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[1975]

## MEMORANDUM FOR THE PRESIDENT

From:

Subject: Estate Tax Proposal. Family Farms and Businesses

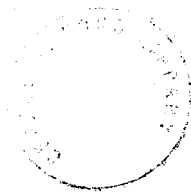
Your proposal to ease the estate tax burden on transfer of family farms and small businesses can be stated as follows:

- To the extent that a decedent's Federal estate tax liability is attributable to his interest in a family farm or other closely-held business qualifying under section 6166 of the Internal Revenue Code,\* payment of the tax need not be made or need not commence until five years following the regular due date thereof.
- At the end of the five-year period, the deferred tax would, at the taxpayer's option, be payable in equal annual installments over the next 20 years, with simple interest at the rate of 4 percent per annum.

\* Normally, estate taxes are due within nine months following a decedent's death, but under section 6166, Federal estate taxes attributable to a qualifying business interest may be paid over a period of ten years. To qualify:

- Decedent's estate must include an interest in a sole proprietorship carrying on a trade or business, or at least a 20 percent interest in a partnership, with ten or less partners, carrying on a trade or business, or 20 percent of the voting stock of a corporation, with ten or less shareholders, carrying on a trade or business.
- Decedent's business interest must exceed, in value, 35 percent of his total estate before deductions, or 50 percent of his taxable estate (i.e., his total estate less deductions allowed under the statute).

- o No interest would accrue during the five-year moratorium period, and no principal or interest payments would be required during that period.
- The five-year moratorium and 20-year extended payment proposal would apply in full only to the first \$300,000 in value of the family farm or business.
  - o Between \$300,000 and \$600,000 there would be a dollar for dollar reduction in the value of the farm or business qualifying for the moratorium and extended payment provisions.
  - o That portion of the tax not so qualifying would continue to qualify for installment payments under the present ten-year rule under section 6166.
- The executor would be relieved from personal liability to the extent that estate taxes are paid under the five-year moratorium and 20-year extended payment proposal, or under the existing ten-year rule.
  - o The underlying property would be subject to the estate tax lien until payment in full of all estate taxes and interest.



7:30 A.M. MEETING

*Wednesday, March 26,*  
*1975*



TAX REDUCTION BILL - H. R. 2166

The following is a summary of action taken by the House and Senate conferees by the 6:30p. m. adjournment on Tuesday, March 25. Conferees will meet again Wednesday at 9:00 a. m.

Generally, agreement was reached on the less controversial items while compromises have not yet been worked out on the additional reductions for individuals (increase in standard deduction, \$200 optional credit in lieu of personal exemption and rate reduction for low income taxpayers), new house purchase credit, \$100 payment to certain program beneficiaries, taxation of foreign source income and percentage depletion of oil and gas.

Agreement reached on:

(1) Rebate on 1974 taxes - accepted House version. 10% of tax liability up to maximum of \$200, minimum of \$100. \$200 maximum phased down as AGI rises from \$20,000 to \$30,000. Revenue loss - \$8.1B.

(2) Earned income credit - accepted Senate version. Refundable credit of 10% of earned income up to \$400. \$400 phased out as income rises from \$4,000 to \$8,000. Available only to families with dependent children. Better known as the "work bonus". Revenue loss - \$1.5B.

(3) Child care deduction - present law allowed an itemized deduction of up to \$4,800 phased out for AGI above \$18,000. The AGI level was raised to \$35,000. Revenue loss - \$9 M.

(4) Investment Tax Credit - increased the investment tax credit for all taxpayers to 10% on a 2 year temporary basis. Also to 11% if the additional 1% is contributed to an employee stock ownership plan (ESOP). Removed \$100 million cap on utilities (affected ATT only). Increased the 50% limitation for public utilities to 100% for 1975 and 1976 and then phased back at 10% a year over a 5 year period until 1981 when the 50% holds. Normalization of the ITC benefit for public utilities. Increased the limit of used property as qualified investment from \$50,000 to \$100,000. Allows ITC for progress payments when property takes more than two years to construct. Revenue loss - \$3.39B.

(5) Corporate surtax exemption and rate reduction - increased surtax exemption from \$25,000 to \$50,000 and decreased the rate on the first \$25,000 from 22% to 20%. Rate on second \$25,000 is 22%. Revenue loss - \$1.55B.

(6) Accumulated Earnings Credit - accepted Senate version. Increases the amount of accumulated earnings credit from \$100,000 to \$150,000. Revenue loss negligible.



(7) Net Operating Loss (NOL) - dropped in conference. Would have allowed substitution of carryover years for carryback of NOL. Present law is 3 back and 5 forward. This amendment has been tabbed the "Chrysler Amendment".

(8) Federal welfare recipients employment incentive (WIN) tax credit - generally broadens the WIN credit for employers. Revenue loss - under \$3 million.

(9) Excise tax on trucks, etc. - dropped in conference. Would have repealed 10% excise tax on trucks, buses, etc. and 8% tax on related parts.

(10) Tax credit for insulation and solar equipment - dropped in conference but will be included in energy bill.

(11) Tax exemption for homeowner's associations - dropped in conference.

(12) Pension plans relative to time when contribution deemed made - allows 1974 rule for 1975. Revenue loss - none.

(13) Emergency unemployment compensation benefits - agreed to Senate allowing 13 weeks additional benefits to those who have exhausted 52 weeks of benefits. Revenue loss - \$200 million.

(14) Required dying of fuel heating oil - dropped in conference - consider in energy bill.

(15) Tax Free Rollover of home purchase - agreed to Senate. Time period for rollover extended from 1 year to 18 months for purposes of nonrecognition of gain. Time for construction of new residence extended from 18 to 24 months. Revenue loss - negligible.



SUMMARY OF REVENUE EFFECTS

(As of 7:00 p. m. 3/25/75)

(billions)

<u>Tax Rate Reductions</u>	<u>House</u>	<u>Senate</u>	<u>Net Change</u>	<u>Conference</u>
<u>Individuals</u>				
(1) Rebate	8.1	9.7	+1.6	8.1
(2) Standard Ded.	5.2	-		
\$200 Optional Credit	-	6.3	+3.4	
Tax Rate Reductions	-	2.3		
(3) Earned Income Credit	2.9	1.5	-1.4	1.5
(4) House Purchase Credit	-	1.1	+1.1	
(5) Child Care	-	1.7	+1.7	.090
(6) Home Insulation	-	0.7	+0.7	Dropped
Subtotal	16.2	23.3	+7.1	9.69
<u>Business</u>				
(1) ITC	2.4	4.3	+1.9	3.39
(2) Corp. Surtax Exempt.	1.2	1.2	-	1.55(est)
(3) Tax Rate Reductions	-	0.7	+0.7	
(4) NOL	-	0.5	+0.5	Dropped
(5) Repeal Truck Excise Tax	-	0.7	+0.7	Dropped
Subtotal	3.6	7.4	+3.8	4.94
<u>Increased Expenditures</u>				
(1) \$100 Payment to Certain Program Beneficiaries	-	3.4	+3.4	
(2) Emergency Unemployment Benefits	-	0.2	+0.2	0.2
Subtotal	-	3.6	+3.6	0.2

<u>Tax Rate Reductions</u>	<u>House</u>	<u>Senate</u>	<u>Net Change</u>	<u>Conference</u>
<u>Tax Increases</u>				
(1) Depletion	(2.2)	(1.7)	(-0.5)	
(2) Foreign Oil Taxation	-	(1.5)	(+1.5)	
(3) Deferral of Foreign income	-	(0.5)	(+0.5)	
	<hr/>	<hr/>	<hr/>	
	(2.2)	(3.7)	(+1.5)	

I. Total Net Revenue Loss Before Conference 17.6 30.6 +13.0

II. Total Net Revenue Loss After Conference of 3/25/75 \$24.22B

III. Reduction from Senate bill - \$6.38B

\$21.





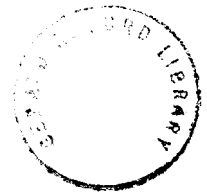
Reviewed  
4/10/75  
4 pm.

THE WHITE HOUSE  
WASHINGTON

April 8, 1975

MEMORANDUM FOR: JAMES J. CANNON, III

THRU: JOHN O. MARSH *pm*  
MAX L. FRIEDERSDORF *M. G.*  
VERN LOEN *VL*



FROM: DOUGLAS P. BENNETT *DB*

SUBJECT: Tax Reform Bill

*File*

In discussion with Dr. Larry Woodworth last week, he described to me the items expected to be included in the Tax Reform Bill which will hopefully be completed by the Ways and Means Committee by late summer or early fall. Apparently, this reflects the thinking of Chairmen Ullman and Long.

The starting point for consideration of this legislation will be the Ways and Means' tax reform bill which was reported out of that Committee late last year but never was acted on by the House. That bill was basically structured by Chairman Wilbur Mills.

Larry expects about \$5 B revenue will be raised by the following changes in the law:

- (1) Minimum Taxable Income (MTI) - The concept advanced by the Treasury Department and included in last year's bill will be structurally changed this year. The changes will probably be reflective of the opposition from charitable organizations claiming that the Treasury approach would substantially reduce charitable giving.
- (2) Limitation on Artificial Accounting Losses (LAL) - This proposal relates to the so-called tax shelters. The most "popular" of which are oil shelters, real estate shelters and farm shelters.
- (3) Repeal of DISC.

(4) Repeal of Certain Foreign Taxation Provisions - These will probably include those provisions in last year's bill which were not dealt with in the recently signed Tax Reduction Bill. (In addition, some provisions further dealing with oil depletion will be included primarily for political reasons).

The other provisions to be included will be the simplification proposal of the Treasury Department which is basically an effort to simplify tax return preparation by individuals accomplished by eliminating certain complicated, difficult to compute, itemized deductions and substituting a "simplification deduction".

Secondly, capital gains and losses will not be dealt with other than by increasing the capital gains and losses holding period - from six months to twelve months and also a three-year elective loss carryback. In place of the sliding scale proposal for capital gains there will be included the concept of integration. Basically, this means that to some extent the profits of corporations and dividends received by shareholders would be taxed only once. 100% integration would cost approximately \$9 B, therefore, they will probably only go 25% of the way toward integration. Provisions relating to the banking and insurance industries may also be included.

Thirdly, estate and gift tax law will be dealt with in a separate bill to follow the general tax reform bill.

I am certain that various other provisions will be added in committee but apparently Ullman hopes to end up with a net revenue gain from this bill.

cc: Secretary William E. Simon, James T. Lynn, Frederic W. Hickman,  
Paul H. O'Neill, William Seidman, Alan Greenspan



APR 8 1974

*Reviewed 4/10/75  
4pm*

THE WHITE HOUSE  
WASHINGTON

April 7, 1975

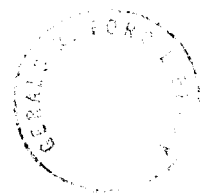
MEMORANDUM FOR:

JAMES J. CANNON, III  
L. WILLIAM SEIDMAN

THRU:



JOHN O. MARSH *jm*  
MAX L. FRIEDENSDORF *M.L.*  
VERN LOEN *VL*



FROM:

~~DOUGLAS P. BENNETT~~ *DPB*

SUBJECT:

Housing Tax Credit (\$2,000) Provision in the  
Tax Reduction Act of 1975

Dr. Larry Woodworth, Chief of Staff of the Joint Tax Committee, Friday advised me that both Chairmen Long and Ullman have been concerned that the applicability of this provision may be retarded in a fashion contradictory to the intent of the provision. Apparently, many new housing developments and condominiums are priced in such a manner that the first few units are sold as "loss leaders" so as to attract buyers and as sales pick up, the prices of the housing units are increased so as to eventually reflect the "true" sales prices.

Under the certification provision of the statute, the seller is required in the face of civil and criminal penalties to certify that the particular unit is being sold at the lowest price at which it has ever been offered. Obviously, the above described practice would disqualify many of the housing units in the current inventory thereby diminishing the sought-after effect of this provision.

Long and Ullman are considering issuing a joint statement suggesting that this technical defect be corrected by minor amendment. The matter has been discussed with the Treasury Department and, I understand, Secretary Simon concurs with the amendatory approach as the defect cannot be remedied by Treasury regulations.

cc: Secretary William E. Simon, Secretary Carla Hills, Honorable James T. Lynn, Honorable James H. Cavanaugh, Honorable Tod Hullin

5/30/75

THE WHITE HOUSE  
WASHINGTON

FYI

JMC:

Susan Herter called Jeanne  
to say that the V.P. does  
~~not want to get into the~~  
tax reform matter.

Dick Dunham has background.

file

P

THE WHITE HOUSE

WASHINGTON

May 27, 1975

MEMORANDUM FOR THE VICE PRESIDENT

FROM :

JIM CANNON *JJC*

SUBJECT :

TAX REFORM



In mid-June, the House Ways and Means Committee will begin hearings and discussion of tax reform ideas, especially as they may relate to Capital Formation.

I know Larry Woodworth, Chief Counsel for the Committee, and I think it might be helpful if we presented to him, informally, any proposed changes that we might want to suggest.

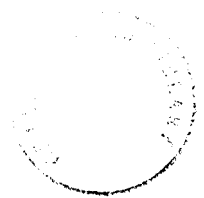
Treasury Department is sending an official list of suggestions, but I thought we might have some ideas that we believe would be particularly helpful to Capital Formation.

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C-13

the average citizen was that it didn't eliminate any loopholes or inequities or it at least added one for every one that it removed, and so far as simplifying the obligations of taxpayers the bill immediately became known in the trade as the lawyers' and tax accountants' relief act of 1969.

It is somewhat of an exaggeration, but a fair one, to say that since the income tax became Constitutional in 1916 and since Beardsley Ruml invented withholding in 1942, every time the Congress has changed the tax law they have made it worse. Now we have Al Ullman, fresh from the disaster of Congressional attempts to deal with energy legislation, opening hearings on tax reform. Warn the gentry, as Pogo used to say, the pest house is loose. (6/24/75)



MEMORANDUM

*Cannon - FyE*

THE WHITE HOUSE  
WASHINGTON

MEMORANDUM TO: DON RUMSFELD  
DICK CHENEY  
ALAN GREENSPAN  
BILL SIMON  
BILL SEIDMAN ✓  
JIM CANNON ✓  
JIM LYNN  
PAUL O'NEILL  
JERRY JONES

FROM: BOB GOLDWIN

*RG*

I share with you this communication from Professor Milton Friedman ("the real Milton Friedman").

Attachment

9/25/75



THE UNIVERSITY OF CHICAGO

DEPARTMENT OF ECONOMICS

1126 EAST 59TH STREET  
CHICAGO • ILLINOIS 60637

September 22, 1975

Mr. Robert A. Goldwin  
The White House  
Washington, D.C. 20500

Dear Bob:

I enclose herewith a brief guest opinion that I gave on the CBS Morning News recently. I use it as an occasion to express my dismay that the Administration has not seized on inflation-proofing the tax system as a major element of its economic policy.

Inflation-proofing the tax system is one of those rare proposals that is desirable and politically popular.

It is desirable:

- (1) *on grounds of equity.* Under present arrangements, inflation automatically alters the tax structure in ways that nobody intended and few favor. I do not believe that any Congress would at any time have explicitly enacted as heavy an income tax on low and middle incomes as we now in fact have.
- (2) *on grounds of fiscal responsibility.* Inflation enables Congress to have the appearance of lowering taxes while in fact the real tax burden rises. Inflation now automatically provides additional revenue to finance congressional extravagance. No single measure could do so much so readily to slow down future government spending as inflation-proofing the tax system. The bureaucrats at the Treasury (though not the Secretary) will object to the future loss of revenue. But that is shortsighted on two grounds: first, the revenue will be more than eaten up by additional spending; second, as inflation proceeds, it ultimately has a perverse effect on revenue adjusted for inflation, as is happening now in Britain.
- (3) *on grounds of promoting capital formation.* Business has a valid complaint that present methods of taxation in effect tax capital by making insufficient allowance for depreciation during times of inflation. The best way to remedy this defect is not by measures directed specifically at "aiding" business but by a general reform of the tax system that eliminates this effect of inflation for everyone: individual taxpayers, small business, large business.

Inflation-proofing the tax system would, I believe, be highly popular politically.



- (1) *on grounds of equity.* The ordinary man is confused and resentful about inflation. He knows that he has to run faster and faster to stay in the same place. But he does not fully understand why. He would welcome being protected against inflation at least with respect to taxes.
- (2) *as a means of checking the growth of government.* There is, I believe, an enormous undercurrent of popular sentiment against further expansion in the size of government. Yet it is difficult to exploit this sentiment by proposals with respect to individual spending measures. It is much more effective to do so by proposals that attack the aggregate sum which the government has available to spend.
- (3) *as a sound money measure.* Note that Senator Buckley and Representative Crane have led groups in the Senate and the House that have introduced bills to inflation-proof the tax system.
- (4) *as an anti-inflationary measure.* Inflation-proofing the tax system would reduce the advantage to the government from inflation and hence could be expected to strengthen the will of the government to end it.

From the special vantage point of the Executive, the proposal to inflation-proof the tax system has some particular political advantages:

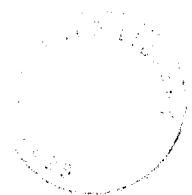
- (1) It would be an act of the Executive to require Congress to be fiscally responsible, to vote higher taxes explicitly rather than permitting or promoting inflation as a way of paying for extra expenditures..
- (2) If started for the base year 1976 it would involve *no* current loss of revenue, but yet would be viewed by the public as a measure reducing taxes.
- (3) It is not a novel, untried, or irresponsible measure. It has been adopted by Canada, a number of European countries, and several in South America. It is favored by ~~the~~ economists on the right and by ~~the~~ economists on the left.
- (4) It would appeal to both business and the working man.

Best personal wishes and regards.

Cordially yours,



Milton Friedman



MF:gv

Enclosure

Milton Friedman  
September 6, 1975

Congressional Salaries and Taxes

CBS COMMENTARY FOR SEPTEMBER  
(Broadcast on September 10, 1975)

BEFORE LEAVING FOR THEIR AUGUST RECESS, THE MEMBERS OF CONGRESS FOUND TIME TO GIVE THEMSELVES, AS WELL AS OTHER HIGH GOVERNMENTAL OFFICIALS, A NICE SALARY INCREASE. IN ADDITION, TO MAKE SURE THAT THEY AT LEAST WOULD NOT SUFFER FROM THE INFLATION THAT THEY PRODUCE, THEY PROVIDED FOR AUTOMATIC FUTURE INCREASES IN SALARY TO KEEP UP WITH THE COST OF LIVING.

NOW THAT CONGRESS HAS TAKEN CARE OF ITSELF, IT WOULD BE NICE IF IT COULD SPARE A LITTLE TIME TO CONSIDER THE TAXPAYER. HE TOO NEEDS A COST-OF-LIVING ESCALATOR CLAUSE. AS MATTERS NOW STAND, INFLATION AUTOMATICALLY RAISES TAXES DISPROPORTIONATELY. IF PRICES GO UP BY 10 PER CENT, AND YOUR DOLLAR INCOME GOES UP BY 10 PER CENT, YOU MIGHT SUPPOSE THAT THAT WOULD BE A STAND OFF. BUT IT WILL NOT BE. THANKS TO TAX LAWS WRITTEN FOR A WORLD OF STABLE PRICES, YOUR TAXES WILL, ON THE AVERAGE, GO UP BY ABOUT 15 PER CENT. YOU HAVE TO RUN FASTER AND FASTER JUST TO STAY IN THE SAME PLACE.

THERE IS NO TECHNICAL PROBLEM IN INFLATION-PROOFING THE TAX SYSTEM. MANY EXPERTS HAVE SHOWN PRECISELY HOW TO DO IT.

BUT THERE IS A POLITICAL PROBLEM. NOW THAT THEIR SALARIES ARE PROTECTED AGAINST INFLATION, WHY SHOULD CONGRESSMEN WORRY ABOUT THE TAXPAYER? QUITE THE OPPOSITE. INFLATION INCREASES TAXES TO FINANCE HIGHER CONGRESSIONAL SALARIES--WITHOUT ANY CONGRESSMAN HAVING TO VOTE FOR HIGHER TAXES! INDEED, HE CAN EVEN VOTE TO CUT TAXES--WHILE AT THE SAME TIME PERMITTING INFLATION TO RAISE THEM! CAN YOU REALLY EXPECT CONGRESSMEN TO KILL THE GOOSE THAT IS LAYING THOSE PAPER EGGS? NOT UNLESS YOU MAKE THEIR JOBS DEPEND ON THEIR DOING SO.