

Ronald Wilson Reagan (1911-2004)

Address to the Nation on Tax Reform

given on May 28, 1985

My fellow citizens:

I'd like to speak to you tonight about our future, about a great historic effort to give the words "freedom," "fairness," and "hope" new meaning and power for every man and woman in America.

Specifically, I want to talk about taxes, about what we must do as a nation this year to transform a system that's

- 5 become an endless source of confusion and resentment into one that is clear, simple, and fair for all—a tax code that no longer runs roughshod over Main Street America but ensures your families and firms incentives and rewards for hard work and risk-taking in an American future of strong economic growth.

No other issue goes so directly to the heart of our economic life. No other issue will have more lasting impact on the wellbeing of your families and your future.

- 10 In 1981 our critics charged that letting you keep more of your earnings would trigger an inflationary explosion, send interest rates soaring, and destroy our economy. Well, we cut your tax rates anyway by nearly 25 percent. And what that helped trigger was falling inflation, falling interest rates, and the strongest economic expansion in 30 years.

We have made one great dramatic step together. We owe it to ourselves now to take another. For the sake of fairness, simplicity, and growth, we must radically change the structure of a tax system that still treats our earnings as the

- 15 personal property of the Internal Revenue Service; radically change a system that still treats people's earnings, similar incomes, much differently regarding the tax that they pay; and, yes, radically change a system that still causes some to invest their money, not to make a better mousetrap but simply to avoid a tax trap.

Over the course of this century, our tax system has been modified dozens of times and in hundreds of ways, yet most of those changes didn't improve the system. They made it more like Washington itself—complicated, unfair, cluttered

- 20 with gobbledygook and loopholes designed for those with the power and influence to hire high-priced legal and tax advisers.

But there's more to it than that. Some years ago an historian, I believe, said that every time in the past when a government began taxing above a certain level of the people's earnings, trust in government began to erode. He said it would begin with efforts to avoid paying the full tax. This would become outright cheating and, eventually, a distrust

- 25 and contempt of government itself until there would be a breakdown in law and order.

Well, how many times have we heard people brag about clever schemes to avoid paying taxes or watched luxuries casually written off to be paid for by somebody else—that somebody being you. I believe that, in both spirit and substance, our tax system has come to be un-American.

Death and taxes may be inevitable, but unjust taxes are not. The first American Revolution was sparked by an

- 30 unshakable conviction—taxation without representation is tyranny. Two centuries later, a second American revolution for hope and opportunity is gathering force again—a peaceful revolution, but born of popular resentment against a tax system that is unwise, unwanted, and unfair.

I've spoken with and received letters from thousands of you—Republicans, Democrats, and Independents. I know how hungry you are for change. Make no mistake, we—the sons and daughters of those first brave souls who came to this

- 35 land to give birth to a new life in liberty—we can change America. We can change America forever. So, let's get started. Let's change the tax code to make it fairer and change tax rates so they're lower.

The proposal I'm putting forth tonight for America's future will free us from the grip of special interests and create a binding commitment to the only special interest that counts—you, the people who pay America's bills. It will create millions of new jobs for working people, and it will replace the politics of envy with a spirit of partnership—the

- 40 opportunity for everyone to hitch their wagon to a star and set out to reach the American dream.

I'll start by answering one question on your minds: Will our proposal help you? You bet it will. We call it America's tax plan because it will reduce tax burdens on the working people of this country, close loopholes that benefit a privileged few, simplify a code so complex even Albert Einstein reportedly needed help on his 1040 Form, and lead us

into a future of greater growth and opportunity for all.

45 We want to cut taxes not opportunity. As you can see, the percentage of income tax owed would come down, way down, for those earning less than \$15,000, down for earnings between \$15,000 and \$30,000, down for earnings between \$30,000 and \$50,000, and down for those earning more than \$50,000.

How would the proposal work? The present tax system has 14 different brackets of tax rates ranging from 11 to 50 percent. We would take a giant step toward an ideal system by replacing all that with a simple three-bracket
50 system—with tax rates of 15, 25, and 35 percent.

Now, let me point out right here that under our plan, by taking the basic deductions, the average family earning up to \$12,000 or any blind or elderly American living at or below the poverty level would be dropped completely from the tax rolls—not one penny of tax to pay.

After taking the basic deductions, the first tax rate of 15 percent would apply to each dollar of taxable income up to
55 \$29,000 on a joint return. The second rate, 25 percent, would apply—and only apply—to taxable income above \$29,000 up to a maximum of \$70,000. The same principle applies throughout. Only taxable income above \$70,000 would be taxed at the third and highest rate of 35 percent. Then no matter how much more you earned, you would pay 35 cents on any dollar to Uncle Sam. That's the top—35 percent—down from 50 percent today.

By lowering everyone's tax rates all the way up the income scale, each of us will have a greater incentive to climb
60 higher, to excel, to help America grow.

I believe the worth of any economic policy must be measured by the strength of its commitment to American families, the bedrock of our society. There is no instrument of hard work, savings, and job creation as effective as the family. There is no cultural institution as ennobling as family life. And there is no superior, indeed no equal, means to rear the young, protect the weak, or attend the elderly. None.

65 Yet past government policies betrayed families and family values. They permitted inflation to push families relentlessly into higher and higher tax brackets. And not only did the personal exemption fail to keep pace with inflation; in real dollars its actual value dropped dramatically over the last 30 years.

The power to tax is the power to destroy. For three decades families have paid the freight for the special interests. Now families are in trouble. As one man from Memphis, Tennessee, recently wrote: "The taxes that are taken out of
70 my check is money that I need, not extra play money. Please do all that you can to make the tax system more equitable toward the family." Well, sir, that's just what we intend to do—to pass the strongest profamily initiative in postwar history.

In addition to lowering your tax rates further, we'll virtually double the personal exemption, raising it by next year to \$2,000 for every taxpayer and every dependent. And that \$2,000 exemption will be indexed to protect against
75 inflation. Further, we will increase the standard deduction, raising it to \$4,000 for joint returns.

Beyond this, we intend to strengthen families' incentives to save through individual retirement accounts, IRA's, by nearly doubling—to \$4,000—the amount all couples can deduct from their taxable income. From now on, each spouse could put up to \$2,000 a year into his or her IRA and invest the money however they want, and the value of the IRA would not be taxable until they approach retirement.

80 Some families could save more, others less; but whether it's \$400 or \$4,000, every dollar saved up to \$4,000 each year would be fully deductible from taxable earnings. Let me add that we would also raise by nearly a full third the special tax credit for low-income working Americans. That special incentive—a credit to reduce the tax they owe—would be raised from the present \$550 to a maximum level of over \$700.

Now, let's look at some examples of families in different income groups to illustrate how dramatically these incentives
85 could help you to better your lives.

Take a family of four, struggling at a poverty-level existence, with an annual income of \$12,000. By nearly doubling the personal exemption and raising the standard deduction, we will, as I said before, guarantee that that family pays no income tax at all.

But what if, being industrious, they go out and earn more, say \$5,000 more, how much tax would they pay? Only 15

90 cents on each dollar of the additional \$5,000. They would thus pay a total tax of only \$750 on \$17,000 of earnings; that's less than 5 percent on their total income.

We're offering a ladder of opportunity for every family that feels trapped, a ladder of opportunity to grab hold of and to climb out of poverty forever.

Now, let's take a larger working family—husband, wife, and four children—earning an income of \$26,000 a year. Right
95 away, under our plan, the value of that family's personal exemptions would be \$12,000. Add to this the new higher standard deduction, and if they save a single IRA, this family could reduce the amount of income subject to tax by \$18,000. On earnings of \$26,000, they would pay only \$1,200 tax, again an effective tax rate of less than 5 percent. And now they could earn \$17,000 more, and it would be taxed at only 15 cents on the dollar.

Higher income couples would also see their effective tax rates lowered. A young married couple earning \$40,000 and
100 taking deductions could find themselves paying an effective tax rate of barely 10 percent.

The power of these incentives would send one simple, straightforward message to an entire nation: America, go for it!

We're reducing tax rates by simplifying the complex system of special provisions that favor some at the expense of others. Restoring confidence in our tax system means restoring and respecting the principle of fairness for all. This means curtailing some business deductions now being written off; it means ending several personal deductions,
105 including the State and local tax deduction, which actually provides a special subsidy for high-income individuals, especially in a few high-tax States.

Two-thirds of Americans don't even itemize, so they receive no benefit from the State and local tax deduction. But they're being forced to subsidize the high-tax policies of a handful of States. This is truly taxation without representation.

110 But other deductions widely used, deductions central to American values, will be maintained. The mortgage interest deduction on your home would be fully retained. And on top of that, no less than \$5,000 in other interest expenses would still be deductible. The itemized deductions for your charitable contributions will remain intact. The deductions for your medical expenses will be protected and preserved. Deductions for casualty losses would be continued; so, too, would the current preferential treatment of Social Security. Military allowances will not be taxed. And veterans'
115 disability payments will remain totally exempt from Federal taxation. These American veterans have already paid their dues.

The number of taxpayers who need to itemize would be reduced to 1 in 4. We envision a system where more than half of us would not even have to fill out a return. We call it the return-free system, and it would be totally voluntary. If you decided to participate, you would automatically receive your refund or a letter explaining any additional tax you
120 owe. Should you disagree with this figure, you would be free to fill out your taxes using the regular form. We believe most Americans would go from the long form or the short form to no form.

Comparing the distance between the present system and our proposal is like comparing the distance between a Model T and the space shuttle. And I should know—I've seen both.

I've spoken of our proposed changes to help individuals and families. Let me explain how we would complement them
125 with proposals for business—proposals to ensure fairness by eliminating or modifying special privileges that are economically unjustifiable and to strengthen growth by preserving incentives for investment, research, and development.

We begin with a basic recognition: The greatest innovations for new jobs, technologies, and economic vigor today come from a small but growing circle of heroes, the small business people, American entrepreneurs, the men and
130 women of faith, intellect, and daring who take great risks to invest in and invent our future. The majority of the 8 million new jobs created over the last 20 years were created by small enterprises—enterprises often born in the dream of one human heart.

To young Americans wondering tonight, where will I go, what will I do with my future, I have a suggestion: Why not set out with your friends on the path of adventure and try to start up your own business? Follow in the footsteps of
135 those two college students who launched one of America's great computer firms from the garage behind their house. You, too, can help us unlock the doors to a golden future. You, too, can become leaders in this great new era of progress—the age of the entrepreneur.

My goal is an America bursting with opportunity, an America that celebrates freedom every day by giving every citizen an equal chance, an America that is once again the youngest nation on Earth—her spirit unleashed and breaking free. For starters, lowering personal tax rates will give a hefty boost to the nearly 15 million small businesses which are individual proprietorships or partnerships.

To further promote business formation, we propose to reduce the maximum corporate tax rate—now 46 percent—to 33 percent, and most small corporations would pay even lower rates. So, with lower rates, small business can lead the way in creating jobs for all who want to work.

To these incentives we would add another—a reduction in the tax on capital gains. Since the capital gains tax rates were cut in 1978 and 1981, capital raised for new ventures has increased by over one hundredfold. That old tired economy, wheezing from neglect in the 1970's, has been swept aside by a young, powerful locomotive of progress carrying a trainload of new jobs, higher incomes, and opportunities for more and more Americans of average means.

So, to marshal more venture capital for more new industries—the kind of efforts that begin with a couple of partners setting out to create and develop a new product—we intend to lower the maximum capital gains tax rate to 17 1/2 percent.

Under our new tax proposal the oil and gas industry will be asked to pick up a larger share of the national tax burden. The old oil depletion allowance will be dropped from the tax code except for wells producing less than 10 barrels a day. By eliminating this special preference, we'll go a long way toward ensuring that those that earn their wealth in the oil industry will be subject to the same taxes as the rest of us. This is only fair. To continue our drive for energy independence, the current treatment of the costs of exploring and drilling for new oil will be maintained.

We're determined to cut back on special preferences that have too long favored some industries at the expense of others. We would repeal the investment tax credit and reform the depreciation system. Incentives for research and experimentation, however, would be preserved.

There is one group of losers in our tax plan—those individuals and corporations who are not paying their fair share or, for that matter, any share. These abuses cannot be tolerated. From now on, they shall pay a minimum tax. The free rides are over.

This, then, is our plan—America's tax plan, a revolutionary first for fairness in our future, a long overdue commitment to help working Americans and their families, and a challenge to our entire nation to excel—a challenge to give the U.S.A. the lowest overall marginal rates of taxation of any major industrial democracy, and yes, a challenge to lift us into a future of unlimited promise, an endless horizon lit by the star of freedom, guiding America to supremacy in jobs, productivity, growth, and human progress.

The tax system is crucial, not just to our personal, material well-being and our nation's economic well-being; it must also reflect and support our deeper values and highest aspirations. It must promote opportunity, lift up the weak, strengthen the family, and perhaps most importantly it must be rooted in that unique American quality, our special commitment to fairness. It must be an expression of both America's eternal frontier spirit and all the virtues from the heart and soul of a good and decent people—those virtues held high by the Statue of Liberty standing proudly in New York Harbor.

A great national debate now begins. It should not be a partisan debate for the authors of tax reform come from both parties, and all of us want greater fairness, incentives, and simplicity in taxation. I'm heartened by the cooperation and serious interest already shown by key congressional leaders, including the chairman of the Senate Finance Committee, Republican Bob Packwood, and the chairman of the House Ways and Means Committee, Democrat Dan Rostenkowski.

The pessimists will give a hundred reasons why this historic proposal won't pass and can't work. Well, they've been opposing progress and predicting disaster for 4 years now. Yet here we are tonight a stronger, more united, more confident nation than at any time in recent memory.

Remember, there are no limits to growth and human progress when men and women are free to follow their dreams. The American dream belongs to you; it lives in millions of different hearts; it can be fulfilled in millions of different ways. And with you by our side, we're not going to stop moving and shaking this town until that dream is real for every American, from the sidewalks of Harlem to the mountaintops of Hawaii.

My fellow citizens, let's not let this magnificent moment slip away. Tax relief is in sight. Let's make it a reality. Let's not let prisoners of mediocrity wear us down. Let's not let the special interest raids of the few rob us of all our dreams.

In these last 4 years, we've made a fresh start together. In these next 4, we can begin a new chapter in our history—freedom's finest hour. We can do it. And if you help, we will do it this year.

190 Thank you. God bless you, and good night.

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