The original documents are located in Box C3, folder "Presidential Handwriting, 9/23/1974" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

9/24/74

OFFICE OF THE PRESIDENT

WASHINGTON, D.C.

From the President:

To: Bill Timmons

Date: 9/24/74 Time a.m. p.m.

I never returned this to you.

It was a long + friendly meeting.

Mainly worried about economy & Sindlinger forecasts.

Also concerned about his G.O.P. opponent.

THE WHITE HOUSE

WASHINGTON

August 20, 1974

MEETING WITH REPRESENTATIVE WILBUR MILLS (D-ARK)

4:15 - 4:30 p.m. (15 minutes)
Wednesday, August 21, 1974
The Oval Office

From: William E. Timmons BT

I. PURPOSE

To discuss legislation in Ways and Means Committee's jurisdiction of interest to the President.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background:

1. There are probably only five working weeks left before final adjournment.

2. Wilbur Mills is a powerful Member of Congress and can be helpful to enactment of the President's program. The President met with Mills' Senate counterpart, Russell Long, last week.

3. The Committee is in mark-up on the Health bill, has virtually finished consideration of the Tax Reform package and is holding energy taxes from the Floor because Wilbur can't get a closed rule. The Chairman will be a conferee on the Trade Bill when it passes the Senate.

B. Participants:

The President
Chairman Mills
Bill Timmons

C. Press Plan:

Meeting to be announced by Press Office as one to discuss pending legislation. White House photographer.

III. TALKING POINTS

Talking points are in tab A.

A

TALKING POINTS

1. Ask Chairman Mills if he plans to move both Health Insurance and Tax Reform this session.

2. Ask Wilbur if Weinberger-Carlucci are working well with him on Health and if Simon is cooperating on Tax Reform.

3. One of the biggest issues in committee is whether or not catastrophic costs (over $4,000) should be financed through a payroll tax similar to Medicare or be an inherent part of the employer-employee plan as recommended by the Administration.

4. Urge the Chairman to expedite a conference should the Senate pass a trade bill.

5. Attached are background papers on Health Insurance and Tax Reform. It would be helpful if you could review these before the Mills meeting.

AUG 20 1974

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

INFORMATION

MEMORANDUM FOR THE PRESIDENT

THROUGH: Roy L. Ash

FROM: Paul H. O'Neill O'Neill

SUBJECT: Administration Position on Health Insurance Legislation

Discussion. The attachments to this memorandum discuss and summarize the major principles of the previous Administration's "Comprehensive Health Insurance Plan" (CHIP) submitted by HEW to Congress in February. The House Ways and Means Committee is currently drafting compromise legislation, incorporating elements of the Kennedy-Mills, Long-Ribicoff, and CHIP bills.

Principles Underlying CHIP.

- Health insurance legislation should provide comprehensive health benefit coverage. Beneficiaries should share in the costs to hold down premiums and unnecessary utilization.

- States should have a major role in the administration and financing of benefits for low-income persons and in the planning and regulation of the health care system. The Federal Government should not undertake new responsibilities in the regulation of the health care system.

- Additional social security payroll taxes should not be enacted; reliance on the private health insurance industry should be continued.

- Long-term care benefits should not be included in health insurance legislation.

The attachments describe each of the principles and indicate the basis for the CHIP proposal.

Attachments

Comprehensive Health Benefit Coverage and Cost- Sharing

Both CHIP and the current version of the Ways and Means Committee bill provide comprehensive health benefit coverage. CHIP provides for cost-sharing, e.g., deductibles of $150 per person (up to $450 per family) and 25 percent copayments with a maximum liability of $1,500 per family. HEW indicates that the Ways and Means Committee bill would include 25 percent copayments, but would limit deductibles to $300 per family with a maximum liability of $1,000 per family. The higher cost-sharing amounts in CHIP are designed to more effectively:

- -- hold down premium costs to Federal and State Governments as well as to both employers and employees;
- -- assure that only needed health services are utilized by beneficiaries; and
- -- encourage physicians to prescribe alternative, less expensive types of care.

<u>Role of the States</u>

CHIP contains a major role for the States in the administration and financing of health insurance programs for the low-income and "working poor," and in the planning and regulation of facilities, hospital reimbursement rates and physicians fees because:

- -- Federal and State shared financing of health insurance benefits operates to reduce Federal costs and creates an incentive for the States--through financial exposure--to undertake effective planning and regulation of facilities and reimbursements.
- -- the States have generally been more aggressive and successful in efforts to hold down costs and utilization in the Medicaid program. The Federal Government has not been as successful in the Medicare program.
- -- a strong State role is consistent with the overall strategy in the health services delivery area. Under that strategy, the Federal Government establishes a minimum floor through health insurance financing for all Americans; States exercise discretion to provide more extensive health benefits, e.g., mental health benefits or special delivery mechanisms.

Social Security Payroll Taxes and Federal Administration

CHIP included catastrophic care financing as an inherent part of the employer-employee plan and the Federal-State low-income plan. According to HEW, the current Ways and Means Committee bill provides for a Federal payroll tax and a federally administered trust fund - similar to Medicare - for catastrophic costs, i.e. over $4000 per year.

The CHIP approach was adopted because:

-- payroll tax financing for catastrophic costs lends itself to expansion and eventually financing all health benefits with resulting Federal control.

-- this approach to financing recognizes catastrophic costs as an extension of comprehensive benefit coverage. No logical reason exists for separate catastrophic costs financing which is inexpensive when spread across large beneficiary groups.

-- there is concern that Federal administration - along the lines of Medicare - will result in an increasing Federal employment and dominance of the health care system, jeopardizing the productive diversity that stems from the current mix of Federal, State, local government, and private sectors.

Long-Term Care

HEW indicates that the Mills bill would provide an experimental long-term care program as part of Medicare. Long-term care benefits are not included in the CHIP proposal because:

-- long-term care is essentially custodial care. Medical care components are seldom critical.

-- HEW is currently reviewing the appropriate Federal role in long-term care financing.

-- current Medicaid long-term care benefits often require more costly medical benefits than warranted by the actual conditions of many of the residents in the facilities receiving Medicaid support.

-- the New York experience indicates that there is an inexhaustible demand for long-term custodial care. Currently, Medicaid--with sharply limited benefits--spends $864 million on long-term care and this sector is growing rapidly.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

Sog Only
cc Jones

August 13, 1974

MEMORANDUM FOR: The President

FROM: William E. Simon

SUBJECT: Summary of Ways and Means Committee Actions

The principal items in the Ways and Means Committee "tentative" decisions are as follows:

1. LAL

The Administration proposal would have precluded the deduction of artificial losses against the taxpayer's other income, thus effectively eliminating tax shelters. The Committee abandoned LAL except for certain farm items. Instead, the artificial losses covered by LAL were rolled into the MTI proposal. The result is that artificial losses would be limited (because of MTI) in the amount of such shelter.

2. Minimum Taxable Income (MTI)

The present minimum tax would be deleted and a provision similar to, but milder than, the Administration proposal would be substituted. The taxpayer would be required to pay an amount of tax significant in relation to his total economic income--which is not true under existing law as the present minimum tax has little or no relation to the taxpayer's total income. The amount he would have to pay, however, is substantially less than the amount he would have had to pay under our proposals.

3. MTI and LAL in Combination

The Administration proposals together would have raised $1.2 billion of revenue. The Committee's actions will raise slightly more than $400 million. These proposals were not intended primarily as revenue raising measures, but the amount of revenue is a measure of the degree to which they are effective. In that sense the Committee went about 1/3 as far as we had proposed.

4. Simplification

Here the Committee adopted largely what we proposed. A series of hard-to-compute deductions were eliminated and taxpayers were given instead a simple formula deduction (the "simplification deduction") ranging from $350 to $650. (The formula is $350 + 2% of adjusted gross income). For example, a taxpayer with $5,000 AGI would get $450, a taxpayer with $10,000 AGI would get $550, etc.

The revenue loss from the new simplification deduction is about $300 million greater than the revenue gain from eliminating the hard-to-compute deductions. That means that taxpayers generally will have a tax reduction from simplification as well as having much easier returns to compute. (Some individual taxpayers may be slightly worse off, but only very slightly so).

About 30 million taxpayers use itemized returns and those returns will be substantially simplified.

5. Standard Deduction

The Committee used some of the net revenue gain from other adjustments (primarily from the energy bill, certain foreign changes and from miscellaneous domestic changes, such as limiting the home office expense deduction) to increase the standard deduction and the minimum standard deduction. As a result approximately 0.7 million taxpayers will be eliminated from the tax rolls and another 2.1 million will switch from itemizing deductions to using the standard deduction, which is much simpler.

6. Capital Gains

The Committee tentatively decided to adjust capital gains by increasing the "basis" i.e. cost, of the asset sold by 2% per year. That percentage is somewhat less than the inflation rate and thus corrects for a good part but not all of the inflation which has occurred. The Committee will consider when the draft comes back whether it wishes to adjust the "gain" itself, rather than the basis.

7. Maximum Tax

Under present law, "earned income" is taxed at a maximum rate of 50%. Unearned income is taxed at rates up to 70%. The Committee would permit taxpayers to bring under the 50% maximum an amount of unearned income equal to their earned income. Coupon clippers who derive practically all of their income from investments will not be helped, but working persons who have relatively smaller amounts of unearned income will be. The provision is not a major revenue loser. It costs about $300 million. (That figure can be compared with a revenue loss of about $2 billion if the 50% maximum applied to all income. That comparison indicates that the "coupon clipper" accounts for the great bulk of the dollar income in the over 50% brackets.)

This change will obviously benefit persons in higher brackets, but the benefit is more than offset by the adverse effects on high bracket individuals of the MTI and energy tax measures.

8. Small Business

The Committee decided to liberalize somewhat the additional first year depreciation allowance. This should help small business, whether in corporate or individual form. The maximum benefit, however, which any small business can get is about $200 a year. The revenue loss is approximately $120 million.

In addition, the Treasury is directed to report back at the beginning of the next Congress as to whether it can prescribe a simplified method of LIFO inventory accounting which might be applicable for smaller businesses, which cannot afford the complexities of a regular LIFO accounting. If this can be done it will help protect against inflation those small businesses with significant inventories.

9. Railroads

The Committee renewed the provisions for 5-year amortization of railroad rolling stock and, in addition, extended the 5-year amortization benefits to other kinds of assets, including electronic classification yards, switching equipment, and containerization facilities. (Track accounts are also to be covered, technical problems to be investigated by the staffs.) There is no real justification for this extension, but it does not cost much money so long as 5-year amortization remains (as under present law) an alternative to the investment credit and not as a supplement. Most railroads find the credit more advantageous.

The Committee went on, however, to permit the railroads to have both the credit and the 5-year amortization on this equipment. The Treasury objected strongly to this action. It sets a bad precedent (utilities will be in at once asking for the credit and the 5-year amortization on pollution control facilities) and the action is simply a gift to a few profitable railroads with extraordinarily effective and untiring lobbyists. Tears were shed over the sorry financial plight of the railroads, but this tax change is not addressed to their real problems (except in the broad sense that money is the basic problem) and will not help railroads who are in the deepest trouble.

10. Industrial Development Bonds

Messrs. Mills and Conable proposed that the $5 million limitation on Industrial Development Bonds be raised to $10 million. The Treasury objected to this on the ground that there has been an extraordinary increase in the amount of IDBs (one volume of such issues went from about $300 million in 1972 to about $2.5 billion in 1973. Most of that was pollution control, which is unaffected by the dollar limitation. Nonetheless, we are very concerned about anything which further increases that large volume).

Mr. Mills argued at some length that IDBs were for small business. When we pointed out that most of them were, in fact, issued on behalf of big businesses for building new plants he said that what he had in mind was to let a corporate group (i.e., the parent and all its subsidiaries) have only one $10 million exemption throughout its entire existence. That would probably cut such issues back 75 to 80 percent notwithstanding the higher dollar limitation, and we readily agreed to it. There will undoubtedly be complaints and it remains to be seen if we can hold the once-in-a-lifetime limitation.

11. Utilities

The Committee tentatively adopted our proposals for utilities with some modification, as follows:

a. The investment credit rate would be raised from 4 to 7 percent, so that utilities will not be discriminated against vis-a-vis other industries.

b. In accordance with our recommendation, the 50% limitation (i.e. the credit may not exceed 50% of the tax) will be retained. This means that a great deal of the benefit of the increase will not be immediately available, since many utilities are now at or near the 50% limit. More importantly, retention of the credit puts it squarely up to the state regulatory commissions whether or not they wish to take advantage of this federal incentive by sufficiently increasing company rates and taxable income so that the companies can use the credit. In effect, availability of additional credit over the limitation means that for every $4 of rate increase the Federal Government will contribute $1 in the form of a tax benefit.

c. The utilities would be required to "normalize" the credit in order to get it.

d. We would amend the depreciation rules to provide that after some transition period the depreciation lives for tax purposes would be amended to conform to the lives allowed by the regulatory commissions. We believe the tax lives to be much more realistic, but if the regulatory commissions decide otherwise, then for tax purposes we would decrease the tax benefits to conform to the longer regulatory lives. Inadequate depreciation allowances are the greatest single defect in the regulatory system and this should put pressure on both the companies and the regulatory commissions to be more realistic.

e. The revenue loss for our proposal was about $440 million, of which $120 million relates to electric utilities and $320 million relates to telephone. The Committee decided not to make changes just now for telephone companies. (Data submitted yesterday by the telephone companies suggests that our estimate for them may be too high.)

f. If the electric utilities take advantage of all of investment credit available to them under the new proposal they would get an additional $750 million a year over and above the amount which they are now using. That is a significant contribution. However, it does not represent a net revenue loss to the government, since in order to use the credit they would have to generate additional before-credit tax liability of approximately $1.5 billion.

g. At the point in the Committee's deliberations at which the question of utilities came up, the total revenue effect of its tentative decisions was a gain of approximately $500 million for FY 1975. Thus, there was room to adopt the proposal without unbalancing the revenues and we cannot be accused of advancing a proposal which would increase the budget deficit.

12. Miscellaneous

The Committee adopted perhaps 20 to 30 miscellaneous changes advocated by Committee members thus sweetening up the pot for nearly everyone.

13. Congressional Expense Allowances

Members of Congress are presently permitted a $3,000 deduction to compensate them for additional expenses of living away from their home districts. The Committee agreed to adjust this amount by the CPI index for the Washington, D. C. area. As of next January, the $3,000 will be increased to reflect inflation in the 22-year period from 1952 to 1974, and thereafter the allowance would be increased annually. This provision will obviously have wide congressional appeal.

14. Audit of Congressional Returns

The Committee agreed to require that the returns of all congressmen and all elected federal officials be audited annually. The Treasury objected to this. The Commissioner feels that it would be a mistake and that existing audits are adequate. Some Committee members were strongly opposed but the Chairman was strongly in favor. When the bill comes back there will also be pressure to extend it to other federal officials.

15. Energy Bill

The substance of the energy bill was added to the tax reform bill with one major change. Under the energy bill the windfall tax was to have become effective the first month after enactment of the bill. Our revenue estimates had assumed the bill would become effective July 1 (which of course it will not) and the revenue for the last 6 months of 1974 was estimated at $670 million. Allegedly to avoid that revenue loss, Mr. Mills proposed that the phaseout of the percentage depletion begin in 1974 rather than in 1975, as provided in the energy bill. There was heated discussion of this proposal, not only by the oil congressmen but also by Congressmen Green and Vanik, who have been supporting the Democratic Caucus move to require a floor vote in the House on the immediate repeal of percentage depletion. The Mills proposal seems to have been a ploy to defang the Caucus proposal (introduced by Green) and Mills was successful in lining up some of the other liberal Democrats behind his proposal. It was not at all clear how strongly Congressmen Waggoner and Archer really opposed this move. The political implications will doubtlessly emerge more fully in the future.

Progressivity

While some parts of the bill help low income taxpayers and others help high income taxpayers, the net result of the entire package is progressive--i.e. low income taxpayers are helped more than high income taxpayers.

The benefits are greatest in the bottom brackets (an aggregate reduction of about 16%) and decline steadily, so that in the top brackets there is a very slight increase of about 1.5% of aggregate liabilities.

THE WHITE HOUSE

WASHINGTON

September 24, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: WILLIAM E. TIMMONS

FROM: JERRY H. JONES

The attached was returned in the President's outbox and is forwarded for your information. The following notation was made:

-- I never returned this to you.
It was a long and friendly meeting.

Mainly worried about economy and
Sindlinger forecasts.

Also, concerned about his G.O.P.
opponent.