The original documents are located in Box C33, folder "Presidential Handwriting, 1/7/1976" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

January 7, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN

FROM: JAMES E. CONNOR JEC

SUBJECT: Economic Policy Meeting January 2, 1976

Your Memorandum of Decisions made at the Economic Policy Meeting held January 2, 1976 has been reviewed.

Please follow-up with appropriate action.

cc: Dick Cheney

Attachment

THE WHITE HOUSE

WASHINGTON

January 5, 1976

ECONOMIC POLICY MEETING
January 2, 1976
3:30 p.m.

MEMORANDUM OF DECISIONS

FROM: L. WILLIAM SEIDMAN LWS

Decision 1: Estate and Gift Taxes

The President approved a proposal to ease the estate tax burden on the transfer of family farms and small businesses. The proposal contains the following elements:

(a) To the extent that a decedent's Federal estate tax liability is attributable to his interest in a family farm or other closely-held business qualifying under Section 6166 of the Internal Revenue Code, payment of the tax need not be made or need not commence until five years following the regular due date.

(b) At the end of the five year period, the deferred tax would, at the taxpayer's option, be payable in equal annual installments over the next 20 years, with simple interest at the rate of four percent per annum.

(c) To qualify for the five year moratorium on payments and the extension of payments over the following 20 years, the decedent's estate must include an interest in a sole proprietorship carrying on a trade or business, <u>or</u> at least a 20 percent interest in a partnership with ten or less partners, carrying on a trade or business, <u>or</u> 20 percent of the voting stock of a corporation, with ten or less shareholders, carrying on a trade or business.

The decedent's business interest must exceed, in value, 35 percent of his total estate before deductions, or 50 percent of his taxable estate (i.e., his total estate less deductions).

(d) No interest would accrue during the five year moratorium period, and no principal or interest payments would be required during that period.

(e) The five year moratorium and 20 year extended payment proposal would apply in full only to the first $300,000 in value of the family farm or business. Between $300,000 and $600,000 there would be a dollar for dollar reduction in the value of the farm or business qualifying for the moratorium and extended payment provisions.

That portion of the tax not so qualifying would continue to qualify for installment payments under the present ten year rule under Section 6166.

(f) The executor would be relieved from personal liability to the extent that estate taxes are paid under the five year moratorium and 20 year extended payment proposal, or under the existing ten year rule. The underlying property would be subject to the estate tax lien until payment in full of all estate taxes and interest.

Decision 2: Accelerated Tax Depreciation for Construction of Plants and Equipment in Areas of High Unemployment

The President approved the broad outlines of a proposal to provide accelerated tax depreciation for construction of plants and equipment in areas of high unemployment. The proposal contains the following elements:

(a) An accelerated depreciation rate of ten years for buildings and five years for equipment would be permitted for qualifying plants and equipment.

(b) To qualify for the accelerated depreciation rate the plant or equipment must commence construction or purchase within one year of the date of public announcement of the proposal and be completed within three years of the date of public announcement of the proposal.

(c) All construction projects, except residential housing, would qualify for the accelerated depreciation rate.

(d) To qualify a project must be undertaken in an area with a seven percent or higher rate of unemployment on the date of public announcement of the proposal. For purposes of determining whether a project falls within a qualifying area, areas are defined as either: (1) A standard metropolitan statistical area (SMSAs) within each State or (2) the total unemployment rate for that portion of the State lying outside of all SMSAs (balance of the State).

Decision 3: Broadened Stock Ownership Proposal

The President approved the broad outlines of a proposal to broaden stock ownership. The proposal contains the following elements:

(a) A Broadened Stock Ownership Plan (BSOP) could be established by an employer for the voluntary participation of his employees or by individuals.

(b) Individual contributions to the plan would be deductible from taxable income and must be invested in common stock.

(c) Participation would be restricted to individuals with annual adjusted gross incomes of $35,000 or less.

(d) The permissible individual contribution would be phased down for individuals with adjusted gross incomes between $20,000 and $35,000 to avoid a notch effect, e.g. an individual with an adjusted gross income of $35,000 being fully eligible to benefit from the maximum contribution allowed while individuals with adjusted gross incomes of $35,001 being unable to participate at all in the plan.

(e) Contributions to the plan must remain invested for at least seven years after which funds would be withdrawn from the plan without penalty.

(f) A limit of $1,000 would be placed on the amount of the annual individual contribution eligible for exclusion from income tax.

(g) Employers would be permitted to make matching contributions of up to 50 percent of employee contributions and receive a tax deduction equal to 150 percent of such matching contributions.

The President also stipulated that the specific parameters of the Administration's proposal should remain flexible.

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

January 5, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Estate Tax Proposal: Family Farms and Businesses

The Office of Tax Analysis of the Department of the Treasury has prepared the attached description of the specific details of your proposal to ease the estate tax burden on transfer of family farms and small businesses.

Subject: Estate Tax Proposal: Family Farms and Businesses

Your proposal to ease the estate tax burden on transfer of family farms and small businesses can be stated as follows:

-- To the extent that a decedent's Federal estate tax liability is attributable to his interest in a family farm or other closely-held business qualifying under section 6166 of the Internal Revenue Code,* payment of the tax need not be made or need not commence until five years following the regular due date thereof.

5 yr

-- At the end of the five-year period, the deferred tax would, at the taxpayer's option, be payable in equal annual installments over the next 20 years, with simple interest at the rate of 4 percent per annum.

20 yr
4%

* Normally, estate taxes are due within nine months following a decedent's death, but under section 6166, Federal estate taxes attributable to a qualifying business interest may be paid over a period of ten years. To qualify:

-- Decedent's estate must include an interest in a sole proprietorship carrying on a trade or business, or at least a 20 percent interest in a partnership, with ten or less partners, carrying on a trade or business, or 20 percent of the voting stock of a corporation, with ten or less shareholders, carrying on a trade or business.

-- Decedent's business interest must exceed, in value, 35 percent of his total estate before deductions, or 50 percent of his taxable estate (i.e., his total estate less deductions allowed under the statute).

- o No interest would accrue during the five-year moratorium period, and no principal or interest payments would be required during that period.

-- The five-year moratorium and 20-year extended payment proposal would apply in full only to the first $300,000 in value of the family farm or business.

- o Between $300,000 and $600,000 there would be a dollar for dollar reduction in the value of the farm or business qualifying for the moratorium and extended payment provisions.
- o That portion of the tax not so qualifying would continue to qualify for installment payments under the present ten-year rule under section 6166.

-- The executor would be relieved from personal liability to the extent that estate taxes are paid under the five-year moratorium and 20-year extended payment proposal, or under the existing ten-year rule.

- o The underlying property would be subject to the estate tax lien until payment in full of all estate taxes and interest.

THE WHITE HOUSE
WASHINGTON

This memorandum was overtaken by events --- (per Roger Porter)

Decisions made at 1/2/76 meeting.

Trudy Fry

THE WHITE HOUSE

WASHINGTON

December 31, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Discussion of Tax Policy in the State of the Union Message

The Economic Policy Board Executive Committee has considered three issues in connection with the treatment of tax policy in your State of the Union Message: First, the structure of additional tax reductions; Second, tax reform; Third, a broadened stock ownership plan.

Additional Tax Reductions in 1976

In the wake of the recently enacted tax bill, you have publicly indicated that you will propose in the coming year a $10 billion increase in the annual level of tax reductions in additional tax cuts beyond the level of reductions embodied in the six-month temporary tax reduction bill.

The EPB Executive Committee has considered alternative ways of structuring such reductions and is unanimously agreed on the following recommendation.

Recommendation: That you propose enactment of your $28 billion tax package originally proposed on October 6, 1975 effective July 1, 1976. The proposal provides for an increase in the personal exemption and the standard deduction and reductions in the tax rate. Withholding rates would be reduced effective July 1, 1976 to the permanent rates required by the October 6 package. Individual tax liabilities for the first six months of 1976 would be recomputed, setting them at the overall level provided by the Congress in the six-month temporary reduction. Thus, the net effect would be that taxpayers will be given a single tax rate for 1976 made up of an average of the lower rates effective during the first half of the year and your proposed deeper tax cuts effective during the second half of the year. The package also includes a permanent reduction in the corporate income tax rate from 48 percent to 46 percent effective July 1, 1976. There will be, under this proposal, no overall revenue effect from these changes that is not already reflected in the current estimates in your budget.

Approve ______________ Disapprove ________________

Tax Reform

During the second session of the 94th Congress the Senate Finance Committee will take up the tax reform package completed by the House Ways and Means Committee during the first session. The tax reform package includes LAL, MTI, and other proposals which are similar to the basic thrust of the Administration's 1973 tax reform proposals that you have endorsed.

The EPB Executive Committee unanimously feels that the Treasury should continue to work with the Congress in securing passage of this tax reform legislation in a form as consistent with the Administration's proposals as possible.

In addition, the issue of basic tax reform to provide greater simplicity and equity in our tax system has received increasing attention in recent months. Many taxpayers consider the present set of complicated deductions and exclusions both a burden in computing their own tax liabilities and a means for some taxpayers to escape paying their fair share of government taxes.

The Treasury has publicly supported basic tax reform and estimates that at least a full year is necessary to refine a comprehensive proposal for specific revisions in the tax structure. There is concern that some proponents of basic tax reform will attempt to use the exercise as an occasion to also seek further redistribution of income, a thrust which the EPB Executive Committee unanimously feels should be resisted.

There is general consensus that a comprehensive study of basic tax reform is appropriate in view of the increasingly complexity of the tax system in recent years.

Recommendation: The EPB Executive Committee recommends that you announce your intention, in the State of the Union or another appropriate message, to direct a study to develop proposals for fundamental tax reform with three objectives: (1) Reducing the complexity of the present tax system; (2) making the present tax system more horizontally equitable to address the apparent inequity of taxpayers with the same income paying different amounts of tax; and (3) seeking modifications in the tax system to encourage job creation.

Approve ______________ Disapprove ________________

If you approve undertaking the study two issues require your decision.

<u>Issue #1:</u> <u>Should a study of basic tax reform be undertaken by the Treasury or by a non-partisan Presidential Commission?</u>

<u>Option A:</u> <u>Direct the Secretary of the Treasury to undertake the study of basic tax reform. The Secretary of the Treasury would appoint a Commission composed of non-government experts to advise the Treasury in this effort.</u>

<u>Advantages:</u>

- o The study will more likely be perceived as a significant Administration effort.
- o The study could be completed more quickly and could probably be finalized by January 1977.

<u>Option B:</u> <u>Appoint a non-partisan Presidential Commission to undertake the study.</u>

- o Criticism of the project might be deflected from the Administration if the study were by a non-partisan Commission.
- o The Treasury would not be pressured to make premature disclosure of its work.

<u>Decision</u>

Option A ________ Direct the Secretary of the Treasury to undertake the study of basic tax reform.

Option B ________ Appoint a non-partisan Presidential Commission to undertake the study of basic tax reform.

Issue #2: When should a study of basic tax reform be announced?

Option A: Announce the basic tax reform project in your State of the Union Message

Advantages:

- The project is significant and hopefully will be favorably received.
- Including it in the State of the Union would give it proper emphasis.

Option B: Announce the basic tax reform project in a message following the State of the Union.

Advantages:

- If the Treasury is directed to undertake the study, inclusion in the State of the Union would make the project "public" before the Treasury has proceeded very far in developing specific plans. Accordingly, pressures for premature disclosure and premature questions of you and others might hinder proper development of the project.

Decision

Option A ________ Announce the basic tax reform project in your State of the Union Message.

Option B ________ Announce the basic tax reform project in a message following the State of the Union.

Broadened Stock Ownership Plan

The Executive Committee has reviewed a range of employee and broadened stock ownership plans in recent weeks. A strong likelihood exists that Senator Long will continue to successfully push his employee stock ownership plan (ESOP) in the Senate. There is general agreement that if a stock ownership plan is to be enacted that a plan more broadly-based than the Long approach is desireable.

The Executive Committee recommends that you propose a Broadened Stock Ownership Plan to encourage savings and investment in equity issues. In brief, the plan would permit participation in employer-sponsored plans for purchase of company stock or in private plans where the employee could select his own portfolio or participate in a mutual fund arrangement. Employees not covered by employer plans could establish their own BSOP.

The tax incentive would take the form of an exclusion from income for amounts contributed to the plan. The plan would be restricted to individuals in the middle and lower income ranges. A table showing alternative income range limits and estimated revenue effects is attached. The funds could be withdrawn from the plan without penalty after a seven year period.

Advantages of a Broadened Stock Ownership Plan

A broadened stock ownership plan has several advantages:

- The plan has broad coverage and would be available to government employees, service personnel, and employees of small businesses as well as to employees of large corporations with established stock purchase programs.
- The earned income limitation focuses the benefits on low and middle income families.
- The withdrawl penalty provision should tend to stabilize savings and provide support for the equity market.

Disadvantages of a Broadened Stock Ownership Plan

A broadened stock ownership plan has several disadvantages:

- The plan lacks neutrality in that it favors equity ownership as opposed to other forms of savings such as savings accounts or insurance.

- There is a valid question as to whether this vehicle would achieve its objectives of encouraging stock ownership, increasing aggregate savings, and increasing identification with the free enterprise system.

- Entails revenue losses estimated by the Treasury at between $360 million and $1.5 billion depending on the parameters of the program.

<u>Recommendation</u>: That you propose a Broadened Stock Ownership Plan to encourage savings and investment in equity issues.

Approve _______________ Disapprove _______________

BROADENED STOCK OWNERSHIP PLAN ALTERNATIVES

	A	B	C
Maximum annual amount eligible for exclusion from taxable income	$1,500	$1,500	$2,500
Maximum income eligible to participate in the plan	$25,000	$25,000	$50,000
Range of phase-out	$10-25,000	$20-25,000	$25-50,000
Restriction on withdrawl without a penalty	7 years	7 years	7 years
Estimated number of participants	2.1 million	2.4 million	2.5 million
Estimated revenue cost	$360 million	$500-600 million	$1.5 billion