

Tax Rate Schedule for President's
October 6, 1975 Tax Reduction Proposals
(Married Taxpayers Filing Jointly)

Taxable income bracket		Present rates (percent)	Proposed rates (percent)
\$ 0	\$1,000	14	12
1,000	2,000	15	14
2,000	3,000	16	15
3,000	4,000	17	15
4,000	6,000	19	16
6,000	8,000	19	17
8,000	10,000	22	21
10,000	12,000	22	22
12,000	16,000	25	25
16,000	20,000	28	29
20,000	24,000	32	34
24,000	28,000	36	
28,000	32,000	39	law
32,000	36,000	42	
36,000	40,000	45	
40,000	44,000	48	
44,000	52,000	50	present
52,000	64,000	53	
64,000	76,000	55	
76,000	88,000	58	
88,000	100,000	60	
100,000	120,000	62	
120,000	140,000	64	as
140,000	160,000	66	
160,000	180,000	68	
180,000	200,000	69	Same
200,000	--	70	

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

NOTE: While some rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets and the increase in the personal exemption so that on balance the tax cut proposals will reduce taxes even for those affected by the increased rates.

(*) ANNEXES PREPARED BY TREASURY DEPARTMENT
OFFICE OF TAX POLICY

Tax Rate Schedule for President's
October 6, 1975 Tax Reduction Proposals
(Single Taxpayers)

Taxable income bracket		Present rates (percent)	Proposed rates (percent)
\$ 0	\$ 500	14	12
500	1,000	15	13
1,000	1,500	16	15
1,500	2,000	17	15
2,000	3,000	19	16
3,000	4,000	19	17
4,000	5,000	21	18
5,000	6,000	21	19
6,000	8,000	24	21
8,000	10,000	25	24
10,000	12,000	27	27
12,000	14,000	29	29
14,000	16,000	31	31
16,000	18,000	34	
18,000	20,000	36	
20,000	22,000	38	
22,000	26,000	40	
26,000	32,000	45	
32,000	38,000	50	
38,000	44,000	55	
44,000	50,000	60	
50,000	60,000	62	
60,000	70,000	64	
70,000	80,000	66	
80,000	90,000	68	
90,000	100,000	69	
100,000	--	70	Same as present law

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NOTE: While some rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets and the increase in the personal exemption so that on balance the tax cut proposals will reduce taxes even for those affected by the increased rates.

SIX-POINT UTILITIES PACKAGE

- Increase the investment tax credit permanently to 12 percent on all electric utility property except generating facilities fueled by petroleum products. No change of the percent-of-tax limitation is involved. The increase in the credit is allowable only if construction work in progress is included in the utility's rate base and the benefit of the increase is "normalized" for ratemaking purposes. "Normalized" in this sense means reflecting the tax benefit for ratemaking purposes pro rata over the life of the asset which generates the benefit instead of recognizing the entire tax benefit in the year the utility's taxes are actually reduced. In the absence of normalization, the entire tax benefit would flow through immediately in the form of reduced utility rates for consumers, and no real economic benefit would result for the utility.
- Give electric utilities full, immediate investment tax credit on progress payments for construction of property that takes two years or more to build, except generating facilities fueled by petroleum products, without regard to the five-year phase-in required by the Tax Reduction Act of 1975. This new provision applies only if the regulatory agency includes construction work in progress in the utility's rate base for ratemaking purposes.
- Extend to January 1, 1981, the period during which pollution control facilities installed in a pre-1969 plant or facility may qualify for rapid five-year straight-line amortization in lieu of normal depreciation and the investment credit.
- Permit rapid five-year amortization of the costs of either converting a generating facility fueled by petroleum products into a facility not fueled by petroleum products or replacing a petroleum-fueled facility with one not fueled by petroleum. This amortization is in lieu of normal

depreciation and the investment credit, and is available only if (i) its benefits are "normalized" for ratemaking purposes, and (ii) construction work in progress is included in the utility's rate base for ratemaking purposes.

- Permit a utility to elect to begin depreciation, during the construction period, of accumulated construction progress expenditures, generally the same expenditures as those which qualify for the investment credit construction progress payments under the Tax Reduction Act of 1975. Any depreciation taken during the construction period will reduce the depreciation deductions available after the property is completed. This early depreciation will be available only if the ratemaking commission includes construction work in progress in the utility's rate base and "normalizes" the tax benefits for ratemaking purposes. Construction of generating facilities which will be fueled by petroleum products will not qualify for such depreciation.

- Permit a shareholder of a regulated public electric utility to postpone tax on dividends paid by the utility on its common stock by electing to take additional common stock of the utility in lieu of cash dividends. The receipt of the stock dividend will not be taxed. The amount of the dividend will be taxed as ordinary income when the shareholder sells the dividend stock and the amount of capital gain realized on the sale will be decreased (or the amount of capital loss increased) accordingly. Dividend stock is deemed sold before other stock.

FY 1976 COST = \$600 million

MAJOR 1975 INDIVIDUAL TAX REDUCTIONS

The Tax Reduction Act of 1975 contains three temporary general individual tax cut provisions affecting most taxpayers. The first was the temporary one-shot rebate of a portion of 1974 tax liabilities, which was implemented through special rebate checks or larger refund checks last spring (cost: \$8.1 billion). Two other temporary structural changes enacted in 1975 may be summarized as follows:

Standard deduction liberalization

- 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 percent of AGI (with a maximum of \$2,000 or \$1,000 for a married person filing separately) to 16 percent 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

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

The approximate \$8 billion of tax reductions effected by the standard deduction liberalization and the personal exemption tax cut were reflected in withholding tax reduction over a eight-month period. Thus, the amount of tax cuts necessary to annualize the 1975 Act withholding tax reductions over a 12-month period would be approximately \$12 billion.

Income Distribution of President's Tax Reduction Proposal
at 1975 Levels of Income
(billions of dollars)

Adjusted gross income class	: Tax liability : based on : 1972-74 law	: Proposed : 1976 tax : liability	: Tax : reduction	: Percentage : distribution of : tax reduction	: Percentage : reduction in : tax liability ^{1/}
\$ 0 - \$5,000	2.0	0.8	1.2	5.8	61.3
5,000 - 10,000	14.1	9.1	5.0	24.2	35.3
10,000 - 15,000	23.1	17.6	5.5	26.6	23.8
15,000 - 20,000	23.7	19.5	4.2	20.3	17.7
20,000 - 30,000	28.0	24.7	3.3	15.9	11.7
30,000 - 50,000	16.9	15.9	1.0	4.8	5.8
50,000 - 100,000	12.1	11.7	0.4	1.8	3.2
100,000 +	9.4	9.3	0.1	0.5	0.8
TOTAL	129.4	108.7	20.7	100.0	15.9

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^{1/} Based on unrounded liability figures.

NOTE: Detail may not add to totals due to rounding.

Maximum Levels of Tax-free Earned Income for 1976
Under the President's Tax Reduction Proposal

(rounded to nearest \$10)

Filing status	Maximum tax-free earned income 1/		Poverty income levels 2/	
	1975	1976	1975	1976
Single				
no dependents	2,560	2,800	2,790	2,970
Married, joint return				
no dependents	3,830	4,500	3,610	3,850
1 dependent	4,790	5,500	4,300	4,570
2 dependents	5,760	6,500	5,500	5,850
3 dependents	6,720	7,500	6,490	6,900
4 dependents	7,670	8,500	7,300	7,770
Single, over 65, no dependents	3,310	3,800	2,580	2,750
Married, joint return, both over 65				
no dependents	5,330	6,500	3,260	3,460

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1/ For taxpayers not eligible for the earned income credit.

2/ Underlying Consumer Price Index: for 1975, 161.2; for 1976, 171.5.