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THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S PROPOSAL FOR TAX CUTS AND FEDERAL SPENDING RESTRAINT

President Ford is proposing that permanent large tax cuts be made possible for American taxpayers by Congress joining with him in limiting the growth of federal expenditures. The tax reductions proposed by the President total about \$28 billion compared to 1974 law. This proposal is linked to the adoption by the Congress now of a spending ceiling of \$395 billion for FY 1977. This represents a reduction of about \$28 billion from projected levels for that year unless action to limit federal spending is taken.

The proposed tax cuts are divided approximately 75 percent for individuals and 25 percent for business. A family of four earning \$14,000 a year would receive a reduction in their tax liability of \$412 or 27 percent.

I. SUMMARY OF THE TAX CUT PROPOSAL

A. The individual tax reductions will be accomplished by:

- . \$8 billion in cuts to replace the temporary 1975 tax reductions.
- . \$4 billion in additional cuts required to keep personal withholding rates constant. (The 1975 cut was reflected in withholding over an eight-month period and, therefore, a \$4 billion extra cut is provided to keep withholding constant.)
- . \$8.7 billion in further tax relief distributed throughout all income ranges.

B. The business tax reductions will continue the tax relief for small business provided by the 1975 Act, will make permanent the higher investment credit rate of 10 percent as an incentive for investment in equipment needed to increase productivity and to provide new jobs, will reduce the marginal rate on business income as a first step toward eliminating the existing tax bias against capital formation, and will provide special relief to utilities needed to reduce dependence on foreign energy sources.

C. The recommended changes in the individual and business income tax structure, and their costs, as compared to 1974 law, are as follows:

	<u>Individual Tax Cuts</u>
Increase personal exemption from \$750 to \$1,000.	\$10.1 billion
Replace \$1,300 low income allowance and \$2,000 maximum standard deduction with flat amount standard deduction of \$2,500 for married couples (\$1,800 for a single person)	\$ 4.0 billion
Reduce tax rates	<u>\$ 6.6 billion</u>
TOTAL INDIVIDUAL TAX CUTS	\$20.7 billion
	<u>Business Tax Cuts</u>
Extension of 1975 corporate rate and surtax exemption changes	\$ 1.7 billion
Permanent extension of investment credit increase (from 7-10; 4-10 for utilities)	\$ 2.5 billion
2% corporate rate reduction (48-46%)	\$ 2.2 billion
Utilities tax relief previously proposed (see Annex C)	<u>\$ 0.6 billion</u>
TOTAL BUSINESS TAX CUTS	\$ 7.0 billion
TOTAL TAX CUTS	<u>\$27.7 billion</u>

The effects on individual taxpayers of the President's tax proposals are shown in the following tables:

Tax Liabilities for Family with 2 Dependents,
Filing Joint with Itemized Deductions of
16 Percent of Adjusted Gross Income
(If standard deduction exceeds itemized
deduction, family uses standard deduction.)

Adjusted gross income	Tax Liability			Reduction from	
	1972-74 law	1975 law	Proposed 1976 law	1972-74 law	1975 law
\$ 5,000	98	0	0	98	0
7,000	402	186	60	342	126
10,000	886	709	485	401	224
15,000	1,732	1,612	1,325	407	287
20,000	2,710	2,590	2,280	430	310
25,000	3,820	3,700	3,370	450	330
30,000	5,084	4,964	4,648	436	316
40,000	8,114	7,994	7,664	450	330
50,000	11,690	11,570	11,180	510	390

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Office of Tax Analysis

Tax Liabilities for Single Person with Itemized
Deductions of 16 Percent of Adjusted Gross Income
(If standard deduction exceeds itemized deduction,
individual uses standard deduction.)

Adjusted gross income	Tax Liability			Reduction from	
	1972-74 law	1975 law	Proposed 1976 law	1972-74 law	1975 law
\$ 5,000	\$ 490	\$ 404	\$ 307	\$ 183	\$ 97
7,000	889	796	641	248	155
10,000	1,506	1,476	1,227	279	249
15,000	2,589	2,559	2,307	282	252
20,000	3,847	3,817	3,553	294	264
25,000	5,325	5,295	5,015	310	280
30,000	6,970	6,940	6,655	315	285
40,000	10,715	10,685	10,375	340	310
50,000	15,078	15,048	14,725	353	323

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II. FULLER DESCRIPTION OF PROPOSED TAX CUTS

A. Individual Tax Cuts

The proposed permanent restructuring would replace the temporary increased standard deduction and the \$30 per taxpayer exemption credit provided by the 1975 Act. The changes assure that withholding will not be increased and that, in fact, there will be further tax reductions for the great majority of taxpayers. As compared to 1974 law, the President's proposal would:

- Increase the personal exemption from \$750 to \$1,000.
- Replace the present minimum standard deduction (low income allowance) of \$1,300 and maximum standard deduction of \$2,000 by a single standard deduction in a flat amount of \$1,800 for a single taxpayer and \$2,500 for a married couple (\$1,250 for married person filing separately). This compares with the average standard deduction claimed in 1974 of \$1,625 by married couples and \$1,400 by single persons. (The 1975 Act made temporary changes in the standard deduction, which are described in Annex D.)
- Provide rate reductions as shown in the tax rate schedules attached at Annexes A & B.

B. Business Tax Cuts

The President also proposes to:

- Reduce the maximum corporate tax rate from 48 percent to 46 percent.
- Continue the 1975 Act increase in the surtax exemption (which determines the amount taxable at rates below 48 percent) from \$25,000 to \$50,000 of taxable income.
- Continue the 1975 Act reduction in the rate on the first \$25,000 of taxable income from 22 percent to 20 percent (the second \$25,000 of taxable income will be taxable at a 22 percent rate, with the balance of income taxed at a 46 percent rate).
- Make permanent the 1975 Act increase in the investment credit from 7 percent (4 percent in the case of public utilities) to 10 percent.
- Enact a six-point program to provide tax relief to electric utilities and to reduce dependency on foreign energy sources (see Annex C for full description).

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III. BACKGROUND ON FEDERAL SPENDING

A. Unless action is taken to restrain federal outlays in FY 1977, spending can be expected to increase by around \$53 billion in a single year. Budget outlays are approaching \$370 billion in FY 1976. Without specific legislative action to limit spending, outlays in FY 1977 will reach \$423 billion or more. The main elements of an increase of \$53 billion are as follows:

	(Billions)
Interest on the public debt will rise as the size of the debt grows. If current interest rates are maintained, the increase will approach	\$9
Civilian and military salaries increase automatically unless the President and Congress agree on an alternative plan. Would add more than	+6
Retirement benefits for retired federal military and civilian personnel also rise automatically with the cost-of-living . .	+3
Social security and railroad retirement payments increase automatically based upon the cost-of-living index	+12
Medicare and Medicaid payments rise as costs increase and the number of eligible recipients go up	+5
Public assistance, food stamps, housing subsidies and related programs are tied to the formulae set in law or in existing contracts	+2
Major construction of wastewater treatment plants now underway will add nearly .	+2
Essential procurement and research and development of military hardware and maintenance of necessary military facilities will add over	+3
Increases for energy research and development and transportation programs and inclusion of Export-Import Bank in budget.	+4
Other likely net changes including effect of Congressional inaction on budget reduction proposals heretofore proposed by the President and the effect of probable Congressional initiatives	<u>+7</u>
TOTAL	53

B. Decisions have not yet been made on which programs will be restrained or curtailed.

- Specific decisions will be made in the budget review process leading up to the President's January Budget Message to Congress.
- All departments and agencies will be called upon to moderate program growth, expenditures, and Federal personnel levels.

C. The President has called upon Congress to join with him in making the tax reductions possible by placing a limit of \$395 billion on FY 1977 expenditures now.

- A \$395 billion ceiling is \$25 billion above the currently estimated spending level this fiscal year and \$28 billion below the level now projected for FY 1977.

D. Based upon current estimates that FY 1976 spending may approach \$370 billion, the FY 1976 budget deficit would be about \$70 billion. With the President's proposals, the FY 1977 deficit is estimated in the range of \$40-44 billion.

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