The original documents are located in Box C6, folder "Presidential Handwriting, 11/20/74" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

FI 11

THE PRESIDENT HAS SEEN...

The Secretary of the Treasury

November 20, 1974

TO: MR. DICK CHANEY

Here is the memo for the President that I spoke to you on the phone about.

THE PRESIDENT HAS SEEN

THE SECRETARY OF THE TREASURY
WASHINGTON

November 20, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Tax and Trade Legislation

I conferred Monday with Chairman Mills concerning tax legislation. His attitude appears to have shifted greatly since my telephone call to him in Arkansas last week, when he was more receptive about moving ahead with your tax proposals. I conclude that since his return to Washington, he has been under great pressure from Democrats to put over major tax legislation until next year when the new and more liberal Congress can deal with it. He does not want the Committee to take up your inflation package of surtax and investment credit proposals until an energy bill has been enacted, and not, in any event, until the next Congress. He said there would have to be hearings on the package, and responded only vaguely to the suggestion that the Administration might testify on its proposals yet this year, even if they were not to be taken up until next year.

Mills' tactics seem to be geared to caucus and new members meetings planned for early December. Ways and Means' status will be under fire, with some caucus members urging that the Committee be expanded, Republican representation diluted to maximum degree possible, and that Democratic side be stripped of its committee on committee functions. The major criticism of the Committee is that it has been unable to get out any tax reform legislation, and I conclude Mills is trying to defuse that issue by reporting out a bobtailed energy bill with some other reform features before caucus meetings.

<u>Ways and Means "Bobtailed Reform Bill</u>."

Yesterday, Mills pushed the Committee to a vote on a stripped down bill which he hopes to take to Rules next Tuesday and to the floor on December 4. The bill offsets major revenues from oil (about $3 billion revenue) with major increase in low-income allowance (revenue loss of about $2.3 billion) and increased investment credit for utilities (about $300 million), plus a few other lesser items. The result is approximately revenue neutral.

The Committee will consider a final draft of the bill on Thursday, November 21, and there may be some changes then.

This bill is all that we can hope to get out of this Congress in the way of tax legislation. It may get snagged in the House, and will face rough going if it gets to the Senate.

Elements in Ways and Means Bill as of Tuesday, November 19.

1. Oil and gas. Bill retains provision in Tax Reform Bill which commences phaseout of depletion by going to 15% from 22% for 1974, but goes beyond Tax Reform Bill by dropping to zero in 1975 for majors. Independents will continue at 15% through 1978. The Windfall Profits Tax provision with plowback was left intact to become effective 30 days after enactment. All other provisions of the Energy Bill as originally reported from the Committee last Spring remain the same.

Given the low-income relief on which the Committee had decided (described below), failure to reduce depletion to 15% as of January 1, 1974, would have caused the bill to produce a $1.1 billion revenue loss for FY 1975.

A motion to exempt independents permanently from the 1979 phaseout of depletion was defeated by an 11 to 11 vote. Treasury reiterated the position previously taken before both Ways and Means and Senate Finance, namely: "We oppose eliminating percentage depletion, but if it is to go it should go cleanly and for everyone. We cannot justify the creation of still another two-tier price system. Special provision for independents can be justified only on a temporary, transitional basis."

2. Standard deduction. The minimum standard deduction (i.e., the low-income allowance) was increased from its current level of $1,300 for both individuals and joint returns to $1,600 for individuals and $1,900 for joint returns. The percentage standard deduction was also increased from the present 15% of adjusted gross income with a maximum deduction of $2,000 to 16% with a maximum deduction of $2,300.

3. Foreign tax provisions. The foreign tax items as contained in Title III of the omnibus Tax Reform Bill were included without change. This includes repeal of the foreign oil depletion allowance. There is no change in the foreign tax credit except the changes we asked for to eliminate artificial credits of oil companies.

4. Utilities. Tax relief was provided to both electric utilities and telephone utilities. The investment credit for electric utilities was increased from 4 to 7 percent and the limitation was increased from 50 to 75 percent with a phase-down over a 5-year period back to 50 percent. The telephone utilities were given basically the same treatment except the increase in the investment credit will be phased in over a 3-year period.

5. Capital losses. The 3-year capital loss carryback provision together with an increase in the amount of capital loss that can be offset against ordinary income was increased from present law level of $1,000 to a new level of $3,000.

6. The provisions which Treasury considered a must for Congressional action this year were agreed to and include:

(a) Elimination of the 30 percent withholding tax on foreign investment as applied to interest on debt (the Committee would not agree to eliminating this on dividends).

(b) Increasing the Internal Revenue Service interest penalty from 6 to 9 percent.

(c) Changing a series of statutory rules relating to real estate investment trusts (REIT).

(d) Eliminating the requirement for a class life system in regard to real estate.

(e) Technical changes in the statutory rules regarding vacation pay.

(f) Extending for one year (we recommended 3-years) the provisions due to expire December 31, 1974 relating to the amortization of pollution control facilities, coal mine safety equipment, and certain railroad assets.

<u>Conversation with Senator Long</u>.

In a Monday telephone conversation with Senator Long, he indicated that he would drag his feet on energy tax legislation this year. When asked if he would schedule hearings on energy, he was negative and said, "Why should I go down the beachhead to meet the enemy?" He indicated particular determination to somehow permanently exempt "independents" from the provisions of the oil bill. He suggested perhaps phasing out depletion but giving independents capital gain treatment on the sale of oil. It is not clear just what he has in mind.

He indicated a great desire to have a health bill this year on the grounds that we could not get a satisfactory one from the next Congress.

When I asked how he could get a health bill, trade reform, and tax legislation all before Christmas, he asserted, "Oh, we could do it.".

<u>Trade Bill</u>.

The Trade Bill report will be filed Friday according to Senate Finance staff. However, floor debate in the Senate will not take place until after Secretary Kissinger testifies before the full Senate Finance Committee on December 3. The purpose of this hearing is to hear from the Secretary himself as to all details involving the immigration agreement with Russia. The Senate Finance staff says that the bill could be filibustered by liberals if serious efforts are made to amend it with issues such as natural gas deregulation.

William E. Simon