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The President's Tax Program

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METHODS OF URBAN IMPACT ANALYSIS

1. THE PRESIDENT'S TAX PROGRAM

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF POLICY DEVELOPMENT AND RESEARCH

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FOREWORD

This paper, the first in a series of policy research monographs called Methods of Urban Impact Analysis reviews the probable effect of the President's 1978 tax program on cities and on housing.

Prepared in January 1978 by Professor Roy W. Bahl of the Maxwell School at Syracuse University and Dr. David Puryear, Acting Director of the Division of Economic Development and Public Finance in HUD's Office of Policy Development and Research, this effort represents an early, informal attempt at urban impact analysis. Unlike later efforts, it does not follow a standardized format, but simply tries to identify the most significant urban- and housing-related aspects of the proposed tax program.

The urban impact of this program is significant. The authors argue against extending the investment tax credit to industrial structures on the grounds that to do so would accelerate the process of suburbanization, to the detriment of hard-pressed central cities. At the same time, the program's tax cuts will help central cities by stimulating the national economy and providing additional demand for employment.

It is the purpose of this series to explore a variety of methodological approaches to urban impact analysis. The Bahl and Puryear analysis is an appropriate starting point for such a series and illustrates what can be done by first-rate analysts in a very brief time period without benefit of formal guidelines. Since the paper was written, President Carter has incorporated urban impact analyses into his National Urban Policy, HUD's Office of Policy Development and Research has commissioned several prototype urban impact analyses, and the Office of Management and Budget has issued Circular A-116 which provides guidelines for their preparation.

Clearly, we are now in the age of urban impact analysis, and it is appropriate to inaugurate a series that will make available the experiences of HUD staff and outside experts in preparing them. It is my hope that our methods will improve over time and that, as a result, urban impact statements will become more precise and influential in the policy process.

Donna E. Shalala
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Development and Research

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THE PRESIDENT'S TAX PROGRAM [1]

The $25 billion tax reduction called for in the President's Tax Program is an account of $9 billion in revenue-raising reforms. These proposed changes fall into three categories: personal tax cuts and reforms, corporate cuts and reforms, and a few special reforms.

<u>Net personal tax cuts and reforms of $17 billion include</u>:

- -- across the board reductions in personal tax rates of 2 percent;
- -- replacement of the personal exemption and general tax credit with a $240 per person credit;
- -- elimination of the deductions for sales, personal property, gasoline, and miscellaneous taxes;
- -- combination of the separate medical and casualty deduction and allowing them only to the extent they exceed the 10 percent of adjusted gross income;
- -- repeal of the deduction for political contributions but retaining the credit;
- -- elimination of the deductions claimed as business-related for theater and sporting tickets, yachts, hunting lodges, club dues, and first-class airfair and limitation of deductions for the cost of meals to 50 percent;
- -- repeal of the special alternative tax on capital gains;
- -- sharply curtailed tax shelters, including
  - stronger minimum tax;
  - extended "at risk" rule, with real estate explicitly exempted from this extension;
  - curtailment of accelerated depreciation; with new multi-family housing curtailed less severely than other property, and with new low-income housing not curtailed at all until 1983;
  - taxation of deferred annuities;
  - classification of nominal partnerships as corporations for tax purposes, with housing activities exempted;
  - tax audits of partnerships.
- -- taxation of unemployment compensation for higher-income taxpayers;
- -- taxation of fringe benefits unavailable to rank and file workers.

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[1] Department of the Treasury, the President's 1978 Tax Program, January 20, 1978.

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Net tax cuts and reforms of $6 billion for corporations include:

-- corporate tax rate cuts of 2 percent for income up to $50,000 and 3 percent (4 percent in 1980) for income above $50,000;
-- liberalized Investment Tax Credit (ITC), consisting of
  - permanent 10 percent credit;
  - ITC can offset 90 percent up from 50 percent of tax liabilities;
  - eligibility of utility and industrial structures (both new and substantial rehabilitation);
  - eligibility of pollution control facilities for full 10 percent credit even if special 5-year amortization is claimed.

-- simplification of asset depreciation range (ADR) system;
-- simplification of treatment of small businesses;
-- limitations on bad debt losses claimed by financial institutions;
-- elimination of tax exempt status of credit unions;
-- elimination of tax deferral on foreign income;
-- elimination of domestic international sales corporations (DISC).

Net Tax cuts of $2 billion for excise and payroll taxes include:

-- elimination of special excise tax on telephone calls;
-- reduction of unemployment insurance tax;

Finally, changes in the tax treatment of state and local government bonds include:

-- taxable bond option for state and local governments (35 percent interest subsidy in 1979 and 1980; 40 percent thereafter);
-- elimination of tax exemption for industrial development bonds (IDB's) for pollution control, industrial parks, and private hospitals. (Housing IDB's retain their exemption.)

Not all of these proposals would have an impact on housing or urban areas; only those which are discussed in the following sections.

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