

## **Lessons from the Tax Reform Act of 1986**

By Timothy Conlan

The Tax Reform Act (TRA) of 1986 was the principal domestic legislative accomplishment of President Ronald Reagan's second term and a landmark achievement in the history of U.S. tax policy. The TRA comprehensively restructured the nation's individual and corporate income tax laws. It simplified the income tax structure by reducing the number of individual brackets from 15 to 3. It lowered both personal and corporate tax rates, bringing the top effective rate for individuals down from 50 percent to 33 percent. To compensate for the reduction in proceeds from lower tax rates and to maintain "revenue neutrality," the TRA broadened the income tax base—and it closed, shrank, or limited scores of loopholes, deductions, credits, and exemptions. To further assure that no affluent individuals could avoid paying at least some taxes, the bill added a new alternative minimum tax. Finally, although

different companies and industries were affected very differently by the changes, overall corporate tax revenues were substantially increased by the tax law changes, while six million poor people were removed entirely from the income tax rolls.

Because these changes were so substantial and upset so many established interests and practices, most observers doubted that the TRA would be successfully adopted, right up to the point of final passage. Unprecedented numbers of lobbyists and constituents, seeking to block or amend the legislation, swarmed Capitol Hill and organized grass roots campaigns. The task of overcoming tremendous interest group opposition was made even more difficult by divided party control of the executive and legislative branches.

The way the Reagan Administration and other tax reform advocates overcame these obstacles and won enactment suggests several lessons about Presidential leadership strategies in the legislative arena. First, President Reagan's proposal built upon an established consensus among tax policy experts concerning what would constitute true tax reform. Professionals in the Treasury Department, including both political appointees and senior career civil servants, were given wide latitude to design a reform bill that met widely accepted economic and legal principles of "good policy." Although politically inspired adjustments were subsequently made in both the President's last submission to Congress and the Congress's final tax bill, this original proposal (dubbed "Treasury I") determined the basic structure of tax reform legislation. The proposal also remained the standard of good policy (for the mass media and others) against which all other changes and proposals were measured throughout the process. Interest groups opposing tax reform were forced to adopt a "yes, but" stance, expressing support for tax reform as a general concept but seeking to exclude their favored preference from the package. In addition, Treasury I's principle of revenue neutrality set groups seeking to restore tax benefits under the plan against one another as they sought to find compensating sources of new revenues for their proposed changes.

### **Turning Obstacle to Advantage**

Another important factor in this case was the transformation of divided party government as an obstacle to an advantage. Normally, one would expect that Republican control of the White House and Senate, and Democratic control of the House, would heighten the difficulty of enacting a Presidential proposal—and in some respects this was true in the case of the TRA. Yet President Reagan was able to generate enough interest in and support for the idea that Democrats in Congress began to compete for ownership. This launched a process of interparty competition to pass reform legislation that helped greatly to overcome the obstacles to passage.

Two final lessons are extensions of the conventional virtues of perseverance and humility. The Administration's perseverance in the

face of repeated obstacles and difficulties was crucial to the eventual passage of the legislation. Many times during the process the bill appeared to be dead and buried. It looked at times as if no bill would be reported from the House Ways and Means Committee. When it was reported, the rule needed for House floor consideration was defeated on the first attempt. Only an all-out lobbying campaign by the White House, including a trip by President Reagan to Capitol Hill to appeal for more Republican votes, reversed that outcome. Later the bill appeared to be stymied in the Senate and again in the conference committee. The President's refusal to give up, along with constant pressure and skilled assistance by his Administration, were crucial in keeping the legislation alive when the situation appeared to be lost.

Finally, the tax reform saga underscores the need for humility in political strategizing. In particular, translating legislative success into political advantage is a difficult and unpredictable affair. Starting out, some White House strategists held great hope that tax reform would help secure a Republican realignment among the voters. They reasoned that realignment would provide tangible benefits to millions of taxpayers and counteract negative stereotypes of the Republicans as the party for the rich and for corporate America. In large part the legislation did these things. However, credit had to be shared with the Democrats, and many benefits were not immediately felt, so Republicans received little advantage from the outcome. In the 1986 elections, soon after the successful adoption of the TRA, the Republicans lost control of the Senate to the Democratic party. Although tax reform played little role in the defeat—and it may well have helped certain candidates—it was not seen in the end as a partisan victory. It was an accomplishment for which the Administration could be proud for policy rather than political reasons.

