growth and inflation. We've put a program for recovery in place that can continue these gains, create jobs and restore incentives and growth to the economy.

We've come a long way in a short time and now we face a critical decision: whether or not to implement a budget resolution that involves some tough choices. The resolution will reduce the deficit by $380 billion from fiscal '83-'85; it will lower interest rates and restore jobs. The fact that it also calls for increasing revenues by some $99 billion in the same three years is, I know, disturbing to many of my friends and supporters.

Let me explain. Interest rates have fallen some in recent weeks, but not nearly far enough. The prime rate fell a full 1.5 points -- to 15 percent -- in just the two weeks ending August 2nd. I'm confident it will drop more. But, if we want interest rates down to stay, the deficit will have to be cut by at least the magnitudes in the budget resolution. Without increasing revenues, there's little, if any, chance Congress will go along with the spending cuts the resolution requires.

If the budget resolution isn't implemented, future deficits will be far worse -- and chances for a sustained recovery could be shattered. Even with the cuts in spending growth already achieved, the federal government will be in the private markets to borrow $100 billion during the second half of this year. Add another $380 billion in deficits to finance by the end of fiscal '85 and "crowding out" won't be just a threat -- it will be an economic reality powerful enough to drive interest rates above the record 21.5 percent prime we saw at the end of the last Administration.

But it doesn't have to be that way. Our success in 1981 exceeded almost everyone's expectation but our own. A few of us knew that support from the American people could make the difference; that we could reverse past trends and start bringing tax rates down for the first time in 20 years and, with indexing, keep them down for the first time ever. We can do the same now with deficits and interest rates -- bringing them down to stay so employment can go back up for good.

And it can be done with no retreat on the fundamental supply-side incentive tax cuts we fought so hard to pass last year.

Congress has before it now a bill that raises some taxes to achieve the higher revenues called for in the budget resolution. I support it. You know me well enough to be sure my support is carefully considered. Let me share some of the factors that went into my decision.

First, and most important, keep in mind that over the next three years, the tax burden on Americans will be $334 billion less than it would have been if our '81 tax cuts had not been enacted -- and that figure applies after passage of the pending tax bill. As importantly, the 3rd year of the tax cut, indexing, and most of the accelerated cost recovery provisions to help business and create jobs are all protected in this bill. As you know, earlier this year the Democratic leadership tried to eliminate the 3rd year and repeal indexing but we fought them and we beat them. And I'd fight again to keep those gains from being undone.

This new tax bill is a different matter. First, it raises taxes less than it appears at first glance. Of the roughly $99 billion in added revenues in the bill, one-third -- $31 billion -- comes not from new taxes but from new efforts to collect taxes due under existing law. In fact, more than three-quarters of the increased revenues come from this stepped-up compliance and from closing tax loopholes.

Let's look at where the new revenues in the tax bill come from -- and where they don't come from. They don't come from raising individual marginal tax rates. For the average working man and woman, in fact, there is very little in this bill that increases the burden of taxes. This year, because of the '81 cuts, a typical family will pay almost $400 less in federal income taxes than it would have at 1980 rates. Next year, the same family will pay $788 less. New personal taxes in the bill have a small impact on most taxpayers -- the increased federal telephone tax, for example, will raise the typical family's phone bill 54 cents a month -- but it will contribute $1.6 billion a year to bringing down the deficit.

Fifty billion dollars, or half of the new revenues come from efforts to broaden the tax base. This means closing loopholes and eliminating abuses such as those associated with the tax leasing provision. I supported this provision and it has helped some firms that were starved for cash. But it also has been exploited by some profitable businesses in ways never intended. As for new taxes -- for businesses and individuals -they account for less than one-of-every-five dollars of revenue in the bill.

We didn't get all we wanted when the tax bill was passed in 1981. And we got some provisions we didn't originally ask for. These "add-ons," attached to the bill on the floor of Congress cut revenues by an extra $77 billion. The pending bill recovers most of that by raising $67 billion in new revenues (excluding stepped-up compliance) and correcting some of the abuses created by these and other tax code provisions.

I have no enthusiasm for raising taxes but lowering the deficit is an imperative. The budget resolution passed this year, if Congress sticks to its targets, will decrease the red-ink in the budget by almost $400 billion through 1985. The tax bill's new revenues are only one-quarter of that total. The remaining three-fourths -- $280 billion in deficit reductions -- is to come from lower outlays. We worked with Congress on this resolution and that was the price of my support -- $3 saved in outlays for every $1 in increased revenue.

I'm prepared to fight for those cuts in the coming months -- and the Congress knows it. In past months, I haven't had to use the veto very often, but I'm not shy about it. I proved that on three continuing resolutions (and the Congress didn't override a one). I'll veto any bill Congress sends me that doesn't further our goal of controlling spending.

In my first year as President, we set America on a new economic course. The year before I took office, federal spending grew more than 17 percent. The same budget resolution I've referred to cuts that growth two-thirds -- to under 5 percent for fiscal 1983. We've passed an individual tax rate cut of 25 percent -- with indexing to protect those cuts against inflation -- and nothing in this tax bill threatens those cuts or dilutes the increased incentives to work, save and invest.

We've also brought inflation down farther and faster than anyone thought possible back in January of 1981. From an average of about 13 percent in 1979 and 1980, inflation has been almost cut in half -- to about 7 percent over the last 12 months.

We set this new course because it was right. We were able to do so because scores of millions of Americans agreed it was right -- and we're going to stick to it.

It won't be easy to get $280 billion in additional outlay saving from Congress. We have to have them though, to bring down the deficit and get interest rates back to where they belong. To do it, we have to live by all the provisions of the budget resolution and that means living with the revenue increases it requires.

I can't guarantee the Congress will willingly implement all the spending cuts the resolution calls for. I can assure you that I will use every means available to me to try to make them live up to their obligations -- and to let the public know if they do not.

Together, we have begun to set things right -- to chart a new economic course for America. Together, we can ensure that America sticks to that course -- and that the new beginning we have made will be a lasting one.

I ask for your support in these very tough times. I need your help once more. Please, phone your Congressman and your Senators today and tell them to stick to the lower deficit target they set. Tell them to support the tax bill and the lower outlays contained in the budget resolution. Tell them you support the President and you want them to. The success of my program to reduce the deficit, create more jobs and bring interest rates down depends on your help as never before.

August 9, 1982

TALKING POINTS ON THE TAX BILL

General points

President Reagan supports the tax bill for three primary reasons:

1. it's needed to reduce the deficit, bring interest rates down and stimulate the creation of more jobs;
2. it protects the fundamental incentive tax cuts secured in '81 (3rd year, indexing, most of ACRS);
3. it implements the budget resolution which requires $3 in lower outlays ($280 billion total) for every $1 in higher revenues.

o The budget resolution reduces the deficit $380 billion in the 3 years from fiscal '83-'85. The $99 billion in added revenues in this bill is only about one-quarter of the total but it is necessary in order to get the other three-quarters -- <u>$280 billion in spending cuts</u>.

o One-third of the $99 billion -- $31 billion -- comes not from new taxes, but from stepped up compliance efforts to collect more of the taxes owed under present law but not paid.

Maintaining incentive cuts passed in '81

o Nothing in the bill threatens the supply-side incentives contained in the 1981 tax act. The bill does not change:

-- the third year of the tax cut -- the 10 percent rate reduction on July 1, 1983;
-- indexing of tax rates after the full 25 percent rate reduction takes effect;
-- most of the accelerated cost recovery provisions for business.

o In fact, passage of this tax bill would ensure the revenues required by the resolution could be raised without tampering with any of the supply-side incentives -- and would weaken any future attempts by the Democratic leadership to repeal the 3rd year etc.

o The House Democratic leadership tried it earlier in the year, proposing to raise revenues about twice as much as this bill, and cancel the 3rd year cut and indexing.

o A majority disagreed with them, but enough members, Democrats and Republicans, favored some revenue increases to make last year's coalition impossible to assemble without them.

Taxes still way down '83-'85 and beyond

- For most individual taxpayers, this bill will have little impact.

- Even with the bill's increased revenues, the tax burden on Americans will be $334 billion less the next 3 years than if tax rates of 1980 were still in effect.

- The typical family will pay almost $400 less in taxes this year than if prior rates still applied. Next year, even with passage of this tax bill, that family will pay $788 less.

- From 1985-87, because of indexing, the total tax burden on individual Americans will be some $89 billion less than it would have been without the 1981 tax act.

- New taxes in the bill -- for individuals and business -- account for less than one dollar in five of the new revenues.

- New personal taxes will add little to most individual's tax bill. For example, the one percent increase in the telephone tax will mean 54 cents a month for the average household but it will contribute $1.6 billion to lower deficits.

- Taxpayers earning less than $50,000 now pay about 67 percent of all income taxes and will receive about 70 percent of the tax cut.

Increased compliance

- More than three-fourths of the increased revenues come from stepped-up compliance and loophole closings.

- Rather than imposing new taxes, the bill achieves one-third of the new revenues through improved methods of collecting taxes already owed.

- These collection measures are needed to insure fairness in our tax laws, and would only add to the tax burden of those who don't now pay all they owe under the law. These measures include increased penalties for noncompliance and improved reporting systems for the IRS.

- If these measures -- such as interest and dividend withholding -- are not adopted, new tax increases would be necessary to meet the revenue targets in the budget resolution. And the Democratic leadership this year has already shown it's not reluctant to impose new taxes.

- Withholding will not have an adverse effect on savings except for those who aren't now paying the taxes they owe.

- The bill contains exemptions for the poor and elderly. Nearly 80 percent of people over 65 (those who make less than $14,450; $24,214 for a joint return) and low-income people of any age who owed $600 or less in taxes the prior year ($1000 on a joint return) are exempt from the dividend and interest withholding.

- All interest payments of less than $100 are totally exempt from the withholding requirement.

Closing loopholes and eliminating abuses

- More than half the revenue in the bill is raised by measures which close certain tax loopholes, eliminate abuses by certain taxpayers, and broaden the base of taxpayers to assure equity.

- The bill imposes a minimum tax on individuals and corporations to ensure that all pay a fair, minimum share of taxes.

- It restricts and gradually phases-out the "safe harbor leasing provision." This provision has been beneficial to many cash-starved companies but has also permitted some profitable ones to avoid federal taxes in ways not intended by Congress.

- The bill reduces the amount of tax benefits available to high income individuals from various pension plans.

Mr Deaver

THE WHITE HOUSE

WASHINGTON

August 10, 1982

MEMORANDUM FOR EDWIN MEESE III
JAMES A. BAKER, III
MICHAEL K. DEAVER

FROM: ELIZABETH H. DOLE EHD

SUBJECT: Tax Bill Coalition Update -- #3

By today's end, our effort to wrest business community momentum from the opposition had succeeded through a combination of Iacocca's and Thayer's endorsements, the coalition's announcement and some early effects of positive grass roots in support of the tax bill.

Attached is a copy of the Presidential letter and Tax Bill Talking Points which are currently being mailed to the following among other selected support groups:

> 5,000 local Chambers of Commerce; 1,000 plant managers and 1,500 trade associations.

Additionally, the National Association of Realtors is underway in their efforts to recruit local Chamber support through their network of local community leaders.

Media reporting of both the specifics as well as the merits of the tax bill has been incorrect, and a number of organizations have suggested that we conduct a press briefing on the specifics of the tax bill. This, obviously, could not be done until the Conference Report is out. Organizations will also need a maxi-briefing.

The Small Business Legislative Council will bring its leadership to town this Thursday, and we are optimistic that we can obtain a complete endorsement by all 70 national small business associations that are members of the Council.

We expect to follow-up with an addendum to yesterday's letter to all Members of Congress by announcing another 10 national business associations in support of the tax bill.

Attachment

cc: Richard Darman
Craig Fuller
Ed Harper
Ken Duberstein
Lyn Nofziger

THE WHITE HOUSE

WASHINGTON

August 10, 1982

Dear Friend:

I'm sorry that the urgency of preparing and distributing this letter has prevented me from addressing you personally. But I am writing to you and other long-time friends and supporters on a matter of great concern.

According to some press and T.V. news accounts quoting "unnamed authoritative sources," I have turned away from cost-cutting and supply-side economics and am now embracing tax increases, having abandoned the economic recovery plan we so successfully installed last year.

Well, it's time you hear the truth from a "named authoritative source," namely me. It is true that I have endorsed the Senate tax plan now before the Congress. But it is also true that I did so because it is the price we have to pay to continue our economic recovery program.

Our tax cuts, which call for another ten percent cut next July with indexing of the tax brackets to follow, are still in place. We are seeking further cuts in spending. And we've fought off a determined effort to cancel those 1983 tax cuts. Very simply, the situation is this: faced with increased budget deficits caused by the recession, we found we could not put together the coalition which gave us the spending and tax cuts last year unless we agreed to some increase in revenues.

We offered a package to bring in $13 billion in fiscal year 1983 taxes owed but not being collected, as well as cutting off some unintended benefits being taken due to technical defects in existing laws. This $13 billion change would have added up to $54 billion for the period '83-'85. This however was not enough to win support for the spending cuts we proposed so we continued negotiating.

The final compromise is the revenue bill which for the years '83, '84 and '85 will total between $98 and $99 billion. It is being called the biggest single tax increase in history. It is nothing of the kind. The Social Security payroll tax increase alone adopted during the previous Administration will total $112 billion in these three years.

More than three-fourths of the present measure consists of taxes already owed and not now being collected, plus the unintended advantages I mentioned, such as some corporations reducing their tax obligations because of defects in legislation adopted several years ago. The balance -- less than one-fourth -- does consist of a variety of new taxes.

Our program of incentive tax cuts will leave $334 billion in the people's pockets over the next three years even after the $99 billion increase. Our side of the bargain is that 80 percent of the outlay savings we've asked for are also in the budget resolution. The reduction in spending outlays runs about $3 for each $1 of tax.

We must continue to reduce Federal spending. To do so requires a compromise. I am determined to bring government's share of the gross national product down. I have not weakened philosophically and continue to believe in our economic recovery program. I have reluctantly given a slice to get at least three-quarters of a loaf.

The choice really boils down to this: would you rather reduce deficits and interest rates by raising revenue from those who are not now paying their fair share, or would you rather accept larger budget deficits, higher interest rates and higher unemployment?

Our goal is recovery from this recession -- lasting recovery and not a quick fix. It is imperative that we bring interest rates down. They have made a start down and they will continue if we secure passage of this present tax bill with its accompanying spending reductions. If we fail, interest rates will start back up again and chances for recovery will be shattered with consequences none of us care to contemplate.

I ask for your support in these very tough times. I need your help once more. Please, phone your Congressman and your Senators today and tell them to stick to the lower deficit target they set. Tell them to support the tax bill and the lower outlays contained in the budget resolution. Tell them you support the President and you want them to. The success of my program to reduce the deficit, create more jobs and bring interest rates down depends on your help as never before.

Sincerely,

August 10, 1982

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1. it's needed to reduce the deficit, bring interest rates down and stimulate the creation of more jobs;

2. it protects the fundamental incentive tax cuts secured in '81 (3rd year, indexing, most of ACRS);

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- The budget resolution reduces the deficit $380 billion in the 3 years from fiscal '83-'85. The $99 billion in added revenues in this bill is only about one-quarter of the total but it is necessary in order to get the other three-quarters -- $280 billion in spending cuts.

- One-third of the $99 billion -- $31 billion -- comes not from new taxes, but from stepped-up compliance efforts to collect more of the taxes owed under present law but not paid.

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- Nothing in the bill threatens the supply-side incentives contained in the 1981 tax act. The bill does not change:

  -- the third year of the tax cut -- the 10 percent rate reduction on July 1, 1983;
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  -- most of the accelerated cost recovery provisions for business.

- In fact, passage of this tax bill would ensure the revenues required by the resolution could be raised without tampering with any of the supply-side incentives -- and would weaken any future attempts by the Democratic leadership to repeal the 3rd year etc.

- The House Democratic leadership tried it earlier in the year, proposing to raise revenues about twice as much as this bill, and cancel the 3rd year cut and indexing.

- A majority disagreed with them, but enough members, Democrats and Republicans, favored some revenue increases to make last year's coalition impossible to assemble without them.

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- For most individual taxpayers, this bill will have little impact.
- Even with the bill's increased revenues, the tax burden on Americans will be $334 billion less the next 3 years than if tax rates of 1980 were still in effect.
- The typical family will pay almost $400 less in taxes this year than if prior rates still applied. Next year, even with passage of this tax bill, that family will pay $788 less.
- From 1985-87, because of indexing, the total tax burden on individual Americans will be some $89 billion less than it would have been without the 1981 tax act.
- New taxes in the bill -- for individuals and business -- account for less than one dollar in five of the new revenues.
- New personal taxes will add little to most individual's tax bill. For example, the one percent increase in the telephone tax will mean 54 cents a month for the average household but it will contribute $1.6 billion to lower deficits.
- Taxpayers earning less than $50,000 now pay about 67 percent of all income taxes and will receive about 70 percent of the tax cut.

Increased compliance

- More than three-fourths of the increased revenues come from stepped-up compliance and loophole closings.
- Rather than imposing new taxes, the bill achieves one-third of the new revenues through improved methods of collecting taxes already owed.
- These collection measures are needed to insure fairness in our tax laws, and would only add to the tax burden of those who don't now pay all they owe under the law. These measures include increased penalties for noncompliance and improved reporting systems for the IRS.
- If these measures -- such as interest and dividend withholding -- are not adopted, new tax increases would be necessary to meet the revenue targets in the budget resolution. And the Democratic leadership this year has already shown it's not reluctant to impose new taxes.
- Withholding will not have an adverse effect on savings except for those who aren't now paying the taxes they owe.

- o The bill contains exemptions for the poor and elderly. Nearly 80 percent of people over 65 (those who make less than $14,450; $24,214 for a joint return) and low-income people of any age who owed $600 or less in taxes the prior year ($1000 on a joint return) are exempt from the dividend and interest withholding.

- o All interest payments of less than $100 are totally exempt from the withholding requirement.

<u>Closing loopholes and eliminating abuses</u>

- o More than half the revenue in the bill is raised by measures which close certain tax loopholes, eliminate abuses by certain taxpayers, and broaden the base of taxpayers to assure equity.

- o The bill imposes a minimum tax on individuals and corporations to ensure that all pay a fair, minimum share of taxes.

- o It restricts and gradually phases-out the "safe harbor leasing provision." This provision has been beneficial to many cash-starved companies but has also permitted some profitable ones to avoid federal taxes in ways not intended by Congress.

- o The bill reduces the amount of tax benefits available to high income individuals from various pension plans.

8/9/82

TAX BILL FACTS

Keep

MR. PRESIDENT:

In your handwritten draft letter on the tax bill, and in conversation with Congressmen, you state: "80% of the spending cuts we've asked for are tied to that revenue package." I'm not exactly sure what you're referring to, but I think the statement may be misleading or misunderstood.

The following statements are correct:

o The Budget Resolution would reduce deficits by $380 billion over three years. Almost three-fourths ($280 billion, or 74%) of that three-year total would come from outlay savings.
NOTE: This is the basis of the "almost 3-to-1" claim (which is correct).

o Only $27 billion in outlay reductions (out of the three-year total of $280 billion) are now pending before the Congress as reconciliation measures. (The remaining outlay reductions require additional Congressional appropriation actions -- subject to veto -- as well as Executive Branch management savings and market responses translating into reduced interest and debt service.) Of that $27 billion in reconciliation savings, two-thirds ($17 billion) are in the Senate Finance Committee tax/reconciliation bill. (The remainder of the $27 billion is pending in other reconciliation bills.)

o The tax bill calls for FY'83 revenue increases of $20.9 billion. In addition, $30.3 billion in FY'83 outlay reductions are now pending Congressional action. So, 60% of the pending budget action for FY'83 is on the spending side. (This contrasts with the 74% for FY'83-'85.)

NOTE: The inescapable practical (and political) problem is that: (a) the tax bill is by far the single biggest legislative element required to implement the Budget Resolution; (b) the spending elements are not only smaller individually (although three times as big collectively), they are also spread out over time; and (c) as a result, there is no single legislative act (other than the Budget Resolution) in which the spending cuts can seem to balance or outweigh the tax increase.

For this reason, it is my personal view that we should keep tieing back to the "requirements of the Budget Resolution" when trying to link taxes and spending cuts. We should avoid getting outselves in a box that might seem to require or suggest including a large portion of the spending cuts specifically in (or with) the tax bill. There is simply no way -- as a practical legislative matter -- to get much more than a small fraction of the spending cuts at the same time as the tax bill.

Dick

Richard G. Darman

cc: Baker, Meese, Deaver, Nofziger

THE WHITE HOUSE

WASHINGTON

August 10, 1982

MEMORANDUM FOR EDWIN MEESE III
JAMES A. BAKER, III
MICHAEL K. DEAVER

FROM: ELIZABETH H. DOLE EHD

SUBJECT: Tax Bill Coalition Update -- #2

The business coalition today publicly announced its support of the tax bill in a letter (see attached) mailed to all Members of Congress. The text of the letter and signator organizations were announced in the noon press briefing by Larry Speakes. Those indicating unequivocal support are as follows:

American Business Conference, Chairman
American Council of Life Insurance
American Electronic Association
American Retail Federation
National Apartment Association
National Association of Independent
Insurers
National Association of Life Underwriters
National Association of Home Builders
National Lumber & Building Material Dealers
Association
National Oil Jobbers Council
National Retail Merchants Association
National Small Business Association
Semi-Conductor Industry Association
National Association of Realtors
National Forest Products Association
Direct Selling Association

New firms in attendance at the coalition include the following:

National Forest Products Association
Mortgage Bankers Association
Furniture Manufacturers Associations
American Motors Corporation
Northeastern Retail Lumberman's Association
National Multi Housing Council
General Motors Corporation
Council of State Housing Agencies
National Lumber Dealers Association

The National Association of Realtors, National Association of Home Builders and the Mortgage Bankers sent an open letter to Congress representing their combined membership of more than 800,000 firms strongly urging bipartisan support for the tax bill (see attached).

A Boiler Room operation has been established and is now underway at the Home Builders headquarters.

Two problems have developed over the past 24 hours which have had an adverse effect on our coalition. They are as follows:

A. H.R. 4717 Conference (LIFO): A number of small businesses now plan to remain inactive until they receive a clear signal as to whether or not H.R. 4717 will be handled in the current conference or in a separate conference to be agreed upon as soon as possible.

Last year's bill provided one year of relief on LIFO changes which is due to terminate and small business is seeking an extension of one year. Rostenkowski is apparently a roadblock on this issue.

B. Independent contractors: In a move late in conference yesterday, Rostenkowski succeeded in separating the Safe Harbor from other issues, which has sent this group a clear signal that a plan exists to remove a key provision of theirs from the Senate Finance Committee bill. This cloud will adversely affect many of our best grass roots organizations until we can insure they will be protected.

Attachments:

cc: Darman
Füller
Harper
Duberstein
Nofziger

Dear ___________:

We the undersigned business organizations continue to support the budget process. That process requires Congressional action to reduce federal deficits in FY '83 and beyond through a program of spending reductions, tax increases and tax compliance.

If the tax bill reported out of the House-Senate Conference Committee is defeated on the floor of either House of Congress, the entire budget process is likely to be seriously weakened. That is why we have joined in an effort to pass a tax bill substantially similar to that passed by the Senate.

While we all have some reservations about various provisions in the Senate-passed bill, we urge the Congress to pass it quickly. However, passage of a tax bill must go hand-in-hand with reductions in spending. Further cuts in federal spending are essential if the deficit is to be brought under control.

9:45 am

AN OPEN LETTER TO THE CONGRESS

We the undersigned and our combined membership of more than 800,000 strongly urge prompt, effective bipartisan support of both the tax bill and spending cuts.

Last month you recognized the need to do something about deficits and you promised steps to lower the 1983 deficit to $104 billion. Now you must make good on that effort and lower and assure a deficit $80 below what it would otherwise be. Three-quarters of this reduction in the deficit is to come from assuring slower growth in spending and one-quarter from increased taxes and earlier and more complete tax collections. It is also imperative for you to accelerate action on your promise to identify $60 billion in spending cuts.

In previous letters to the President and the Congress we have called for spending restraint to lower the inflationary federal deficit. We urged additional budget cuts by slowing spending and deferring previously enacted tax reductions or approval of tax increases.

Today we address the Congress and ask them to support President Reagan in his attempts to pass the tax bill. We do not waver on our call for continued reductions in spending and we do not change our position that additional revenues are absolutely necessary to avoid further damaging increases in the federal deficit.

Additional revenues and further cuts are the only way we can bring interest rates down and allow additional investment to satisfy this nation's housing needs and put more people to work.

Prolonged high interest rates have created an economic and financial crisis in this country of the magnitude not experienced since the 1930s. Massive federal deficits and borrowing are taking away all of people's savings and leaving little to finance their basic needs.

We strongly urge each Republican and Democratic member of the Congress to vote in support of the tax increases and earlier and more complete collections provided for in the bill being reported out of the Senate and House Conference Committee.

The American people demand and deserve prompt, effective bipartisan support to fulfill the promise found the the First Concurrent Budget Resolution.

RGD

ACTIONS TO FOLLOW-UP MEETING OF 8/8/82

File Tax Bill

Topic		Lead
(1)	Strategy. The group rejected the wrap-cuts-and-taxes-up-in-one-big-Gramm-like-package-and-go-for-192-Republicans approach. It reaffirmed its preliminary inclination to go for 90-135 Republicans along with the necessary Democrats to make a majority. While the mobilization effort is to be complete, the focus is to be on particular Congressmen (not unlike the AWACS approach in the Senate). In public relations, the emphasis is to be principally on the need to complete the budget resolution in order to reduce interest rates and increase jobs.	All
	NOTE: The question of the optimal timing of the other pending reconciliation bills in relation to the tax bill remains an open one -- for further discussion.	LSG 8/9/82
(2)	Substantive Changes in the Bill. The following changes are to be sought or explored as indicated:	
(a)	Puerto Rico Amendment (936). At a minimum, the Administration should seek to implement the Treasury/Puerto Rico compromise. Treasury should continue to explore with the drug company groups certain changes in the definition of profits and in the approach to phase-in. The proposed settlement of outstanding cases would not seem to be appropriate for inclusion in this bill.	Chapoton
(b)	ACRS. Explore the possiblity of accepting the NAM/BR approach to changing the basis and depreciation schedule. Do not seek to restore 175/200 for '86-'87.	Regan/ Chapoton
	NOTE: Rosty must be called to prevent House from receding to Senate prematurely.	Baker/ Regan (done)
	FURTHER NOTE: If we move on ACRS, get Mattingly for this.	Duberstein
(c)	Leasing. Explore the possibility of making the changes necessary to get the safe harbor group along lines suggested by Conable. But do so in a way that prevents Dole from coming unglued and prevents losing more than is gained politically.	Chapoton
(d)	Tobacco. (i) re Helms: Call about scrap tobacco ruling. (ii) re House tobacco group: Get Lott to explore the possibility of negotiating a deal at 6/5¢ for a minimum of 20 votes.	 Nofziger Duberstein
(e)	FUTA. See if deferring the post-'84 state increase would get McKevitt/Wilson Johnson.	[?]

(f)	Completed Contract. Prevent Rosty from going for tougher provision. Explore the possiblity of getting AGC support in trade for Holland bill approach.	Chapoton
(g)	Independent Contractors. Assure exemption for direct sellers. Keep Amway/Avon happy. Prevent Rosty from hurting politically here if he loses on safe harbor.	Chapoton
(h)	Interest and Dividends. This has been adopted by the conference. We should keep it closed but improve the p.r.	Nofziger
(i)	Tips/3-Martini Lunch. Explore possiblity of accepting restaurant groups' modified tip proposal in lieu of business meals provision.	Chapoton
(j)	IDB Change Per Lott (and including provision for Port Authority. Make this change. Get Ed Weber for it.	Chapoton/ Duberstein
(k)	Public Utility Dividends Reinvestment. Leave this as Rosty's problem.	
(3)	OTHER ACTIONS:	
(a)	Letter from President to long-time supporters. Get draft to President by mid-day Monday, and out by Monday night/Tuesday morning.	Baroody
(b)	Circulate Broder column via Lott.	Duberstein
(c)	Keep Goldwater on or near the reservation. Have him in to see President.	Duberstein
(d)	Paper on Republicans' fault for failure to get spending cuts. Use orally only in appropriate one-on-ones or small groups.	Stockman/ Nofziger/ Duberstein
(e)	Keep tabs on Demoratic vote prospects through contacts beyond Rosty.	Stockman/ Duberstein/ Darman
(f)	Unemployment insurance. Talk to Rosty about need to get satisfactory provision in tax bill. Get Foley/Aspin/Downey et al. to work on Rosty	Telcon to Rosty completed. Foley/Aspin follow-up needed. (Stockman?)
(g)	Boll Weevils/Oil. Use prospect of oil problem to get boll weevils on this bill.	Duberstein
(h)	Thayer. Get in to see President and out on the lawn.	Fuller/ Dole
(i)	State Chambers of Commerce. Call state chamber presidents to get support.	Dole

(j) Court case. Slow down the court case on Constitutionality until after the vote on this bill. ?

(4) ITEMS FOR FURTHER DISCUSSION:

(a) Nofziger Mobilization Plan. LSG 8/9/82

(b) Congressional meetings. LSG 8/9/82

(c) Timing of Presidential speech. LSG 8/9/82

(d) Relationship to other reconciliation bills (if not settled above.) LSG 8/9/82

THE WHITE HOUSE

WASHINGTON

August 6, 1982

file Dole

MEMORANDUM FOR EDWIN MEESE III
JAMES A. BAKER, III
MICHAEL K. DEAVER

FROM: ELIZABETH H. DOLE EHD

SUBJECT: Formation of Tax Bill Coalition

I am pleased to report that efforts to forge a business coalition in support of the tax bill have succeeded. Yesterday's charter meeting of the Deficit Reduction Action Group (DRAG) brought forth a solid base of organizations committed to supporting the President in his embrace of a bill along the lines of that of the Senate Finance Committee.

Jack Albertine of the American Business Conference has taken the lead as chairman of the group which includes the following:

-- The New England Council
-- Northeast Petroleum Industries
-- Independent Fuel Terminal Operators
-- National Retail Merchants Association
-- National Oil Jobbers Council
-- American Petroleum Industry
-- American Retail Federation
-- Prudential Insurance
-- American Council of Life Insurance
-- National Small Business Legislative Council
-- Direct Selling Association
-- National Association of Home Builders *
-- National Association of Realtors *
-- American Electronic Association *
-- The Securities Industry Association *
-- The American Trucking Association *
-- The National Association of Independent Insurers *
-- The American Hotel and Motel Association *
-- The National Restaurant Association *
-- The Distilled Spirits Councils of the United States *

The group agreed to its overall guidelines and operating parameters and indicated a willingness to expend considerable resources. The following areas of consensus were reached by the group:

a. Speed is of the essence, for time favors those in opposition. Speaker O'Neill is likely to ensure a vote before recess if the President is out front. Several sources indicated that approximately 150

Democratic votes could be counted in support if the President and a respectable number of Republicans were out in the lead.

b. The battle should be fought on the leadership issue and less on merits. Virtually everyone characterized the battle as a repeat of AWACS. Since it is a leadership issue, broad concern was expressed over the announced Presidential vacation beginning on August 12th -- issue now resolved.

c. The fight is imminently winnable, based on the following logic from the Democratic perspective: this bill is not unlike one they would fashion on their own and, if there is no bill this time, the Senate Finance Committee is not likely to do another, thereby forcing Ways and Means to fashion their own. From the Republican perspective: it appears inconceivable that the deficit will moderate enough in the foreseeable future to preclude the need for some tax bill. Given this, the current bill is far better than one written in the lame duck session or in the new Congress, which may contain a potentially more hostile membership.

d. There is widespread knowledge of White House staff meeting with elements in opposition to the tax bill and encouraging them in their efforts. These conflicting signals cloud efforts to point out the President's true position on the bill.

e. Possibly the Chamber of Commerce Board may vote to support the President on this issue, thereby breaking the backbone of opposition in the business community. Their board will meet in town on August 16th, with the vote underway now.

f. It was understood that the support of coalition members was contingent on a bill with the same language as that delivered to the Conferees and that firms retained the right to pull out, if the final bill adversely impacts on them.

g. Our unwillingness to exempt the construction industry from completed contract was seriously questioned since government revenues were a pittance compared to the loss of an entire industry support, i.e., revenues in 1983 were only $2 million. Strongly recommend we support exempt.

This morning's DRAG meeting brought forth significant membership gains (Note: those on page one with an asterisk joined today). The group agreed to set up a boiler room operation to coordinate their efforts. Additionally, they formed a Recruitment, a Hill Liaison and a Public Relations Committee, as well as agreeing to deliver letters of support for the tax bill to all the Conferees today.

During the period prior to issuance of the Conference Report, the major focus of the coalition will be to build momentum for the tax bill in the business community, while gathering intelligence and starting to gain a more physical presence on the Hill.

At this stage of the process and without knowledge of the ultimate bill's specific provisions, I am very encouraged at the breadth of support and feel that the coalition has excellent growth prospects and potential for support.

cc: Richard Darman
Craig Fuller
Ken Duberstein
Ed Harper