The original documents are located in Box C9, folder "Presidential Handwriting, 1/3/1975 (3)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE PRESIDENT HAS SEEN...

THE WHITE HOUSE

WASHINGTON

January 3, 1975

ECONOMIC REVIEW MEETING
January 4, 1975
2 p.m.

From: L. William Seidman LWS

I. PURPOSE

A. To consider economic policy options for the State of the Union Message with special emphasis on tax change alternatives.

B. To examine the interrelationship of alternative economic options with various energy proposals.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: A number of details regarding the tax options were deferred at the December 28 Economic Review at Vail. A summary of decisions at the Vail Economic Review is attached at Tab A. This meeting will focus primarily on the material prepared by the Department of the Treasury dealing with the tax options.

A Treasury paper, attached at Tab B, was discussed at a Friday afternoon meeting of the EPB Executive Committee. The schedules in the paper will be modified and reviewed at the Saturday morning meeting of the Executive Committee. You will be provided with the revised schedules as soon as they are made available.

B. Participants: William E. Simon, L. William Seidman, Alan Greenspan, Roy L. Ash, William D. Eberle, James T. Lynn, Arthur F. Burns, Milton Friedman, Frank G. Zarb.

C. Press Plan: David Kennerley.

III. DISCUSSION POINTS

A. Taxes

Secretary Simon will review the tax options. See Tab B. Key issues for discussion include:

1. The division of allocation of tax reductions between individuals and corporations.

2. The packaging of the temporary tax cut stimulus and the permanent energy tax rebate.

3. The form of the refund of energy taxes through the income tax system.

4. The timing of decontrol and the imposition of a windfall profits tax.

5. The utility of the "storm window credit."

6. The Administration position on percentage depletion.

7. The form and speed of the temporary tax reduction to provide stimulus.

8. The kind and amount of restructuring of the investment tax credit.

A

~~SECRET~~ SECRET

Determined to be Administrative Marking
Date 12-14-88 By KBH

Economic Review
Saturday, December 28, 1974
Vail, Colorado

Summary of Decisions

Attendees: The President, Secretary Simon, L. William Seidman, Alan Greenspan, Roy L. Ash, Arthur Burns, Secretary Lynn, William D. Eberle, Donald Rumsfeld, Frank Zarb, Kenneth Cole, Thomas Enders, Ron Nessen, Richard Cheney, Milton Friedman, Roger Porter.

I. General Review of the Economy and Thrust of Economic Policy

Decisions

1. The need for restraint in budget outlays requires that no new spending programs be proposed in 1975.

2. Moreover, restraint in budget outlays requires reform of unnecessary or inefficient current programs.

3. The current economic situation requires a stimulus in the form of a tax cut. (See VII)

II. Housing

Decisions

1. Extend the Tandem Plan for conventional mortgages into the new year using the $600 million to $750 million expected end year residual.

2. Secretary Lynn will explore with the Hill an additional two-tier Tandem Plan program which could be implemented without additional legislation.

III. Automobiles

Decisions

1. No specific measures to aid the automobile industry will be proposed.

2. The trucking industry should be encouraged to submit their comments on the DOT regulation on air brake systems.

IV. Agriculture

Decisions

1. The President will veto the bill raising milk price supports to 85% of parity.

2. Secretary Butz has indicated that he will support and promptly announce USDA action to raise the milk price support level to 80% of parity.

V. Wage and Price Restraint

Decisions

1. The Administration will not request any additional powers for the Council on Wage and Price Stability.

2. The Administration will announce that progress has been made (U.S. Steel, etc.) and that COWPS is expected to pursue such efforts vigorously.

3. The President will include in his State of the Union Message a call for restraint in both wage and price increases.

VI. Lender of Last Resort

Decisions

1. Treasury and the Federal Reserve Board will work together to prepare legislation for an RFC type institution.

2. This legislation will not be proposed or mentioned in the State of the Union Message

VII. Taxes

Decisions

1. The surtax will not be resubmitted to the Congress.

Will non-governmental (private sector) As said

2. The investment tax credit and deductions for preferred stock dividends will be retained as part of the economic program.

3. A 5% cap in the increase in cost of living escalators for such programs as social security, civil service retirement pay and veterans retirement pay will be

proposed along with a 5% cap in federal employee comparability pay increases for the coming year. These proposals would realize about $5 billion savings in federal outlays.

Tax Proposals and Options Paper

4. Step I -- Issue 1
Option A (A proposed moratorium on new spending programs)

5. Step I -- Issue 2
Option A (One year duration of temporary tax reduction)

6. Step I -- Issue 3
Size of temporary tax cut -- $15 billion (Tentative)

7. Step I -- Issue 4
Division between Individuals and Corporations
A decision will be postponed until after the meeting of the Labor-Management Committee.

8. Step I -- Issue 5
Option A (Form of a temporary tax cut for individuals)
Lump sum rebate (Tentative) Treasury will work on details.

9. Step I -- Issue 6
Option A (Form of a temporary tax cut for corporations)
An increase in the investment tax credit. Treasury will develop the details including a broadening to include as many businesses as possible and a revision of the basis adjustment change originally proposed in the October 8 Message.

10. Step II -- Issue 1
Option A $2 per barrel crude oil tax

11. Step II -- Issues 2,3, and 4
The ERC will prepare a paper outlining the options for the President by January 5.

12. Step II -- Issue 5
Division of allocation of offsetting tax reduction between individuals and corporations.
A decision will be postponed until after the meeting of the Labor-Management Committee.

13. Step II -- Issue 6
Use of crude oil tax revenues to create energy conservation incentives. Recommendation adopted.

14. Step II -- Issue 7
Option C (Form of the tax cut for individuals)
Option C tentatively selected subject to review after the Treasury prepares the specifics of what this would mean for each income level.

15. Step II -- Issue 8
Option A (A negative surtax or cut in the corporate tax rate)

16. Step II -- Issue 9
The Administration will not propose any additional compensatory measures for the poor who cannot benefit from a tax reduction beyond the assistance entailed in increases in the CPI.

RP

B

DRAFT

January 2, 1975

Tax Proposals--January 1975

Revenues--1975		$ Billions
Stimulant reduction		
Net tax to be refunded to stimulate economy		$15.0
Energy taxes		
$2 tariff and excise on crude (net of resulting decrease in income tax)	7.4	
Windfall Profits Tax on "new" and deregulated "old" oil (no plowback)	8.1	
Excise on natural gas, 40¢/MCF	6.8	
		22.3
Total		$37.3

For purposes of this memorandum, we have rounded the energy taxes back to $22 billion and the total to $37 billion. The windfall profits and natural gas taxes phase-down over time, but the absolute volume of production to which they apply also rises with time. Thus the dollars shown above should not change much for several years. However, reductions in income tax rates produce larger dollar revenue losses each year as the economy and taxable incomes grow. Thus income tax reductions funded by energy taxes in 1975 will not be fully covered by those energy taxes in later years. See Schedule A.

General Observations

1. Once in a lifetime opportunity to restructure. $37 billion is an unprecedented amount of tax revenues to redistribute in tax reductions. If we are careful in our strategy, the large tax reductions for individuals should permit us to devote a substantial part of the revenues to structural changes that will be a permanent benefit to business. We have a good shot at being able to "integrate"

the corporate and personal income taxes, i.e., to eliminate the double tax. But if we are not careful, we may end up with virtually all of the permanent benefits in the form of reductions in individual income taxes.

2. Refunding energy taxes. There is apt to be major controversy over whether the energy tax revenues are fully returned to "low-income" individuals through income tax reductions. Many erroneously believe that excise taxes are completely passed through to individual consumers in the form of higher prices. If one assumes that to be true, it is not possible to make individuals whole by refunding the revenues 2/3 to individuals and 1/3 to corporations. This objection can be dealt with only by doing both of the following:

- By concentrating the reductions of income tax in the lower brackets to the extent feasible.
- By keeping the energy taxes associated with the $15 billion stimulant reduction, so that total tax reductions to individuals will clearly exceed total energy taxes collected.

3. Legislative probability of combining energy and stimulant reduction measures. Ways and Means has reported a "mini-tax reform bill" which contains a phase-out of percentage depletion, a windfall profits tax and changes in the taxation of foreign oil production. Liberals are likely to want that bill, or at least the percentage depletion portion of it, to go along with any tax reduction, in order to force the percentage depletion provisions through the Senate. We must, therefore, be prepared for the probability that at least some energy provisions will go along with the tax reduction proposals, whether we like it or not.

Oil and Gas Provisions

In General

We understand that a package of energy proposals will be announced before the State of the Union address. This seems desirable, as all of the proposed tax reductions can then be viewed as a package.

At least in the first year, producers of oil and gas will not benefit from decontrolling prices. The Government will collect back in taxes an amount equal to the aggregate price increases plus an additional $1 to $2 billion. $1 to $2 billion is somewhat less than the projected collections in 1975 under last year's windfall profits tax proposals. (The original windfall profits tax proposal would have collected about $2.7 billion in 1974. Congress let that slip through the net by failing to enact a bill.)

In sum, the President can say that oil producers will get no benefit from the higher prices that will flow from the proposals in 1975, and will, in addition, be required to return a part of the windfall they have at existing prices.

Plowback

The proposals assume that the Administration will oppose all plowback provisions. That is consistent with the position we took in 1974, but it is not consistent with the bill reported by Ways and Means, which allowed plowback in substantial degree. The Ways and Means bill compensated for allowing plowback by phasing-out depletion.

Refund of Energy Taxes through the Income Tax System--
Incidence of Taxes

The tentative decision is to allocate energy tax revenues 2/3 to individuals and 1/3 to corporations. That means approximately $7 billion for corporations and $15 billion for individuals. From the portion allocated to individuals, approximately $1.5 billion should be set aside for nontaxpayers and an additional $500 million should be set aside for the "storm window credit". That leaves approximately $13 billion to be distributed in income tax reductions for individuals.

It is necessary to determine what additional amounts lower income individuals will pay in excise tax before we can design a formula to compensate them in income tax reductions. There is no reliable answer to that question, and a wide area for legitimate disagreement exists. Most economists who are both honest and competent should agree that not all of the tax is passed on in the form of higher prices to ultimate consumers. Nonetheless, it is "conventional wisdom" that excise taxes are passed on in total. Treasury economists, whose personal bias is to minimize the amount passed through, are unable to provide a theory that would reduce the pass-through below 75 percent. Thus, an allocation of 1/3 of the revenues to business is likely to be too great to stick. The risk in insisting on a number which is logically indefensible is that in losing the argument we may get nothing at all.

In order to preserve some share of the revenue for business, we believe it will be necessary to propose heavy reductions in the lower brackets. Otherwise, critics will allege that lower income persons are not compensated and will insist on taking more from the business share to see that they are.

Schedule B attached sets forth our recommendation for reductions and analyzes its effect by AGI class. The proposal takes care of taxpayers at the very bottom by increasing the minimum standard deduction to what is generally alleged to be the "poverty level". This increase is almost sure to happen whether we propose it or not, and a substantial part of it is already included in the Ways and Means bill. We do not see a major risk that Congress will substantially increase this number over what is proposed. No one has been seriously arguing that the poverty level should be computed on a more liberal basis, and most of the political pressure coming from labor unions will be directed at doing more for persons above the poverty level, in the brackets from, say, $7,500 to $20,000, where most union members are to be found. The recommendation therefore also spreads the remainder of the revenues by reducing the tax rates in the taxable income brackets up to $12,000. This rate cut primarily benefits taxpayers with adjusted gross incomes between $5,000 to $20,000. Overall the recommended income tax cut is very progressive, provides major percentage reductions at the bottom and up through about $20,000, and small reductions in the higher income brackets.

Schedules C-1 through C-3 spread the excise tax-price burden on several alternative assumptions as to the amount which is "passed through" to consumers and compares that with the distribution of the benefits of the income tax reductions. These schedules show that if the permanent income tax cut for individuals is limited to only 2/3 of the revenues from the energy taxes, the excise tax-price burden will exceed the income reduction for income classes unless we can sustain the proposition (which we do not think we can) that only 2/3 of the excise tax-price increase is paid by individuals.

The conclusion from these schedules is that the $10 billion temporary reduction _must_ be combined with the permanent tax reductions if we are to sustain the proposition the income tax reductions exceed the excise-price burdens.

The "Storm Window Credit"

This proposal would give a tax credit to individuals equal to 25 percent of expenditures for storm windows, insulation, etc. The maximum expenditure taken into account would be $1,000 and the maximum credit would be $250.

This proposal stands as an exception to the "no gimmick" approach announced at Vail. Treasury estimates the credit would lose $400 million to $1 billion in revenues, a great deal of which would go for storm windows and insulation that would be purchased in any event. Similar revenue estimates were supplied to Congress last year. For purposes of this memorandum, we have asigned to this item a revenue loss of $500 million.

If the credit were deleted, an additional $500 million could be returned to individuals in the form of tax reductions. That would be a significant help in getting the individual income tax reduction to equal or exceed the additional excise tax-price burden. See schedule C.

Insofar as the credit will lessen the amount available for individual income tax refunds, the ultimate result is likely to be a reduction in the revenues allocated to business.

Reduction in Corporate Taxes

Assuming that $7 billion is available for corporations, we recommend either (i) a reduction in the corporate rate from 48 percent to 41 percent or (ii) a "negative surtax" of 15.5 percent (*i.e.*, a reduction of the tax otherwise computed by 15.5 percent). The two are roughly equivalent. The negative surtax has the advantage of facilitating the reassignment of those revenues to an integration scheme.

Percentage Depletion

The Administration has consistently opposed the elimination of percentage depletion on the grounds that it would upset financing patterns and that the windfall profits tax is better. Notwithstanding that opposition, we have also indicated that the President would sign the mini-tax reform bill, which phased-out percentage depletion.

In assessing the merits of our position on percentage depletion, the following factors should be taken into account:

- The issue is very emotional. Both sides overplay the importance of depletion. Tax reformers attached great significance to eliminating it, notwithstanding that its result in the past appears to have been the reduction of prices to consumers. On the other hand, oil producers, particularly "independents", predict disaster if it is eliminated, notwithstanding that price increases in the last year have been roughly nine times as great as the increase that would be required to compensate for the value of the depletion in the fall of 1973.

- Under present market conditions, in which the price of oil is set by international prices and domestic price control, the elimination of percentage depletion would simply lower the after-tax return to producers. In that sense, it is similar to the Windfall Profits Tax, which also lowers the net return to producers.

- In the longer run--if and when the U. S. supply again sets the U. S. price--the principal effect of depletion would be to lower prices to consumers. That would be an undesirable effect insofar as

  --lower prices to consumers will increase consumption

  --lower prices to consumers will make it more difficult for alternative forms of energy to become economic.

  If, for example, the domestic price of oil is $7 with depletion, it should be $8.40 without depletion. Obviously, it would be easier for coal, shale, etc. to be economic in competition with $8.40 oil than with $7 oil.

- If percentage depletion is to go, the most painless time for that to happen is when producers can get higher prices to make up for its loss. Thus, some suggest that the elimination of percentage depletion should be a trade-off for decontrol.

- Regardless of our position on percentage depletion, the betting is that Congress will eliminate it any

- The structure of the Windfall Profits Tax will depend on whether we do, or do not have, percentage depletion. If percentage depletion goes, the Windfall Profits Tax should begin to apply at higher price levels.

We have three options:

(A) Continue to oppose the elimination of percentage depletion. That would be consistent with our position over the past year, would avoid alienating a number of key Congressmen and would probably not change the end result. On the other hand, supporting the retention of percentage depletion tarnishes our tax reform image somewhat.

(B) Support a phase-out of percentage depletion along the lines of the mini-tax reform bill. This would alienate a number of Congressmen whose help is important. It would probably not affect the final result, but possibly would help the present tax reform bill (to which the tax stimulus reduction is likely to be tied) to move more quickly through Congress.

(C) Phase-out percentage depletion when the market for oil is completely free.

- This would have the undesirable feature of letting the return to producers go up to a maximum, and then cut it back down again.

- There was at one point, a proposal in Ways and Means to phase-out depletion just before the free market price was reached, and thus to avoid having the net price go up only to come back down. The proposal has some complications, but is feasible. It would contemplate, however, imminent phaseout of depletion on uncontrolled oil.

- Such a proposal would probably not please anyone. Reformers think that they can get depletion eliminated now without such concession. Oil producers, on the whole, seem to have taken an emotional position which does not contemplate any compromise.

Stimulant Reduction

The tentative decision is to provide a net tax reduction for calendar 1975 of $15 billion and to allocate that reduction 2/3 to individuals and 1/3 to corporations. The principal justification for that allocation is to allow room for it to be cut back to a 1/4-3/4 allocation. Meanwhile, the Labor-Management group has reportedly agreed that a $20 billion reduction might properly be split on a 1/4-3/4 basis. If there is reasonably solid support for a 1/4-3/4's allocation, it might be preferable to advance it in the first instance.

Rate Reduction for Individuals

A 2/3-1/3 split produces approximately $10 billion in individual income tax reductions. If the reduction is to be temporary, we should avoid dealing with changes in exemptions, deductions, credits, and the like, all of which are likely to be difficult to get rid of later. If the low-income and progressivity aspects are adequately handled in the income tax reductions attending the energy taxes, we can pay less attention to them here.

Accordingly, we recommend a negative surtax of 9%, which would lose approximately $9.6 billion in revenues. If we wish to go slightly higher, a flat 10% negative surtax would lose approximately $11 billion.

We are advised that it would be possible for the IRS simply to refund to taxpayers 9% of the tax reported to be due on their 1974 returns to be filed in the next several months, without the necessity for taxpayers to file additional documents. There would undoubtedly be major administrative problems, but at this time they appear to be superable. It would probably be at least mid-year, however, before most of the refunds could be made.

A more orderly option would be to adjust withholding promptly after enactment. It would take at least 60 days after enactment to get an adjustment in withholding under way. The surtax would, in such a case, apply to 1975 tax liabilities and would occur gradually over the remainder of the year, rather than in a single check.

The distribution of reductions by AGI class is indicated in schedule C.

It would be possible, if desired, to devise a more progressive negative surtax by using a system of declining rates.

The Labor-Management committee has proposed a refund of $15 billion to individuals, in the manner set forth in schedule D. That schedule indicates that the proposal is much more progressive than the negative surtax which we recommend. It would be difficult to keep the $70 per exemption credit from becoming permanent.

Spending Reductions

The individual tax reductions might be made contingent upon reductions in the budget reductions enacted in the first half of 1975, as outlined in a previous memorandum.

We understand the tentative decision is to make the reduction in proposed condition on no further increases in spending programs. We know of no way to put teeth in that condition.

Temporary Increase in Investment Tax Credit

There exists the widespread view that losing revenue with an investment tax credit is somehow better than losing a similar amount of revenue with general rate reductions. That proposition is erroneous. It is tantamount to saying that we can write a statute which will achieve more efficient investment than investors will achieve operating on their own in a free and neutral market.

If we leave companies with more money after taxes, most will be reinvested by the company or its shareholders. The credit produces no better results. What it does do is force investment into a limited class of assets, which represent less than 30% of our total capital stock and which are not essentially more productive than the other 70%.

The virtue of the credit is that it leaves companies with more money to invest; but its vice is that it distorts company decisions as to what kinds of investment are most profitable and efficient. A major aspect of the credit is that it demonstrably diverts investment away from real estate.

For the foregoing reasons, we are concerned about allowing the credit to become too large a part of the total tax picture.

The tentative decision is to use the corporate share of the stimulant reduction, i.e., $5 billion ($3.75 billion if corporations are to get only 25%) to increase the investment credit for a one-year period. The following points should be noted:

<u>Pros</u>:

1. Even a temporary increase in the credit is a form of corporate tax reduction and therefore desirable.

2. It appears to have greater political acceptance than a general rate reduction.

3. The distortions caused by a very high credit level are perhaps tolerable if the increased credit is to be only temporary.

<u>Cons</u>:

1. The credit does not have maximum immediate cash flow impact. Companies which order assets now will not get the credit until later when the asset is placed in service.

2. It is very unneutral in its impact. It would help most corporations that least need it. Those corporations that will be placing the most assets in service in 1975 will, in general, be those that were doing the best in 1973 and 1974 and, therefore, placed the orders which will result in new equipment in 1975. This "help-the-rich-corporation" aspect is accentuated by the 50% of tax limitation of the present credit--i.e., companies with little or no taxable income in 1975 will get little or no benefit from the credit.

3. The credit does distort investment decisions. As noted above, less than 30% of our present investment base is of a type eligible for the credit. Furthermore, the temporary nature of the credit creates distortions. The 1971 Ways and Means Committee report states:

> "... a credit which is scheduled to drop abruptly after a period of operation would be likely to encourage investments in the earlier period at the expense of the later period. In addition,

a varying credit would be likely to produce inequitable results. Businesses needing assets which can be produced only after a long lead time would frequently not be able to qualify for the higher credit because they would not be able to receive the asset in time. Similarly, the mere fact that the acquisition of an asset was delayed, perhaps because of production difficulties, could reduce the amount of the credit."

Possible Restructuring of the Credit

Our October proposal provided for a restructuring of the credit to make it more neutral. It would still, however, be less desirable than rate reductions. It was proposed not because it was the optimum change, but because we believed it would be easier to get enacted.

The proposed restructuring was favorable to taxpayers in four respects: it increased the rate from 7% to 10%, and it eliminated the limitations on public utility property and for short-lived property and it eliminated the limitation that the credit could not exceed 50% of taxable income. It contained one feature which was disadvantageous to taxpayers, namely, that they would be required to reduce their basis (i.e., the amount to be depreciated) by the amount of the credit. The basis reduction and the short-lived property limitation are inextricably related to each other and should be done together. A basic reason for the short-lived property limitation is that a full 7% credit would be overly favorable if the taxpayer were also permitted to deduct the amount of the credit as depreciation in a period as short as three years. For a three year asset, that would be equivalent to a price discount not of 7%, but of %.

It would be possible to eliminate the public utility and the taxable income limitations without making the basis adjustment. However, both of those changes would involve substantial additional revenue losses.

If the additional credit is to be temporary and we want fast legislative action, we recommend that we confine changes to increasing the rate to 12% and eliminating the public utility limitations. That would cost $4.4 billion. All other changes are likely to raise major controversy. The revenue aspect of various combinations are set forth in schedule E.

Application of the Proposal: Property Eligible for Credit

Changes in the credit always involve transitional problems, and the shorter the time period between changes, the more difficult those problems.

We would propose that the credit be available with respect to:

1. Property placed in service during 1975, regardless of when ordered.

2. Property acquired or contracted for during 1975 and placed in service not later than 1976.

3. Property constructed by or for a taxpayer during 1975 without regard to the time in which it is placed in service.

Labor-Management Group Recommendations

The Labor-Management group reached agreement on a $20 billion tax reduction, to be divided between individuals and corporations on a 3/4-1/4 basis.

Their recommendation with respect to reduction in individual income taxes is discussed above and in schedule D. It is more progressive in effect than our recommendation with respect to individuals, but our recommendations should be viewed in conjunction with the additional reduction in income tax attending the energy taxes.

The Labor-Management group declined to endorse rate reductions for corporations, but did endorse an increase in the investment credit from 7% to 12%, with no structural changes in the credit except that involved in removing limitations on public utility property.

Estimated Full-Year Revenues: Oil and Gas Prices Decontrolled; Windfall Profits Tax, Additional Excice-Tariff, and Natural Gas Excise Imposed

	1975		1976		1977	
	Gross	Net	Gross	Net	Gross	Net
Windfall Profits Tax	$13.07	$8.12	$10.81	$6.71	$6.93	$4.30
Excise-Tariff $2 (Crude and imported products)	9.81	7.36	10.82	8.11	11.83	8.87
Natural Gas ($0.40/mcf; 8-year phase-out)	9.06	6.80	8.32	6.24	7.49	5.62
Total	$31.94	$22.28	$29.95	$21.06	$26.25	$18.79

Office of the Secretary of the Treasury
Office of Tax Analysis

January 2, 1975

Note: "Gross" revenues are nominal taxes (tariff) per unit of taxed commodity, times the quantities taxed; "net" revenues account for income tax interactions. All estimates assume decontrol of oil prices raises the average U.S. price to $11.

Schedule A

Schedule B

Recommended Form of Income Tax Reduction Distributed by Adjusted Gross Income Class

(1974 Levels of Income)

($ millions)

Adjusted gross income class	Income tax reduction from low income allowance	Income tax reduction from permanent rate change	Total income tax reduction	
			Amount	Percent o[f] present ta[x]
($ 000)				
0 - 3	236	1	237	83.8
3 - 5	800	69	869	48.9
5 - 7	1,055	291	1,346	32.9
7 - 10	1,464	736	2,200	23.8
10 - 15	1,112	2,199	3,311	15.6
15 - 20	363	2,129	2,492	11.9
20 - 50	190	2,222	2,412	6.3
50 - 100	6	163	169	1.4
100 and over	1	39	40	.4
Total	5,226	7,849	13,076	11.0

Office of the Secretary of the Treasury
Office of Tax Analysis

January 2, 1975

Note: Figures may not add to totals due to rounding.

Schedule C-1

Summary of Net Change From Spreading Excise-Price Burden on Alternative Assumptions and Recommended Form of Income Tax Reduction of $13 Billion

(Dollar amounts in millions of dollars)

Adjusted gross income class	$16 Billion or 75% of net excise-price amount borne by taxpayers 1/ — Net income tax and excise-price change		$20.7 Billion or 100% of net excise-price amount borne by taxpayers 2/ — Net income tax and excise-price change		$22.6 Billion or 75% of gross excise-price amount borne by taxpayers 3/ — Net income tax and excise-price change		$30.1 Billion or 100% of gross excise-price amount borne by taxpayers 4/ — Net income tax and excise-price change	
	Amount	Percent of present income tax	Amount	Percent of present income tax	Amount	Percent of present income tax	Amount	Percent of present income tax
($ 000)								
0 - 3	151	53.4	265	93.6	311	109.9	493	174.2
3 - 5	-77	-4.3	156	8.8	249	14.0	622	35.0
5 - 7	-101	-2.5	265	6.5	412	10.1	997	24.4
7 - 10	17	0.2	670	7.3	931	10.1	1,974	21.3
10 - 15	569	2.7	1,708	8.1	2,164	10.2	3,991	18.8
15 - 20	548	2.6	1,443	6.9	1,800	8.6	3,231	15.6
20 - 50	1,115	2.9	2,154	5.6	2,569	6.7	4,228	11.0
50 - 100	388	3.3	553	4.7	619	5.2	881	7.4
100 and over	311	2.8	414	3.8	455	4.2	621	5.7
Total	2,921	2.5	7,628	6.4	9,510	8.0	17,038	14.4

Office of the Secretary of the Treasury, Office of Tax Analysis — January 2, 1975

1/ Excludes $1 billion borne by individuals not taxable under the income tax.
2/ Excludes $1.3 billion borne by individuals not taxable under the income tax.
3/ Excludes $1.4 billion borne by individuals not taxable under the income tax.
4/ Excludes $1.9 billion borne by individuals not taxable under the income tax.

Distribution of Energy Tax Burden 1/ and
Individual Income Tax Reduction by Adjusted Gross Income Class

(1)	(2)	(3)	(4)	(5)		(6)	
Adjusted gross income class	Energy tax burden	Permanent income tax reduction	Income tax reduction from temporary 9 percent negative surcharge	Net of column (2) and column (3)		Net of column (2); column (3); and column (4)	
				Amount	Percent of present income tax	Amount	Percent of present income tax
($ 000)							
0 - 3	388	237	4	151	53.4	147	52.0
3 - 5	792	869	82	-77	-4.3	-159	-8.9
5 - 7	1,245	1,346	247	-101	-2.5	-348	-8.5
7 - 10	2,217	2,200	635	17	-0.2	-618	-6.7
10 - 15	3,880	3,311	1,613	569	2.7	-1,044	-4.9
15 - 20	3,040	2,492	1,658	548	2.6	-1,110	-5.3
20 - 50	3,527	2,412	3,240	1,115	2.9	-2,125	-5.5
50 - 100	557	169	1,054	388	3.3	-666	-5.6
100 and over	351	40	982	311	2.8	-671	-6.1
Total	15,997	13,076	9,515	2,921	2.5	-6,594	-5.6

Office of the Secretary of the Treasury, Office of Tax Analysis January 2, 1975

1/ Assumes that $17 billion of the energy tax burden is borne by individuals. Of this, $16 billion is borne by individuals taxable under the income tax.

Distribution of Energy Tax Burden 1/ and
Individual Income Tax Reduction by Adjusted Gross Income Class

(1)	(2)	(3)	(4)	(5)		(6)	
Adjusted gross income class	Energy tax burden	Permanent income tax reduction	Income tax reduction from temporary 9 percent negative surcharge	Net of column (2) and column (3)		Net of column (2); column (3); and column (4)	
				Amount	Percent of present income tax	Amount	Percent of present income tax
($ 000)							
0 - 3	342	237	4	105	37.1	101	35.7
3 - 5	699	869	82	-170	-9.6	-252	-14.2
5 - 7	1,099	1,346	247	-247	-6.0	-494	-12.1
7 - 10	1,956	2,200	635	-244	-2.6	-879	-9.5
10 - 15	3,423	3,311	1,613	112	0.5	-1,501	-7.1
15 - 20	2,683	2,492	1,658	191	0.9	-1,467	-7.0
20 - 50	3,112	2,412	3,240	700	1.8	-2,540	-6.7
50 - 100	492	169	1,054	323	2.7	-731	-6.2
100 and over	310	40	982	270	2.5	-712	-6.5
Total	14,116	13,076	9,515	1,040	0.9	-8,475	-7.1

Office of the Secretary of the Treasury, Office of Tax Analysis January 2, 1975

1/ Assumes that $15 billion of the energy tax burden is borne by individuals. Of this, $14.1 billion is borne by individuals taxable under the income tax.

Schedule D

Proposed Individual Income Tax Change Consisting of a $70 Tax Credit Per Exemption, a 5 Percent Reduction in Net Tax, with Total Tax Reduction Limited to $375 per Return 1/

(1974 levels)

Adjusted gross income class	Present law tax	Tax change	Percent of present law
($ 000)	(... $ millions ....)		(.... % ....)
0 - 3	283	-202	-71.3
3 - 5	1,779	-682	-38.3
5 - 7	4,092	-1,125	-27.5
7 - 10	9,251	-2,257	-24.4
10 - 15	21,239	-4,245	-20.0
15 - 20	20,910	-3,146	-15.0
20 - 50	38,418	-3,246	-8.4
50 - 100	11,876	-245	-2.1
100 and over	10,952	-59	-0.5
Total	118,800	-15,207	-12.8

Office of the Secretary of the Treasury
Office of Tax Analysis

January 2, 1975

Note: Figures may not add to totals due to rounding.

1/ Married filing separately are limited to $187.50.

Schedule E

ITC Options:

The various ITC options generally include "restructuring" without a basis adjustment.

Restructuring involves three parts which cost $3 billion at 1975 levels as seen below:

	$ million
Eliminate life limitation	664
Refundability	1,553
7 Percent for utilities	811
	3,028

With this form of restructuring, every percentage point increase in the rate of the ITC costs an additional $1.2 billion. The cost of various rates are as follows:

	$ billion
7 Percent	3.0
8 Percent	4.3
9 Percent	5.5
10 Percent	6.7
11 Percent	8.0
12 Percent	9.3

Office of the Secretary of the Treasury
Office of Tax Analysis

January 2, 1975

Schedule E

Revenue Cost of Investment Tax Credit Options

($ millions)

	Restructure only			Utilities to 7 percent			
	Life limitation	Refundability	Total	Rate increase	Life limitation	Refundability	Total
Corporate	528	1,263	1,791	422	26	363	811
Non-utility	494	1,060	1,554	--	--	--	--
Utility	34	203	237	422	26	363	811
Communication.	29	16	45	300	22	25	347
Electric & gas	5	187	192	122	4	338	464
Non-Corporate	136	290	426	--	--	--	--
Total	664	1,553	2,217	422	26	363	811

Office of the Secretary of the Treasury
Office of Tax Analysis

January 2, 1975

Of course a much higher nominal investment tax credit rate is possible for the same revenue loss with no restructuring.

Schedule E

Revenue Cost of Investment Tax Credit Rate Increase Without Restructuring (except for utilities)

($ millions)

	Rate of credit					
	7 percent	8 percent	9 percent	10 percent	11 percent	12 percent
Corporate	576	1,221	1,821	2,390	3,031	3,640
Non-utility	--	511	1,021	1,531	2,041	2,550
Utility	576	710	800	859	990	1,090
Communication ..	354	440	490	541	620	690
Electric & gas ,	222	270	310	350	380	400
Non-Corporate	--	143	286	429	572	715
Total	576	1,364	2,107	2,819	3,603	4,355

Office of the Secretary of the Treasury
Office of Tax Analysis

January 2, 1975

Schedule E

Revenue Loss With Only Restructuring of Investment Tax Credit (1975)

($ millions)

	Eliminate life limitation	Refundability: With life limitation	Refundability: Without life limitation	Total
Corporate	528	1,128	1,263	1,791
Non-Utility	494	931	1,060	1,554
Utility	34	197	203	237
Communication	29	15	16	45
Electric and gas	5	182	187	192
Non-Corporate	136	255	290	426
Total	664	1,383	1,553	2,217

Office of the Secretary of the Treasury
Office of Tax Analysis

January 2, 1975

ECONOMIC REVIEW MEETING

Saturday, January 4, 1975

2:00 P. M.