 [3-29-75]

SUMMARY OF FACTS ON TAX CUT BILL

1. Rebate of 1974 taxes

--rebate generally equals 10% of 1974 tax liability
--minimum rebate equals lesser of actual tax liability or $100
--maximum rebate equals $200, phased down to $100 between AGI $20,000 and $30,000
--for married persons filing separately, $50 minimum $100 maximum and phase down between $10,000 and $15,000
--rebates disregarded for purposes of other benefit programs

COST: $8.1 billion

2. Standard deduction changes

--minimum standard deduction (low income allowance) increased from $1,300 per return ($650 for married persons filing separately) to $1,900 for a joint return or surviving spouse, $1,600 for single persons, and $950 for married persons filing separately

--maximum standard deduction increased from 15% of AGI (with a maximum of $2,000, or $1,000 for a married person filing separately) to 16% of AGI (with a maximum of $2,600 for a joint return or surviving spouse, $2,300 for a single person, and $1,300 for married persons filing separately
--effective for one year (generally 1975 calendar year)

COST: $2.5 billion

3. Personal exemption tax credit

--new $30 per exemption tax credit (except blind and aged exemptions) in addition to present law personal exemptions
--effective for one year (generally 1975 calendar year)

COST: $5.3 billion

4. Earned income credit

--refundable credit equal to 10% of earned income of an eligible individual with maximum of $400
--to be eligible, must maintain a household within the United States that includes a dependent child
--maximum credit phased down to zero between AGI $4,000 and AGI $8,000
--under AFDC provisions, the earned income credit is taken into account in determining AFDC eligibility
--effective for one year (generally 1975 calendar year)

COST: $1.5 billion

5. Child care deduction

--increases the income level at which the phase out of of the maximum allowable deduction ($4,800) begins. The old phase out began at $18,000, phasing down to zero at $27,600. The new phase out begins at $35,000, phasing down to zero at $44,600 -- permanent change.

COST: $0.1 billion annually

6. Sale of principal residence

--increases from 12 to 18 months the period during which the seller of an old principal residence must purchase a new principal residence, if he wishes to apply section 1034 to avoid recognition of gain. When construction of the new principal residence is begun by the taxpayer himself, the period is increased from 18 to 24 months.
--permanent change - COST: Nominal

7. House purchase credit

--new tax credit for purchases of a principal residence equal to 5% of the taxpayer's tax basis, with maximum credit of $2,000. A taxpayer's tax basis in a new principal residence may be less than cost if, for example, he sold an old principal residence, avoided recognition of gain through the application of section 1034, and was required to reduce his basis in the new principal residence by the amount of gain not recognized.
--applies only to purchases of new houses (including mobile homes and residential units in condominiums or cooperative housing projects). That is, the taxpayer must be the first occupant.

- --applies only to new houses, etc., the construction of which was commenced prior to March 26, 1975.
- --purchaser must attach to his tax return a certification by the seller that the purchase price is the lowest price at which the residence was ever offered for sale. If the certification is false, the purchaser may recover, in a civil action, three times the difference between the purchase price and the lowest offered price (plus a reasonable attorney's fee) and the seller may be prosecuted.
- --effective for acquisitions after March 12, 1975, and before January 1, 1977, but applies to 1976 acquisitions only if constructed by the taxpayer or acquired by the taxpayer under a binding contract entered into before January 1, 1976.

COST: $0.6 billion

8. Withholding

- --new withholding tables reflecting standard deduction changes, personal exemption tax credit, and earned income credit to take effect May 1, 1975. IRS advises that employers may be unable to meet that deadline even if new tables made available by IRS in record time.

9. Investment credit

- --two year increase in investment credit from 7% (4% in the case of public utilities) to 10%. Upon lapse of the temporary increase, public utilities would again be eligible for a 4% credit only.
- --additional 1% credit (for total 11% credit) during the two year temporary period for corporate taxpayers only and on condition that stock of the taxpayer (or a parent corporation) having a value equal to the tax savings generated by the additional 1% credit is transferred to an employee stock ownership plan (ESOP). No deduction is allowed to the employer for the transferred stock, and the employees are not taxed until they receive distributions from the plan. The plan may be a qualified or a nonqualified plan.

--for public utilities, increase in the portion of tax liability that may be offset by the investment credit from 50% to: 100% in 1975 and 1976, 90% in 1977, 80% in 1978, 70% in 1979, 60% in 1980, and back to 50% in subsequent years
--increase from $25,000 to $100,000 in amount of used property that may qualify for investment credit
--provision for credit to be allowed as progress payments are made, a permanent change

COST: $3.3 billion

10. Corporate tax rate changes

--surtax exemption (which determines amount taxable at rates below 48%) increased from $25,000 to $50,000 of taxable income
--rate on first $25,000 of taxable income reduced from 22% to 20% (second $25,000 of taxable income will be taxable at 22% rate, balance of income at 48% rate)
--effective for taxable years ending in 1975

COST: $1.5 billion

11. Accumulated earnings tax

--minimum accumulated earnings tax credit increased from $100,000 to $150,000
--permanent change - COST: Nominal

12. Work Incentive (WIN) Program Tax Credit

--win credit of 20% of wages paid to a new employee during first 12 months of employment extended to employment of welfare recipients if employment lasts at least one month. Under present law, the new employee must be a participant in the WIN program administered by the Departments of Labor and Health, Education and Welfare and must be employed for at least 24 months
--as under present law, the new employee may not displace another employee

--unlike present law, the expanded credit would apply to nonbusiness employees (e.g., domestics), but the maximum credit with respect to each such nonbusiness employee would be $200
--employment of migrant workers not covered
--effective with respect to wages paid to employees hired after the date of enactment for services rendered between the date of enactment and July 1, 1976.

COST: Nominal

13. Certain Pension Plan Contributions

--for H.R. 10 plans, advanced by one year (to 1976 contribution for 1975 plan years) a provision permitting cash basis taxpayers to treat contributions made before April 15 as having been made in the preceding year.

14. Unemployment compensation

--extends the maximum period of benefits from 52 to 65 weeks, for weeks of unemployment ending before July 1, 1975.

COST: $0.2 billion

15. Payment to Social Security Recipients

--provides $50 payment to each individual who for the month of March, 1975, was entitled (without regard to sections 202(j)(1) and 223(b) of title II of the Social Security Act and without the application of section 5(a)(ii) of the Railroad Retirement Act of 1974) to (1) a monthly insurance benefit under title II of the Social Security Act, (2) a monthly annuity or pension payment under one of the Railroad Retirement Acts, or (3) a benefit under SSI
--payments to be made no later than August 31, 1975
--any individual entitled to only one such payment
--only United States residents are eligible
--payments to be disregarded for purposes of other programs

COST: $1.7 billion

Note respecting permanence of changes

As noted above, virtually all of the tax changes and increased benefits are drafted as temporary changes and benefits effective for only one year or at most two years. The only permanent changes are: (1) the provision for the investment credit to be allowed on progress payments, (2) the raising of the phase-out level for the child care expense deduction, (3) the expansion of the tax-free rollover period for sales of a principal residence, and (4) the increase in the accumulated earnings tax credit.

16. Limitation on percentage depletion

- -- eliminated immediately for majors
- -- exception: 22% retained for all producers for regulated natural gas and natural gas sold under fixed contract
- -- royalty interest owners and independents (producers with no retail outlets who refine less than 50,000 bbl/day) have small production exemption
- -- small production exemption: 22% remains for 2,000 bbl/day and phases down 200 bbl/day each year for 5 years, then holds at 1,000 while rate phases down: 20% for 1981, 18% for 1982, 16% for 1983, so that for 1984 and thereafter the exemption is 1,000 bbl/day at 15% (applies alternatively at taxpayer's election to natural gas on 6,000 cu. ft.: 1 bbl. equivalence)
- -- for secondary and tertiary production at the rate under the small production exemption stays at 22% until 1984 when it drops to 15%
- -- except for new fields acquired in section 351 transfer or transfer at death, small production exemption applies to production from new fields only if discovered by taxpayer
- -- aggregation rules prevent multiple exemptions for related entities. Family members treated as one taxpayer
- -- depletion allowance under small production exemption limited to 65% of taxpayer's taxable income (computed without regard to any depletion on small production amount, capital loss or NOL carrybacks)

INCREASED REVENUE: $1.6 billion

17. Foreign Oil-Related Income

-- new limitation on foreign tax credits of oil companies to 110% of the U.S. rate in 1975 (52.8% of income); 105% of the U.S. rate in 1976 (50.4% of U.S. income) and 50% of U.S. income in 1977
-- carryforwards from years prior to 1974 to years after 1974 will be computed as though the foregoing rules were in effect during those years
-- excess credit resulting from the application of these rules can only be used to shelter other oil-related income, including income from shipping, refining, marketing, interest, and dividends
-- requires for taxable years beginning after 1975, the use of the overall limitation in the computation of the foreign tax credits of oil companies
-- new recapture rule for losses incurred in oil operations; foreign oil income earned after December 31, 1975, will be treated as U.S. source income to the extent of any oil-related losses sustained after that date
-- bars use of tax credits with respect to the purchase of oil where the taxpayer does not have an economic interest in such oil and where such oil is not purchased and sold at its fair market value. This provision is effective for years after December 31, 1974

18. Deferral - Changes in Subpart F

-- terminates the minimum distributions exception to subpart F (Section 963)
-- terminates the exception to subpart F which allows deferral where tax haven income is reinvested in a less developed country corporation
-- revises the present rule permitting deferral of tax on foreign tax haven income where less than 30% of such income is tax haven income to terminate such deferral where the tax haven income excceds 10% of income
-- terminates the exception to subpart F for shipping income except where such income is reinvested in shipping operations
-- allows deferral of income on sales by a foreign sales corporation of agricultural products which are not grown in commercially marketable quantities in the U.S.
-- all of the foregoing changes are effective in taxable years beginning after December 31, 1975

19. <u>DISC</u>

--terminates DISC deferral privileges for sales of energy resources such as coal, oil and uranium

--effective for sales made after March 18, 1975

20. <u>Oil Rigs</u> - <u>Investment Tax Credit</u>

--disallows investment tax credit for oil rigs used in international or territorial waters outside the northern portion of the western hemisphere effective for investments after March 18, 1975, unless made pursuant to contracts binding on April 1, 1974

ADDITIONAL REVENUES: (Sections 17, 18, 19 and 20 combined): $0.1 billion first year, $0.6 billion in following years

COMPARISON

Comparison of the effects on Fiscal Year Receipts of the President's Stimulus Package, The House Bill, The Senate Bill, and The Conference Bill

	Fiscal Years 1975	Fiscal Years 1976
	(. . . $ billions	. .)
President's Stimulus Program[1]	-7.3	-9.0
House Bill	-10.0	-7.3
Senate Finance Committee Bill[2]..........	-13.0	-16.5
Conference Bill[3]........................	-10.7	-10.5

Office of the Secretary of the Treasury
Office of Tax Analysis

[1]Adjusted from original estimate for different timing on the first rebate payment.

[2]Excludes $3.4 billion of payments to social security benefits and $0.2 billion of unemployment payments.

[3]Excludes $1.7 billion of payments to social security benefits and $0.2 billion of unemployment payments.

Comparison of House, Senate and Conference Bills

($ billions)

Tax Reductions	House	Senate	Conference
I. Individuals:			
Refund of 1974 liability..........	8.1	9.7	8.1
Standard deduction increase.......	5.2	---	2.5
Credit............................	---	6.3	5.3
Tax rate reductions...............	---	2.3	---
Earned income credit..............	2.9	1.5	1.5
House purchase credit.............	---	1.1	0.6
Child care........................	---	1.7	0.1
Home insulation...................	---	0.7	---
Total individuals	16.2	23.3	18.1
Business:			
Investment tax credit.............	2.4	4.3	3.3
Corporate surtax exemptions.......	1.2	1.2	1.2
Tax rate reduction................	---	0.7	0.3
Loss carryback, carry forward.....	---	0.5	---
Repeal truck excise taxes.........	---	0.7	---
Total business..................	3.6	7.4	4.8
II. Increased expenditures:			
$100 payment to certain program beneficiaries	---	3.4	1.7
Emergency unemployment benefits...	---	0.2	0.2
Total increased expenditures....	---	3.6	1.9
III. Tax increases:			
Depletion	(2.2)	(1.7)	(1.6)
Foreign oil taxation	---	(1.5)	(0.1)
Deferral of foreign income	---	(0.5)	---
Total tax increases.............	(2.2)	(3.7)	(1.7)
Total net revenue loss	17.6	30.6	23.1

Office of the Secretary of the Treasury
Office of Tax Analysis