

To Process #2 11/96

Wed. 15 Nov.

~~Ex. 10:30~~

CTJ, Main points

1. They like 1986 reform, & have a vested interest, or bias.
Fly leaf. (Thus, line up w. Reagan II)

2. Part I:
A. Overview

A. Deductions - "upside down" subsidy. Cf. tax credit.

B. "Bm." expenses, e.g. entertainment, treated badly
E.g. chauffeured commuting, a perk for exec.

C. § 456 b tax exp. FY 1995

= nat. defense + int. on nat. debt

D. Tax subsidies are not reviewed each year.

Do not shrink w. inflation.

E. May expand w. unexpected use - e.g. I.R.A.

F. Some tax exp. conc. among the rich. See p. 42

F. Summary, p. 8, 9

Part II

Bm. & Int.

A. p. 10, neg. b.v. are possible. Give e.g.

B. p. 10, tax breaks for savings = env't of pos. saving! § 210 b.

Govt. borrowing is negative saving.

C. 1970, AAR system. Fast write off. (~~10-5-3~~)
Sharon lives; accord. parks. Exec. Fiat.

1971, Cong. Ratified AAR, also reinstated ITC. Corps. inc. tax prnts. dropped.

D. 1979, Burton - Canale - Jones propose something nearer to "10-5-3". 1981, Reagan enacts.

By 1983, half the largest corps paid no inc. tax, in one or more years, in spite of large pretax profits, G.E.; Du Pont.

(Safe Harbor leasing not mentioned.)

(Office glut built up)

1986 stopped ITC, & slowed deprec. on bldgs.

p. 13 This let more invt. go back into incl. M+E, which is still written off fast.

p. 13 Using borrowed money, can get neg. t.o.

p. 14 Cap. gains - (leave out main source, overdeprec.)

✓ p. 15 Paid inc. cap. gains > "stock dividends" by 73%.
CTJ means only dividends. "Stock dividends" are something else — and not taxable. *Eisner v. Macomber*.

Inc. under \$200k, int > cap gains.
" over " v.v.

Inc. > \$200k get $\frac{2}{3}$ of gains.

(Dynastic owners never pay. Neither do advance buyers, decedents, etc.)

ca. 1968, max CG rate raised to 39% by 1975
1978, excluded 60%

1981, net rate down to max 20%, lowest since Hoover.

1981-86, tax shelters went wild.

p. 17 Converting ordy. inc. into C.S.
 Timber to mill. *Upstream gets cap. gains.*
 Oil to refining
 Corp. plowbacks
 Fast write off

p. 17 Beware of post hoc ergo propter hoc. Sequence is
 not consequence.

p. 18 C.S. cutters don't believe in free markets.
 How do H & R defend against this?

p. 19 Explain how 39.6% - 28%, or 11.6%,
 can be a 30% exclusion

p. 19 Indefinite deferral - Buffett
 Coys
 Irvine
 Wrigley
 Meach
 Bishop Estate
 Estates in SF

p. 20 Other C.S. tricks -
 Like kind exchanges
 W/draw equity (untaxed cons.)
 Deduct some loss from ordy inc.

- 21 Proposed new breaks
50% exclusion
Indexing
Corp cap on CG at 25%

Timber wd. pay little, bcs. their only inc. is a cap. gain (so are breeding cattle, oil in situ, rents from inc. prop, much of corp. + all bus. profit from use of indl. plants)

- 22 Xfr pricing as a tax shelter
Dual pricing of timber
Xfs. among nations. Tax heavens, incl. P.Rico
Fy. corps pay less than U.S., relative to sales, assets.
(Interstate Tax Compact for Uniting Taxes.)
(Net Proceeds Tax)

24. Int. earned by foreigners in U.S. is not taxed, nor reported
Ams. can pose as foreigners.

(Ditto for cap gains)

25. S & L bonds. Only partly phased in.
(+ vipers do dumb things, like WPPs, & Sam Dunfee.)

Muni. arbitrage — & O.C. bankruptcy.

27 Local govt. lend to priv. indy.

28 Bus. Entertainment
High flying & very M-10
B&W Co. Bay

oppose deducting personal outlay, too. "there
wd. be little left to tax (except savings)."
They forget land — and interest. Shows power of
bad theory! Even unions!

28 Mortgage int. is ok, as subsidy to "housing".

32 M & A
Claims junk bond debt is really equity — no
proof.

Firms wrote off "goodwill". 1993 Act
ratified.

33. L.S. Cos. Skip

34. O + G

Intangible drilling cost; expln. cost
% deple.

Leasehold acqu. via abandonment
Cap. gains on oil in situ

Link
Paul
Bob
Sam
Mum
Alex
Steve

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Timber

Expensing TSI? If so, yes.
ITC for restocking

Farms

Expensing

Cash basis acct.

Abandonment

Soil & water conservation.

Breeding stock

Race horses