

The original documents are located in Box C33, folder “Presidential Handwriting, 1/17/1976” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

January 17, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN
FROM: JAMES E. CONNOR *JEC*
SUBJECT: Radical Restructuring of the Internal
Revenue Code

Confirming a conversation with your office, the President has reviewed your memorandum of January 14 on the above subject and the following decision was made:

Do not include in the State of Union Message

Please follow-up with the appropriate action.

cc: Dick Cheney



THE WHITE HOUSE
WASHINGTON

January 16, 1976

MR PRESIDENT:

L. W. Seidman's memo of 1/14/76
re: Radical Restructuring of the
Internal Revenue Code

Staffing of the above letter resulted in the following comments:

- Philip Buchen - "Our view is that it would be very difficult to explain this proposal by a necessarily brief reference in the SOTU. In our view the proposal would have greater impact by making it the subject of a separate Presidential statement at some future date."
- Jack Marsh - "Include in the State of the Union"
- Jim Cannon - See comments at TAB C.

Jim Connor



THE WHITE HOUSE

WASHINGTON

January 14, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Radical Restructuring of the Internal Revenue Code

Secretary Simon has called for a study aimed at a radical restructuring of the Internal Revenue Code in several speeches in recent weeks. At our meeting with you on January 1 we briefly reviewed the merits of directing the Treasury Department to commence such a study.

Secretary Simon has requested a decision on including in your State of the Union Message an announcement that you have directed the Treasury to commence a study leading to a broad-based, simplified income tax system. A decision memorandum from Secretary Simon is attached at Tab A.

Treasury has also prepared draft language for the State of the Union on the subject which is attached at Tab B. A copy this memorandum and draft language has been sent to Bob Hartmann.





THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

Subject: Radical Restructuring of the Internal Revenue Code

Issue

Should you, in the State of the Union Message, announce that you have directed the Treasury Department to commence a study - to be completed in one year - leading to a broad-based, simplified income tax system. The goals of such a radical restructuring would be simplicity and equity and the details would include: (1) addition to the tax base of certain types of income presently excluded; (2) elimination of most, if not all, of present personal deductions and credits; and (3) application of sharply reduced tax rates to the broadened base of taxable income.

Pros

The response to the above proposal made in my Tax Foundation speech indicates broad bipartisan support for this program. Our present tax system is unbearably complex; the "average taxpayer" feels that he is paying more than his fair share; and the situation is so serious as to constitute a threat to our basic tax principle of voluntary compliance. By sponsoring this program you will be regarded by the media and the public as occupying the center of the political spectrum and as the creator of a particularly imaginative program. It will be clear that the great majority of citizens will benefit from simplicity and equity in the tax system.

Speech material for the State of the Union Message;

This brings me to a subject that is of concern to all taxpayers, no matter how large or small their income -- the complexity of the tax law.

Complexity is the cause of much of the dissatisfaction and complaint over the tax system, including the much maligned Internal Revenue Service. The Internal Revenue Code, already 2,000 pages long will be some 200 pages longer still if the Tax Reform Bill pending in the Senate is enacted. As the law has increased in complexity, so have the tax forms which must be filed by individuals and businesses. As a consequence even the Internal Revenue Service experts find it difficult to avoid variation in the advice given to taxpayers. The tax law is simply too complicated, and the IRS personnel simply cannot be sufficiently well trained to be expert in enough phases of the tax law to eliminate all possible variation in their advice.

The danger that we face is a loss of confidence by millions of American families in their tax system. As a nation we justly take pride in our voluntary compliance with our laws and most especially our tax laws. There are systems in other countries where the tax return is regarded as merely the opening of a negotiation. Thus far, we have avoided that situation. But continuance of our system

depends on a perception by each taxpayer that others are paying their fair share. When the law becomes too complicated to understand, when people begin to sense that others are getting away with something through ingenious manipulation of the provisions of the tax law, public confidence is threatened.

A major reason for the complexity of our law is the patchwork way in which changes have been made over the years, by and large in order to foster worthy objectives. This process, however, has resulted in the predicament we are in today. It is hard to imagine that, if we were to start from scratch, we would produce anything like the system now in effect. I believe that the time has come to consider a basic reform of the system and I am asking the Treasury Department to begin immediately to lay out for my review the possibilities for action. I want it clearly understood, however, that I am committed to making significant progress as quickly as possible consistent with careful weighing of the problems involved, and careful consideration of the way we get from where we are to where we want to be.

The nature of reforms that I have in mind should be soberly understood. They would not be piece-meal attempts to deal with particularized tax preferences by means of adding further patchwork to the Internal Revenue Code. This is the path of more complexity, more special rules, provisions, and regulations. We must be willing to consider gradually eliminating existing complicated rules. Since many of these rules benefit particular taxpayers, we must be prepared to see the tax burdens of some people go up in the interest of simplicity and fairness for all.

When you begin to look closely into the question it is easy to see why basic tax restructuring of the kind which I am proposing has previously failed to make much progress. Those who currently benefit from special tax provisions will naturally be reluctant to give up their benefits in the interest of a simpler system. The situation of those taxpayers must be carefully reviewed, and we must do everything possible to avoid unfairness in the very process of striving for a desirable tax system.

We must make the effort at simplification and fortify our people's confidence and trust in their tax system.



QUESTION - What are some of the ways you see of simplifying the tax by eliminating special preferences and exemptions?

ANSWER - The list of eligible items is long and familiar to tax specialists. It includes special tax credits (earned income credit, house purchase credit, investment tax credit), preferential treatment of capital gains, deduction of state and local taxes, medical contribution deductions, accelerated depreciation allowances. Various kinds of income which are not now taxed could be added back into the tax base, for example, interest from state and local bonds, social security income, employer contributions to retirement, income from insurance and retirement funds, etc. It should be emphasized that each one of these items represents a starting point for policy decisions. The set of possibilities is quite large. No decisions have been made, even tentatively.

C



THE WHITE HOUSE

WASHINGTON

January 16, 1976

MEMORANDUM FOR: JIM CONNOR
FROM: JIM CANNON *Jimi*
SUBJECT: Memorandum on Radical Restructuring
of the Internal Revenue Code

I oppose the suggestion that the President propose in the State of the Union, a study aimed at the radical restructuring and simplification of the Internal Revenue Code.

My reasons:

1. It runs the serious risk of being compared to Reagan's \$90 billion budget cut proposal, which was also not thought out.
2. Those members of Congress most knowledgeable about tax and finance know that neither this Congress nor the next Congress is likely to pass such a bill. Consequently, this proposal would indicate that the President is promising something that he has no chance to deliver.

CC: Bill Seidman



Staffing

THE WHITE HOUSE
WASHINGTON

January 17, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN
FROM: JAMES E. CONNOR *JEC*
SUBJECT: Radical Restructuring of the Internal
Revenue Code

Confirming a conversation with your office, the President has reviewed your memorandum of January 14 on the above subject and the following decision was made:

Do not include in the State of Union Message

Please follow-up with the appropriate action.

cc: Dick Cheney



January 16, 1976

MR PRESIDENT:

L. W. Seidman's memo of 1/14/76
re: Radical Restructuring of the
Internal Revenue Code

Staffing of the above letter resulted in the following comments:

- Philip Buchen - "Our view is that it would be very difficult to explain this proposal by a necessarily brief reference in the SOTU. In our view the proposal would have greater impact by making it the subject of a separate Presidential statement at some future date."
- Jack Marsh - "Include in the State of the Union"
- Jim Cannon - See comments at TAB C.

Jim Connor

THE WHITE HOUSE

WASHINGTON

January 14, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Radical Restructuring of the Internal Revenue Code

Secretary Simon has called for a study aimed at a radical restructuring of the Internal Revenue Code in several speeches in recent weeks. At our meeting with you on January 1 we briefly reviewed the merits of directing the Treasury Department to commence such a study.

Secretary Simon has requested a decision on including in your State of the Union Message an announcement that you have directed the Treasury to commence a study leading to a broad-based, simplified income tax system. A decision memorandum from Secretary Simon is attached at Tab A.

Treasury has also prepared draft language for the State of the Union on the subject which is attached at Tab B. A copy this memorandum and draft language has been sent to Bob Hartmann.



THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

Subject: Radical Restructuring of the Internal Revenue Code

Issue

Should you, in the State of the Union Message, announce that you have directed the Treasury Department to commence a study - to be completed in one year - leading to a broad-based, simplified income tax system. The goals of such a radical restructuring would be simplicity and equity and the details would include: (1) addition to the tax base of certain types of income presently excluded; (2) elimination of most, if not all, of present personal deductions and credits; and (3) application of sharply reduced tax rates to the broadened base of taxable income.

Pros

The response to the above proposal made in my Tax Foundation speech indicates broad bipartisan support for this program. Our present tax system is unbearably complex; the "average taxpayer" feels that he is paying more than his fair share; and the situation is so serious as to constitute a threat to our basic tax principle of voluntary compliance. By sponsoring this program you will be regarded by the media and the public as occupying the center of the political spectrum and as the creator of a particularly imaginative program. It will be clear that the great majority of citizens will benefit from simplicity and equity in the tax system.

Cons

This type of tax reform will be prematurely opposed by many special interest groups, such as charitable organizations and the housing industry, before the details are known. Also, it might be thought that this project is inconsistent with other past and present Administrative initiatives in achieving more modest tax reform. Finally, including the proposal in the State of the Union Message will make it "public" before the Treasury had proceeded very far with its work, and the media will press for answers to questions well before such questions can best be answered.

Recommendation

That you include this program in the Message. The benefits - political and to the system - clearly outweigh the technical objections.

Decision

Approve inclusion in State of Union Message: _____

Do not include in State of Union Message: _____


William E. Simon



Speech material for the State of the Union Message;

This brings me to a subject that is of concern to all taxpayers, no matter how large or small their income -- the complexity of the tax law.

Complexity is the cause of much of the dissatisfaction and complaint over the tax system, including the much maligned Internal Revenue Service. The Internal Revenue Code, already 2,000 pages long will be some 200 pages longer still if the Tax Reform Bill pending in the Senate is enacted. As the law has increased in complexity, so have the tax forms which must be filed by individuals and businesses. As a consequence even the Internal Revenue Service experts find it difficult to avoid variation in the advice given to taxpayers. The tax law is simply too complicated, and the IRS personnel simply cannot be sufficiently well trained to be expert in enough phases of the tax law to eliminate all possible variation in their advice.

The danger that we face is a loss of confidence by millions of American families in their tax system. As a nation we justly take pride in our voluntary compliance with our laws and most especially our tax laws. There are systems in other countries where the tax return is regarded as merely the opening of a negotiation. Thus far, we have avoided that situation. But continuance of our system

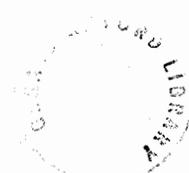
depends on a perception by each taxpayer that others are paying their fair share. When the law becomes too complicated to understand, when people begin to sense that others are getting away with something through ingenious manipulation of the provisions of the tax law, public confidence is threatened.

A major reason for the complexity of our law is the patchwork way in which changes have been made over the years, by and large in order to foster worthy objectives. This process, however, has resulted in the predicament we are in today. It is hard to imagine that, if we were to start from scratch, we would produce anything like the system now in effect. I believe that the time has come to consider a basic reform of the system and I am asking the Treasury Department to begin immediately to lay out for my review the possibilities for action. I want it clearly understood, however, that I am committed to making significant progress as quickly as possible consistent with careful weighing of the problems involved, and careful consideration of the way we get from where we are to where we want to be.

The nature of reforms that I have in mind should be soberly understood. They would not be piece-meal attempts to deal with particularized tax preferences by means of adding further patchwork to the Internal Revenue Code. This is the path of more complexity, more special rules, provisions, and regulations. We must be willing to consider gradually eliminating existing complicated rules. Since many of these rules benefit particular taxpayers, we must be prepared to see the tax burdens of some people go up in the interest of simplicity and fairness for all.

When you begin to look closely into the question it is easy to see why basic tax restructuring of the kind which I am proposing has previously failed to make much progress. Those who currently benefit from special tax provisions will naturally be reluctant to give up their benefits in the interest of a simpler system. The situation of those taxpayers must be carefully reviewed, and we must do everything possible to avoid unfairness in the very process of striving for a desirable tax system.

We must make the effort at simplification and fortify our people's confidence and trust in their tax system.



QUESTION - What are some of the ways you see of simplifying the tax by eliminating special preferences and exemptions?

ANSWER - The list of eligible items is long and familiar to tax specialists. It includes special tax credits (earned income credit, house purchase credit, investment tax credit), preferential treatment of capital gains, deduction of state and local taxes, medical contribution deductions, accelerated depreciation allowances. Various kinds of income which are not now taxed could be added back into the tax base, for example, interest from state and local bonds, social security income, employer contributions to retirement, income from insurance and retirement funds, etc. It should be emphasized that each one of these items represents a starting point for policy decisions. The set of possibilities is quite large. No decisions have been made, even tentatively.

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: January 15, 1976

Time:

FOR ACTION:

cc (for information):

- Phil Buchen
- Jim Cannon
- Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Thursday, January 15, 1976 Time: cob

SUBJECT:

L. William Seidman -- memo 1/14/76 re Radical Restructuring of the Internal Revenue Code

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

Buchen - see comments
Marsh - include in State of Union per Cannon
Cannon - see comments

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James E. Conner
For the President



THE WHITE HOUSE

WASHINGTON

January 16, 1976

MEMORANDUM FOR: JIM CONNOR
FROM: JIM CANNON *Jimi*
SUBJECT: Memorandum on Radical Restructuring
of the Internal Revenue Code

I oppose the suggestion that the President propose, in the State of the Union, a study aimed at the radical restructuring and simplification of the Internal Revenue Code.

My reasons:

1. It runs the serious risk of being compared to Reagan's \$90 billion budget cut proposal, which was also not thought out.
2. Those members of Congress most knowledgeable about tax and finance know that neither this Congress nor the next Congress is likely to pass such a bill. Consequently, this proposal would indicate that the President is promising something that he has no chance to deliver.

CC: Bill Seidman



THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: January 15, 1976

Time:

FOR ACTION:

Phil Buchen
Jim Cannon
Jack Marsh

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Thursday, January 15, 1976 Time: cob

SUBJECT:

L. William Seidman -- memo 1/14/76 re Radical
Restructuring of the Internal Revenue Code

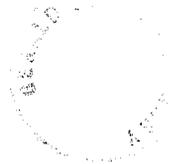
ACTION REQUESTED:

- | | |
|---|--|
| <input type="checkbox"/> For Necessary Action | <input checked="" type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief | <input type="checkbox"/> Draft Reply |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks |

REMARKS:

Our view is that it would be very difficult to meaningfully explain this proposal by a necessarily brief reference in the SOTU. In our view the proposal would have greater impact by making it the subject of a separate Presidential statement at some future date.

1/13



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James E. Connor
For the President