The original documents are located in Box 30, folder "Taxes - General (2)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

September 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Extension of 1975 Tax Reductions

The economic forecasts are now sufficiently complete to allow consideration of tax cuts for the coming year. This memorandum summarizes the economic and budgetary outlook as they relate to the issue of continuing the 1975 tax cuts and outlines options regarding the size, duration, and composition of a tax reduction extension.

Background

Two types of reductions were provided in the Tax Reduction Act of 1975. First, one-shot "stimulus" reductions:

	1975 Liabilities ($ billions)
Rebate	-8.1
Five percent House Credit	-0.6

Secondly, reductions resulting in changes in the tax structure.

	Mas-Dec
Low income allowance and standard deduction	-2.5
$30 credit per exemption	-5.3
Changes in corporate surtax and rates for small business and in WIN credit	-1.5
Earned income credit	-1.5
Investment credit (expires January 1977)	-3.3
	-22.8

76 8/12 B to keep withholding

All of these reductions expire at the end of 1975, except for the increase in the Investment Tax Credit which expires at the end of 1976. Thus, the reductions that will lapse total $19.5 billion.

There is little apparent sentiment or reason for another rebate in 1976 or for an extension of the five percent housing credit.

The issue is whether to extend the structural changes outlined above. The changes in the low income allowance, the standard deduction, and the $30 exemption credit are built into the wage withholding tables. They account for a 1975 reduction in taxes of approximately $8 billion and if they expire at the end of 1975 there will be an immediate and substantial increase in withholding.

To a lesser extent, a reduction in take home pay will occur even if the provisions are simply extended since the entire 1975 reduction was concentrated in the last eight months of withholding. In order to keep withholding constant, the tax reduction would have to be increased to $12 billion, or 50 percent more than the $8 billion reduction provided by the 1975 Act.

The 1975 legislation provides that both the reduction in liabilities and the reduction in withholding will expire at the end of this year. Thus, unless some action is taken, withholding will increase and disposable incomes will decrease as of January 1976.

The possibility of administratively altering the amount of withholding has also been explored. The Treasury indicates that changes in rates of withholding are a legislative matter with very limited administrative discretion. In 1974, the rates were changed through administrative action under existing legislation. The IRS view is that "there is no room left in the statute for further administrative changes."

Economic Outlook

The Troika forecasting group in its most recent exercise projects roughly a seven percent real rate of growth of gross national product through mid-1976, with the growth rate then declining gradually to somewhat lower sustainable levels by the end of 1977. This should enable the unemployment rate to fall gradually to the 7 1/2 percent range or possibly even as low as seven percent by the end of 1976. This forecast assumed gradual oil decontrol and indefinite extension of the 1975 Tax Reduction Act (except that the tax rebates, payments to social insurance beneficiaries, and the home purchase credit were not expected to be extended).

Moreover, reductions in individual income tax rates were assumed, effective January 1976, so as to keep withholding rates at their current levels. This implies a total package of tax relief for individuals of roughly $12 billion, plus continuation of corporate tax relief for small business and the Investment Tax Credit. The earned income credit of $1.5 billion was also included in the Troika forecast.

To assess the effect of extending the Tax Reduction Act of 1975, the Troika forecasting group ran an alternative simulation with identical assumptions except that the tax cut was allowed to expire. A comparison of the two forecasts reveals that differences in real GNP are relatively small in 1976. (Real GNP is only 4/10 of one percent lower and unemployment 1/10 of one percent higher in the third quarter of 1976. This is because the Troika forecast assumes greater investment in late 1976 as businessmen rush to take advantage of the investment tax credit which is scheduled to be reduced at the end of 1976. In 1977, however, greater investment no longer offsets reduced consumption expenditures and the restraining effect on real GNP is increased. (By the third quarter of 1977 real GNP is 1.1 percent lower and unemployment is 4/10 of one percent higher). The simulation shows that the effect of extending the tax cut has only a negligible unfavorable short run impact on the rate of inflation during 1976 and 1977, although the longer run effects may be greater.

Fiscal policy matters are subject to wide disagreement and, therefore, the Troika estimates of the impact of a reversal of the tax cut may be disputed. Some feel that the prospect of a smaller deficit would have a salutary effect on business and consumer psychology and would moderate inflationary expectations so that the negative impact on real GNP may be lessened and perhaps even reversed. On the other hand, the psychological effect on consumers of an apparent tax increase through failure to extend the reductions may result in a greater decline in consumer spending than is shown in the Troika forecast.

Budget Outlook

With an extension of the tax cut that keeps withholding rates constant and keeps a ten percent investment tax credit through the end of 1977, the current estimates of the budget deficits in fiscal years 1976 and 1977 are $79 and $68 billions, respectively. If the tax cut is allowed to expire, the deficits are lowered to $73 billion in 1976 and to $51 billion in 1977, if it is assumed that the expiration of the tax cut does not slow down the forecast economic recovery. If some slowdown does result from the expiration of the tax cuts, the 1976 deficit would not be affected perceptibly, but the 1977 deficit might be raised to the vicinity of $55 billion.

We are currently reexamining our revenue estimates for 1976 and 1977, and as a result of this exercise, the deficits might be lowered by $3 billion in 1976 and $5 billion in 1977. This would imply deficits in 1976 and 1977 of $76 billion and $63 billion if the tax cut is extended, and deficits of $70 billion and $50 billion if it is not extended and one assumes that the resulting tax increase slows down the recovery.

It should be emphasized that the deficit estimates are extremely sensitive to the underlying economic forecast. For example, an error of one percent in forecasting 1976-77 money GNP can result in a $4 to $5 billion error in our forecast of the 1977 deficit. Based on past experience, it is quite possible that errors in forecasting GNP will far exceed one percent.

<u>Tax Reduction Extension Alternatives</u>

<u>Issue #1</u> - <u>Should the Administration propose an extension of the 1975 tax reductions?</u>

<u>Option A</u>: <u>Propose no extension of the 1975 reductions.</u>

Pros:

- Reduces the size of the FY 1976 and FY 1977 budget deficits.
- Reduces inflationary pressures.
- Eases Treasury financing difficulties.

Cons:

- Current congressional sentiment suggests that Congress will pass an extension and it may be difficult to sustain a veto.
- Failure to propose an extension of individual tax reductions may prompt criticism, in light of the Administration's capital formation tax proposals, that the Administration favors big business.

- Would be viewed as a tax increase and could have a negative psychological impact.

Option B: Propose a one year extension of the 1975 tax reductions.

By November 10, OMB must publish, in the Current Services Budget, a forecast of the economic and budget outlook for FY 1976 and FY 1977 which would reveal a marked difference in the deficits forecast if a one year only extension is passed.

Pros:

- Occasions reconsideration of the budget impact of further extension again next year.
- Permits more flexibility in dealing with the economy a year from now than would a permanent extension.
- Would enable the reduction in personal income tax, the expiration of the additional investment credit and the proposal for corporate integration to be considered next year as a single package enhancing the possibility of enacting the capital formation proposals.

Cons:

- Requires a consideration of tax legislation immediately prior to the 1976 election.
- Continues uncertainty of future tax rates which may inhibit personal and corporate spending.

Option C: Propose that the 1975 reductions be made permanent.

A permanent extension of the 1975 reductions is favored by the Labor-Management Committee in their statement attached at Tab A.

Pros:

- May help in applying pressure on Congress to restrain the growth of Federal expenditures.
- Would help sustain personal consumption essential to economic recovery.

- Represents a one-time reduction of tax rates to adjust for inflation.
- Consumers will be more likely to adjust their expenditure patterns, especially for durable goods, if the extension is made permanent.

Cons:

- Increases the size of the FY 1976 and FY 1977 budget deficits.
- Increases inflationary pressures.
- Increases Treasury financing difficulties.

Decision

Option A ____________ Propose no extension of the 1975 reductions.

Supported by: Treasury, Federal Reserve

Option B ____________ Propose a one year extension of the 1975 tax reductions.

Option C ____________ Propose that the 1975 reductions be made permanent.

Supported by: Labor, CEA, Commerce

Issue #2 - Tax Reductions for Individuals.

Option A: Extend only those items that affect the withholding schedules--the low income allowance, the standard deduction and the $30 exemption credit. This would reduce tax liabilities by about $8 billion.

Since a simple extension would spread the tax reductions over 12 months rather than over eight months as in 1975, withholding would increase accordingly in January.

Pros:

- Entails a relatively simple approach to restructuring the whole tax schedule and therefore is less likely to encourage other structural changes.

- Limits increase in budget deficit by $4 billion compared with a tax reduction which would maintain the present withholding rates.

Cons:

- Withholding rates will increase by $4 billion at the beginning of January.

  Note: This will involve a small amount for the average family. For example, a couple with two children earning $15,000, or less would have between $1 and $2 per week more withheld.

Option B: Increase those items that affect the withholding schedules to match the current withholding rates. This would reduce tax liabilities by about $12 billion.

This option is favored by the Labor-Management Committee.

Pros:

- Allows withholding to remain constant on average at the beginning of 1976.

Cons:

- Implies larger deficits in 1976 and 1977 than a simple extension.

- Congress may provide even larger cuts to show that they are more generous than the Administration.

Option C: Propose reductions in individual tax liabilities of $12 billion but redistribute the benefits over a wider range of income classes than is implicit in a simple extension of the 1975 reductions.

Pros:

o. Provides somewhat more benefit to the middle income taxpayers who bear the bulk of the tax burden.

Cons:

o Only very small benefits are feasible for middle and upper income taxpayers if the tax cut extension is limited to $12 billion and if tax rate increases are avoided for lower income taxpayers.

Decision

Option A ____________ Extend only those items that affect the withholding schedules--the low income allowance, the standard deduction and the $30 exemption credit. This would reduce tax liabilities by about $8 billion.

Option B ____________ Increase those items that affect the withholding schedules to match the current withholding rates. This would reduce tax liabilities by about $12 billion.

Supported by: Labor, Commerce

Option C ____________ Propose reductions in individual tax liabilities of $12 billion but redistribute the benefits over a wider range of income classes than is implicit in a simple extension of the 1975 reductions.

Supported by: CEA

Issue #3 - Tax Reductions for Corporations

The increase in the Investment Tax Credit does not expire until the end of 1976. The increase in the ITC provides for a reduction in tax liabilities for corporations of approximately $3.3 billion.

Option A: Propose extending the changes in corporate surtax and rates which will expire at the end of 1975. This would reduce tax liabilities by approximately $1.5 billion.

This option is supported by the Labor-Management Committee.

Pros:

- Is consistent with the Administration's goals of lowering the tax burden on capital.
- Particularly lowers the relative tax burden for small business.

Cons:

- Moderately increases the deficit.

Option B: Propose an indefinite extension of the increase in the Investment Tax Credit which is scheduled to lapse at the end of 1976.

This option is supported by the Labor-Management Committee.

Pros:

- Reduces uncertainty for businesses which must plan investment far in advance.
- Is a tax benefit proposal which does not increase the FY 1976 budget deficit.

Cons:

- We do not have to make a decision now and a delay would allow the issue to be considered with our corporate tax reform proposals.
- Postponing proposing a further extension allows time to determine whether economic conditions in 1977 are likely to warrant an extension.

Option C: Propose extending the changes in corporate surtax and rates which would cost about $1.5 billion. (Identical to option A). Propose a $2.5 billion one year reduction in corporate rates with the $2.5 billion earmarked for commencement of corporate integration in 1977 or broadening stock ownership.

Pros:

- May enhance the political chances of corporate tax reform.
- "Tilts" tax cut more in favor of capital formation.

Cons:

- Further increases the deficit.
- May encourage movement in Congress for larger reductions for individuals.

Option D: Do not propose any additional tax reductions for corporations.

Pros:

- Avoids additional increase in budget deficits.

Cons:

- Imposes a significant relative tax increase on small corporations.
- Is inconsistent with our efforts to stimulate capital formation.

Decision

Option A ____________ Propose extending the changes in corporate surtax and rates which will expire at the end of 1975. This would reduce tax liabilities by approximately $1.5 billion.

Supported by: CEA, Labor

Option B ____________ Propose an indefinite extension of the increase in the Investment Tax Credit which is scheduled to lapse at the end of 1976.

Supported by: CEA, Labor

Option C ____________ Propose extending the changes in corporate surtax and rates which would cost about $1.5 billion. (Identical to option A.) Propose a $2.5 billion one year reduction in corporate rates with the $2.5 billion earmarked for commencement of corporate integration in 1977 or broadening stock ownership.

Supported by: Commerce

Option D ____________ Do not propose any additional tax reductions for corporations.

September 17, 1975

The President's Labor Management Committee

Without further action by the Congress, withholding tax rates will increase on January 1, 1976. Action should now be taken to maintain the present withholding tax rates and investment tax credit without limit of time.

These recommendations reflect the views of the committee in its statement of December 30, 1974 to spur recovery.

The committee also reiterates its view that this tax action be enacted "independently of tax reform which should be studied and implemented at a later date."

In order to do this, in view of the tax action of the Congress earlier this year, the following should now be enacted with regard to personal taxes:

1. Continue the increased low income allowance

2. Continue the increased percentage standard deduction

3. Continue the current refundable tax credit

4. Increase the tax credit per exemption from the current $30 to a new level of $45

The committee is of the view there should be no tax rebates as in 1975.

The surtax exemption, which primarily benefits small business should also be continued.

AMOUNT OF AGGREGATE TAX REDUCTION BY INCOME CLASS

Income (AGI) Class ($000)	1974 Law Tax Liabilities	Option A 1975 Act $8 Billion	Option B Magnified 1975 Act $12 Billion	Option C:1 Reduces marginal rates to 53% bracket	Option C:2 Reduces marginal rates to 36% bracket	Option C:3 Widens all tax brackets by 30%
To 0	283	--	--	--	--	--
0 - 5	1779	-800	-1086	-690	-691	-540
5 - 10	4092	-2252	-3389	-2415	-2540	-1582
10 - 15	9251	-1879	-2899	-2415	-2893	-1461
15 - 20	21239	-1606	-2334	-2527	-2886	-1868
20 - 30	20910	-1064	-1646	-2462	-2492	-2366
30 - 50	38417	-303	-466	-1301	-959	-1929
50 - 100	11875	-83	-127	-883	-291	-1452
100 +	10952	-16	-24	-237	-64	-581
TOTAL	116799	-8003	-11970	-12929	-12817	-11779

Office of the Secretary of the Treasury
Office of Tax Analysis

September 29, 1975

ANNEX A (*)

Tax Rate Schedule for President's October 6, 1975 Tax Reduction Proposals (Married Taxpayers Filing Jointly)

Taxable income bracket		Present rates (percent)	Proposed rates (percent)
$ 0	$1,000	14	12
1,000	2,000	15	14
2,000	3,000	16	15
3,000	4,000	17	15
4,000	6,000	19	16
6,000	8,000	19	17
8,000	10,000	22	21
10,000	12,000	22	22
12,000	16,000	25	25
16,000	20,000	28	29
20,000	24,000	32	34
24,000	28,000	36	Same as present law
28,000	32,000	39	
32,000	36,000	42	
36,000	40,000	45	
40,000	44,000	48	
44,000	52,000	50	
52,000	64,000	53	
64,000	76,000	55	
76,000	88,000	58	
88,000	100,000	60	
100,000	120,000	62	
120,000	140,000	64	
140,000	160,000	66	
160,000	180,000	68	
180,000	200,000	69	
200,000	--	70	

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

NOTE: While some rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets and the increase in the personal exemption so that on balance the tax cut proposals will reduce taxes even for those affected by the increased rates.

(*) ANNEXES PREPARED BY TREASURY DEPARTMENT OFFICE OF TAX POLICY

ANNEX B

Tax Rate Schedule for President's
October 6, 1975 Tax Reduction Proposals
(Single Taxpayers)

Taxable income bracket		Present rates (percent)	Proposed rates (percent)
$ 0	$ 500	14	12
500	1,000	15	13
1,000	1,500	16	15
1,500	2,000	17	15
2,000	3,000	19	16
3,000	4,000	19	17
4,000	5,000	21	18
5,000	6,000	21	19
6,000	8,000	24	21
8,000	10,000	25	24
10,000	12,000	27	27
12,000	14,000	29	29
14,000	16,000	31	31
16,000	18,000	34	Same as present law
18,000	20,000	36	
20,000	22,000	38	
22,000	26,000	40	
26,000	32,000	45	
32,000	38,000	50	
38,000	44,000	55	
44,000	50,000	60	
50,000	60,000	62	
60,000	70,000	64	
70,000	80,000	66	
80,000	90,000	68	
90,000	100,000	69	
100,000	--	70	

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

NOTE: While some rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets and the increase in the personal exemption so that on balance the tax cut proposals will reduce taxes even for those affected by the increased rates.

SIX-POINT UTILITIES PACKAGE

-- Increase the investment tax credit permanently to 12 percent on all electric utility property except generating facilities fueled by petroleum products. No change of the percent-of-tax limitation is involved. The increase in the credit is allowable only if construction work in progress is included in the utility's rate base and the benefit of the increase is "normalized" for ratemaking purposes. "Normalized" in this sense means reflecting the tax benefit for ratemaking purposes pro rata over the life of the asset which generates the benefit instead of recognizing the entire tax benefit in the year the utility's taxes are actually reduced. In the absence of normalization, the entire tax benefit would flow through immediately in the form of reduced utility rates for consumers, and no real economic benefit would result for the utility.

-- Give electric utilities full, immediate investment tax credit on progress payments for construction of property that takes two years or more to build, except generating facilities fueled by petroleum products, without regard to the five-year phase-in required by the Tax Reduction Act of 1975. This new provision applies only if the regulatory agency includes construction work in progress in the utility's rate base for ratemaking purposes.

-- Extend to January 1, 1981, the period during which pollution control facilities installed in a pre-1969 plant or facility may qualify for rapid five-year straight-line amortization in lieu of normal depreciation and the investment credit.

-- Permit rapid five-year amortization of the costs of either converting a generating facility fueled by petroleum products into a facility not fueled by petroleum products or replacing a petroleum-fueled facility with one not fueled by petroleum. This amortization is in lieu of normal depreciation and the investment credit, and is available only if (i) its benefits are "normalized" for ratemaking purposes, and (ii) construction work in progress is included in the utility's rate base for ratemaking purposes.

-- Permit a utility to elect to begin depreciation, during the construction period, of accumulated construction progress expenditures, generally the same expenditures as those which qualify for the investment credit construction progress payments under the Tax Reduction Act of 1975. Any depreciation taken during the construction period will reduce the depreciation deductions available after the property is completed. This early depreciation will be available only if the ratemaking commission includes construction work in progress in the utility's rate base and "normalizes" the tax benefits for ratemaking purposes. Construction of generating facilities which will be fueled by petroleum products will not qualify for such depreciation.

-- Permit a shareholder of a regulated public electric utility to postpone tax on dividends paid by the utility on its common stock by electing to take additional common stock of the utility in lieu of cash dividends. The receipt of the stock dividend will not be taxed. The amount of the dividend will be taxed as ordinary income when the shareholder sells the dividend stock and the amount of capital gain realized on the sale will be decreased (or the amount of capital loss increased) accordingly. Dividend stock is deemed sold before other stock.

FY 1976 COST = $600 million

MAJOR 1975 INDIVIDUAL TAX REDUCTIONS

The Tax Reduction Act of 1975 contains three temporary general individual tax cut provisions affecting most taxpayers. The first was the temporary one-shot rebate of a portion of 1974 tax liabilities, which was implemented through special rebate checks or larger refund checks last spring (cost: $8.1 billion). Two other temporary structural changes enacted in 1975 may be summarized as follows:

<u>Standard deduction liberalization</u>

-- minimum standard deduction (low income allowance) increased from $1,300 per return ($650 for married persons filing separately) to $1,900 for a joint return or surviving spouse, $1,600 for single persons, and $950 for married persons filing separately,

-- maximum standard deduction increased from 15 percent of AGI (with a maximum of $2,000 or $1,000 for a married person filing separately) to 16 percent of AGI (with a maximum of $2,600 for a joint return or surviving spouse, $2,300 for a single person, and $1,300 for married persons filing separately,

-- effective for one year (generally 1975 calendar year)

COST: $2.5 billion

Personal exemption tax credit

-- new $30 per exemption tax credit (except blind and aged exemptions) in addition to present law personal exemptions

-- effective for one year (generally 1975 calendar year)

COST: $5.3 billion

The approximate $8 billion of tax reductions effected by the standard deduction liberalization and the personal exemption tax cut were reflected in withholding tax reduction over a eight-month period. Thus, the amount of tax cuts necessary to annualize the 1975 Act withholding tax reductions over a 12-month period would be approximately $12 billion.

ANNEX E

Income Distribution of President's Tax Reduction Proposal
at 1975 Levels of Income
(billions of dollars)

Adjusted gross income class	Tax liability based on 1972-74 law	Proposed 1976 tax liability	Tax reduction	Percentage distribution of tax reduction	Percentage reduction in tax liability 1/
$ 0 - $5,000	2.0	0.8	1.2	5.8	61.3
5,000 - 10,000	14.1	9.1	5.0	24.2	35.3
10,000 - 15,000	23.1	17.6	5.5	26.6	23.8
15,000 - 20,000	23.7	19.5	4.2	20.3	17.7
20,000 - 30,000	28.0	24.7	3.3	15.9	11.7
30,000 - 50,000	16.9	15.9	1.0	4.8	5.8
50,000 - 100,000	12.1	11.7	0.4	1.8	3.2
100,000 +	9.4	9.3	0.1	0.5	0.8
TOTAL	129.4	108.7	20.7	100.0	15.9

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ Based on unrounded liability figures.

NOTE: Detail may not add to totals due to rounding.

ANNEX F

Maximum Levels of Tax-free Earned Income for 1976
Under the President's Tax Reduction Proposal

(rounded to nearest $10)

Filing status	Maximum tax-free earned income 1/		Poverty income levels 2/	
	1975	1976	1975	1976
Single				
no dependents	2,560	2,800	2,790	2,970
Married, joint return				
no dependents	3,830	4,500	3,610	3,850
1 dependant	4,790	5,500	4,300	4,570
2 dependents	5,760	6,500	5,500	5,850
3 dependents	6,720	7,500	6,490	6,900
4 dependents	7,670	8,500	7,300	7,770
Single, over 65,				
no dependants	3,310	3,800	2,580	2,750
Married, joint return, both over 65				
no dependents	5,330	6,500	3,260	3,460

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ For taxpayers not eligible for the earned income credit.

2/ Underlying Consumer Price Index: for 1975, 161.2; for 1976, 171.5.

Tax Speech + Proposals

3 pay

Oct. 7

Telegrams

129 - pro

11 - con

8 - comments

Phone

15 pro

6 con

1 comment

7:00 p.m.	THE PRESIDENT DEPARTS KNOX ROOM EN ROUTE MOTORCADE.
7:05 p.m.	THE PRESIDENT DEPARTS HYATT REGENCY KNOXVILLE HOTEL VIA AUTO EN ROUTE McGHEE-TYSON AIRPORT.
	Press Pool #4 and press bus #1 follow.
7:20 p.m.	THE PRESISDENT ARRIVES McGHEE-TYSON AIRPORT, AIR NATIONAL GUARD FACILITY, KNOXVILLE, TENNESSEE.
	OPEN PRESS COVERAGE
7:30 p.m.	THE PRESIDENT BOARDS AIR FORCE ONE AND DEPARTS McGHEE-TYSON AIRPORT, AIR NATIONAL GUARD FACILITY KNOXVILLE, TENNESSEE EN ROUTE ANDREWS AIR FORCE BASE.
	Flying Time: 1 hour 5 minutes No Time Change
	Press Pool #5 accompanies the President aboard Air Force One.
8:00 p.m.	Press bus #2 departs the Hyatt Regency Knoxville Hotel en route McGhee-Tyson Airport, Air National Guard Facility.
8:25 p.m.	Press bus #2 arrives McGhee-Tyson Airport.
8:30 p.m.	Press plane departs McGhee-Tyson Airport, Air National Guard Facility, Knoxville, Tennessee en route Andrews Air Force Base.
8:35 p.m.	THE PRESIDENT ARRIVES ANDREWS AIR FORCE BASE, BOARDS MARINE ONE AND DEPARTS EN ROUTE THE SOUTH LAWN, THE WHITE HOUSE.
8:55 p.m.	THE PRESIDENT ARRIVES THE SOUTH LAWN, THE WHITE HOUSE.
9:35 p.m.	Press plane arrives Andrews Air Force Base.

\# \# \#

OCT..14, 1975

MAIL COUNT ON PRESIDENT'S TAX CUT AND BUDGET REDUCTION PROGRAM

As of 10:00 a.m. this morning, Oct. 14, the count of mail and telegrams on the President's program was:

FAVORING THE PRESIDENT'S PLAN---- 770

OPPPOSING THE PROGRAM------------ 90

COMMENT-------------------------- 65

TOTAL MAIL AND TELEGRAMS-------- 925

FYI ONLY : Jim Holmes in Correspondence says this is a light response to a major presidential proposal---below the average response.

OFFICE OF THE GOVERNOR

FRANKFORT, KENTUCKY 40601

October 14, 1975

JULIAN M. CARROLL
GOVERNOR

JF

President Gerald R. Ford
The White House
Washington, D.C.

Dear Mr. President:

I have today received your letter of October 10, 1975, enclosing a copy of your tax reduction program.

As you know, when you first discussed this proposal with several Governors at Knoxville, Tennessee on October 7, you emphasized the great importance of economy and efficiency in the operation of our Federal Government. You will remember I responded that most Governors were also committed to similar goals in the operation of State Government. However, I was compelled to state that forced busing was the most counterproductive expense that now existed or had ever existed in our society. It is my memory that you and all my fellow Governors either stated or nodded agreement with that statement.

I further stated that I had heard you say numerous times it was your opinion that the Courts had failed to fully consider the serious statutory alternatives to court ordered busing. It was then that I asked, "I would invite you to ask the Attorney General, using existing statutes, to intervene with the federal courts." It is my memory that you said, "I certainly will."

look into the possibility of

I also asked at the same session whether HEW had ever made a nationwide survey of the harmful effects of forced busing on our educational systems. The consensus of answers from you and your staff reflected that such a survey had not been made.

After our session, I asked Mr. Jim Falk of your staff when I might expect a response to my request that you ask the Attorney General to intervene in forced busing actions. He advised me I would receive a response in a few days. While I fully understand the demands on your time and the time of your staff, it has now been a week, and we have not yet received any response.

Since you and your staff reported that a nationwide study of the harmful effects of forced busing on our educational systems had not ever been conducted, we have now proceeded to make our own survey in Louisville and Jefferson County, Kentucky.

Preliminary results clearly confirm what we already knew. I am fully convinced that a majority of students in Jefferson County are being denied equal educational opportunities, as defined in Public Law 93-380 enacted August 21, 1974, as a result of forced busing. We can unquestionably supply you with factual information which requires the Attorney General of the United States to intervene in Jefferson County's pending forced busing litigation.

Our legal counsel has advised me that federal law authorizes a class intervention motion by parents and guardians of adversely affected children. Such parents can reopen the pending Federal Court action for the purpose of modifying the court order under which forced busing is being imposed upon the citizens of Jefferson County. In view of the urgency of this situation in Jefferson County and the need for immediate action, I am considering making a grant from my contingency fund for the purpose of providing monies for the necessary legal assistance to parents and guardians of adversely affected children so that they can invoke Section 1717, Title 20, U.S. Code and intervene in the pending forced busing action in Federal Court on the grounds that their children are being denied an equal educational opportunity.

Mr. President, your immediate action is vital to our children presently suffering the harmful effects of forced busing and thus being denied an equal educational opportunity. We respectfully plead that you instruct your Attorney General to immediately intervene in our Jefferson County litigation and relieve our State and our citizens from having to assume the burden and expense of receiving an equal educational opportunity now denied by federal action.

Sincerely,

Julian M. Carroll

1. President indicated to the Governors that he certainly would have Justice (Dept) look into the matter.

(Dick Parsons of Domestic Council has talked to Stan Pottinger, head of Civil Rights Division, to do so.)

2. The President did not promise intervention.

3. Jim Falk is calling the Governor today to reassure him that when Justice completes its review the Governor will be advised.

STATEMENT ON TAX CUT PROPOSAL

"When I took this job, I knew I'd run into criticism. There is no way of trying to develop a discipline of this type without having people get restive under it.

"But I think we have got to face the fact that we cannot forever push for a bigger and bigger federal pie; I don't think unrestrained federal spending makes economic sense anymore, so what we are left with is a question of determining priorities.

"Why can't liberals talk about fiscal responsibility and productivity without feeling uncomfortable?"

Senator Edmund Muskie
as quoted in the
Washington Star
October 16, 1975

RN/jb

MAIL AND TELEGRAMS COUNT (DOES NOT INCLUDE PHONE CALLS)
AS OF 11:00 AM THURSDAY, OCT. 16, 1975

TOTAL OF ALL MAIL AND TELEGRAMS ------ ON THE PRESIDENT'S PROGRAM	1,172
FAVORING THE PRESIDENT'S PROGRAM -----	970
OPPOSED TO THE PRESIDENT'S PROGRAM ---	115
NON-COMMITTAL COMMENT----------------	87

JACK WARNER:

PAST 17 years

KNOW OF NO ACCIDENTS IN RECENT HISTORY INVOLVING PRESIDENT IN ACCIDENT
LIMOS HAVE INVOLVING ANOTHER CAR. HAVE BEEN OTHER MINOR ACCIDENTS
CARS HIT MOTORCYCLE POLICE AND A BICYCLIST WITH PRES IN CAR.
BUT, IN 17 YEARS DON'T REMEMBER ANOTHER CAR INVOLVED, WITH PRESIDENT IN LIMO
TRYING TO CHECK FURTHER, BUT DON'T KNOW WHETHER CAN GET.

TAX

10/24/75

While cutting the President's proposed tax cut to less than half of what the President wants to give to the people, I couldn't help but note that the House Ways and Means Committee approved legislation that would at least double the annual limit on tax deductions for members of Congress for Washington living expenses.

Having voted a pay raise already this year you would almost have to look at this as Congress' own "double-dipping" in the Federal treasury.

Tax Writers Back Break for Congress

The House Ways and Means Committee has approved legislation that would at least double the present $3,000 annual limit on tax deductions for members of Congress for Washington living expenses.

The vote on the tax bill amendment was 21 to 14 with opponents calling it a raid on the Treasury.

The Internal Revenue Service would establish a "reasonable lump sum" to cover a lawmaker's expenses away from home, comparable to the $44 daily deduction allowed a businessperson for such expenses. No itemization would be required.

If the IRS applies the $44 to Congress, the deduction would be $7,040, since a typical session lasts 160 days.

In vain Rep. Joseph L. Fisher (D-Va.), who wouldn't benefit because he commutes from Arlington, protested that public servants shouldn't be given the same tax breaks as businessmen.

Rep. James G. Martin (R-N.C.) warned: "We just voted ourselves a raise and now we'll have to tell people we're dipping again" into the Treasury.

The 5 per cent cost-of-living pay raise—lifting members' salaries from $42,500 to $44,625—was voted in August and took effect Oct. 1. The increase in cost-of-living deductions, if enacted, would be retroactive to Jan. 1.

THE TAX BILL

A SPOKESMAN'S GUIDE

December 21, 1975

THE TAX BILL

TALKING POINTS FOR SPOKESMEN

1. President Ford is greatly pleased that the Congress has not only passed a tax cut for the first half of 1976 but has tied future tax cuts to reductions in Federal spending. The Congress has finally committed itself to an essential principle of good government: that we must learn to live within our means.

2. This bill was passed only because the President hung tough on the issue of matching tax cuts with spending cuts. As in the New York City crisis, this demonstrates that with forceful leadership -- including both his strong original stand and his continued, constructive use of the veto power -- the Federal Government can begin to deliver concrete results. This is a substantial victory for the President, for the Congress, for responsible Government, and for the taxpayer.

3. By tying future tax cuts to similar reductions in Federal spending, we are accomplishing three things for the American people:

> A. We are starting to give them greater personal control over their own earnings and thus over their personal lives, reversing a long-standing trend toward governmental domination of the economy.
>
> B. Now for the first time in more than ten years, we have solid reassurance that the Government is capable of bringing inflationary Government spending under control. Over the long run, this will do more to bring stable prices and economic growth than any single governmental program could ever dream of doing.
>
> C. The long term economic health of the country requires the adoption of sound fiscal and monetary policies. This bill is an important first step down the road toward a balanced budget. The President's goal is to balance the budget by FY 1979.

4. While this bill is a major breakthrough, it does not mean we can relax in our efforts to reduce inflation and create more jobs. The President next year will press for a still deeper tax cut tied once again to a dollar-for-dollar reduction in Federal spending.

THE TAX BILL
EXCERPTS FROM PRESS CONFERENCE NO. 24 of the PRESIDENT OF THE UNITED STATES

2:08 PM, EST
December 20, 1975
Saturday
In The Briefing Room
At The White House

QUESTION: What are some of the hardest budget decisions you are making right now?

THE PRESIDENT: They are all hard and, because even though the budget will reflect an increase over the current fiscal year, it will reflect a $28 billion cutback in the growth of Federal spending and, therefore, you have to make hard decisions in practically every department, but if we are going to get a $28 billion tax cut, we have to have a $28 billion cutback in the growth of Federal spending, and we are going to have a $395 billion spending budget for the next fiscal year and that will permit me to recommend to the Congress a bigger tax reduction than the Congress passed and which I will sign Monday when the bill gets down here.

The American people need and deserve a larger tax cut and I am delighted that the Congress after a lot of pulling and hauling finally agreed that we would have in principle a tax reduction and a spending limitation on a one-for-one basis. That, I think, is a very sound principle. That is what I have been fighting for, and now that the Congress has made a good faith commitment I think my larger tax recommendations to cut taxes more than the Congress passed means that we will get a firm handle on the growth of Federal spending.

QUESTION: Is the $28 billion what you will propose again next month as far as the tax cut goes?

THE PRESIDENT: Well, the tax bill that I intend to sign reduces taxes on a full year basis of about $18 billion. My tax reduction proposal will add another $10 billion in additional tax cuts and it will all be predicated on a restraint, a control, in the growth of Federal spending of a like amount.

QUESTION: Mr. President, let me go back to the tax cut a moment. As you probably know, there are a lot of people in Washington, including Democrats, that say you could have gotten the same deal a week ago on this non-binding resolution and with an election year coming up you could not very well give people a Christmas present of higher taxes. Was your decision not to accept this bill motivated in any part by election year politics and do you think it caved in?

THE PRESIDENT: I think the compromise which was achieved was a good tax bill for six months but I, under no circumstances, believe that I backed off a very fundamental principle which was if you are going to have a tax reduction you have to have a corresponding limitation on the growth of Federal spending. I won on that issue 100 percent, and if you tie that principle which the Congress has agreed to with the budget ceiling that I am going to submit of $395 billion, it does mean that the Congress will have to respect their good faith commitment and operate within the $395 billion figure.

QUESTION: Sir, did you have the same deal offered to you a week or so ago and you didn't have the option of taking the deal?

THE PRESIDENT: Not at all. Well, the evidence of that is that the Republicans in the House of Representatives roughly a week ago offered as a motion to recommit a $395 billion ceiling for fiscal 1977 and virtually every Republican voted for it and very few Democrats did. That, in my opinion, was a rejection of the ceiling concept at that time but after the veto fo the tax bill and it being sustained the Democrats in the Congress then came forward with this dollar-for-dollar reduction in taxes and a dollar-for-dollar reduction in Federal spending. It was their proposition but it followed the guidelines that was within the perimeters of what we had long sought.

QUESTION: Mr. President, do you expect Congress to go along with the $395 billion ceiling? They have not said they will so far.

THE PRESIDENT: We are going to submit a budget for $395 billion or less and I think we can justify it fully. I believe there is a little different attitude up on the Hill among Republicans as well as some Democrats that that is a responsible figure. I think we have a fair chance of achieving it. We are certainly going to try.

THE TAX BILL
QUESTIONS AND ANSWERS FOR SPOKESMEN

Q. What is the actual commitment of the Congress?

A. The commitment written into the tax bill is that, barring the unforeseen, if the Congress extends the tax reduction beyond June 20, 1976, any reduction in taxes must be accompanied by a similar reduction in spending.

Q. How will the President enforce this?

A. The Congress has made a good faith pledge. It is not legally binding, of course, but the President believes--based on his long experience on the Hill--the Members will live up to their word. If they don't, they will have to answer to the American people and, of course, the President would exercise the veto powers he has to carry out the principle of dollar-for-dollar reductions in which he deeply believes.

Q. Has the President backed down from his original position by accepting a Bill that contains no spending ceiling?

A. No, he has not. This tax cut covers the balance of Fiscal Year 1976 and does not cover succeeding years. The President asked for a spending ceiling to be effective with Fiscal Year 1977.

The compromise was to limit the tax cut to the balance of 1976. 1977 is not covered by the compromise bill. The Congress has agreed to the principle of dollar-for-dollar spending cuts tied to any continuation of tax cuts. That principle is precisely what the President wanted to establish.

The President will submit a $395 billion budget for FY 1977. With the dollar-for-dollar principle established, we will expect the Congress to provide a deeper tax cut effective in July of 1976.

Q. Isn't this the same compromise rejected earlier--didn't the President cave in so that he would not be blamed for an increase in taxes?

A. No. Prior to sustaining the President's veto the most Congress would even talk about was some kind of language whereby they would give consideration to the President's proposal. But in agreeing to the compromise, the Congress signalled agreement with the House Ways and Means Committee Chairman Al Ullman, who said: "The determination to control spending is, in my opinion, a determination which the Congress shares with the President. I know of his interest in reducing the national deficit, and I can assure him that Congress shares this determination with him and that the statements we are making in this tax bill reinforce this determination."

Moreover, it should be understood that the President did not propose the spending ceiling or agree to the compromise for partisan political reasons. The effects of out-of-control federal spending are one of the most serious causes of inflation and other economic problems confronting us today.

Q. Will the President continue to press for a $28 billion tax cut tied to a $395 billion ceiling?

A. Yes. The President feels that the $395 billion ceiling is feasible and an appropriate first step toward arriving at a balanced budget within three years. He believes that at such a ceiling we will be able to give the American people not only a continuation beyond June of the tax cuts implicit in the bill he is signing, but an even deeper tax cut, a tax cut that will restore to the average American working family another $227 a year beyond what they received under this bill. (An average working family defined as a family of four earning $15,000 a year.)

Q. Will the President try to make the deeper tax cut retroactive to January 1?

A. As far as I am aware, this is a matter that has not yet been considered.

Q. Are we likely to go through another one of these struggles six months from now when the extension expires?

A. I sincerely hope not. There is no need for it, and furthermore, the Congress has accepted the basic principle of equivalent tax and spending cuts.

Q. Doesn't this bill give a six month tax cut with no assurance that there will be a restraint on Federal spending since it applies only if a further tax cut is given?

A. We have the best assurance of all: the fact that the Congress of the United States is unlikely to go to the American people and tell them that their tax rates have to go up because the Congress can't figure out a way to hold down the rate of expenditure growth. Having committed themselves to the dollar-for-dollar principle and the practical reality of tax rates going up unless spending comes down, I think we'll see Congress eager to cut down the growth of spending.

Q. How have the American people benefited from this political battle?

A. For the first time in history, the principle of tying tax cuts and spending has been clearly established.

But we must remember that this bill does not mean the end of the fight to control Federal spending. It is only the end of the first successful round of a long battle.

We are pleased that the Congress has made a commitment to reduce Federal spending dollar for dollar with any continuation of tax cuts after June of next year. With this firm commitment of the Congress in mind, the President will submit a budget in January that is no greater than $395 billion. He will vigorously press the Congress to adhere to this budget, which will permit significant additional tax relief for the American people.

Q. Doesn't the extension of the present tax rate for only six months hurt the economy due to the uncertainty involved?

A. Our preference would have been for a permanent tax cut, and as the President has been saying all along, we believe the tax cut should be deeper.

However, now that the Congress has accepted the dollar-for-dollar principle, the American taxpayer should be able to expect Congress to exercise the spending restraints necessary to provide an even better tax break for the months after June 30.

Q. Doesn't this agreement to tie taxes to spending foul up the Congressional budget process?

A. It certainly does not. This Administration wants the Congressional budget procedure to be fully successful. The action taken by the Congress in no way impairs the responsibility of its committees. Rather it enhances that responsibility. Whether you are a Budget Director in the Executive Branch or a member of a Budget Committee in the Congress, it is not an easy job to get others within the government to accept a slowdown of spending of any kind. With this clear signal from Congress, I think it is going to make the job of the budget committees a lot easier.

THE TAX BILL
STATEMENT OF AL ULLMAN
Chairman, House Ways & Means Committee
December 19, 1975

The High Points

Language of Bill, Explanation

1. "If economic conditions warrant doing so" - p.8
2. "Additional reduction in taxes" - p.8

Intent of Congress To Control Spending

1. "The determination to control spending is, in my opinion, a determination which the Congress shares with the President." - p.9

(The Full Text Follows)

THE TAX BILL
STATEMENT OF AL ULLMAN
Chairman, House Ways & Means Committee
December 19, 1975

Before I conclude, I want to say that I understand that both the Senate and the President have had trouble with some of the changes that we have made in the Senate language in our policy statement. I want to say that the changes are not intended to be substantive, and I do not believe they are. Let me go through some of them with you.

For example, I understand that some object to adding the language "and if economic conditions warrant doing so" at the beginning of the third paragraph. I would like to point out that this pharse is almost the same as that provided in the proviso at the end of the third paragraph. There, it is indicated that nothing would preclude the right of Congress to change the expenditure figure if this is warranted by economic conditions. As far as I am concerned -- and I speak as chairman of the committee -- this means nothing more by adding that material at the beginning than was meant by the proviso at the end of the paragraph. Therefore, what it really amounts to is simply a redundant statement. However, some of the House members felt that it was important to have this phrase appear up above just to be sure that no one misunderstood that there was a condition that if economic conditions change, the commitment specified might have to be modified.

I know, also, that there are some that think that the omission of the word "changing" in front of economic conditions at the end of the third paragrph had some significance. I do not believe that there is any substantive effect occurring from this omission. I believe that it is clear that the economic conditions existing today do not warrant departing from the commitments specified and I believe that it is only if economic conditions were to change that this would be true.

Also, I know of no other circumstances at this time which would require a change from this commitment. Of course other circumstances which are unforeseen at the present time may ultimately require such change.

I understand, also, that some question has arisen where we made reference to "additional reduction in taxes." It was the intention of all of us to refer to any reduction in taxes which occurs after June 30, 1976, even though it is the same amount of reduction which is already provided for in the period up to June 30, 1976. In other words, an extension of the existing tax reduction beyond June 30, 1976, would give rise to the requirement of an equal reduction in spending to offset a tax reduction.

The determination to control spending is, in my opinion, a determination which the Congress shares with the President. I know of his interest in reducing the national deficit, and I can assure him that Congress shares this determination with him, and that the statements we are making in this tax bill reinforce that determination.

THE TAX BILL
STATEMENT BY RONALD NESSEN
Press Secretary to the President
December 19, 1975

The President is very pleased by the actions taken in the Congress tonight on the tax bill.

The bill which has been enacted not only continues cuts in taxes for the first half of 1976 but also represents a good faith commitment by the Congress to match future tax reductions with dollar-for-dollar reductions in projected spending. This has been the essential issue at stake throughout these debates, and the President is gratified that the Congress has now accepted this principle.

The essence of the bill, then, is that taxpayers will continue to enjoy a measure of tax relief in 1976 and that for the first time in history, future reductions in taxes will lead to similar reductions in spending.

THE CONGRESS

By Walter Taylor
Washington Star Staff Writer

Beginning with his campaign last year against the imaginary "veto-proof" Congress, President Ford has had the predominantly Democratic House off-stride and on the defensive.

With a small hardcore of Republicans and Southern Democrats eager to be his ally on any issue that could

Two Main Congressmen angry over White House pressure. Page A-7.

be said to involve "excessive" federal spending, Ford has built a remarkable record of success.

The strategy has been a simple one: The President takes a hard-line stance in opposition to a favorite Democratic proposal, backs it up with a veto or a veto threat and the Democratic leadership, unable despite their two-thirds majority in the House to override, caves in.

WHILE ALL THIS was going on, the Democrats were in disarray, spending much of their time fighting among themselves and trying to explain to one another that the losses really weren't their own fault, that a goodly chunk of their fat House majority comprised Southern conservatives more closely aligned philosophically with Ford than with their Democratic colleagues.

The President worked his magic formula successfully on the big Democratic jobs and housing bills, on strip mine legislation and, most recently, on the issue of aid to New York City. In the end, the "compromise" agreements reached on those measures were much closer to the positions of Ford and his minority following than to those of the Democratic majority.

Judging from the first angry reaction of liberal and moderate Democrats to his success yesterday in upholding the veto of a $16.3 billion tax cut bill, the President and his loyalists may have gone with the same game plan once too often.

ON FIRST BLUSH, it appears that Ford and House conservatives have won the most important congressional fight of the year. The President said he would veto any tax cut measure that was not accompanied by a spending ceiling for the coming fiscal year. The Democrats refused to attach the spending limit and vowed to override the veto.

He did; they couldn't.

But the question is, what did Ford win?

First, if the Democrats hold firm in their refusal to buy a post-veto "compromise" on White House terms — and severe pressure already is mounting on their leadership not to bargain — the President is not going to get his spending ceiling.

"WE'RE NOT GOING for any spending ceiling until we see the President's budget, so let's forget about that," Majority Leader Thomas P. O'Neill snapped last night when GOP Leader John Rhodes suggested that some accommodation still was possible.

Second, and most important politically, yesterday's exercise of White House muscle means that withholding rates for 70 million taxpayers appear likely to increase in January.

The question of who would be held accountable in the event an impasse on the spending ceiling question led to such an increase has not been far removed in the long weeks of debate on the tax measure. But after some initial fretting, Democrats now are making noises indicating that they are prepared to gamble that it will be Ford and the Republicans who will be fingered by the voters.

Speaking last night of possible compromise, Rep. Wayne L. Hays of Ohio, one of the best no-holds-barred combatants on the Democratic side, put it this way: "He wants us to take him off the hook. . . . We didn't put him there."

THE ANNOUNCED plans by Democratic leaders is to march out of town for Christmas today without further action on the tax bill unless Ford abandons or severely waters down his demands for a spending limitation.

There are some Democrats who believe that Ford did not want to win the veto fight at all, that he wanted a new fiscal issue with which to charm the Republican right without the political risks inherent in a tax increase. This theory figures former California Gov. Ronald Reagan, already ahead of Ford in Republican polls, into the mix.

But if the theory is valid, Ford underestimated the ability of Rhodes and other Republican leaders in the House to rally the troops behind the position taken publicly by the administration. Rhodes has said time and again that his one-third minority in the House is the most cohesive group in Congress, and for once that fact may turn out to be a political liability for the Republicans.

Of the 144 House Republicans, all but 19 went down the lane with Ford. They were joined by 32 Southern or border state Democrats in mustering the edge needed to sustain Ford's veto.

SINCE BOTH Ford and his followers in Congress have stressed that they too want extension and expansion of last year's tax cuts, just as the Democrats do, it appears obvious that they were counting heavily on a post-veto cave-in by O'Neill, Speaker Carl Albert and other House leaders.

Ford won similar gambles in the big veto fights earlier this year. But in those cases, the stakes were not so high, the agony of political defeat not likely to be so quickly felt. If withholding rates go up, they go up in next month; if the increase triggers a further slowdown in the economy, as the Democrats suggest it could, that too could be felt very quickly.

The political dynamics affecting House Democrats also are different now than they were earlier this year. Ways and Means Committee Chairman Al Ullman, D-Ore., has been bloodied by House conservatives, including those on his own committee, on several occasions already in his first year as Wilbur Mills' successor.

Like a man who see himself betrayed once too often, Ullman is among those taking the hardest line against an 11th hour agreement on White House terms. He is joined by Rep. Brock Adams, D-Wash., and others deeply involved in the congressional budget process, who see the new system threatened by Ford's demands.

ALBERT AND O'NEILL also are under the gun in the tax dispute. The Speaker particularly was roasted by frustrated Democratic freshmen after Ford's earlier veto victories, and he is desperately trying to keep his hold on the leadership reins.

There was little early criticism by Democrats of Albert and O'Neill for their inability to muster the votes to override the tax veto, despite indications that they may have been a bit over-confident in assumptions that they would pick up substantial Republican support for the effort.

Rather, party firebrands were eying the leadership's post-veto strategy carefully.

A rumor that Ford's spending ceiling had been accepted after yesterday's vote, for example, sent freshman Democrats scrambling to a closed-door caucus. O'Neill was given a cheer when he told the new members that the strategy was, in effect, to let Ford stew in his own juice.

REP. NORMAN MINETA, D-Calif outgoing president of the group, said it was made clear to O'Neill that the freshmen wanted no quickie settlement that would make Democrats look like patsies.

"Never" is a word carefully avoided in Washington politics, and the current hang-tough attitude by House Democrats could evaporate as quickly as congressmen on a Friday afternoon.

But if it does not, rather than spawn even greater Democratic disarray the President's latest "victory" could bring his opponents in the House closer together than they've been all year.

12/19/75

THE TAX BILL

TALKING POINTS FOR SPOKESMEN

1. President Ford is greatly pleased that the Congress has not only passed a tax cut for 1976 but, for the first time in its history, has accepted an essential principle of good Government: that when the Government cuts people's taxes, it should also reduce its own spending.

2. This bill means that the Federal tax cut will be extended through the first six months of 1976 by $12 billion and that projected Federal spending for the next fiscal year (FY 1977) will be cut by the same amount. The dollar-for-dollar concept embodied in this bill is precisely the principle that the President has been seeking to establish.

3. This bill was passed only because the President hung tough. As in the New York City crisis, it demonstrates that with his forceful leadership--including both his strong original stand and his continued, constructive use of the veto power--that the Federal Government can begin to deliver concrete results. This is a substantial victory for the President, for the Congress, for responsible Government, and for the taxpayer.

4. By tieing the tax cut to a dollar-for-dollar cut in Federal spending, we are accomplishing three things for the American people:

   a. We are starting to give them more control over their own earings and thus over their personal ives, reversing a long standing trend toward governmental domination of the economy.

   b. Now for the fist time in more than ten years, we have solid reassurance that the Government is capable of bringing inflationary Government spending under control. Over the long run, this will do more to bring stable prices and economic growth than any single governmental program could ever dream of doing.

   c. The long term economic health of the country requires the adoption of sound fiscal and monetary policies. This bill is an important first step down the road toward a balanced budget and restoration of the principle that the Nation must live within its means.

5. While this bill is a major breakthrough, it does not mean we can relax in our efforts to reduce inflation and create more jobs. The President next year will press for a still deeper tax cut tied once again to a dollar-for-dollar reduction in Federal spending.

Ron

If you have any comments, call Gergen by 2:00 P.M. I made a couple minor changes- JGC

THE WHITE HOUSE

WASHINGTON

September 6, 1976

MEMORANDUM FOR: JIM CAVANAUGH
RON NESSEN
ROGER PORTER
PAUL O'NEILL

FROM: DAVE GERGEN DG

SUBJECT: Tax Statement

Here is a draft of a tax signing statement. We would like to release it as early as possible this afternoon, so that we would appreciate a quick review.

Thanks.

DRAFT SIGNING STATEMENT ON TAX BILL

In signing into law [redacted] a temporary extension of tax withholding rates, I would like to call the Nation's attention once again to the continuing inability of the Congress to meet the real needs of the American taxpayer.

For many months, the Congress has been struggling with the issue of tax reduction and tax reform. Most Americans agree that both are necessary.

Early in the year, I expressed my own view that one of the most important advances that could be made by this Congress was to restrain the growth of Federal spending and to return the savings to the taxpayers in the form of a $10 billion permanent and additional reduction in income taxes.

During the year, I have also recommended to the Congress in the strongest possible terms the need for reform of estate and gift taxes so that family farms and small businesses would not be wiped out by the burdens of taxation upon death in the family.

It is urgent, as I have said many times, that we relieve the burden~~t~~s on all taxpyers and make our tax system more equitable.

Unfortunately, the Congress has become so ensnarled in the rewriting of various specific provisions of the tax code that it has failed to recognize the broad interests of the country:

-- It has failed to grant additional tax relief;

-- It has failed to put adequate restraints on spending;

-- It has failed to protect family farms and small businesses from the burdents of heavy taxation.

The bill that I have signed is only a bandaid -- a 15-day respite so that the Congress can complete action on a more comprehensive tax package. I urge that the Congress use this time wisely -- that it consider the needs not just of the special interests, but of all the American people --

and I pledge that I shall do everything I can to assist in

this effort.

THE WHITE HOUSE
WASHINGTON

RNV

9.15.76

TO: Ron Nessen

For Your Information: ✓

For Appropriate Handling: ________

Original to Jim Connor

RDL.
Robert D. Linder

THE SECRETARY OF THE TREASURY
WASHINGTON

SEP 14 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Reply to a Washington Post Editorial on the Tax Bill

The September 13 edition of the Washington Post printed a lead editorial entitled "Reforming the Tax Laws". It contained such gross factual errors that I was impelled to respond.

Attached is a copy of my letter to Mr. Bradlee without the enclosures it contained.

Bill Simon

William E. Simon

Attachment

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

SEP 14 1976

Dear Mr. Bradlee:

The last paragraph of your September 13 editorial "Reforming the Tax Laws" contains gross factual errors.

You say the Tax Reform bill "was entirely a congressional initiative.... The White House and the Treasury have had astonishingly little to do with it." This is an irresponsible misstatement of fact.

The record plainly shows that the reform features in the bill have been urged by the Administration since early in 1973 when proposals were made to close tax shelters by means of LAL (limitation on artificial accounting losses). At the same time a proposal was made to tighten the minimum tax provisions to assure that all taxpayers pay their fair share of taxes.

These proposals were adopted by the Ways and Means Committee in 1974 when a tax bill was agreed to but never reported out of Committee. The Administration renewed its efforts in 1975. At that time, I testified at length before the Ways and Means Committee. Enclosed is a copy of the statement I made on July 8, 1975 before the Ways and Means Committee. One of my opening paragraphs states:

> "I wish to renew our request for basic tax reform legislation. In April, 1973, we requested legislation that would greatly simplify the preparation of tax returns for individuals, that would eliminate tax shelters, and that would insure that individuals with high economic incomes pay reasonable income taxes. Your Committee adopted the substance of these proposals in a major bill which it prepared but did not report in the last Congress. This is unfinished business on which we should act promptly."

In the 1976 Act, the House bill adopted the Administration's LAL proposal, although in somewhat modified form, and took a different approach to the minimum tax provisions than the Administration did. When the bill was taken up by the Senate, I again testified in support of these measures. A copy of my statement to the Senate Finance Committee, dated March 17, 1976, is enclosed. I call your attention particularly to page 19 where I stated:

"The House Bill contains many provisions designed to limit the benefits which high-income individuals receive from certain investment incentives provided in the Code. These incentives include preferential capital cost recovery deductions to encourage investment in such activities as real estate, minerals and farming. The effect of these incentives is a deferral of taxes which is worth more to taxpayers in the highest marginal tax brackets. Individuals responding to these incentives are not acting illegally and represent a small fraction of all taxpayers. However, excessive use of such incentives by high-income individuals may undermine the progressivity of the income tax as well as its perceived fairness.

"In 1973 the Administration originated the LAL (limitation on artificial losses) proposal which limits the benefits of these tax incentives--often called tax shelters. We are pleased that the House bill generally follows our proposal and we continue to support the broad objectives toward which LAL is directed.

"Further, to deal with the problem of high income taxpayers who do not pay their fair share of tax, the Administration is renewing in modified form, its 1973 MTI (minimum taxable income) proposal. MTI is an alternative tax which will subject taxpayers to progressive income tax rates. We continue to feel that this approach is superior to the minimum tax which is an additional flat rate tax on tax preferences, primarily capital gains. H.R. 10612 would increase the minimum tax rate and would leave intact its structural deficiency as an additional tax."

Finally you should know that the Treasury Department has provided constant input to the members of the Conference Committee, their staffs and the staff of the Joint Committee on Internal Revenue Taxation with respect to the Administration's position on all aspects of the bill, and has provided appropriate technical comments.

Enclosed is a copy of a Treasury Department document dated August 25, 1976 entitled "Administration Positions on H.R. 10612, Tax Reform Act of 1976 (prepared for use by the House and Senate Conferees in conjunction with the Conference comparison)." If you will take the time to review all of the measures acted on by the Conference you will see a high degree of conformity between the Administration positions and the final content of the bill, with, of course, some exceptions.

It is entirely misleading, therefore, for you to state that "The White House and the Treasury have had astonishingly little to do with" the tax bill. It follows that it is grossly unfair and biased political commentary for you to presume that the reason for the (non-existent) circumstance you cite is that the President's "long competition with Ronald Reagan for the nomination made it impolitic for him to address most of the issues that the bill raised."

The fact is that the Administration has been a leader in tax reform.

Very truly yours,

William E. Simon

Mr. Benjamin C. Bradlee
Executive Editor
THE WASHINGTON POST
1150 15th Street N.W.
Washington, D.C. 20071

Enclosures

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Reforming the Tax Laws

THE TAX REFORM BILL has been reformed—not completely, to be sure, but far more substantially than seemed possible a month ago. The House originally passed it in pretty good shape, but then the Senate, in a fit of irresponsibility, wrote into it a vast collection of new-tax breaks and miscellaneous atrocities. The struggle swayed back and forth for weeks in the Senate-House conference. That conference has now ended with a compromise that retains many of the House version's strengths and omits most of the Senate bill's mischief. It is a hugely complex piece of legislation, and only the bravest of legislators would claim at this point to comprehend every line fully; certainly we do not. But the main outlines seem clear. In its present form, the bill deserves to be enacted and signed by the President.

In terms of money, and the amount of tax that everybody will pay this year, the most important part of the bill is also the least controversial. It continues the temporary tax cuts that Congress quickly enacted early last year when the full dimensions of the recession were becoming apparent. With unemployment high and rising, hardly anyone would even consider turning off the stimulus that the cuts give the economy. But the bulk of the bill addresses the much more intricate question of distributing the load.

What does tax reform mean? By one definition, it means improving the fairness of the tax code—in the sense that the ideal law would tax people of similar incomes at similar rates regardless of their accountants' skill at tax avoidance. One constant symbol of the present law's shortcomings is the number of wealthy citizens who manage each year to avoid paying any taxes at all. In respect to them, the bill is indeed a reform. It carries a modest but significant tightening of the minimum tax that they are required to pay regardless of their tax shelters. The bill also eliminates some of the most egregious of the shelters, although it does not contain the systematic clean-up that was in the original House bill.

Another definition of reform is simplification of the law. Here the bill is a clear loss. It adds nothing but more complexity. The unfortunate truth of the matter is that every broad revision of the code attempts to remedy previous injustices and anomalies by making still finer distinctions. A simple tax code is a delightful idea, but we seem to be in the wrong century for it.

Reform also means making the tax system more progressive—shifting more of the load onto the taxpayers with more than average incomes. This bill does not do anything about the broad distribution of the American tax burden. But it makes a couple of highly controversial changes in the closely related question of taxing inherited wealth. Because the current law exempts the first $60,000 of an estate from taxation, only 7 per cent of all Americans leave estates large enough to be taxed at all. The new bill would raise the exemption to $175,000, at which level only the largest 2 per cent of all estates would be taxed. In return for this great concession to inherited wealth, the conference decided that estates should no longer be wholly exempt from the capital gains tax. Suppose a man buys stock at a low price and, by the time of his death, it has risen in value. Under present law, that capital gain is never taxed. Under the bill, it would gradually begin to be taxed (if, but only if, the heirs ever sold it). Even this gradual beginning is too much for some of the congressmen, who are going to make one more attempt to delete it.

They might succeed. The tax bill will now come back to the House in a peculiar parliamentary situation that will require a separate vote on the estate and gift tax section. That whole section will be worthless if the House abandons this slow and gentle beginning to taxing the capital gains in estates. It might be noted that inflation continuously raises the income taxes of average citizens by kicking them into higher tax brackets. Particularly in view of these silent tax increases, it is hardly appropriate for Congress to show such disproportionate solicitude for the inheritances of the nation's wealthiest families.

At its present stage, the tax bill also represents a heartening affirmation of the new congressional budget process. Last spring Congress voted, in its first budget resolution, to raise $2 billion by closing tax loopholes. But as the Senate passed it, the tax bill would have opened up $500 million worth of new loopholes. Most of the worst of these provisions were thrown out by the conference, and the substantive changes in the law would now raise a net of about $1.6 billion next year. For legislation hammered out in the heat of a summer before a presidential election, that's not bad at all.

This bill was entirely a congressional initiative, and it is a congressional solution. The White House and the Treasury have had astonishingly little to do with it. The reason is, presumably, that President Ford's long competition with Ronald Reagan for the nomination made it impolitic for him to address most of the issues that the bill raised. But if this much can be accomplished with no support from the administration, it is reasonable to expect that more could be done with the kind of help that at least one of the presidential candidates, Jimmy Carter, is pledging. As for the present bill, it falls short of the original hopes of its sponsors. But on balance, it is worth enacting into law.

FOR IMMEDIATE RELEASE AUGUST 6, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

The Congress has been working on tax reform for over three years. The Senate is presently considering a 1,600 page document filled with hundreds of provisions and scores of amendments, some of which are good, but many of which would benefit special interests.

This afternoon, the Senate tabled a simple, straight-forward proposal, offered by Senator Dole, to raise the personal income tax exemption from $750 to $1,000 a year. The vote was 57-29.

This proposed amendment would reduce the total tax liabilities of Americans by $10.2 billion annually. This represents a tax saving of $193 a year for a family of four earning $14,000.

I regret that the Senate has rejected this amendment which would benefit all taxpayers and would promote real equity in the tax system.

# # #

September 20, 1976

SUBJECT: TAXES

The following is a brief chronological summary of President Ford's proposals for changes in the tax laws.

1974

October 1974 - To fight inflation,the President proposed surtaxes on all corporations and individuals with above average incomes.

1975

January 20, 1975 - State of the Union Address:

1. To create new jobs, the President proposed one-year tax reduction of $16 Billion. "Three-quarters would go to individuals and one-quarter to promote business investment."

October 6, 1975 - The President proposed making these cuts permanent and deepening them to $28 Billion with an accompanying cut of an equal amount in the growth of federal spending.

December 17, 1975 - The President vetoed a Congressional tax cut because "you have refused at this time to put any limit on spending for the next fiscal year and instead sent me a temporary 6-month extension of the the present temporary 1975 tax levels due to expire on New Year's Eve." (The Congressional Bill [HR 5559] would merely have extended 1975's tax rate, which would have worked out to about $18 billion a year.

1. The veto was sustained.
2. On Dec. 19, Congress extended the existing tax cuts and pledged to match future tax reductions with dollar-for-dollar reductions in projected spending.

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SUBJECT: TAXES (Con't.)

1976

January 19, 1976 - In his State of the Union Message, the President called for an additional $10 Billion tax cut above the $18 Billion approved by Congress in December, 1975. It was to be accompanied by an equal reduction in the growth of federal spending. He also called for "changes in federal tax laws that will speed up plant expansion and the purchase of new equipment" to create more jobs.

March 27, 1976 - In La Crosse, Wisc., the President proposed revisions in the Estate Tax laws, which would stretch out estate tax payments at a greatly reduced interest rate over 25 years and which would raise the estate tax exemption from $60,000 to $150,000.

The President has also made other proposals for tax revision which have been included in the tax revision bill now on his desk. These include - even if not in exactly the form the President proposed:

1. Extension of the tax cut.
2. Closing of tax shelters.
3. Tightening of provisions requiring payment of a minimum tax.
4. Aiding in the formation of capital by extension of corporate tax rates and investment credits, thus laying groundwork for creation of more jobs.
5. Modifying the estate tax to increase the exemption, increase the marital exemption, and stretch out the period of payment.

JBS

October 1, 1976

MEMORANDUM FOR: TERRY O'DONNELL

THROUGH: ED SCHMULTS

FROM: BARRY ROTH

In response to your request, the Assistant Secretary of the Treasury for Tax Policy has advised me that the Administration does not contemplate or support any efforts to tax churches beyond the current scope of taxation.

At present, only income from an unrelated business, e.g., a church-owned factory, hotel or store, is taxed. Once the tax is paid on that income, the church can spend it along with tax-free income it derives from its traditional fundraising activities, e.g., weekly collection, bingo games.

Exactly what Carter proposes is unclear. Perhaps he is considering taxing income which is now tax free, and in turn allowing a deduction for expenditures just for operation of the church building. If that is all he has in mind, then the traditional welfare activities of churches, e.g., family welfare, soup kitchens, schools, etc., could be placed in jeopardy.

Although far from precise, it appears that the Carter quote you cite is deservedly subject to our criticism, either as imprecise and a distortion of current law, or as just a bad idea.