Remembering the 1986 Tax Reform Act

By Robert S. McIntyre

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McIntyre recalls the role that Citizens for Tax Justice played in the process that led to the Tax Reform Act of 1986.

A. Prologue

In 1981 President Reagan succeeded in enacting a gigantic tax cut that slashed income taxes for the wealthy but left most Americans with a net tax increase after taking account of inflation-driven bracket creep and the continued phase-in of the 1977 payroll tax increases. Reagan's tax cut also vastly expanded business tax loopholes. And predictably, it produced huge federal budget deficits.

That year, I was a young pup of 32. I had been working to promote progressive tax reform since the summer of 1975, first at Public Citizen's Tax Reform Research Group and then as federal tax policy director at Citizens for Tax Justice (CTJ).[1]

CTJ fought hard against Reagan's 1981 tax act, and our arguments were gaining traction in Congress when John Hinckley intervened. Reagan's grace under fire after the failed assassination attempt produced a groundswell of public sympathy and support and made stopping or scaling back Reagan's signature tax cut plan impossible.

At that point, things couldn't have looked worse for the future of real tax reform. But for whatever reason, we at CTJ didn't give up.

The following is my story of CTJ's role in the process that led to the monumental Tax Reform Act of 1986. It's a lightly edited version of notes I took in the fall of 1986, after the bill was enacted, to remind me later of what we had done to help cause that miracle.[2] The piece has remained unpublished until now.

Of course, many others played key roles in producing TRA 1986. This is mainly just CTJ's story, as written in the exuberance of that stars-were-aligned moment.[3]

B. CTJ's Notes From 1986

1. An 'obscure labor-funded group.' Who would have thought that the publication of a report titled "The Impact of Recent Changes in Federal Depreciation Rules on State Tax Revenues" by what *The Washington Post* called "an obscure labor-funded group" would play an important role in planting the seeds for the most comprehensive reform of the federal income tax code in history?

The authors of that report — CTJ executive director Dean Tipps, policy analyst David Wilhelm, and I — certainly didn't think so. The report was issued in August 1981 while Tipps was vacationing on Cape Cod and my family was headed for Yellowstone National Park. That left 22-year-old Wilhelm and an even younger intern to handle an unexpected torrent of calls from newspapers across the country.

As it turned out, the findings of the report — detailing state-by-state how the Reagan corporate tax cuts of 1981 were going to cost state governments lots of money and endanger state services — made headlines across America. The media gave the public its first close-to-home look at the true meaning of the Reagan administration's love affair with tax loopholes, and the public didn't like what it saw.

Moreover, the surprising success of "The Impact of Recent Changes" taught that obscure labor-funded group a key lesson that ultimately played a central role in the passage of federal tax reform in 1986.

[1] Some early tax reform victories that I helped make happen in the mid-1970s were overwhelmed by the catastrophe of 1978, when President Carter's ambitious tax reform proposal was transformed by Congress into a tax cut for corporations and wealthy investors.

[2] Most of the edits involved adding some footnotes.

[3] Twenty-five years later, I'm still plugging away as CTJ's director. On another note, little of our funding now comes from labor; more than 90 percent comes from foundations and individuals.

That lesson, in a nutshell, was the importance of bringing tax issues home to people so that they can understand how they will be affected personally. News that state and local services — schools, roads, and other programs — are in danger is much more real to people than statistics from faraway Washington about the percentage of this or the share of that. ''The Impact of Recent Changes'' firmly established the center's style of issuing reports that name names, give the public news that's relevant, and follow up with concerted grassroots efforts.

Indeed, CTJ devoted much of its time from late 1981 through 1983 to the grassroots efforts begun with the 1981 report. With its help, dozens of states voted to ''decouple'' from the federal depreciation tax giveaways, not only preserving needed revenues but sensitizing thousands — state legislators, governors, reporters, and ordinary citizens — to the problems of tax loopholes gone wild.

At the same time, CTJ was working to inform policymakers in Washington about the tax unfairness problem and to undo much of the damage to the tax system caused by the 1981 Reagan tax act. Every success in that effort made the achievement of true, fundamental tax reform more possible.

2. The 1982 Dole-Rostenkowski tax reforms: The first step. In November 1981 CTJ helped break the story of ''tax leasing'' — the obscene practice sanctioned in the 1981 tax bill that allowed companies to buy and sell tax credits. Occidental Petroleum Corp., General Electric Co., Ford Motor Co., and other giant firms found to their surprise that their leasing deals had become the subject of nationwide publicity and debate.

All over America, lawmakers found their constituents asking about the technically arcane leasing deals, raising questions that had to be answered. By February 1982 the chairs of the taxwriting committees had vowed to end the ''buy-a-tax-break'' system. But that wasn't all.

The focus on the corporate giveaways in the 1981 bill produced by the leasing debate had much broader implications. In the summer of 1982 Congress approved a major tax reform bill taking back more than a third of the corporate tax cuts enacted the previous summer, and a reluctant Reagan was persuaded to sign it.[4]

C. The 'Fair Tax'

1. Talking about fundamental tax reform. The outcry over loopholes did not end with passage of the 1982 tax act. Instead, it grew more and more intense — so much so that for a time, those on the right tried to co-opt the public's dissatisfaction, generating a wave of enthusiasm for something called the flat tax. Conservatives were willing to curb at least some loopholes, but only in the context of a giant tax cut for the rich and equally large tax increases for middle- and low-income families.

But the right wing was unsuccessful in stealing tax reform from the people. In the spring of 1982, with CTJ's support, Sen. Bill Bradley and Rep. Richard A. Gephardt introduced their ''FairTax'' plan, the perfect antidote to the flat tax. The FairTax proposed to close the loopholes — far more completely than any right-wing flat-tax plan — but to keep progressive rates. Bradley and Gephardt demonstrated that tax reform means fairer taxes, not more boondoggles for the rich, as the right wing desired.

The spring 1983 publication of *Inequity & Decline*, which I coauthored with Tipps, helped keep the fires burning for tax reform. Called ''the best critique to date of supply-side economics'' by *The Wall Street Journal*, *Inequity & Decline* not only exposed the inequities of the existing tax laws, but it also took on the loophole lobbyists' economic policy assertions and showed how the explosion in unfair tax breaks was actually hurting the economy. Dog-eared copies of the book could be found in many congressional offices over the years that followed.

2. The 1984 tax reform bill: Further progress. The pressure on Congress to do something about unfairness and to bring down the federal budget deficit did not abate. In early 1983 CTJ gave the *CBS Evening News* the story of how the U.S. armed forces were attempting to get into the tax leasing business.

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[4]The 1982 revenue-raising tax reforms were championed by Senate Finance Committee Chair Bob Dole and House Ways and Means Chair Dan Rostenkowski. Federal Reserve Chair Paul Volcker also played a key role by encouraging Reagan to support the tax increase. The president had already begun to have doubts about his previous notion that he could pay for his defense increases ''with the money we raise from the tax cuts.'' As John A. Farrell said:

(Footnote continued in next column.)

> On August 3, [1981,] fresh from their summer of legislative triumphs, Reagan and his aides gathered in the cabinet room at the White House for a working lunch, and [budget chief David] Stockman showed Reagan the consequence of that summer's victories: they would need from $250 [billion] to $500 billion in further spending cuts over the next four years, or face triple-digit budget deficits. ''Dave, if what you are saying is true,'' said Reagan, ''then Tip O'Neill was right all along.''

From *Tip O'Neill and the Democratic Century* 578 (2001), quoting from David A. Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed* 418 (1987).

Reagan's apostasy in agreeing to increase taxes in 1982 led to another happy development. His supply-side Treasury officials (*e.g.*, Paul Craig Roberts and Norman B. Ture) all quit (or were forced out, depending on whom you believe) and were replaced with people with a sense of reality. That blessed event made further Reagan-signed tax increases, and ultimately big-picture tax reform, much more likely.

Incredibly, the Navy wanted to sell ships for the rapid deployment force to a consortium of domestic and foreign financiers, and then lease back the ships for its own use. Likewise, the Air Force hoped to sell and lease back its fighter training planes. It was a tax shelter designed to shift costs from the Department of Defense's budget to the tax code, with a much higher overall cost to the government.

The front-page headlines and subsequent outcry over this "Lease-a-Navy" plan got Congress back into action, and it ultimately led to another significant scaling back of the 1981 loopholes in a bill enacted in early 1984.

D. Tax Politics: Reagan Becomes a Reformer

Meanwhile, the White House was beginning to worry about the 1984 elections. Key GOP strategists feared that the Democrats would run on a platform accusing the Republicans, quite accurately, of being the party of tax giveaways to big business and the rich. They expected that the 1984 Democratic presidential candidate would embrace the Bradley-Gephardt FairTax, and they were concerned that tax reform, as defined by Bradley, Gephardt, and CTJ, could be the Democrats' ticket back into the White House.

In his 1984 State of the Union address, Reagan tried to wish the tax issue away, calling for a Treasury study of reform options to be issued after the election. The ploy was so transparent that the assembled members of the House and Senate laughed aloud at the president's pretenses to becoming a tax reformer. "I said something funny?" the president plaintively asked in response to the guffaws.

Taking up the call for fundamental reform, CTJ issued a major paper on tax overhaul in the spring of 1984. Called "Just Taxes, and Other Options," the 20,000-word article explored the various approaches to reform and exploded the academic myths about the supposed benefits of consumption taxes. A powerful brief for the Bradley-Gephardt approach to reform, "Just Taxes" joined *Inequity & Decline* as a basic reference tool for CTJ's congressional sympathizers.

Unfortunately for him, but perhaps fortunately for the cause of tax reform, Democrat Walter Mondale rejected the Bradley-Gephardt approach in his 1984 presidential campaign. Instead, he called for a "tax increase" — and having phrased it that way, no amount of explaining could persuade the American people that Mondale meant anything but big tax increases for middle-income families.

Mondale's mistake, however, caused the White House strategists to rethink their position about tax reform. They thought perhaps tax reform could be the magic potion leading to the elusive electoral "realignment" in favor of the Republican Party. Not real reform, mind you, but something that could be called reform.

And so, in the waning moments of the 1984 campaign, Reagan began talking up tax reform, touting his upcoming Treasury study as the answer to America's tax discontents.

E. CTJ's First Corporate Tax Study

But then something that turned out to be surprisingly important — even momentous — happened, something that took tax reform out of the hands of the president and special interests. In October 1984 CTJ released "Corporate Income Taxes in the Reagan Years: A Study of Three Years of Legalized Tax Avoidance." The product of six months of tedious, close reading of corporate annual reports, the report was a bombshell.[5]

For the first time, the actual names of the companies that were ripping off the tax code were revealed for all to see: GE, Boeing Co., Dow Chemical Co., AT&T, and on and on. "128 Big Firms Paid No Federal Income Taxes" blared the 60-point headline of the *Herald Examiner*. Similar headlines and articles appeared around the country, followed by angry editorials and calls for reform.

CTJ-instigated follow-up stories came almost daily. *The New York Times*, for example, twice ran the story of how the nation's major defense contractors paid little or no taxes. State-by-state breakdowns of corporate freeloaders generated more press and TV coverage.

The problem with the tax system had now been clearly stated: GE, Boeing, and half of the largest companies in America were not paying their fair

[5]Tipps, who founded CTJ and was serving as its executive director in 1984, had been nagging me for more than a year to do a corporate tax study. I'd put him off on the grounds that it was too much work and that I had better things to do. But in the spring of 1984, my brother (and noted tax expert), Michael J. McIntyre, had persuaded me to substitute for him on what he called a junket to Taiwan. "You'll just have to do a little teaching every day," he promised. "The rest will be like a vacation. And you can bring the family." As it turned out, however, the so-called junket turned into spending almost every day teaching for four or five hours and preparing to do so for the rest of the day. By the time my family returned to Washington I was totally burned out. So when I arrived back at my office, I announced to Dean, "I'm too zonked to do anything else, so I'm ready to do the corporate study." Those were pre-computer, pre-Internet days. I had to get hard copies of all the annual reports, do all my calculations on a reverse-Polish HP calculator, and write everything down on yellow legal pads. In the late summer, I was able to borrow a primitive computer for a few hours a day so I could type in the results, add up the totals, and print them for the final report. When asked by reporters why CTJ was releasing the report at that time, I told the truth: "Because I finally finished it."

share and were thus making ordinary Americans pay more for fewer public services.

Then, as the news stories about CTJ's corporate study were still being written, the second piece of the puzzle was put in place.

F. Treasury's Tax Reform Plan

In late November, after Reagan's reelection, Treasury issued its tax reform study. It, too, was a bombshell, catching even the White House off guard. Treasury called for a wholesale overhaul of the federal income tax code, including reforms that would raise corporate taxes by $120 billion over five years.

''How can it be that the Reagan administration is proposing $120 billion in corporate tax increases, when the administration previously has supported reducing corporate taxes?'' a *Wall Street Journal* reporter asked then-Treasury Secretary Donald Regan at the briefing announcing the Treasury study.

''Why, we're not raising taxes on all companies,'' Regan responded. ''But there's lots of them out there who aren't paying anything. You've all seen the names in the papers. I don't need to repeat the list here.''[6]

The linkage of the Treasury tax reform program with CTJ's corporate tax study — ''Here is the problem and here is the answer'' — was one that resonated, and stuck, in the public's mind. And the solution to corporations ripping us off was tax reform: fundamental, comprehensive tax reform.

Putting the corporate freeloaders back on the tax rolls became the political sine qua non of all tax reform proposals. Even those who were against closing corporate loopholes (the president, Rep. Jack Kemp, and so on) had to pretend to be for it. ''There's no reason why conservatives should support corporate tax subsidies,'' Kemp was fond of saying in his speeches, although his own ''tax reform'' proposal kept all the major corporate loopholes.

Meanwhile, CTJ put the loophole lobbyists even more on the defensive. In January 1985 it published ''The Failure of Corporate Tax Incentives,'' which looked at the investment and employment records of the companies whose taxes, or lack thereof, were examined in ''Corporate Income Taxes in the Reagan Years.'' The central finding, as the *National Journal* put it, was ''enough to give corporate executives heartburn''; as it turned out, no-tax corporations had cut investment and employment, while high-tax companies had increased investment and hired more workers.

''The Failure of Corporate Tax Incentives'' attracted not only press attention but the interest of economists as well. The first truly systematic analysis of the actual effects of so-called tax incentives, it was reprinted in the economics journal *Challenge*. Washington lobbyists hired economists to try to

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[6]Regan relates in his memoir that CTJ's revelations about corporate tax avoidance, in particular about Reagan's former employer, GE, persuaded Reagan to support tax reform (although Regan didn't bother to mention CTJ as the source):

> Did the President want to reform the tax system or not? . . . I raised the question with the President during an Oval Office briefing.
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> On the theory, I suppose, that it relaxed the participants and established an atmosphere of fellow feeling, President Reagan liked to start every meeting off with a story or a joke. So, as a way of introducing the subject, I asked him a question about his old employer, the General Electric Company: ''What does General Electric have in common with Boeing, General Dynamics, and fifty-seven other big corporations?''
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> Reagan's interest was immediately aroused. He had fond memories of his days as a television host and traveling goodwill ambassador for GE, and a large number of anecdotes and stories about this experience.
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> ''I don't know,'' he said, leaning forward in his chair and smiling. ''What do they have in common?''
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> ''Let me tell you, Mr. President,'' I replied. ''What these outfits have in common is that not one of them pays a penny in taxes to the United States government.''
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> ''What?'' the president said.
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> His shock was genuine. A dumbfounded silence settled over his economic advisers. What unconventional idea was I trying to plant in the President's mind now?
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> ''Believe it or not, Mr. President,'' I continued, ''your secretary paid more federal taxes last year than all of those giant companies put together.''
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> The President flushed, a sure sign of surprise and discomfort.
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> ''I just can't believe that,'' he said.

(Footnote continued in next column.)

> ''I don't blame you for doubting it,'' I replied. ''But it's the truth. I checked the figures with Roscoe Egger at IRS, and he tells me there's no doubt about it. It's perfectly legal, but it's wrong, Mr. President, when a hardworking secretary pays more to support her government than sixty of the richest corporations in the land. The time has come to do something fundamental about the tax system. It's too complicated, it's grotesquely unfair, and it's a drag on the economy because it discourages competition.''
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> By now the President's cheeks were carmine and there was a spark of resolution in his eye.
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> He said, ''I agree, Don. I just didn't realize that things had gotten that far out of line.''
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> I interpreted his words as an instruction to go full steam ahead with a proposal to overhaul the entire federal tax structure so as to purge it of inequities [and] plug its loopholes. . . . Most of these tax breaks had been justified on grounds that they were in the national interest. The accumulated weight of the inefficiency and selfishness they had created had become a burden on the economy and an affront to economic and social justice.

Donald T. Regan, *For the Record* 194-195 (1988).

refute the findings of the report, but they were unable to dispute or explain away the basic findings.

G. Tax Reform Goes to Congress

Reagan put out his version of reform in May 1985. Not surprisingly, it was a major step backward from the Treasury plan. Although it claimed to close loopholes and increase corporate taxes substantially, those goals were accomplished mainly by short-term gimmicks. Indeed, the Congressional Budget Office estimated that the plan actually might produce a corporate tax *cut* in the long run.

The deficiencies of the president's plan, however, created an opening for the Democrats to reclaim the reform issue as their own. And Rep. Dan Rostenkowski, chair of the House Ways and Means Committee, took up the challenge.

In doing so, Rostenkowski had the backing of some unusual allies. CTJ's corporate tax study had shown not only which companies were paying no taxes, but also which were paying quite a lot. In many cases, the managers of those high-tax companies were unaware that their taxes were so much higher than those of other firms. Angered that they, too, were being ripped off, and attracted by the promise that tax reform would cut corporate as well as personal tax rates, many high-tax corporations became avid tax reform advocates.

With the business community divided and the public demanding change, the pressure was on Congress to act. And CTJ kept up that pressure, led by Wilhelm, who had returned after a three-year absence to replace Tipps as executive director; organizing director Fritz Wiecking; and me.

On April 15, 1985, CTJ and its allies embarked on the "CORECT" campaign: "Citizens Organized to Restore an Effective Corporate Tax." That grassroots effort, involving more than 80 participating organizations, sought signatures on a petition calling for an end to wasteful and unfair corporate loopholes. CORECT helped organize tax reform coalitions in more than half of the congressional districts of Ways and Means Committee members, arranging meetings with committee members in their home districts and working with the local press. In some cases, different groups associated with CORECT held more than 10 meetings with members, and the issue of corporate tax avoidance was kept on the front burner in the targeted congressional districts through radio call-in shows, speeches, fundraisers, picnics, and a variety of other grassroots activities.

In August 1985 CTJ issued its second corporate tax report, "Corporate Taxpayers & Corporate Freeloaders." With CTJ now part of the mainstream, and with the staff's skills further honed, the second report received even more press and TV coverage than the first. At a Ways and Means retreat to discuss tax reform that month, Treasury Secretary James Baker (who had replaced Regan) circulated newspaper clips on CTJ's report to committee members to illustrate the need for reform.

By the fall of 1985, CORECT had obtained more than a million signatures on a petition calling for an end to corporate tax giveaways. A procession of children pulling little red tax-reform wagons delivered the petitions to Rostenkowski while TV cameras rolled. Rostenkowski promised to deliver, and deliver he did.

Of course, all was not smooth sailing. In the first major vote by the Ways and Means Committee, a majority voted to scrap a proposed Rostenkowski reform to scale back tax breaks for banks, and instead, to *enlarge* the bank loophole. But that setback was actually a blessing in disguise. The grassroots network that CTJ helped build responded in outrage to the giveaway to the banks. Members of the committee, who had been saying that no one seems to care about tax reform back home, were deluged with *local* complaints about their actions. The bank vote was quickly reversed, and more importantly, members began treating tax reform as something their constituents demanded.

When Ways and Means reported its tax reform bill in late fall, it adopted virtually every specific loophole-closing suggestion made by CTJ as part of its lobbying efforts. House Republicans, led by supposed "reformer" Kemp, along with some conservative Democrats, at first balked at voting for a bill that repudiated everything they had ever stood for when it came to taxes.[7] Even the White House came close to abandoning its own tax reform effort. But no one wanted the public's blame for killing tax reform. After a rekindled lobbying effort by Reagan, the House eventually passed the bill and sent it to the Senate.

H. Saving Tax Reform in the Senate

In January 1986, as the Senate prepared to take up tax reform, CTJ issued the follow-up report to "The Failure of Corporate Tax Incentives." Titled "Money for Nothing," the new study again found

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[7]Other so-called GOP tax reformers who tried to kill the tax reform bill in the House included Newt Gingrich, Bill Archer, and Dick Armey. (Archer later became Ways and Means Committee chair, where he bragged that he had "never voted to pay for a nickel of government spending." Armey went on to promote a budget-busting flat tax plan that would have eliminated all taxes on capital income. Today, he is a prominent organizer of the Tea Party movement, which claims to strongly oppose budget deficits.)

that no-tax companies had failed to increase investment or jobs, while high-tax companies had managed to augment both. Again, the report received nationwide publicity. And again, the loophole lobbyists were stunned. ''A Critique of 'Money for Nothing''' was the ironic title of the American Petroleum Institute's attempt to respond to the report (we thought that was *our* line!). Former Reagan administration Council of Economic Advisers Chair Murray Weidenbaum was hired by one business lobbying consortium to attack ''Money for Nothing,'' but his analysis only added to the report's publicity.

In March CTJ took on the other prong of the loophole lobbyists' claims about the benefits of tax incentives. In ''Undermining America: Corporate Loopholes and the Trade Deficit,'' CTJ found that no-tax companies had a terrible record on export performance, while high-tax companies had done much better. The findings were circulated by pro-tax-reform business groups and prominently displayed in *The Washington Post*.

Despite the flurry of reports, for a time it seemed that the Republican-controlled Senate would be the deathbed for reform. Finance Committee Chair Bob Packwood, an avowed fan of tax breaks, proposed to drop $75 billion in House-passed corporate tax reforms and substitute $75 billion in regressive excise tax increases to make up the difference. His fellow members of the Finance Committee, with a few notable exceptions such as Bradley and George Mitchell, found restoring loopholes so congenial that they added another $25 billion in giveaways to Packwood's total.

But then the Finance Committee had to face political reality. CTJ issued a major study on Packwood's excise tax proposals. ''Unfair Share'' showed that Packwood's plan would undermine the benefits of tax reform for most American families. Analyzing the impact of the proposed excise tax increases on a state-by-state basis, the report was, as usual, front-page news across the country. Business groups opposed to higher excise taxes distributed the report's findings to their members. CTJ local media tours in Minnesota, Missouri, Oregon, and Texas helped build grassroots pressure for rejection of the Packwood excise tax proposals and were followed by concentrated letter-writing campaigns to key Finance Committee senators.

At the same time, Democrats, at CTJ's urging, were already preparing to make tax reform a central issue in the 1986 elections. Their plan was to stress how the Democratic House had approved the reforms that would end corporate freeloading, while the Republican Senate had stood up for tax-avoiding defense contractors and other corporate tax scofflaws. A CTJ analysis of political action committee contributions by no-tax companies confirmed that they overwhelmingly favored GOP candidates in close races — information that the Democrats were eager to exploit.

Polls by both CTJ and by several candidates confirmed that tax reform would indeed be a potent campaign issue. And Packwood, fearing that Republican control of the Senate would be lost over the tax reform issue, relented. He reversed course and proposed a sweeping tax reform measure, almost up to the standards of the House bill. It eventually was approved by the Finance Committee on a 20-0 vote.

I. The Final Outcome

Tax reform was now all but assured of passage. But the pressure needed to be maintained if it was to truly live up to its promise. In July 1986, on the day the tax reform conference between the Senate and House began, CTJ issued its third report on corporate taxpayers and freeloaders, this time titled ''130 Reasons Why We Need Tax Reform.'' The names of 130 companies (out of 250) paying no taxes in at least one year of the four examined were listed, and the loopholes that allowed them to thumb their noses at the tax system were explained. Again, state-specific lists of companies were prepared and emphasized in 50 state-specific press releases. Again, the taxes not paid by defense contractors were revealed, as was W.R. Grace & Co.'s sorry record of paying no taxes to the United States while paying hundreds of millions of dollars in taxes to foreign governments. And again, the story was front-page news all over the country.

Ultimately, Congress approved and the president signed what many called the most monumental tax reform bill in American history. Six million low-income families were taken off the income tax rolls, and taxes were reduced for 80 percent of middle-income Americans. And the well-off freeloaders, both corporate and individual, were told to start paying again.[8]

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[8]Although TRA 1986 was ''revenue neutral,'' it increased taxes on corporations that were paying little or nothing and cut taxes on companies that had been paying high effective rates. Overall, despite lowering the corporate tax rate from 46 to 34 percent, it was designed to increase overall corporate tax payments by more than a third. On the individual side there was a net tax reduction (paid for by the corporate tax increase). For the highest-income individuals, the Joint Committee on Taxation had found that half were paying close to the statutory tax rates, while the other half were paying little or nothing because of tax shelters. TRA 1986 cut taxes on the high-tax half of the wealthy, and increased taxes sharply on the low- and no-tax wealthy. The combination of all the changes made the tax

(Footnote continued on next page.)

J. CTJ's Role — and the Post-1986 Challenge

Years of effort; thousands of speeches; TV and radio interviews; articles; conversations with reporters, congressional staffers, and lawmakers; congressional testimony; and grassroots activities around the country finally paid off with the passage of the Tax Reform Act of 1986.

Everyone acknowledged the key role CTJ had played. A *Washington Post* story on how the tax bill passed featured CTJ as the key instigator. *The Wall Street Journal* noted that CTJ's studies ''helped propel the tax-overhaul effort.''[9] The Associated Press reported that CTJ reports prompted a flood of protests to members of Congress demanding that something be done. Congressional insiders reported that at the closed meetings of both the Ways and Means and Finance committees, the question constantly being asked by the representatives and senators was: ''If we do this, will it end the abuses detailed in CTJ's reports?'' Or more specifically, as Pat Moynihan put it during a private Finance Committee meeting held on April 24, 1986, ''Will W.R. Grace start paying more taxes to the U.S. Treasury than it pays to Gaddafi's Libya?''

Washington business lobbyists referred to the tax bill's corporate minimum tax as the McIntyre Minimum Tax because it was specifically designed to assure that no company reporting substantial profits to its shareholders could avoid paying corporate income taxes.

CTJ's role in the formation of the tax bill was, of course, not limited to the design of the corporate minimum tax (although it was the first to suggest that design in congressional testimony). Our strategy from the outset was to use the ''horror stories'' of corporate tax abuse as a lever to obtain much more than simply a minimum tax on companies. The real goals were to repeal the abusive loopholes outright and end the tax shelters that let too many corporations and wealthy individuals avoid their fair share of taxes. The politics of the day required that, at first, the money raised by reform would go to provide a fairer shake to average taxpayers. In the longer run, our aim was to restore the public's faith in the tax system and in government so that needed additional revenues could be raised fairly in the future.

Thus, even with the miraculous victory in 1986, the fight over federal tax reform was far from over. The second and necessary stage would be to attack the Reagan deficits by raising additional revenues fairly.

K. Epilogue

The hoped-for second stage of tax reform, the revenue-raising part, took a while to happen. In 1990 under the first President Bush, taxes were increased slightly. Then in 1993 President Clinton succeeded in increasing the top personal income tax rates substantially.[10] Both those successes came at a heavy price, however, because they reintroduced a special lower top tax rate on capital gains, thereby undermining one of the most important 1986 reforms.

Corporate tax reform was sustained for a while after 1986, but it ran into growing trouble starting in the 1990s.[11] The GOP takeover of the House in 1994, coupled with a Clinton Treasury Department indifferent or even hostile to making corporations pay their fair share in taxes, led to the gutting of the corporate minimum tax and an array of harmful tax giveaways to multinational companies.

Clinton's 1993 increases in the top individual tax rates, coupled with a booming economy, did lead to balanced federal budgets in his second term.[12] But President George W. Bush's big tax cuts quickly sent the government deeply back into the red while piling on further huge tax breaks for investment income.

So once again, we desperately need real tax reform that restores both fairness and fiscal sanity. Unfortunately, most current House members have

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code more progressive than it had been, although still considerably less progressive than it was when Reagan took office. And, of course, the act did not address the budget deficit problem.

[9]In *Showdown at Gucci Gulch* (1987), Jeffrey H. Birnbaum and Alan S. Murray's history of TRA 1986, Al Hunt wrote in the introduction: ''One of the more unusual heroes stands as the very antithesis of the fat cats who so often dominate Washington: Bob McIntyre, the young Ralph Nader-trained, labor union-backed tax-reform advocate whose studies showing corporate nonpayment of taxes were a catalyst for this entire endeavor'' (at xiii). And Birnbaum and Murray added: ''Bob McIntyre's one-man report would turn out to be more influential than all the firepower the corporate lobbyists could muster'' (at 13).

[10]Some of my liberal friends were reluctant to support TRA 1986 because it did not increase revenues to reduce the budget deficit. I was confident, however, that it would be fairly easy to raise tax rates in the future, which turned out to happen (I won a bet from one of my pessimistic friends when tax rates were eventually increased).

[11]One cause was the retirement of key members of Congress who had led the fight for tax reform. Another was an exodus of taxwriting committee staffers to corporate lobbying jobs. As one said on his way out the door, ''We've done tax reform. Now we'll do tax *deform*.''

[12]The so-called Balanced Budget Act of 1997 is sometimes given credit for Clinton's balanced budgets, but that credit is not due. In fact, the 1997 act had nothing to do with balancing the budget. Instead, it actually reduced the surpluses by cutting taxes, primarily through a reduction in the top rate on capital gains. *See* McIntyre, ''Sorry, Newt, You Never Balanced the Budget,'' CTJ (Mar. 3, 2011).

pledged not to deliver anything like that, while President Obama seems to have given up hope for the time being.

Real tax reform will require the voters to choose new representatives in Congress or, less likely, for the current representatives to change their thinking. CTJ hopes to use the lessons from 1986 to move the reform process along.[13] The current situation may seem hopeless to some, but it's worth remembering that things seemed just as hopeless back in the summer of 1981.

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[13]For up-to-the-minute details on CTJ's projects and activities, go to http://www.ctj.org/.