EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

ROUTE SLIP

TO:	
J. Angell	Take necessary action ☐
B. Anderson	Approval signature ☐
	Comment ☐
	Prepare reply ☐
	Discuss with me ☐
	For your information ☐
	See remarks below ☐

FROM: E. Balis/A. Chellaraj DATE: August 5, 1993

REMARKS

Attached, per your request, are the bullets highlighting conference action by reconciliation bill title. We may have to revise these bullets after the bill language is reviewed carefully.

cc: S. Lind
A. Stigile
M. Barth
J. Sandy
A. Kolaian

August 4, 1993

TITLE I: AGRICULTURE AND RELATED

5 Year Savings Achieved: $3.0 billion

Savings Achieved

- Eliminates GATT Trigger authority that allows for lower Acreage Reduction Program (ARP), thereby increasing acres on which no payments are made.
- Reduces Market Promotion Program (MPP) to $110 million per year.
- Reduces "PAY/92" program to "PAY/85". Producers who do not plant would receive deficiency payments on 85 percent, rather than 92 percent, of their acreage.
- Increases assessments by 10 percent on sugar and peanut programs. Charges fee on tobacco imports, and requires 75 percent domestic content for U.S. produced cigarettes. Decreases dairy assessments by 11 percent after 1995.
- Reduces price support for butter, increases price support for dry milk. Reduces dairy assessment beginning FY 1996.
- Prohibits marketing of milk from cows using BST for 90 days following FDA approval. Cuts assessments on milk marketings by 10 percent during 1998.
- Lowers payment gradually to $50,000 for honey, wool and mohair programs. Lowers price support payments for these crops gradually through FY 1998.
- Reduces loan rate for soybeans and minor oilseeds, eliminates oilseed assessments.
- Mandates slightly and gradually lower cotton ARP through FY 1997.
- Reforms Crop Insurance by improving actuarial soundness through requiring overall loss ratio of no greater than 1.1 by FY 1996. Expands area yield pilot program.
- Caps Conservation Reserve Program sign-ups at 38 million acres, extends sign-up period for Wetlands Reserve Program through FY 1997.

- Extends only those provision of the 1990 Farm Bill needed to score the savings required by Reconciliation.

- Increases Forest Service recreation fees.

TITLE II: ARMED SERVICES

5 Year Savings Achieved: $2.4 billion

<u>Savings Achieved</u>

- o Delays the 1994 COLA for uniformed services retirees in DOD, Coast Guard, National Oceanic and Atmospheric Administration, and Public Health Service by three months, from January to April.
- o Delays the COLA payments by nine months for 1995 through 1998.
- o Exempts survivors and disabled retirees from the COLA delays.

TITLE III: BANKING AND HOUSING

5 Year Savings Achieved: $3.1 billion

<u>Savings Achieved</u>

- o Authorizes HUD to use IRS data to verify the income of families that live in assisted housing. Savings result from more accurate reporting of income since housing subsidies vary inversely with income levels.

- o Approves the use of real estate mortgage insurance conduits by the Government National Mortgage Association. Savings are due to the additional guarantee fees GNMA collects from each REMIC.

- o Accelerates the rate at which the Federal Housing Administration's Mutual Mortgage Insurance Fund earns a one-time upfront fee from homebuyers.

- o Requires the transfer of earnings from the Federal Reserve's surplus reserves to the Treasury in 1997 and 1998.

- o Grants national depositor preference to the Federal Deposit Insurance Corporation, the Resolution Trust Corporation and all uninsured depositors. This preference gives them first claim to the assets of a failed depository institution.

TITLE IV: STUDENT LOANS AND ERISA

5 Year Savings Achieved: $4.8 billion

<u>Savings Achieved</u>

- o Make significant changes in the guaranteed student loan program:

  - -- Creates a new Direct Loan Program, and over time shifts loan volume out of guaranteed student loans and into direct loans. Provides that direct loans will constitute 60 percent of the total loan volume unless demand warrants a higher percentage.

  - -- Makes substantial cost saving from the guaranteed loan portion of the program. Imposes a fee on Sallie Mae based on loan holdings, reduces return to lenders on new volume, and reduces income to guaranty agencies.

  - -- Reduces costs of loan to students and provides a group of flexible repayment options, including income-contingent repayment, to all borrowers.

- o To encourage States to ensure that post-secondary institutions provide quality educations, charges an annual fee based on the dollar amount of defaults by borrowers who attended schools within the State that is in excess of 20 percent. States may pass the cost on to schools.

TITLE V: TRANSPORTATION AND PUBLIC WORKS

5 Year Savings Achieved: $0.09 billion

<u>Savings Achieved</u>

- o Permits the Army Corps of Engineers to collect fees for the use of recreational facilities it administers.

TITLE VI: COMMUNICATIONS LICENSING AND SPECTRUM ALLOCATION

5 Year Savings Achieved: $10.2 billion

Savings Achieved

- Authorizes auctions for assignment of FCC licenses for use of the radio spectrum. Spectrum licenses are treated the same as licenses for offshore drilling, grazing on federal land, and harvesting timber from national forests.

- Budget Committees are scoring $10.2 billion in savings for the spectrum provisions.

- Institutes new user fee program for FCC.

TITLE VII: NUCLEAR REGULATORY COMMISSION

5 Year Savings Achieved: $1.2 billion

<u>Savings Achieved</u>

- Amends the Omnibus Budget Reconciliation Act of 1990 to extend to the end of FY98 the existing requirement that the NRC recover 100% of its costs through user fees. This requirement to recover 100% of NRC costs currently expires at the end of FY95. Without this amendment, NRC would only recover 33% of its costs through user fees.

- The NRC fee extension increases receipts by $1.16 billion in FY96 through FY98.

TITLE VIII: PATENT AND TRADEMARK OFFICE

5 Year Savings Achieved: $0.3 billion

Savings Achieved

- o This proposal extends patent fee surcharges created by Omnibus Budget Reconciliation Act of 1990 (OBRA) that would otherwise expire at the end of 1995. This proposal does not increase patent fees beyond levels anticipated under current law.

- o The savings begin in 1996, at slightly over $100 million per year through 1998.

TITLE IX: MERCHANT MARINE

5 Year Savings Achieved: $0.2 billion

Savings Achieved

- o Extends the tonnage duty fees included in the Omnibus Budget Reconciliation Act of 1990 (OBRA) that would otherwise expire at the end of 1995. This proposal does not increase fees beyond the levels contained in OBRA. Savings begin in 1996, at over $65 million annually. The fees are paid by all ships entering U.S. ports after calling on foreign ports.

TITLE X: NATURAL RESOURCES

5 Year Savings Achieved: $0.7 billion

<u>Savings Achieved</u>

- Permanently recovers 50 percent of Administrative costs for Federal mineral leasing programs prior to the sharing of receipts with States.

- Institutes a hard rock mining claim maintenance fee in lieu of the current assessment work requirement and a fee for new mining claims for FY 1994 to FY 1998.

- Expands the authority for the collection of certain recreation fees, user fees, and commercial tours on Federal lands. Authorizes non-Federal Golden Eagle Passport sales and allows non-Federal sellers to retain 8 percent of the receipts. Agencies are allowed to keep up to 15 percent of fees to cover all direct costs of collection.

August 4, 1993

TITLE XI: CIVIL SERVICE AND POST OFFICE

5 Year Savings Achieved: $10.7 billion

Savings Achieved

- o Delays COLAs for civilian retirees by 3 months during FY 1994 - 1996. (Includes Civil Service, Foreign Service and CIA)

- o Permanently eliminates the "lump sum" retirement option except for the critically ill, beginning October 1, 1994.

- o Requires the U.S. Postal Service to make payments, over three years, to the Civil Service Retirement and Disability Fund and the Federal Employees Health Benefits Fund to satisfy past Postal pension and health care liabilities. The payments are $347 million each year for FY 1996-1998, totalling $1.041 billion.

- o Applies medicare limits for charges physicians and other providers may make to Federal Employees Health Benefits enrollees age 65 and over who are not Medicare eligible.

- o Extends the current formula that determines the government's share of premiums under the Federal Employees Health Benefits Program for 5 years, with a modification to reduce government costs slightly in 1997-1998.

TITLE XII: VETERANS AFFAIRS

5 Year Savings Achieved: $2.6 billion.

<u>Savings Achieved</u>

- o Makes permanent five provisions in current law that allow VA to:

  - -- Collect from veterans health insurers the costs of medical care provided by VA to veterans with military-related disabilities for the treatment of non-military related conditions.

  - -- Collect copayments for inpatient and outpatient care not related to military disabilities.

  - -- Use Internal Revenue Service and Social Security Administration data to verify veterans' incomes in the income-tested pension and medical care programs.

  - -- Limit pension payments to $90 per month for veterans living in Medicaid nursing homes.

  - -- Allow VA to include the costs of expected losses on the resale of foreclosed property in the formula that determines whether it is more cost-effective to acquire the property and sell it or pay the guarantee to the lender.

- o Increases fees charged for most VA home loans by .75 percent.

- o Increases to 3 percent the fee for the second or subsequent use of the home loan benefit when there is less than a 5 percent downpayment.

- o Eliminates the 1994 Montgomery GI Bill COLA and reduces the 1995 COLA to 50 percent of what would otherwise be provided.

- o Rounds down to the nearest dollar 1994 monthly benefit levels in compensation and "New Law" DIC and sets "Old Law" DIC COLA equal to 50 percent of the "New Law" increase.

- improve States' abilities to enforce medical support for children and recover other types of third-party payments;
- enable States to adopt prescription drug formularies;
- assure that disproportionate share hospital payments to public hospitals are tied to costs; and
- correct an error that would have mandated coverage of personal care services in all States, thus allowing States to retain personal care as an optional benefit.

- In addition, the agreement increases Medicaid spending in several areas, e.g.:
  - increased limit on Medicaid payments for Puerto Rico and other territories, and
  - optional coverage of TB-related services under Medicaid.

Immunizations

- Requires the Secretary of HHS to negotiate with vaccine manufacturers for the purchase and delivery of vaccine to States to immunize eligible children. Federally purchased vaccine would be provided free to eligible children, defined as: Medicaid eligible children, uninsured children, Native American children, and children uninsured for immunizations at Federally Qualified Health Centers or rural health clinics. Each State would establish a vaccine distribution program (which could be operated through Medicaid or through State Health Departments) to provide eligible children with free vaccine.

Other Programs

- Increases the earned income tax credit for working families with children. Creates a new credit for low income childless workers.
- Extends expiring Trade Adjustment Assistance program for three years to provide training and income support to workers who lose their jobs because of increased imports.
- Improves child support enforcement by streamlining paternity establishment procedures and strengthening medical support enforcement.
- Sets Federal funding match rates for State administrative costs of the AFDC program at

a uniform 50%.

- o Charges States fees for the cost of administering their State supplemental SSI payments.
- o Increases food stamps benefits, especially for families with high shelter costs and for parents paying child support.
- o Includes approximately $1 billion over 5 years for a new family support and preservation program to provide low-income parents with the skills to help raise their children and services to prevent the need for foster care placements.
- o Reforms U.S. customs inspector overtime laws. Opportunities for abuse under the current system will be eliminated and inspectors will receive compensation more in line with other Federal employees, while still providing compensation for the uncertainty of their work hours.
- o Permanently extends customs service merchandise and passenger processing fees.
- o Funds 9 empowerment zones and 100 enterprise communities. The bill contains $2.5 billion in tax incentives, most prominently wage tax credits for businesses who hire zone residents, and $1 billion in Title XX grants. The zones and communities could spend grant funds for activities such as drug prevention, community development, job training, transportation services, low-income housing, and education.

August 4, 1993

TITLE XIV: BUDGET PROCESS

Adopted:

- Retains the current caps on total discretionary BA and outlays for 1994 and 1995 and extends the caps through 1998 at the budget resolution levels. The current rules for adjusting the caps are also extended through 1998 with some modifications.

- Extends the pay-as-you-go (PAYGO) requirement for direct spending and receipts through 1998. Existing PAYGO balances are eliminated. PAYGO savings enacted in the Reconciliation Bill will not be available as offsets to future PAYGO increases in the deficit.

- Continues the existing maximum deficit amounts through 1995.

- Conforms the Congressional Budget Act of 1974 to the BEA extensions.

Not Adopted but Assumed:

- Creation of Deficit Reduction Trust Fund, which would be appropriated the savings achieved in the Reconciliation Bill and be used to redeem maturing public debt.

- Establishment of an entitlement review process, which would require the President to propose entitlement savings in the event that entitlement spending (adjusted for changes in beneficiaries) increased above the post-reconciliation levels.

Sue
Ellen
Anita

RECONCILIATION ACTION BY TITLE
(OMB estimates in millions of dollars)

08/09/93
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	House Directive		House action		Senate action		Conference action	
		1994-98		1994-98		1994-98		1994-98
	1994	Total	1994	Total	1994	Total	1994	Total
Title I: Agriculture and Related								
Revenues:								
Unspecified savings	55	301	—	—	—	—		
Outlays:								
CCC	-64	-3,175	-379	-2,908	-141	-956		
Cap Conservation and Wetlands reserve programs	—	—	-6	-164	-6	-164		
Change crop insurance	—	—	—	85	—	-1,003		
Increase Agric. recreation fees (net of payments)	-9	-47	-8	-46	-10	-59		
Subtotal, Agriculture deficit reduction	-128	-3,523	-393	-3,033	-157	-2,182		
Agriculture authorizations:								
REA loan subsidies	—	—	-15	-310	—	—		
Agency consolidation	—	—	—	-500	—	—		
Crop insurance administrative and operating expenses	—	—	—	-214	—	—		
Subtotal, Agriculture authorizations	—	—	-15	-1,024	—	—		
Title II: Armed Services								
Outlays:								
Military/ uniformed services retirement: COLA delay	-157	-2,789	-236	-2,518	-524	-2,529		
Authorizations:								
DoD military pay restraint (January)	—	—	-1,970	-19,872	—	—		
Title III: Banking and Housing								
Revenues:								
State bank fees paid to FED	52	249	—	—	—	—		
Transfer FED 'surplus' reserves	—	—	—	213	—	213		
Outlays:								
Assess exam fees for state-chartered FDIC insured banks	-196	-1,264	—	—	—	—		
Depositor preference	—	—	-98	-906	-98	-906		
Amortization of FHA upfront premiums	—	—	-270	-417	-270	-417		
GNMA Real estate mortgage investment conduits	-146	-730	-146	-730	-146	-730		
IRS income verification, housing	—	-1,022	—	-1,022	—	-1,022		
Subtotal, Banking deficit reduction	-394	-3,265	-514	-3,268	-514	-3,268		
Authorizations:								
IRS income verification, housing	—	—	5	-627	5	-627		

RECONCILIATION ACTION BY TITLE
(OMB estimates in millions of dollars)

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	House Directive		House action		Senate action		Conference action	
	1994	1994-98 Total	1994	1994-98 Total	1994	1994-98 Total	1994	1994-98 Total
Title IV: Student Loans and ERISA								
Reform student loan program	171	-3,170	106	-3,374	-426	-3,187		
Require States to share GSL default costs	-80	-596	—	-306	—	-306		
Subtotal, Student loans deficit reduction	91	-3,766	106	-3,680	-426	-3,493		
Title V: Transportation and Public Works								
Increase Corps of Engineers recreation fees	-18	-90	-18	-90	-18	-90		
Title VI: Spectrum								
Auction FCC spectrum	—	-4,420	-200	-4,420	-200	-4,420		
Title VII: NRC Fees								
NRC Fee	—	-1,175	—	-1,080	—	-1,080		
Title VIII: Patent and Trademark								
Permanently extend patent and trademark fees	—	-346	—	-346	—	-346		
Title XI: Merchant Marine								
Permanently extend tonnage fees	—	-205	—	-205	—	-205		
Title X: Natural Resources								
Impose irrigation water surcharge	-10	-60	-10	-66	—	—		
Extend hardrock mining fees	-80	-400	-43	-215	-54	-270		
Permanently extend 50% net receipt sharing (on-shore minerals)	-40	-217	-40	-217	-32	-174		
Increase DOI and Ag recreation fees: (net of payments)	-37	-236	-19	-202	-27	-262		
Implement Northern Mariana Islands funding agreement	-6	-43	-6	-43	-6	-43		
Subtotal, Natural Resources deficit reduction	-173	-956	-118	-743	-119	-749		
Title XI: Civil Service/Post Office								
Outlays:								
Complete payment of outstanding postal liabilities: CSRS	—	-693	—	-693	—	-693		
Complete payment of outstanding postal liabilities: FEHB	—	-348	—	-348	—	-348		
Extend "Big Six" formula for determining government share of FEHB premiums	—	—	700	5,680	—	—		
Institute Medicare fee limits over-65: FEHB	-12	-102	—	-86	—	—		
Pay-related limitations	—	—	-2	-40	—	—		
Miscellaneous survivor annuity improvements	—	—	—	—	2	-7		
D.C. Gov't contributions for benefits	—	—	—	—	-44	-249		

RECONCILIATION ACTION BY TITLE
(OMB estimates in millions of dollars)

	House Directive		House action		Senate action		Conference action	
		1994-98		1994-98		1994-98		1994-98
	1994	Total	1994	Total	1994	Total	1994	Total
CSRS/FERS:								
Conform child-survivor benefits age to Social Security	-4	-108	—	—	—	—		
Base survivor annuities on reduced retiree annuity	-19	-476	—	—	—	—		
CSRS: Under-62 COLAs	-42	-580	—	—	—	—		
End lump-sum benefit	—	-8,329	-34	-8,554	-3	-8,371		
COLA delay	—	—	-254	-731	-254	-731		
Subtotal, CSRS/FERS	-65	-9,493	-288	-9,285	-257	-9,102		
Subtotal, Civil Service/ Post Office deficit reduction	-77	-10,636	410	-4,772	-299	-10,399		
Authorizations:								
Civilian pay restraint	—	—	-2,602	-20,845	—	—		
FTE Reduction	—	—	4	-1,264	—	—		
Elimination of cash awards	—	—	-650	-3,250	—	—		
Cap SES leave	—	—	-7	-55	—	—		
Revenue foregone	—	—	-33	-192	—	—		
Subtotal, Post Office and Civil Service authorizations	—	—	-3,288	-25,606	—	—		

Title XII: Veterans' Affairs:

	House Directive		House action		Senate action		Conference action	
	1994	1994-98 Total	1994	1994-98 Total	1994	1994-98 Total	1994	1994-98 Total
Outlays:								
Restore 1:9 contribution ratio for GI Bill benefits	-69	-430	—	—	-69	-430		
Permanently extend IRS income verification for pensions	—	-197	—	-197	—	-197		
Extend pensions-medicaid nursing home provs	—	-300	—	-300	—	-300		
Permanently extend medical care cost recovery	-46	-1,595	-46	-1,595	-46	-1,595		
Permanently extend prescription charge/co-payment	—	-42	—	-42	—	-42		
Set housing loan fees at 2%	-153	-763	-153	-763	-153	-763		
Implement housing down-payment for second and subsequent uses	-18	-84	—	—	—	—		
Permanently extend resale loan loss provisions	-18	-93	-18	-93	-18	-93		
GI Bill COLA minus 1%	—	—	-6	-43	—	—		
DIC Limited COLA Freeze	—	—	-18	-96	—	—		
Eliminate step-children from educational benefits	—	—	-1	-3	—	—		
Collect from health insurers for service connected care	—	—	-30	-332	—	—		
Delay Comp. COLA 3 days and round checks down in 1994	—	—	—	—	-26	-126		
Subtotal, Veterans' Affairs deficit reduction	-304	-3,504	-272	-3,464	-312	-3,546		

RECONCILIATION ACTION BY TITLE
(OMB estimates in millions of dollars)

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	House Directive		House action		Senate action		Conference action	
	1994	1994-98 Total	1994	1994-98 Total	1994	1994-98 Total	1994	1994-98 Total
Title XIII: Revenues, Health Care, Human Resouces, Income Security, Customs, Trade, Food Stamps and Timber Sales								
Revenues:								
Investment (revenue decrease)	-12,068	-64,683	-7,104	-41,961	-5,038	-17,715		
Revenue raisers	48,154	349,810	43,617	334,774	39,767	267,463		
Subtotal, revenues	36,066	295,127	36,513	292,813	34,729	249,748		
Outlays:								
Registration fee on general aviation aircraft	—	—	-43	-215	—	—		
End FSLIC tax double dip	—	—	—	—	—	—		
Transfer fuel taxes to aquatic resources trust fund	—	—	—	—	—	402		
Extended benefit reforms (UI)	—	—	184	1,224	—	—		
Terminate TAA, fund in new discretionary program	-6	-254	—	—	—	—		
TAA phaseout	-9	-443	—	—	—	—		
Child support enforcement	-27	-505	-12	-445	-12	-445		
SSI	-57	-778	-49	-703	—	-540		
AFDC state match	-20	-210	-20	-210	-20	-210		
Permanently extend customs fee	—	-1,767	—	-1,767	—	-1,767		
BATF Fees	-5	-25	-5	-25	-5	-25		
Reform U.S. Customs overtime	-18	-90	-12	-44	—	—		
Extend non-interest period on IRS refunds to 45 days	-36	-248	-36	-248	-36	-248		
Permanently extend IRS income verification for pensions DELETE	—	—	—	—	—	—		
Increase Presidential check-off to $5	—	—	—	—	—	81		
Availability and use of death information	—	—	—	—	—	—		
Food stamp decrease	-18	-176	-6	-154	-18	-176		
Food stamp increase	565	7,505	522	7,198	—	—		
BLM timber sales receipts	—	—	—	—	—	—		
EITC	267	24,454	267	24,454	120	15,536		
Family Preservation	—	—	48	1,242	—	—		
Foster Care and related	—	—	122	484	—	—		
Old Age, Survivors, & Disability Insurance program	—	—	—	3	—	—		
Title XX (Social services block grant)	—	—	—	—	—	—		
Immunization (net)	—	—	13	1,361	-5	-108		
Medicaid (excludes immunization)	-270	-7,205	269	-7,011	-60	-7,586		
Medicare	-2,570	-45,782	-2,760	-50,525	-2,900	-51,005		
Subtotal, Title XIII outlays	-2,184	-25,524	-1,518	-25,381	-2,936	-46,091		
Subtotal, Title XIII deficit reduction	-38,270	-320,651	-38,031	-318,194	-37,665	-295,839		
Total savings reconciled	-39,421	-355,279	-39,258	-345,790	-40,224	-328,107		

RECONCILIATION ACTION BY TITLE
(OMB estimates in millions of dollars)

08/09/93
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	House Directive		House action		Senate action		Conference action	
		1994-98		1994-98		1994-98		1994-98
	1994	Total	1994	Total	1994	Total	1994	Total
MEMORANDUM:								
Mandatory outlays	-3,228	-59,602	-2,745	-52,764	-5,495	-78,146		
Revenues	36,193	295,677	36,513	293,026	34,729	249,961		
Discretionary authorizations	—	—	-5,268	-47,129	5	-627	—	—

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

AUG 9 1993

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Bill H.R. 2264 - Omnibus Budget Reconciliation Act of 1993
Sponsor - Rep. Sabo (D) Minnesota

Last Day for Action

Approval of H.R. 2264 is recommended prior to approval of H.R. 2667, the emergency supplemental appropriations act. Signing the measures in the recommended sequence ensures that the new discretionary caps in H.R. 2264 are adjusted upwards by the amounts designated as emergency spending in H.R. 2667.

Purpose

Provides for deficit reduction as required by the congressional budget resolution.

Agency Recommendations

Office of Management and Budget	Approval
Department of Agriculture	Approval
Department of Veterans Affairs	Approval
Department of Commerce	Approval (Informally)
Department of Education	Approval (Informally)
Department of Energy	Approval (Informally)
Department of the Interior	Approval (Informally)
Department of Labor	Approval (Informally)
Department of State	Approval (Informally)
Department of Transportation	Approval (Informally)
Department of the Treasury	Approval (Informally)
Small Business Administration	Approval (Informally)
United States Postal Service	No objection (Informally)
General Services Administration	No objection (Informally)
Department of Defense	Defers (Informally)
Environmental Protection Agency	No comment (Informally)
Other affected agencies	Approval assumed

Discussion

In your August 3rd television address to the Nation, you reported that H.R. 2264 was consistent with the five principles at the heart of your economic plan. This memorandum describes the highlights of the bill in the context of your principles.

The conference report on H.R. 2264 passed the House by a vote of 218-216 and the Senate by 51-50.

I. Largest Deficit Reduction in History

H.R. 2264 implements the budget resolution, which provided for a total of $496 billion in deficit reduction over five years under congressional scoring. $255 billion of the reduction is achieved through spending reductions and $241 billion through revenue increases. Of the spending cuts, $102 billion are from discretionary spending (the bill extends by 3 years, through FY 1998, the caps on such spending); $88 billion are from mandatory spending; and about $66 billion are largely from reduced interest payments and debt management improvements.

The Executive orders you issued on August 4th provide for a deficit reduction fund and an enforcement mechanism. The fund will ensure that the savings achieved by this bill will not be used for purposes other than deficit reduction. The enforcement mechanism will require the setting of entitlement spending targets. In the event that the targets are breached, or projected to be breached, you must propose spending reductions or revenue increases to meet them or explain why it is not necessary to do so. (The House amended its rules to require a vote on any such proposal you make.) In addition, H.R. 2264 extends the "pay-as-you-go" requirement for tax measures and mandatory spending through 1998.

The bill increases the public debt limit to $4.9 trillion, a level that, according to the Treasury Department, should accommodate necessary borrowing until sometime in the spring of 1995.

This Office has not completed its scoring of the bill, but will do so within five days of enactment. All estimates in this memorandum reflect congressional scoring.

II. Fairness

The Congressional Budget Office estimates that 80 percent of the tax burden of the legislation falls on those with annual incomes above $200,000.

H.R. 2264 creates a new 36 percent income tax bracket for individuals with taxable incomes above $115,000 and couples with taxable incomes above $140,000. (The current top bracket is 31 percent.) The bill also levies an additional ten percent surtax on individuals and couples with taxable incomes above $250,000. The phaseout of personal exemptions and itemized deductions for those with high incomes is also made permanent. In addition, the taxable portion of Social Security payments is increased from 50 percent to 85 percent for individuals with incomes above $34,000 and couples with incomes above $44,000.

III. Protection of Older Americans

H.R. 2264 reduces Medicare outlays by $55.8 billion over five years. It cuts payments to health care providers, not Medicare recipients. For example, it reduces Medicare hospital payments by $21.15 billion by holding annual increases to less than inflation.

IV. Keeping Faith with Working Middle Class Families

H.R. 2264 does not raise income tax rates on working families with taxable incomes of less than $140,000 per year. The only tax increase for such families is the 4.3 cents per gallon increase in the Federal tax on gasoline. For most families earning less than $27,000, this increase will be offset in whole or part by the earned income tax credit (EITC) increase described below.

V. Incentives for Growth

Business Incentives. H.R. 2264 cuts the capital gains tax rate from a maximum of 28 percent to a maximum of 14 percent for certain investments in small corporations. It also allows small businesses to expense up to $17,500 of equipment investments.

EITC. The bill expands the EITC by $20.8 billion over five years. For the first time an EITC will be available to childless workers between the ages of 25 and 65.

Empowerment Zones. H.R. 2264 allows the designation of up to nine "empowerment zones" in distressed areas, which would be eligible for a variety of tax incentives and grant funding. Up to 95 more communities could be designated as "enterprise communities" and receive some of the tax incentives and grant funding. The bill makes $1 billion in grant funding available in FYs 1994-1998.

Immunizations. H.R. 2264 provides $585 million for free immunizations of children who are Medicaid beneficiaries, lack health insurance coverage, are served by federally qualified health centers or rural health centers, or are Native Americans.

Family Preservation. The bill establishes an entitlement program under which States will receive grants to provide family preservation and support services to children and families. Funding is capped at $879 million over FYs 1994-1998.

Food Stamps. H.R. 2264 provides about $2.65 billion in Food Stamp benefit increases and program improvements.

Student Loans. H.R. 2264 creates a new Federal direct student loan program. By the fifth year, at least 60 percent of student loan volume will be direct loans. In addition, the bill reduces the cost of loans to students and provides flexible repayment options, including income-contingent repayment.

Conclusion and Recommendations

We join the Departments of Agriculture, Commerce, Education, Energy, the Interior, Labor, State, Transportation, the Treasury, and Veterans Affairs, and the Small Business Administration in recommending approval of H.R. 2264. The White House Office of Communications has advised us that it is preparing a signing statement for your consideration.

(signed)

Leon E. Panetta
Director

Enclosures

Lund
cc OAB

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

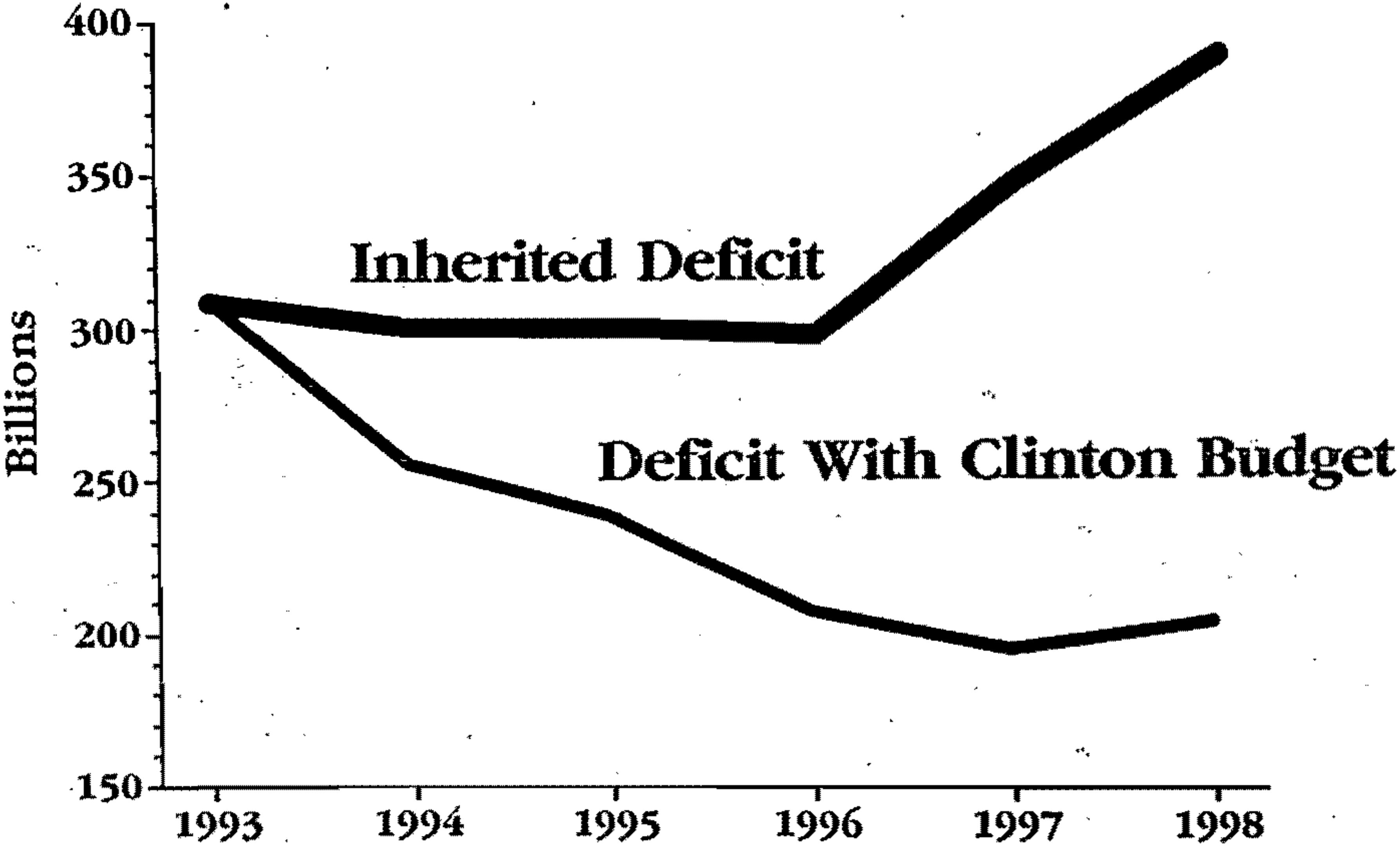
DATE 8/24/93

TO: BRD SESers

FROM: ASSISTANT DIRECTOR FOR BUDGET REVIEW

FYI. The attached was produced by the Boiler Room.

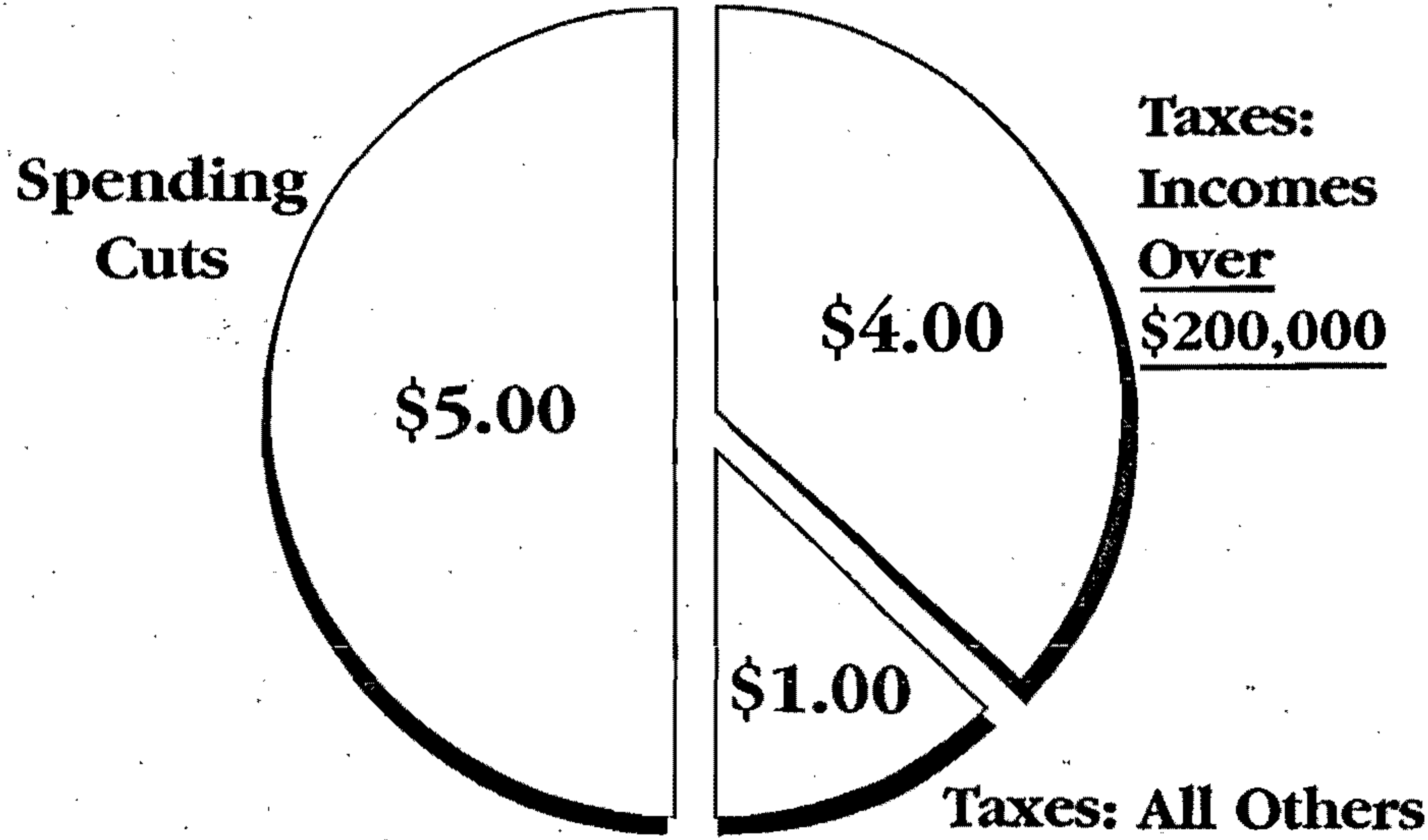
Reducing the Deficit



rce: CBO

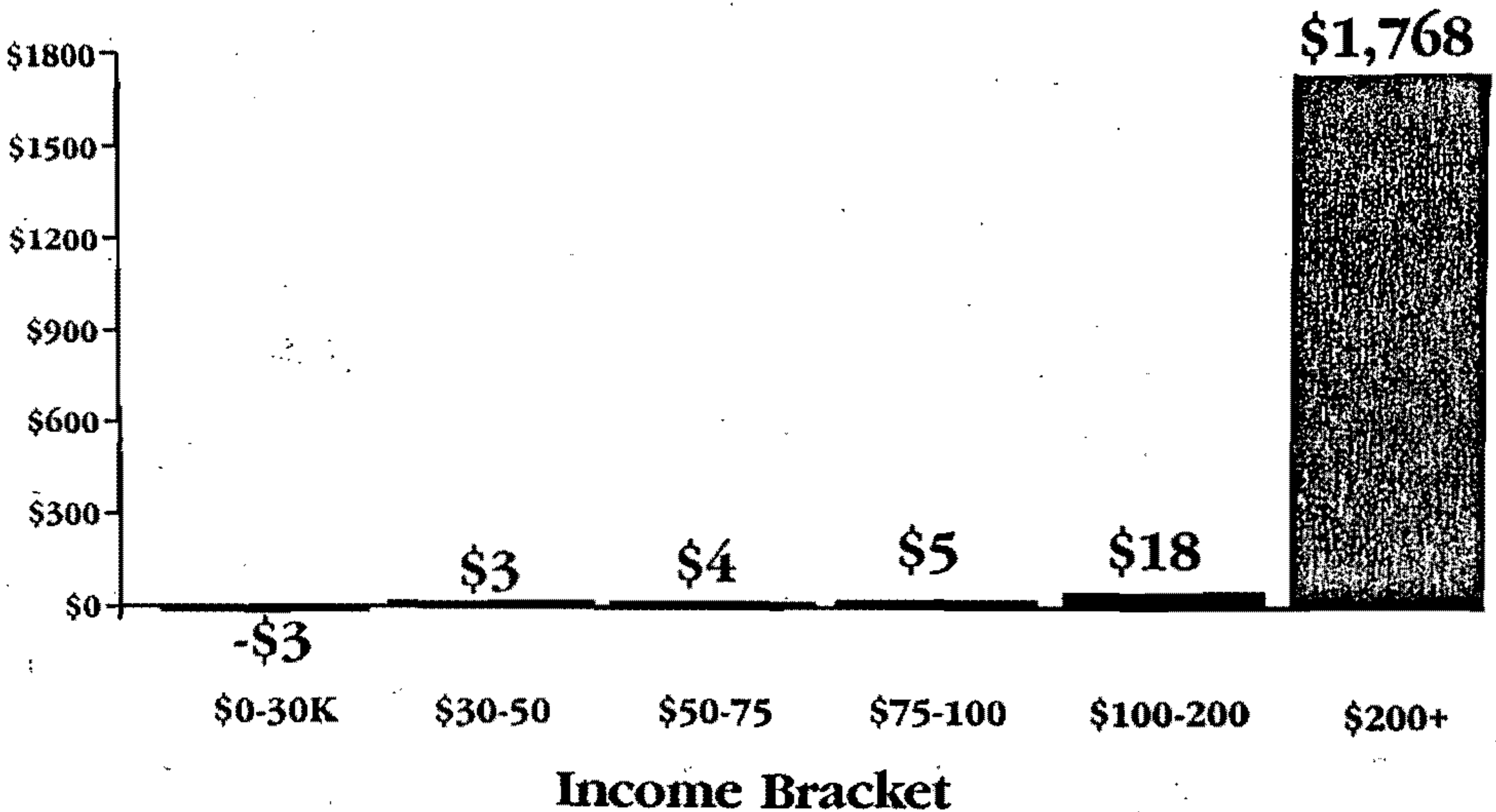
A Fair and Balanced Plan

Every $10 in Deficit Reduction Comes From:



Restoring Fairness For Working Families

Monthly Change In Taxes



CONFERENCE AGREEMENT ON PRESIDENT CLINTON'S DEFICIT REDUCTION PLAN

-- SUMMARY OF DEFICIT REDUCTION --

	1994–98
Total Deficit Reduction in Plan	$\boxed{496}$
Net Spending Cuts	**255**
Total Revenue Increases	**241**
Savings Preserved in Deficit Reduction Trust Fund	***496***
Savings Available to be Spent	***0***

$ billions

Source: Senate Budget Committee

CONFERENCE AGREEMENT ON PRESIDENT CLINTON'S DEFICIT REDUCTION PLAN

-- DEFICIT REDUCTION BY MAJOR CATEGORY --

	1994–98
Discretionary Spending Cuts	102
Mandatory Spending Cuts	88
Reduced Spending for Interest, Debt Management, and Other	65
Total Spending Cuts	255
Revenue Increases	241
TOTAL DEFICIT REDUCTION	$\boxed{496}$

$ billions

Source: Senate Budget Committee

H&R BLOCK STUDY SHOWS MIDDLE CLASS PAYS <u>NO</u> INCOME TAX INCREASE: INCOME TAXES FOCUSED ON TOP 1.2%

Today, H&R Block, the world's largest provider of taxpayer services, released a study of the effect of the President's Plan on Americans' income taxes. In short, the study found:

- MIDDLE CLASS PAYS <u>NO</u> HIGHER INCOME TAX
- WEALTHIEST AMERICANS PAY HIGHER INCOME TAXES
- ONLY ONE IN SEVEN SOCIAL SECURITY RECIPIENTS AFFECTED BY PLAN
- PLAN'S INCENTIVES TO WORK WILL LIFT HOUSEHOLDS OUT OF POVERTY

MIDDLE CLASS PAYS <u>NO</u> INCOME TAX INCREASE

According to H&R Block:

> "Our review of the income tax plan shows that its real 'bite' falls only on upper-income taxpayers. Middle-income taxpayers... have emerged unscathed, which means that those being asked to pay more are the very ones who can truly afford to do so."

The H&R Block study shows that families earning less than $180,000 in adjusted gross income ($140,000 in taxable income) will <u>not</u> pay any higher income taxes. That's right, if you earn less than $180,000 you will not pay one dime more in income taxes next year. 82.8% of taxpayers fall in this category. [Note: $180,000 in AGI is equivalent to $140,000 in taxable income -- i.e. income subject to taxation after discounting deductions and exemptions]

WEALTHIEST 1.2% OF AMERICANS BEAR BURDEN OF NEW TAXES

H&R Block said of the plan, "... its real 'bite' falls only on upper-income taxpayers... those being asked to pay more are the very ones who can truly afford to do so."

87 PERCENT OF SOCIAL SECURITY RECIPIENTS UNTOUCHED

As the study noted, "<u>Retirees who haven't owed tax on their benefits in the past will not owe tax on them under the proposed law.</u>"

INCENTIVES TO WORK TO LIFT HOUSEHOLDS OUT OF POVERTY

"Low-income households will actually get a boost through a significantly expanded earned income tax credit. The changes targeting America's poor will help lift households out of poverty and provide an important incentive to work", according to the study.

H&R BLOCK

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H&R BLOCK ANALYSIS SHOWS TAX BILL'S IMPACT

Income Tax Package Means Relief for Poor, Spares Middle and Most Elderly, Wealthy to Pay More; 12 Case Studies Show Impact of Tax Bill Provisions on "Real World" Households.

KANSAS CITY, MO.///August 5, 1993/// A preliminary analysis conducted by H&R Block, Inc., shows that the income tax provisions of the Clinton budget plan approved on August 3rd by a House/Senate conference committee add up to a package spelling relief for those with low incomes, no increases for middle-income taxpayers and most of the elderly, and hikes in the tax liabilities of America's wealthiest households.

"We have been told that many Americans have indicated to pollsters in recent days and weeks that they are expecting to be handed a big income tax hike. Most of these people appear to be misinformed," said H&R Block President and Chief Executive Officer Thomas Bloch. "Our review of the income tax plan shows that its real 'bite' falls only on upper-income taxpayers. Middle-income taxpayers and the vast majority of the elderly have emerged unscathed, which means that those being asked to pay more are the very ones who can truly afford to do so."

Bloch added: "Low-income households will actually get a boost through a significantly expanded earned income tax credit. The changes targeting America's poor will help lift households out of poverty and provide an important incentive to work. Even the well-to-do, who will shoulder a higher tax responsibility, can benefit from special provisions in the tax bill for those who invest in new businesses and jobs."

The detailed 4-page H&R Block analysis examines the income tax provisions of the "Revenue Reconciliation Bill of 1993," as it was passed Tuesday by a House/Senate conference committee. The H&R Block document shows the impact of the Clinton income tax plan on the poor, middle-income taxpayers, the elderly and the wealthy. A total of 12 hypothetical case studies have been developed by H&R Block to illustrate the implications of the income tax plan.

H&R Block, headquartered in Kansas City, Missouri, is the world's largest provider of taxpayer services. Last year, the company served 18.1 million taxpayers worldwide. In the U.S., H&R Block served approximately one of every seven taxpayers from its over 8,000 offices.

<u>FOR MORE INFORMATION CONTACT:</u> Scott Stapf, The Hastings Group, 703/276-1116. Copies of the H&R Block analysis are available via FAX upon request. Arrangements also may be made to speak with H&R Block officials.

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H&R Block Analysis
of the Income Tax Consequences
of the "Revenue Reconciliation Bill of 1993"

Executive Summary

This preliminary examination of the key income tax provisions and consequences of the "Revenue Reconciliation Bill of 1993" has been prepared by H&R Block, Inc., the world's largest provider of taxpayer services.

In brief, the major income tax impacts of this bill (as approved by the House/Senate Conference Committee on August 3) are:[1]

- No income tax increase for middle-income taxpayers;
- Relief for lower-income working taxpayers in the form of an expanded earned income credit beginning in 1994;
- Most Social Security Recipients will have no tax increase on their benefits; and
- Higher taxes for upper-income taxpayers beginning in 1993.

Explanations of the major tax revisions and hypothetical case studies follow.

Income Tax Rates Unchanged on Middle Incomes (82.2 Percent of All Taxpayers)

Middle-income taxpayers, 82.2 percent of all taxpayers, will see no change in their income tax rates. In fact, if income remains the same, they will continue to receive a small tax cut each year because the tax brackets, exemptions, and standard deductions are indexed; that is, they are adjusted for inflation each year.

Explanation: The current regular income tax brackets of 15, 28, and 31 percent would be unchanged for taxpayers whose taxable income is not more than $115,000 (single), $140,000 (married filing jointly), $127,500 (head of household), or $70,000 (married filing separately). In addition, the 28 percent maximum tax rate on long-term capital gains is unchanged.

Examples: The following examples are representative of the 82.2 percent of taxpayers who are not eligible for the earned income tax credit but whose income tax rates will not change.

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[1] The bill includes a 4.3 cent-per-gallon gas tax increase, which is 10 percent of the total tax package. Various other income tax provisions in the bill would have no impact on most middle-income taxpayers and result in a relatively small tax increase for higher-income taxpayers. For example, the phase out of exemptions and the limitation on itemized deductions, which were scheduled to expire in 1996 but would be made permanent, affect only higher-income taxpayers.

- Dean and Judy Keenen have taxable income of $48,500. Their income tax for 1993 is $8,783 both under current law and the proposed law. They would have no income tax increase.

- Roger and Alice Smith have taxable income of $140,000. Their income tax for 1993 is $35,929 both under current law and the proposed law. Married taxpayers, filing jointly, with taxable incomes of $140,000 or less, would have no income tax increase

- George Taylor has taxable income of $115,000 and no dependents. His income tax for 1993 is $31,172 under both current law and the proposed law. Single taxpayers with incomes of $115,000 or less would have no income tax increase.

Lower-Income Taxpayers (16.6 Percent of All Taxpayers) Benefit from Earned Income Credit Expansion

For 1994, the earned income credit would be simplified and expanded. The complex health insurance and young child portions of the credit would be repealed. The credit also would be expanded. Lower-income families would receive a tax cut in the form of a higher credit and very low-income workers with no children could qualify for a credit for the first time.

Explanation: The current rates would increase from 18.5 percent to 26.3 percent for one child and from 19.5 percent to 30 percent for two or more children. These rates would allow a maximum credit of $2,038 for one child and $2,528 for two or more children. The maximum income at which the credit would be available would increase from the current $23,050 to $23,753 for one child and $25,339 for two or more children.

In 1995 and thereafter, the credit rate would increase to 34 percent for one child. The credit rate for two or more children would increase to 36 percent for 1995 and to 40 percent beginning in 1996. Maximums would increase similarly.

Credit would be available to workers with no children. The earned income credit would be further expanded to provide a credit of 7.65 percent of the first $4,000 of earned income of self-supporting workers, both single and married, who are between the ages of 25 and 64 and who have no children. The maximum credit would be $306 and the maximum income for eligibility would be $9,000.

Examples: The following examples are representative of the 16.6 percent of taxpayers who would be eligible for the Earned Income Tax Credit:

- Ray and Kathy Brown have earned income of $7,750, no other income, and no adjustments. They have one child Shirley, age 4. Their earned income credit is $1,434 for 1993. Assuming the same facts for 1994, they would be eligible for a credit of $2,038 under the proposed law, a tax cut of $604.

- David and Susan Rogers have earned income of $18,700. They have no other income and no adjustments. They have two children, Rachel, age 5, and Jacob, age 7. For 1993, the Rogers are entitled to an earned income credit of $606. Assuming their income is the same for 1994, they would be eligible for a credit of $1,170 under the proposed law, a tax cut of $564.

- William Collins, age 26, is self-supporting and has earned income of $5,300. He has no other income and no adjustments. For 1993, he is not eligible for any earned income credit since he doesn't have a qualifying child. Under the proposal, he would be eligible for a credit in 1994 equal to a tax cut of $283.

Income Tax Rates Raised on High Incomes (1.2 Percent of All Taxpayers)

For upper-income taxpayers, the current income tax brackets would be retained and expanded, effective January 1, 1993. To ease the impact of this retroactive date, taxpayers who owe taxes as a result of the provisions of this bill could elect to pay that tax in three equal installments, one-third by April 15 of each of years 1994, 1995, and 1996. And, no interest or penalty would be assessed on the deferred payments.

Explanation: Tax brackets for high income would be expended to include a:

36% bracket beginning at taxable income of $115,000 (single), $140,000 (married filing jointly), $127,500 (head of household), and $70,000 (married filing separately); and

39.6% bracket beginning at taxable income of $250,000 ($125,000 for married filing separately).

Tax rates on long-term capital gains would not increase. Long-term capital gains would continue to be eligible for a maximum tax rate of 28 percent, a valuable tax break for taxpayers who are in the three higher tax brackets.

The alternative minimum tax, currently at a one-tier 24 percent rate, would become two-tiered, 26 percent on the first $175,000 of AMT income ($87,500 married filing separately) and 28 percent on any excess over that amount. The AMT exemption amounts would increase to $45,000 (married filing jointly), $33,750 (unmarried), and $22,500 (married filing separately). This tax would continue to apply only to taxpayers with incomes in excess of their exemption amounts who have claimed relatively high deductions or credits, and only to the extent it exceeds the regular income tax.

The medicare tax ceiling would be repealed, effective in 1994. This would hit taxpayers with wages or self-employment income in excess of $135,000. For example, a taxpayer with $150,000 of earned income, $15,000 more than the $135,000 ceiling for 1993, would have a medicare tax increase in 1994 of $217.50.

Examples: The following examples are representative of the 1.2 percent of upper-income taxpayers whose income tax will increase.

- Bob and Dena Jones have taxable income of $148,000. Their income tax for 1993 is $38,409 under current law. It would increase $400 to $38,809 under the proposed law.
- Charles Waldon is a single taxpayer. His income tax on $148,000 of taxable income is $41,402 based on the current rates and $43,052 using the proposed rates, an increase of $1,650.
- Tony and Lisa Wilson have taxable income of $258,000. Their income tax for 1993 is $72,509 under current law. It would increase $6,188 to $78,697 under the proposed law.

Social Security Recipients; 87 Percent Will Have No Tax Increase on Their Benefits

Beginning in 1994, the rules for determining the taxable amount of Social Security benefits will change. More than 87 percent of all Social Security recipients will have no increase in income taxes on their benefits because of this change.

Explanation: Married couples filing jointly with incomes up to $44,000 and singles with income up to $34,000 will continue to include in income only the smaller of 50 percent of their Social Security benefits or 50 percent of modified adjusted gross income in excess of $32,000 or $25,000, respectively. Retirees who haven't owed tax on their benefits in the past will not owe tax on them under the proposed law.

In most cases, higher-income retirees would pay tax on 85 percent of their Social Security benefits. Three amounts must be figured to determine whether or not a smaller amount would apply. This is so because, the taxable amount is limited to the smaller of 85 percent of the benefits or:

85 percent of modified adjusted gross income in excess of $44,000 for married couples filing jointly or $34,000 for singles *plus the smaller of*

- The amount that would be taxable under current tax law; or
- One-half the difference between the old and new base amounts.

The increase in the taxable amount is softened somewhat since modified adjusted gross income would continue to include only 50 percent of social security benefits for purposes of calculating the taxable amount.

Examples: The following examples are representative of the 87.2 percent of Social Security recipients who will have no increase in income tax on their benefits:

- Ruth Daniels has adjusted gross income of $19,800 and Social Security benefits of $8,748. None of her benefits are taxable either under current law or the proposed law since her adjusted gross income plus one-half of her benefits total $24,174 and are under the $25,000 ceiling. Thus, she would have no increase in her income tax.
- Jerry and Jan Harren have adjusted gross income of $36,780 plus social security benefits of $14,440. Under the proposed law, the Harrens would pay $900 of tax on their benefits both under current law and the proposed law. Thus, they would have no increase in their income tax. The taxable part of their Social Security benefits would be $6,000, the smaller of 50 percent of their benefits or 50 percent of their income in excess of $32,000.

The following example is representative of the 12.8 percent of higher-income Social Security recipients (3.4 percent of all taxpayers) who will pay higher income taxes on their benefits:

- Bill and Mary Kramer have adjusted gross income of $46,300 plus social security benefits of $14,440. Under the proposed law, the Harrens would have an income tax increase of $1,415. Since their adjusted gross income plus one-half of their benefits is more than $44,000, they include $12,274 in income. Eighty-five percent of their $14,440 of benefits are includable since this amount is smaller than the sum of 85 percent of their income in excess of $44,000 and the lesser of one-half of $12,000 ($44,000 minus $32,000) or the $7,220 that would have been included in income under current rules.

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