The original documents are located in Box C32, folder "Presidential Handwriting 11/25/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

November 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Withholding Rate Strategy

The current income tax withholding rates are scheduled to expire on December 31, 1975 and revert to the higher rates in effect before May 1, 1975.

Employers must know soon what withholding tables to use effective January 1, 1976. Employers with computerized payroll systems generally require a minimum of 30 days to implement new rates and tables; employers which are not computerized, about 45 days.

Reversion to the pre-May 1, 1975 rates or to new lower rates on January 1 will result in most employers being out of compliance with the law. Good faith efforts by employers to comply under such conditions, however, would be accepted as substantial compliance with the law.

The timing of congressional action on tax legislation is uncertain. It is conceivable that final action by both houses could be completed by the second week in December. Debate on a spending ceiling and on separation of a tax cut from tax reform might delay action. Congressional action early in December on a tax cut without a spending ceiling would allow time for a veto and congressional reconsideration. Action dragging on further into December, in the face of the planned Christmas recess, diminishes our maneuverability.

Options

Option 1: Take no further action except continued reiteration of your position that action on a tax reduction must be accompanied by a spending ceiling.

This keeps the focus on Congress and relies on the minority leadership, working with the Administration, to continue to press hard for a spending ceiling. Moreover, it keeps your options open. However, should an impasse result and withholding rates rise January 1, it could be charged that employers and the public were not given adequate advance warning of the consequences.

Option 2: Approve Treasury issuing a press release alerting employers and the public that unless Congress acts, increased rates will take effect January 1. Issue a White House statement warning of the consequences of inaction and reiterating the need for a spending ceiling.

This strategy permits the IRS to provide advance guidance to employers to meet contingencies. It alerts the public to the consequences of inaction by Congress on your tax reduction and spending restraint program and dramatizes your commitment to favorable action on that program. However, escalation of the issue could increase public pressure on Congress to maintain the present withholding rates without accompanying legislation mandating a spending ceiling.

Option 3: Propose that Congress, after returning from its Thanksgiving recess, enact a simple 30-day extension (until January 31) of present withholding rates to allow more time to consider your tax reduction and spending restraint program and to give employers adequate notice of future changes in withholding rates.

A simple extension of the present withholding rates can be enacted at any time prior to January 1. Proposing an extension of the present rates now would likely weaken our position in pressing for enactment of the tax reduction and spending restraint program prior to the Christmas recess.

Recommendation

The Economic Policy Board Executive Committee unanimously recommends that you approve Option 2.

Max Friedersdorf concurs with this recommendation.

Approve GRF Disapprove ________