

Chronological: Kona-Kohala Chamber of Commerce, Kailua-Kona, King Kamehameha Hotel, 1985-08-27

Senator Daniel K. Inouye Papers
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FOR DELIVERY TO: KONA-KOHALA CHAMBER OF COMMERCE
Luncheon
King Kamehameha Hotel
Kailua-Kona, Hawaii
TUESDAY - AUGUST 27, 1985

IN ANNOUNCING HIS TAX REFORM PLAN, THE PRESIDENT
CLAIMED IT WAS A RESPONSE TO THE PUBLIC DEMAND FOR A
SIMPLER TAX CODE THAT REQUIRED EVERYONE TO PAY THEIR
FAIR SHARE. IRONICALLY, HOWEVER, HIS PLAN GIVES THE
BIGGEST TAX BREAKS TO THE VERY WEALTHY, WHILE ACTUALLY
INCREASING TAXES TO CERTAIN CATEGORIES OF MIDDLE-CLASS
TAXPAYERS -- ESPECIALLY IN STATES SUCH AS HAWAII.

FOLLOWING IS A RUNDOWN OF MAJOR ITEMS:

FAIRNESS TO MIDDLE CLASS

COMPARATIVE IMPACT OF PLAN ON MIDDLE AND UPPER CLASS

-- THE RICH GET A BIGGER TAX CUT THAN THE MIDDLE CLASS:

INCOME GROUP:	\$20,000-30,000	8.7%	AVG TAX CUT (\$149)
	\$30,000-50,000	6.6%	(\$211)
	\$200,000 AND UP	10.7%	(\$9,254)

-- A LARGER % OF TAXPAYERS IN THE TOP BRACKET GET A TAX

DECREASE THAN ANY OTHER BRACKET: 71% COMPARED TO 64-66%

IN THE MIDDLE BRACKETS.

MIDDLE CLASS PREFERENCES ELIMINATED

FOR ALL THE ADMINISTRATION'S TALK OF CLOSING LOOPHOLES AND ESOTERIC TAX SHELTERS USED BY THE "FAT CATS", THE TAX REFORM PLAN IS TOUGHEST ON, AND INDEED RAISES TWO-THIRDS OF ITS REVENUES FROM, ELIMINATING TAX PREFERENCES USED BY AVERAGE CITIZENS. FOLLOWING ARE SOME OF THE MAJOR PROVISIONS OF THE PLAN WHICH WILL IMPACT ESPECIALLY HARD ON THE MIDDLE CLASS:

-- REPEAL OF STATE AND LOCAL TAX DEDUCTIONS: 74% OF MIDDLE CLASS FAMILIES ITEMIZE. MOST USE THIS DEDUCTION.

-- REPEAL OF TWO-EARNER DEDUCTION: WILL LEAD TO HIGHER TAXES FOR MIDDLE INCOME FAMILIES WITH TWO EARNERS.

-- TAXING PORTION OF EMPLOYER-PROVIDED HEALTH BENEFITS. (THE RICH WOULD PAY NO MORE TAX ON THESE BENEFITS THAN THE POOR).

-- TAXING OTHER SOURCES OF INCOME SUCH AS WORKERS COMPENSATION AND UNEMPLOYMENT INSURANCE.

IMPACT OF REAGAN PLAN ON HAWAII
MAJOR PROVISIONS WHICH AFFECT HAWAII

-- STATE AND LOCAL TAXES DEDUCTION: HAWAII RANKS
11TH IN THE NATION IN THESE TAXES BUT IS FIRST IN
DIRECT PER CAPITA TAX BURDEN: \$982 COMPARED TO THE
\$509 NATIONAL AVG. HAWAII TAXPAYERS WOULD LOSE \$179 MILLION
A YEAR IF THIS DEDUCTION WERE ELIMINATED, AND WOULD PAY
PROPORTIONATELY HIGHER FEDERAL TAXES THAN TAXPAYERS
IN OTHER STATES.

-- TWO-EARNER DEDUCTION: 62% OF THE FAMILIES
IN HAWAII FALL UNDER THIS CATEGORY, ONLY 54% NATIONALLY.
WITH THE ELIMINATION OF THIS AND THE STATE AND LOCAL
TAX DEDUCTION, A TWO-EARNER MIDDLE-INCOME FAMILY OF FOUR
IN HAWAII WOULD SUFFER A 5% NET TAX INCREASE AS A RESULT
OF THE REAGAN PLAN.

-- TAXATION OF UNEMPLOYMENT AND WORKERS COMP. PAYMENTS:

HAWAII'S WORKERS COMP. PREMIUMS ARE HIGHEST IN THE U.S.

TAXATION OF THESE BENEFITS WOULD RESULT IN \$15.5 MILLION

MORE HAWAII TAX DOLLARS GOING TO THE FEDERAL GOVERNMENT.

TAXATION OF UNEMPLOYMENT BENEFITS WOULD COST HAWAII

ANOTHER \$10.5 MILLION.

-- LIMIT OF SECOND HOME MORTGAGE DEDUCTIONS:

ONLY THE INTEREST PAID ON A PRINCIPLE RESIDENCE MORTGAGE
WOULD BE COMPLETELY DEDUCTIBLE UNDER THE PLAN. OTHER
INTEREST DEDUCTIONS ARE LIMITED TO \$5,000. AS ONLY
45% OF HAWAII'S HOUSING IS OWNER-OCCUPIED (COMPARED
TO 60% NATIONALLY), THE INVESTMENT REAL ESTATE MARKET
WOULD BE HURT, WHICH WOULD SLOW CONSTRUCTION, WHICH IN
TURN WOULD DEPRESS THE HOUSING INDUSTRY AND RAISE RENTS.
(OTHER PROVISIONS OF THE REAGAN PLAN WOULD ALSO DAMAGE
REAL ESTATE IN HAWAII)

95% of neighbor islands
condos

-- LIMITATION OF BUSINESS AND TRAVEL EXPENSE DEDUCTIONS:

IN THE ORIGINAL PROPOSAL, TRAVEL EXPENSES WERE TO BE LIMITED TO \$200.00 A DAY. THROUGH INDUSTRY AND CONGRESSIONAL PRESSURE, THIS CAP WAS DROPPED. HOWEVER, EDUCATION-RELATED TRAVEL IS NO LONGER DEDUCTIBLE IN THE REAGAN PLAN, THUS DISCOURAGING EDUCATIONAL TRAVEL TO REMOTE LOCATIONS LIKE HAWAII. (THIS DOES NOT INCLUDE TRAVEL TO JOB-RELATED CONFERENCES AND SEMINARS, HOWEVER, WHICH WOULD STILL BE DEDUCTIBLE). ALSO, ALL TRAVEL ON CRUISE SHIPS WOULD NO LONGER BE DEDUCTIBLE BEYOND THE COST OF ORDINARY AIRFARE FOR THE SAME TRIP. CONVENTIONS AND SEMINARS HELD AT SEA WOULD ALSO LOSE THEIR DEDUCTIBILITY.

FURTHER, THE LIMITATION ON BUSINESS MEAL (\$25 PER PERSON
PER MEAL, BEYOND \$25 -- 50% DEDUCTIBLE), AND REPEAL OF
ENTERTAINMENT EXPENSES COULD ALSO HARM HAWAII WITH ITS
RELATIVELY HIGH COST OF LIVING.

-- REPEAL OF TAX EXEMPT STATUS OF INDUSTRIAL DEVELOPMENT BONDS:

INDUSTRIAL DEVELOPMENT (IDB) AND MORTGAGE REVENUE

BONDS, USED TO CONSTRUCT APPROXIMATELY HALF OF ALL

MULTIFAMILY RENTAL HOUSING, WOULD BE ELIMINATED.

IDBs WOULD CONTINUE TAX EXEMPT ONLY FOR "PUBLIC PURPOSES"

SUCH AS ROADS AND SEWERS.

UNDER THE REAGAN PLAN, THE IDBs THE STATE PLANS TO FLOAT

TO FINANCE AIRPORT AND HARBOR IMPROVEMENTS WOULD NOT BE TAX

EXEMPT, AND WOULD THEREFORE COST THE STATE AN ADDITIONAL

\$227 MILLION OVER THE LIFE OF THE BONDS.

-- INSURANCE BENEFITS

LIFE INSURANCE. THE ANNUALLY ACCUMULATED CASH VALUE OF WHOLE
LIFE INSURANCE POLICIES WOULD BE TAXED EACH YEAR AS REGULAR
INCOME. CURRENTLY, THE ACCUMULATED VALUE OF A POLICY
IS ONLY TAXED WHEN CASHED IN.

EMPLOYER-PAID HEALTH INSURANCE.

THE FIRST \$10 PER MONTH IN EMPLOYER-PAID PREMIUMS FOR INDIVIDUALS AND \$25 FOR FAMILIES WOULD BE INCLUDED IN TAXABLE INCOME. (IN TREASURY I, PREMIUMS IN EXCESS OF \$70 FOR INDIVIDUALS AND \$175 FOR FAMILIES WOULD HAVE BEEN TAXED, THUS AFFECTING MOSTLY HIGH-INCOME PEOPLE. THE NEW PLAN WOULD FALL MORE HEAVILY ON LOW AND MIDDLE-INCOME FAMILIES.)

-- TAXATION OF CREDIT UNIONS

CREDIT UNIONS WITH ASSETS OF \$5 MILLION OR MORE
WOULD BE TAXED (18% OF ALL U.S. CREDIT UNIONS FALL
INTO THIS CATEGORY, 45% OF THOSE IN HAWAII).
CURRENTLY, ALL CREDIT UNIONS ARE TAX EXEMPT.

REHABILITATION-PRESERVATION CREDIT.

CURRENTLY, THERE IS A 15% CREDIT FOR THE REHABILITATION OF 30 YEAR OLD NON-RESIDENTIAL STRUCTURES, 20% ON 40 YEAR OLD NON-RESIDENTIAL STRUCTURES, AND A 25% CREDIT ON HISTORICAL RESIDENTIAL OR NON-RESIDENTIAL STRUCTURES. THESE CREDITS, WHICH HAVE BEEN RESPONSIBLE FOR \$5 BILLION INVESTED IN OVER 7,000 BUILDINGS, WOULD BE REPEALED IN THE REAGAN PLAN.

LOSS OF CAPITAL GAINS TREATMENT.

REAL ESTATE AND OTHER DEPRECIABLE PROPERTY WOULD NO LONGER
BE GIVEN CAPITAL GAINS TREATMENT. SO, INSTEAD OF BEING TAXED
AT 17.5% WITH HALF OF THE GAINS EXCLUDED, REAL ESTATE
CAPITAL GAINS WOULD BE FULLY TAXED AT ORDINARY INCOME RATES.

COMPLETED CONTRACT METHOD OF ACCOUNTING.

THIS METHOD OF ACCOUNTING HAS BEEN USED BY THE CONSTRUCTION INDUSTRY SINCE 1916, BUT WOULD BE ELIMINATED BY THE REAGAN PLAN. THIS METHOD ALLOWS CONTRACTORS TO SPREAD OUT CERTAIN COSTS THROUGHOUT THE LENGTH OF THE PROJECT FOR TAX PURPOSES. THE REAGAN PLAN WOULD REQUIRE ANNUAL ACCOUNTING WHICH PRESENTS A HARDSHIP TO THE CONSTRUCTION INDUSTRY WHICH FACES RADICALLY FLUCTUATING CONDITIONS AND MARKETS.

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