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Laurel, Md 20724

Dear Mr Lamb,

Please ask one of your guests to comment on the enclosed article. So far, I have not heard a serious discussion on the Capital gains tax.

Thank you

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Washington Post
3/2/93

ALLAN SLOAN

Clinton's Phony New Math

When President Clinton says his proposed tax increases will sock it to the rich, he's about as reliable as Ronald Reagan was when he said tax cuts would eliminate the federal deficit. Clinton's tax program doesn't go after rich people. It goes after high-income people, which isn't the same thing.

Why isn't it? Because Clinton isn't trying to increase taxes on the wealth-creation vehicle the rich use: capital gains. Capital gains are what you make by selling stock, a business, a building or any other capital asset. You get rich on capital gains. You don't get rich on salary. Comfortable, yes. Rich, no. My definition of "rich" is the normal one: having your money work for you, instead of the other way around. Clinton's definition is a family with income of $100,000 a year. But, for political PR reasons, he's using screwy math that could count as rich a family with two breadwinners each earning $37,500 and sending their kids to private school. At your next town meeting, Bill, tell that family why it's rich.

As things stand now, the top tax rate on salary, interest and dividend income is 31 percent. On capital gains, it's 28 percent. Not much difference. But under Clinton's proposals, as you likely know, the gains rate stays at 28 percent while the rate on salaries would go as high as 41.05 percent.

So, when Clinton talks about getting money from the people who profited from the 1980s, I have to laugh. Ronald Perelman and Carl Icahn aren't being asked to pay a wealth tax. Yes, they would pay a higher rate on salaries, interest and dividends. But those items are mere rounding errors compared with their capital gains, which won't be touched. Instead of going after zillionaires, who can play games to minimize the tax bite, Clinton is picking an easier target. To wit, people such as me, who have high incomes but relatively small capital gains. We can run, but we can't hide.

It's not wrong to increase my taxes—the money has to come from somewhere, and I'm certainly not poor. But it's dishonest for Clinton to say that he's going after the rich when he's giving them a little love tap and clobbering the likes of me.

But, you say, didn't people such as the late Steven Ross of Time Warner Inc. become centimillionaires by knocking down obscene salaries? Nope. Most of Ross's income came from stock gains, not salary. For instance, the year Time Warner "paid" him $78 million, $75 million was stock gains. And most of what's called "executive pay" is really profit on stock options. Options, of course, let executives buy shares in their companies at a fixed price for long periods. Since the 1986 tax law changes, executives have taken their option profits as regular income rather than capital gains, because it didn't make much difference to them, and it gave their companies fat tax deductions. If Clinton's tax bill passes, though, won't millionaire executives pay higher taxes on those gains? No. Robert Willens, the resident tax genius at Lehman Brothers Inc., says companies can easily change option programs to let executives take profits as low-tax capital gains rather than high-tax income.

RICH IN CLINTON'S TERMS

WHAT THE TAX PLAN WOULD COUNT AS INCOME

TYPE OF INCOME	AMOUNT
Gross salary	$75,000
Employer's half of Social Security/Medicare	4,500
Employer's share of health care	3,000
Employer's retirement plan contributions	3,000
Earnings on retirement plans	12,000
Theoretical rental profit from house	6,000
TOTAL FAMILY ECONOMIC INCOME	$103,500

NOTE: Example is based on family with one wage-earner, 45, earning $75,000 a year. The employee has worked for the same employer for 20 years and has $150,000 in pension or other retirement accounts. The family owns a $200,000 home with a $100,000 mortgage, and has no interest or dividend income.
SOURCES: Treasury Department, Newsday estimates, with help from Alan Weiner, Holtz Rubenstein & Co., Melville, N.Y.

Willens says it's a snap for companies to change to "incentive" options from their current "non-qualified" options. This would inconvenience executives a little, but save them a ton of income taxes.

Great. Big-rich executives get most of their income from stock gains, on which they'll pay 28 percent. Meanwhile, we optionless wage slaves, who have no such gains, pay through the nose on our salaries. Apple Computer Inc. Chairman John Sculley, Clinton's high-profile buddy, can get most of his income taxed at 28 percent, but Apple middle managers pay 36 percent. Socking it to the rich, my foot. You should know that I ran the gist of this article past the public relations types at the Treasury Department, but couldn't get anyone to discuss it. All of this said, I'm not opposed to increasing taxes, even though it will cost me money. What I am opposed to are phony math and demagoguery.

Clinton says that 70 percent of his proposed tax increases will come from "the rich," which he defines as families with incomes of $100,000 and up. But Clinton is using "family economic income," a little-known concept that's a lot different from what most people consider income. Family economic income includes, among other things, your employer's Social Security contributions; fringe benefits such as health insurance and pensions; annual rises in the value of your retirement accounts; and "imputed rent" on your home if you own it. Imputed rent, my favorite, is the difference between what the Treasury Department believes your home would rent for, and how much the home costs you in interest, taxes and upkeep. Try paying for groceries with imputed rent.

Isn't that wonderful? You won't be taxed on any of these things. But by inflating the notion of what constitutes income, Clinton makes more people fit his definition of "rich," including millions who thought they were safe because their family income is well below $100,000. Clinton's definition of income is bogus, but it lets him wave around some dandy-looking charts that let him pretend he's whacking only the rich.

This has all started a national debate about taxes. Good. But let's debate what Clinton is really proposing. After moonbeams and fiscal fakery from former presidents Reagan and George Bush, it's time to try something real.

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