**Thursday,
June 8, 1995**

Senator Conrad's Proposal to Close Tax Loopholes

The Facts

Senator Kent Conrad (D-ND) and ten Senate Democrats introduced a substitute to the Senate Budget Committee's budget resolution (S. Con. Res. 13). The amendment was defeated May 25, by a vote of 39 to 60, with all Republicans and six Democrats opposing the amendment (Rollcall vote no. 215). The amendment included two sections relevant to tax expenditures.

- Reconciliation instructions direct the Senate Finance Committee to increase revenues by $115 billion over 5 years, and $228 billion over 7 years.
- It is the sense of the Senate that the Finance Committee "should give first priority to closing corporate loopholes." The Finance Committee should not raise taxes on people making less than $140,000, and should target benefits going to people making over $140,000. The home mortgage deduction, charitable contributions, and state or local taxes are off-limits.

It is important to note that the reconciliation instructions simply direct the Finance Committee to increase revenues by $228 billion over 7 years. There is nothing requiring the Finance Committee to achieve this goal through elimination of tax expenditures.

In his public statements, Conrad emphasized the need to target tax breaks for corporations and wealthy individuals, as well as foreign and pharmaceutical firms. Although Conrad does not have a complete list of loopholes to eliminate, he suggests a partial list that would raise $150 billion over 7 years:

- Curb transfer pricing abuses
- Repeal Section 936 credit
- Impose an expatriation tax
- Change deferral of income and inventory sourcing rules

Conrad claims that the four suggestions listed above will raise $150 billion. He also opposes touching the home mortgage deduction, charitable contributions, and state or local taxes. That leaves $78 billion to be raised. The following items are just some of the possible tax expenditures that Senator Conrad wants to put on the table to raise the remaining $78 billion:

- Employer contributions for health benefits
- Employer contributions for pension plans
- Workmen's compensation benefits
- Low income housing investments
- Military disability and veteran pensions
- New technology credit
- Costs to increase handicapped access
- Employer provided child care

Talking Points

- Senator Conrad's proposal to cut tax expenditures (i.e., "tax loopholes") is a last-ditch attempt to stave off efforts to balance the budget and to downsize big government. Earlier this year, Senator Conrad opposed balancing the budget by 2002, and now he wants to raise taxes by $228 billion.
- Senator Conrad's budget would raise taxes by $116 billion over five years. By comparison, Clinton's 1993 tax increase was $241 billion, and the 1990 Budget Summit raised taxes by $146 billion.
- The idea of eliminating tax expenditures is typical of the Democrat mentality that revenue belongs to the government, not to the Americans who worked for it. Senator Conrad's effort to close so-called tax loopholes is way off-target because it presumes that it is the government's money to give away. In fact, all federal revenue belongs to the taxpayers, and any effort to return individual earnings to them is a worthy endeavor.
- The great flaw of the 1986 tax act was that we tried to "pay" for reductions in personal income taxes by shifting the tax burden to corporations. Unfortunately, the 1986 act produced a tax code that discriminated against legitimate deductions. Senator Conrad's proposal continues in the worst of this vein, and would further worsen the bias against savings and investment.
- To broaden the tax base beyond the 1986 act requires comprehensive reform of the tax system, such as a flat tax or a consumption-based tax. Tinkering along the fringes will only make matters worse, neither spurring growth nor raising revenues.
- It has long been the strategy of Democrats that the American people are undertaxed. Senator Conrad labels his proposals as closing loopholes in the tax code, but in reality he wants to raise taxes. This should not come as a surprise, since it has been apparent that the Democrat party is totally bereft of ideas to balance the budget. In a pinch, it seems that all Democrats can come up with is their age-old favorite activity: raising taxes.
- The American people have voiced their opinion, through the 1994 elections and in opinion polls, that they want to cut spending first. We have seen that raising taxes is an ineffective way to balance the budget. This is evident in the results of the 1990 budget deal, the 1993 budget deal, and a host of alleged balanced budget plans from the 1970s.
- Any effort to introduce tax increases into the budget debate undermines efforts to cut spending growth. The fact of the matter is that the best way to reduce the deficit is to constrain the growth of spending.
- The only circumstances under which the elimination of tax expenditures is acceptable is when there is a complete overhaul of the tax system, in which elimination of tax expenditures is more than offset with tax cuts.

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