

Democrats Supported Indexing Capital Gains Taxes to Inflation in 1992

Prepared by Americans for Tax Reform

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Introduction

On February 27, 1992, House Democrat Ways and Means Chairman Dan Rostenkowski (D-IL-8) introduced H.Amdt. 438, an amendment in the nature of a substitute to H.R. 4210, the Tax Fairness and Economic Growth Act of 1992. H.Amdt. 438 used the text of H.R. 4287.

The amendment indexed capital gains taxes to inflation. If enacted, the amendment would have directed the Treasury Department to account for inflation when calculating capital gains taxes. Currently, taxpayers pay capital gains tax on an asset's total gain in value, even if some of that gain is purely inflationary.

Democrats lined up on the House floor to praise the Rostenkowski amendment for indexing capital gains to inflation. Supporters like then-Congressman Chuck Schumer and Congressman Steny Hoyer praised the provision for being pro-small business and pro-middle class.

Ultimately, 221 House Democrats (including Nancy Pelosi and Bernie Sanders) voted in favor of the Rostenkowski amendment. While Republicans ultimately voted against the amendment and the broader bill because it was a net tax hike, they also praised the indexing provision on the House floor.

Summary of H.Amdt. 438 to H.R. 4210 — 102nd Congress

Amendment in the nature of a substitute: 1) increases the top income tax rate to 35 percent for individuals with taxable income over \$85,000 and couples with taxable income over \$145,000; 2) increases the Alternative Minimum Tax from 24 to 25 percent; **3) indexes capital gains for inflation**; 4) provides a 2-year tax credit for Social Security tax payments; 5) includes tax credits for interest payments on student loans; and 6) waives the penalty on early IRA withdrawals for first-time homebuyers and for medical and educational expenses.

Democrats Praised Rostenkowski Amendment for Indexing Capital Gains Taxes to Inflation

House Democrats praised the indexing of capital gains to inflation as a way to promote saving and investment, to fairly tax income by excluding inflation, and to grow the economy:

Rep. Chuck Schumer (D-NY): **"I would be for indexing all capital gains** and savings in borrowing. And that indeed would shift the balance in this country. Away from too much consumption. Too much borrowing and towards more savings and investment over the long run. Alas such a proposal is in need the bill. But the Democratic proposal comes closer. Even though it focuses on equity to doing things for real growth in the Republicans. And I urge my colleagues to vote for it."

Rep. Steny Hoyer (D-Md.): **"The capital gains provisions in H.R. 4287 benefit small business by indexing newly purchased assets.** Income gauged would be much more reliable so that, real not inflationary gains will be taxed, and taxed at the same 28 percent maximum rate on gains."

Rep. Vic Fazio (D-Calif.): **"Mr. chairman, when House Democrats began fashioning our economic recovery bill, we based our efforts on three principles. First, we wanted to provide tax relief to the middle class. Second, we wanted to provide additional incentives for savings and investment. And third, we wanted to do it all without adding to the crushing federal deficit. We have accomplished each one of these goals."**

Rep. Jill L. Long (D- Ind.): “While the Rostenkowski-Gephardt substitute addresses the tax fairness issue by providing relief to middle-income families, unfortunately, I cannot support this measure either. Like the Michel-Archer substitute there are some very appealing measures contained in the Rostenkowski-Gephardt proposal. **I support economic growth incentives, such as indexing capital gains** which will not add to the deficit in the long run, modifying passive loss rules, accelerating the depreciation schedule, repealing certain luxury taxes, and permanently extending the research and development tax credits. I also applaud my colleagues for remembering middle-income families and providing these families with much needed tax relief. As appealing as these provisions may be, I cannot support this proposal.”

Rep. Peter Hoagland (D-Neb.): “In addition, the economic growth and job creation incentives in the bill, especially **help for small businesses-like indexing capital gains to avoid paying tax on gains attributable to inflation-can help stimulate the economy and put people back to work.** Working Americans are Americans supporting themselves and contributing to growth and prosperity in America’

Rep. Glenn Poshard (D-Ill.): “There is no secret to creating jobs in this country. **Increased productivity depends upon the savings** which fuel investment. Allowing small businesses to deduct up to \$25,000 of the cost of new equipment, speeded up depreciation allowances, **indexing capital gains**, and research tax credits. These are all important incentives for spurring productivity. The creation of enterprise and investment zones will further enhance our productivity and investment opportunities and create jobs for many Americans.”

Rep. Robin Tallon (D- SC): “There are some very positive parts of the bill that encourage savings and investment. For example, the Democratic bill contains my proposal, contained in H.R. 2340, for allowing IRA funds to be withdrawn without penalty for first-time home purchases, and for medical and educational expenses. In addition, **the Democratic bill provides for the indexing of capital gains**, and for an increased depreciation allowance. These ideas are designed to lower the cost of investment, and were in the bill, H.R. 960, which I introduced with Tom DeLay some time ago... If the Democratic plan did nothing for investment in the way of indexing and capital gains, I could never support the new tax schedules”

Rep. Howard Wolpe (D-MI): “There are also significant economic growth measures in the Democratic alternative, incentives that will lead to greater investment in our economy, and to a more secure and prosperous future. The legislation provides for a targeted capital gains reduction in venture capital investments. It provides, as well, for **the indexing of capital gains, so that only real profits, not inflationary gains, are taxes.** It would also allow small businesses to expense up to \$25,000 in depreciable business assets in 1992 and 1993, and provide a temporary investment tax allowance for new equipment purchased this year.”

Rep. David Price (D-N.C.): **The bill's economic growth incentives include** permanent extension of tax credits for research and development, low-income housing construction, liberalized depreciation and investment tax allowances, altered passive loss rules for active real estate participants, **capital gains indexing**, and a 50-percent exclusion for gains on venture capital investments in small businesses held at least 5 years.”

Rep. Jim Chapman (D-Texas): “In the Democratic plan, I like the real passive loss provision included to put the real estate industry back on its feet. I strongly support the plan's middle income tax relief. **I like the indexing of capital gains, and I hope that in the Senate it can be expanded to benefit existing holdings.**”

Rep. Ronald D. Coleman (D-Texas): “I believe the time has come to take whatever measures are available to us to get the economy back on track... Additionally, **it indexes capital gains to ensure no one will be forced to pay tax due to the effects of inflation.**”

Rep. Bob Matsui (D-Calif.): “One is that we have a capital gains proposal. It is a very good capital gains proposal that will help middle-income Americans because what our bill does, **it provides for nontaxability of inflationary gains. What that means is if we have 100- percent inflation on a piece of property over a 10-year period and the cost of that property \$100,000 and now it is \$200,000, our tax will only be on \$100,000 and that is only fair because the inflationary gain, frankly, should not have been taxed at all.** That is not appreciation of your property.”

Republicans Supported Indexing Capital Gains to Inflation

While Republicans supported indexing, they opposed the broader bill because it contained several tax hikes:

Rep. John Porter (R-Illinois): “Mr. Chairman, **this Democratic substitute has many beguiling provisions that, standing alone, I support. These include** tax credits for interest payments on student loans, a waiver on the penalty for early IRA withdrawals for first-time home buyers and for medical and educational expenses, **capital gains indexing**, and capital gains tax cuts...Unfortunately, all of these solid provisions to stimulate long-term economic growth through encouraging savings and investment, are sandwiched between a nonsensical dollar-a-day tax cut for so-called middle income taxpayers that will do absolutely nothing to help the economy and hardly be noticed by individuals, and a tax increase that only serves to remind Americans that the Democratic party believes in class warfare as a primary political tool.”

Rep. John Kyl (R-Ariz.): “The substitute also allows prospective indexing of capital gains earned by individuals. For years, the Democrats have criticized capital gains reform as something only for the rich. **Does the inclusion of the indexing provision mean that the Democratic leadership finally sees the light? That American firms can't compete when our major trading partners tax capital gains at much lower rates, if at all? That lower capital gains taxes produce new jobs? And that most of the benefits of capital gains reform go to average Americans?...** The plan of the Democrat caucus is not fair. It is not sound economic policy. It permanently raises taxes on almost 2 million American families, adds \$30.2 billion to the deficit over the next 3 years, and violates the Budget Enforcement Act. The National Center for Policy Analysis concluded that it would actually result in 100,000 jobs being lost. It ought to be defeated.”

The Rostenkowski Amendment was agreed to by recorded vote on 2/27/92: 221-210.

	Yes	No
Democrats	219	46
Republicans	1	164
Independent	1	
Totals	221	210

The provision indexing capital gains to inflation was stripped out in the conference report. President Bush vetoed the bill.

Bill summary and supplemental information: <http://clerk.house.gov/evs/1992/roll030.xml>

Full Congressional record from February 27, 1992:

<https://www.govinfo.gov/content/pkg/GPO-CRECB-1992-pt3/pdf/GPO-CRECB-1992-pt3-5-1.pdf>