

# Locals look askance at tax plan

## Folks keep a grip on their wallets, doubting Clinton scheme will really soak the rich

By Eric Brazil  
OF THE EXAMINER STAFF

San Franciscan Paulette C. Knight, an importer of hand-crafted French ribbon, does not share President Clinton's jubilation over passage of his deficit reduction plan.

"I believe that all of a sudden we've all been reclassified as rich," said Knight, an exhibitor at the International Gift Fair at Moscone Center.

"It has to have an adverse effect on us. There's no way all this taxation is going to help small business," she said.

Knight's apprehension was shared by several people interviewed Saturday. They are keeping a tight grip on their wallets and doubt the very rich will get soaked in the long run.

At the core of Clinton's plan are tax increases for the affluent. Single Americans with incomes of \$115,000 to \$250,000 and couples earning \$140,000 to \$250,000 will see their tax rates rise from 31 to 36 percent. Incomes over \$250,000 will be taxed at a 39.6 percent rate.

### Crushed on the bottom

Those numbers seem irrelevant to Dick Wilson, a retiree living on Supplemental Security Income at Woolf House. It looks to Wilson as if those at the bottom of the economic scale are being hammered hardest.

"We are getting hit from all sides," said Wilson, president of the Woolf House Association. Low-income seniors have been socked with higher costs for municipal transport and have had their SSI checks nicked by \$17 a month by the state. They are turnips from whom all the blood has been squeezed, Wilson said. Now they'll have to pay an extra 4.3 cents per gallon gasoline tax.

"I really want that the deficit should be less, but they should give something back to (seniors)," he said. "We are up to our necks."

The gas tax increase also troubles Gilbert Van Mourik, an organic farmer from Escalon, who sells almonds, walnuts and pistachios at the farmers market on the Embarcadero.

"I don't see how it's not going to have a bad effect on me, because I do a lot of driving, and I don't think I can cut down on it," Van Mourik said.

"Maybe the president thinks I'm rich, but I don't consider myself rich. It looks to me like retired people will get hurt. I'm not retired, but I'd like to retire in a year or two. Now I don't know." (Under the Clinton plan, single retirees with income of \$34,000 and couples with \$44,000 — lower-middle income in the Bay Area — face tax rates of up to 51.8 percent of their taxable income.)

### Crimp on flexibility

Peter Ellis, sales manager for Salamander, a Watsonville-based manufacturer-distributor of items featuring unusual fabric graphics, said the Clinton plan "is going to cost me money." Salamander does \$7 million worth of business a year, and Ellis figures the plan is going to limit the firm's flexibility by reducing the amount of inventory it can warehouse.

Besides, he said, "the retroactivity feature of the tax is going to hurt a lot of people."

For the affluent, the Clinton plan means that "capital gains will be king," because capital gains will be taxed at a lower rate than earned income, said financial planner David Yeske, president of the San Francisco Society of the Institute of Certified Financial Planners. "Now there's an incentive to invest in growth stock that may pay little or no dividends. . . . There will also be a new emphasis on deferral (of compensation)," he said.

James O. Davis, founder and managing partner of the Financial Planning Group, said that "annuities, variable life insurance contracts — if properly structured — and qualified and non-qualified plans for businesses are now more attractive."

As a practical matter, Davis said, Clinton's plan should bring the federal government more money from the very rich — short term. But in the long run, he said, "high-earning individuals are likely to be capable of utilizing sophisticated strategies to reduce their taxable income, defeating the efforts of the government, to some extent."

## THE CLINTON BUDGET

### Social Security

Fewer than 13 percent of Social Security recipients — generally those with incomes that average over \$50,000 — would have to pay tax on a greater share of their benefits. No single retiree with income under \$34,000, counting half his or her Social Security pension, or couple under \$44,000 would be affected.

### Energy

Taxes on gasoline, now 14.1 cents a gallon, and diesel, now 20.1 cents, would rise by 4.3 cents on Oct. 1. The gas-tax increase, costing the typical household \$30 to \$50 a year, or a dime a day, as Clinton put it. This is the only part of the bill with an impact across the broad middle class.

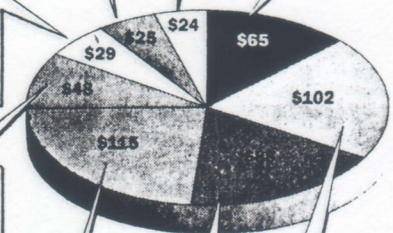
### Medicare tax

Effective Jan. 1, 1994, the \$135,000 limit on the amount of annual wages and self-employment income subject to the Medicare tax would be eliminated.

In billions of dollars

### Interest

Debt service costs will be lower



### Corporations

Higher taxes on corporations; a further cut in the deduction for business meals and entertainment, and a \$1 million limit on the amount of an executive's salary that may be deducted.

### Entitlements

Increases in spending will be lowered

### Individual taxes

A major income-tax increase on top earners costing those with incomes over \$200,000 an extra \$23,521 a year. The current top rate of 31 percent would rise, retroactive to Jan. 1, to 36 percent. A new 10 percent surtax would hit taxable income above \$250,000, producing a new top rate of 39.6 percent.

### Government programs

A nearly \$56 billion cut in the growth of reimbursements to doctors and hospitals for treating the elderly and disabled under Medicare. Projected reductions in spending for the military and restraints on a variety of other federal spending programs.

Source: House Ways and Means Committee

## How the new tax plan adds up

Income	Taxes	Bill	Change
Under \$10,000	\$ 455	\$ -68	-2.5%
\$10,000-19,999	1,718	-86	-3.9%
\$20,000-29,999	4,240	-41	-1.7%
\$30,000-39,999	6,891	50	1.6%
\$40,000-49,999	9,667	105	2.7%
\$50,000-74,999	14,295	192	7.8%
\$75,000-99,999	21,604	312	5.6%
\$100,000-199,999	33,910	649	8.8%
\$200,000 up	135,359	23,521	81.3%
<b>Average</b>	<b>10,107</b>	<b>382</b>	<b>100%</b>

SOURCE: Congressional Budget Office

NOTE: Income is a broad definition that includes wages, rents, interest, dividends, capital gains, welfare and similar cash transfer payments and the employer share of Social Security taxes. The figures for "average current federal taxes" are averages for families within each income range.