The original documents are located in Box 12, folder "Economy - Meeting on Economic and Energy Matters, March 28, 1975" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

ECONOMIC AND ENERGY MEETING
March 28, 1975
11:00 a.m.
Cabinet Room

file

THE WHITE HOUSE

WASHINGTON

March 27, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: R. L. DUNHAM

SUBJECT: Recommended Action on the Tax Bill

It is my personal recommendation that you approve the tax bill now before you.

My reasoning includes the following items:

1) Your original tax cut proposals totalled $16 billion. It has been reported in the press that you were willing to compromise the amount up to $20 billion. This bill is estimated to cost $22 billion. In the public mind, there is not a substantial difference between 20 and 22 billion dollars, particularly when compared with the original Senate and House bills which were estimated to cost $30 billion.

2) The main reasons for veto would, it seems to me, be very difficult to explain since they are essentially on tax theory or administrative difficulty grounds.

3) I agree with most of your advisers who feel that the chances of sustaining a veto are at best 50-50, and there is a likelihood that in any event a more expensive or otherwise worse bill would be sent to you.

4) One of the primary arguments against this bill is that it provides too large a tax rebate to lower income groups as opposed to your more balanced proposals which would have distributed the benefits to a broader income spectrum. This again would be difficult to explain.

5) It seems to me that the argument using the size of the deficit is weak because it is based on speculation which includes elements, namely the expenditure issues, which are not now before you in this bill. Your single fiscal decision at this stage is a $6 billion difference of added costs since this bill would increase your already acknowledged $55 billion deficit to $61 billion.

6) Since a tax cut is, in terms of your position, a better way to stimulate the economy than governmental expenditures, your approval of this bill may put you in a better position to resist further expenditure increases while still maintaining your original position of tax cut stimulus vs. governmental expenditure stimulus.

THE WHITE HOUSE

WASHINGTON

March 27, 1975

MEMORANDUM FOR THE VICE PRESIDENT

FROM: R. L. DUNHAM Dick

SUBJECT: Tax Bill

The President is now trying to decide his action on the tax bill. As a member of the Economic Policy Board, I have participated in several discussions with him concerning his possible action on the tax bill.

I have attached, for your information, a copy of the Economic Policy Board discussion of the bill together with an attached summary of the bill as now before the President.

In addition, the President asked each of the members of the Economic Policy Board to give him his personal recommendation in a sealed envelope addressed to him, by noon on Friday, March 28. I have enclosed, for your private information, a copy of my personal recommendation. I discussed my recommendation with Jim Cannon.

You may want to discuss this subject with the President.

THE WHITE HOUSE

WASHINGTON

March 27, 1975

ECONOMIC AND ENERGY MEETING
March 28, 1975
11:00 a.m.
Cabinet Room

From: L. William Seidman LWS

I. PURPOSE

A. To consider your budget strategy following your response to the tax bill.

B. To consider the extension of unemployment insurance benefits. OK

C. To consider proposals for railroad rehabilitation and employment.

D. To report on the projected activities of the Economic Policy Board during the next six months.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: The Executive Committee of the Economic Policy Board conducted a comprehensive review of domestic economic policy on March 13-15, 1975. This reassessment of economic policy and the economic outlook was conducted in view of developments since the State of the Union Message and submission of the Budget.

Accompanying this briefing paper is a briefing book containing material reviewing the outlook for the economy and the budget, outlining alternative budget strategies and summarizing the discussions during the economic policy review sessions.

Attached at Tab A is a summary listing the issues, options, and recommendations for consideration at today's meeting.

A memorandum on the projected activities of the Economic Policy Board activities during the next six months is attached at Tab B. The memorandum has been reviewed and approved by both the EPB Executive Committee and the full Economic Policy Board.

B. Participants: The Vice President, William E. Simon, L. William Seidman, Alan Greenspan, James T. Lynn, John T. Dunlop, Arthur F. Burns, Frank G. Zarb, Donald Rumsfeld, Robert T. Hartmann, Richard Dunham.

C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Budget Strategy

Jim Lynn will review alternative budget strategies which the Administration could adopt following resolution of the tax bill. See opening section of the briefing book on Budget Strategy.

B. Extension of Unemployment Insurance Benefits

John Dunlop will review a proposal for the extension of unemployment insurance benefits. See Tab C of the briefing book.

C. Railroads

Jim Lynn will review three issues involving railroad revitalization and rehabilitation. These issues are discussed at Tab G in the briefing book.

D. Economic Policy Board Activities

William Seidman will report on the projected activities of the Economic Policy Board during the next six months.

SUMMARY OF ISSUES AND OPTIONS

ECONOMIC AND ENERGY MEETING

MARCH 28, 1975

Issue 1: Overall Budget Options Assuming Adoption of a Tax Bill

Option 1: ______ Oppose any spending not initiated by the Administration.

Option 2: ______ Oppose any spending except for Unemployment Insurance extension. Continue to work for caps.

Option 3: ______ Oppose any spending except for Unemployment Insurance extension. Accept congressional inaction on caps.

Option 4: ______ Recommend certain additional spending programs, such as those listed in Tab D, E, F and G.

Recommendation: The EPB Executive Committee unanimously recommends Option 2.

Issue 2: Further Extension of Unemployment Benefits (Tab C)

Option 1: ______ Do nothing.

Option 2: ______ Extend both Federal Supplemental Benefits (FSB) and Special Unemployment Assistance (SUA) an additional 13 weeks.

Option 3: ______ Extend both FSB and SUA an additional 26 weeks.

Option 4: ______ Extend both FSB and SUA an additional 13 weeks with higher employment triggers.

Option 5: ______ Extend both FSB and SUA an additional 26 weeks with higher employment triggers.

Recommendation: The EPB Executive Committee unanimously recommends Option 4.

MEMORANDUM FOR THE PRESIDENT

SUBJECT: ECONOMIC POLICY BOARD ACTIVITIES

The following domestic and international economic issues are scheduled to be considered by the Economic Policy Board during the next six months.

Fundamental Policy Issues

The Economic Policy Board will undertake three major policy studies during this period. These three major policy studies are scheduled for completion by September 30, 1975.

1. Plan for a New Direction in U.S. Investment and Productivity

Critical to the long term vitality of the economy is an adequate level of capital formation and increasing rates of productivity. Two reasons for concern about adequate capital formation are the capacity shortages and inflation we have experienced in recent years and large Federal Government financing demands in financial markets.

The EPB will undertake a study and action program designed to increase private capital investment, improve production techniques and technology, and increase productivity through cooperation between labor and management. The objective is to formulate and implement a basic Ford Administration program which will provide the foundation for long term economic stability and prosperity.

The Department of the Treasury will serve as the lead agency on the central issue of how the tax system should be structured to insure adequate capital formation. The reconstituted National Commission on Productivity and Work

Quality will assume the lead in exploring ways in which the Government can facilitate adjustment and adaptation to increase productivity with maximum reliance on existing institutions. The CEA will assume the lead on a study of U.S. future capital needs. The Departments of Labor and Commerce and OMB will also participate in elements of the study.

2. The Role of Government in the Economy

Recent decades have witnessed the growth of governmental activities and the increasing intervention of Government in the economy. These trends suggest the need to reexamine three issues: First, the respective sizes of the public and private sectors; second, the amount and type of Government regulation of the private sector; and third, an evaluation of the role of the Federal Government in its interface with the private sector.

The EPB will undertake a study designed to develop an Administration philosophy and position on these issues and to outline policies with respect to Federal spending, Government regulation, the collection, use and dissemination of economic information, and the early identification of major sectoral economic problems.

OMB has begun work in this area and will assume lead responsibility for the study with support from appropriate departments and agencies.

3. International Economic Review

CIEP to lead / [illegible]

International economic interdependence has grown dramatically with increasing financial, trade, and capital flows creating a single interdependent economic system. The oil embargo and subsequent cartel, the two devaluations of the dollar, the transition to flexible exchange rates, and the worldwide inflation require a thorough examination of existing arrangements. Moreover, the basic principles governing international trade, aid, and investment are threatened by efforts of a number of OPEC and developing countries in support of a proposed "new economic order." The basic purpose of these countries is to redistribute wealth in their favor, but the results of such measures would be the virtual elimination of the free market and of private enterprise in international economic relationships.

The principal elements of the international economic review will be an examination of monetary policy including exchange rates; investment policy including foreign investment in the U.S. and policy toward multinational corporations; and trade policy including U.S. strategy in the MTN. The review will also seek to identify the key elements in a U.S. strategy to promote more effectively an international economic system firmly based on market forces and the free movement of capital and goods.

The Economic Policy Board has scheduled an international economic review for May 2 and 3 which will consider these issues. CIEP will coordinate the review with participation from the Departments of State, Treasury, Commerce, Labor, Defense, Transportation, Agriculture, and OMB, CEA, STR, and FEA.

Major Special Projects

The Economic Policy Board has the following major special projects in progress that will be completed during the next six months.

1. Tax Reform

The Department of the Treasury is preparing materials for Executive Committee consideration relating to tax reform proposals that the Administration will submit following passage of the tax stimulus legislation. The materials will be prepared for consideration by April 30, 1975.

2. International Aviation

– U.S. aviation policy

A major review of U.S. international aviation policy is being conducted under the joint chairmanship of the Departments of State and Transportation and is scheduled for completion by June 30.

3. Railroad Restructuring

An EPB Task Force on Northeast Rail Restructuring chaired by Secretary Coleman will recommend an Administration position on the U.S. Railway Association Preliminary System Plan for restructuring bankrupt railroads by April 26. The position will be officially presented to USRA on May 12.

4. Antitrust Immunities

An EPB Task Group on Antitrust Immunities, chaired by Assistant Attorney General Thomas Kauper, will present its recommendations for changes in existing laws which provide certain industries and practices immunity from antitrust prosecution by May 15.

5. Law of the Sea

The EPB has reviewed, and will continue to review, the proposed instructions to our negotiators to resolve significant interagency differences. This is a continuing project based on progress in the negotiations.

6. International Commodity Agreements

An Interagency Task Force on International Commodity Agreements, established to examine trade, production, and investment trends in non-fuel mineral commodities, will submit its final report by April 30, 1975.

7. Export Promotion Study

The EPB is currently reviewing the policy implications of an interagency group study of U.S. policy on export credits, information and marketing assistance programs, and tax policy. The review of policy implications is scheduled for completion by June 15, 1975.

A list of Task Forces and monitoring activities and other special projects is attached at Tab A.

TASK FORCES AND MONITORING ACTIVITIES

1. Periodic Economic Reviews of Overall Policy and the Budget
2. Agricultural Policy--Food Deputies Group
3. Labor-Management Relations--Labor-Management Committee
4. Wage and Price Monitoring--CWPS
5. Fertilizer Policy--Interagency Fertilizer Task Force
6. Statistical Information--Subcommittee on Economic Statistics
7. Monitoring of Capital Market Situation--Treasury
8. U.S. Trade Policy--STR and East-West Trade Committee

Other Special Projects

1. Unemployment Insurance Benefits and an Employment Tax Credit

The Department of Labor and OMB are preparing an options paper on the extension of unemployment insurance benefits and a proposal for a private sector employment tax credit.

2. Energy Financing Mechanism

FEA and the Treasury are preparing a paper on the creation of an Energy Financing Institution which could serve as a mechanism for assisting the financial needs of utilities and transportation projects.

3. U.S. Tanker Industry

The Interagency Task Force on the Tanker Industry will submit a revised options paper on possible relief measures for the U.S. tanker industry for consideration the week of March 24.

4. International Grain Reserve

The EPB will participate in the International Food Review Group chaired by Secretary Kissinger which will coordinate the economic and trade aspects of the grain reserves issue.

5. Federal Reserve Board Legislation

OMB is preparing an options paper on an Administration position on legislative efforts to restrict the independence of the Federal Reserve Board.

[3/28/75]

POINTS THAT MIGHT ACCOMPANY THE TAX BILL

1. What amount the President will accept - total deficit - the announced $55 billion plus $6 million extra in the tax bill to $61 billion.

2. A request to the Chairman of the Senate and House Budget Committee that they enact spending levels which would go no higher than the $61 billion in FY 76.

[ca. 3/28/75]

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

SUBJECT: TAX CUT BILL

A summary of the tax cut bill enacted yesterday is attached. It would reduce 1975 tax liabilities by approximately $23 billion, which is about $6 1/2 billion more than you requested.

Undesirable Items

The bill contains several items which are especially undesirable:

(1) Changes of a permanent nature in individual liabilities.

The bill increases the standard deduction and provides a new $30 per taxpayer credit in addition to the personal exemption. Together those items lose about $8 billion of revenues. Technically they have been written to apply only to 1975. While the necessity for reenactment may possibly provide an occasion to raise revenues or cut expenditures, past experience does not provide much hope in that connection. In the business area, there are an additional $4.8 billion of changes, also of a permanent nature, part of which are effective for one year and part for two years.

(2) Social security distribution.

A $50 distribution will be made to each person on the social security rolls, for a total revenue loss of $1.7 billion. This is a bad precedent in so far as general revenues are used to make payments to social security recipients. The relief provided will be duplicated later on when the cost of living increase goes into effect. While this does not seem likely to become a permanent program, we can expect strong pressures for such payments in the future whenever tax reductions are enacted.

(3) Earned income credit.

This is a new and undesirable welfare type program, which tends to undercut the insurance concept of social security. Since both the House and Senate bills contained an earned income provision (with differences of detail), we are unlikely to get rid of it unless something worse is put in its place. A redeeming aspect of the earned income credit is that it makes other, worse approaches somewhat less likely.

Payroll taxes are virtually certain to become a major political issue in the next two years. There has been much debate on whether they are too high and too regressive, and the debate is part of the larger issue of whether we can really afford the kind of social security system we have. Something along the lines of the earned income credit may be the best defense to a much more radical change, such as the other proposed funding of a part of social security from the general revenues. It reduces the impact of the payroll taxes, but confines the reduction to a relatively small amount and a relatively small group of persons. At the same time, it operates indirectly through the income tax system, and permits us to keep intact the principle that social security is an insurance scheme under which people get what they pay for.

(4) Housing credit.

This credit is self liquidating because it is confined to new housing built or in progress on March 26. It is a waste of money and will probably serve largely to permit builders to move existing houses without cutting prices. However, in its present form there is a good chance it will disappear completely, although Congress often becomes enamored of such provisions once adopted.

Permanence of the Tax Provisions

As noted, the changes in the standard deduction, the $30 credit, the earned income credit and the business changes are very likely to become permanent. They add up to about $15 billion.

The quasi-permanent nature of these changes has disturbing implications as we consider (1) how to turn off the stimulus later on and (2) how to prevent large inflation-inducing deficits in later years. The latter question is solved only if lesser revenues cause expenditures to be held down. Even if that should be the case, however, there would likely be a lag of several years before the reduction effect on the deficit is fully accomplished. Thus it seems inevitable that in the next couple of years we will have extraordinary large deficits and probably excessive stimulus a little later.

Your original proposals called for a one shot stimulus, and, to that extent, did not need to be "turned off." In order to turn off the stimulus from these "permanent provisions," however, Congress will have to refrain from re-enacting them for 1976. Since the economy will undoubtedly still be operating below par when that issue arises later this year, and since we will be even closer to November 1976, the prospects do not seem auspicious.

While this aspect is possibly the most compelling ground for vetoing the bill, it would be difficult to complain to the public about "permanent" changes when Congress expressly made the provisions applicable for only one year (except in the case of the investment credit, which is for two years).

Chances of a Better Bill

It is not clear that we could expect a substantially better bill even if a veto were sustained. It seems unlikely that Congress would give up the "permanent" changes for individuals. The social security provisions and the earned income credit are attractive to more voters than the business provisions, and there would be considerable pressure to do any cutting in the investment credit area. We might get rid of the housing credit. At best we are likely to get a bill $2 or $3 billion less than the current bill. In the face of projected deficits in the neighborhood of $100 billion, it will be hard to convince Congress and the electorate that it is worth holding up a needed stimulus for that small difference.

. . .

Grounds for a Veto

(1) Total Revenue Loss. This is probably the only issue that the man in the street would understand. However, we are in the position of having proposed $16 1/2 billion of it ourselves. up to $20 b.

(2) Undesirable Provisions. The reasons for our objections to specific undesirable items are more sophisticated than the ordinary voter will comprehend, but, in combination, would perhaps be saleable.

(3) Permanent Aspects. This is possibly the most important ground for a veto, but it is hard to make it convincing when the provisions are technically effective only for 1975.

(4) A Major Obstacle to Real Tax and Welfare Reform. Difficult to explain but a sound substantive reason for veto.

(5) Eliminates 6 million from the Tax Rolls. Our own proposals in the energy package would eliminate a substantial number of these taxpayers.

(6) Eliminates Oil Depletion Except for Independent Producers. It thus reduces capital available for energy program. Elimination with independent produces exemption substantially complicates law.

Grounds for Signing

(1) Fastest way to achieve fiscal stimulus.

(2) Provides opportunity to draw the line on any new spending programs.

(3) Some of the mostobjectionable provisions can be attacked when law is reconsidered at end of its one year term.

(4) Provides a tax cut as requested in State of the Union tho not of the type requested.

(5) New unemployment figures are expected to be adverse and may give impetus to a worse bill.

[ca. 3/28/75]

SUMMARY OF 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

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)

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)

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)

$1.5

5. Child care deduction

--increases the income level at which the phase out 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

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

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.

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

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

11. Accumulated earnings tax

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

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

13. Certain Pension Plan Contributions

--for H.R. 10 plans, advanced by one year (to 1976 contributions 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

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

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 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).

17. Foreign Oil-Related Income

--new limitation on foreign tax credits of oil companies to 110 percent of the U.S. rate in 1975 (52.8 percent of income); 105 percent of the U.S. rate in 1976 (50.4 percent of U.S. income) and 50 percent 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

17. Foreign Oil-Related Income (continued)

--excess credits 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 percent of such income is tax haven income to terminate such deferral where the tax haven income exceeds 10 percent 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. DISC

--terminates DISC deferral privileges for sales of energy resources such as coal, oil, and uranium
--effective for sales made after March 18, 1975

20. Oil Rigs - Investment Tax Credit

--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

Tentative

Comparison of House, Senate, and Conference Bills

($ billions)

Tax reductions	House	Senate	Conferer
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

March 26, 1975

Tentative

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	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/..	-10.8	-10.6

Office of the Secretary of the Treasury
Office of Tax Analysis

March 26, 1975

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.

March 26, 1975

COMPARISON OF SUBSTANTIVE HOUSE AND SENATE PROVISIONS IN CONFERENCE

Individual Reductions	House	Senate	Conference	Savings From Senate Bill
1. Rebate 1974 Tax	-8.1	-9.7	-8.1	+1.6
Adopted: House version. 10%, max. $200, min. $100 (or actual tax, if less).				
2. Individual Permanent Items	-5.2	-8.6	-7.8	+0.8
House proposed changes in standard deduction Senate did not change standard deduction, but provided an optional $200 per person credit in lieu of present $750 exemption, and lowered rates on first $4,000 of income.				
Adopted: increased min. standard deduction from $1,300 to $1,600 for singles, $1,900 for marrieds; provided an additional (not optional) credit against tax of $30 per person.				
3. Earned Income Credit	-2.9	-1.5	-1.5	---
Adopted: Senate version. 10% refundable credit on first $4,000 of income, phasing out between $4,000 and $8,000.				
4. House Purchase Credit	---	-1.1	-0.6	+0.5
Adopted: credit of 5% up to maximum of $2,000, covering only new houses purchased between March 26 and Dec. 31, 1975, construction of which began before March 26. Seller to give affidavit that house has not been offered at lower price. Includes mobile homes.				

Child Care	---	-1.7	-0.1	+1.6
Adopted: minor liberalization of existing law.				
Home Insulation	---	-0.7	-0-	+0.7
Adopted: deleted, saved for energy bill.				
Subtotal	-16.2	-23.3	-18.1	+5.2
siness Reductions				
Investment Tax Credit	-2.4	-4.3	-3.3	+1.0
Adopted: Increase to 10% for 2 years. Liberalizing limitation for utilities, provide for credit as payments are made. An additional 1% allowed if employer puts stock of equal amount in employee stock ownership plan.				
Corporate Surtax	-1.2	-1.2	-1.2	---
Adopted: Both bills provide for increase from $25,000 to $50,000 of amount subject to "normal" tax (presently 22%).				
Corporate Rate Reduction	---	-0.7	-0.3	+0.4
Adopted: Changed normal tax rate from 22% to 20% on first $25,000.				
Loss Carryback Liberalization	---	-0.5	-0-	+0.5
Deleted.				
Elimination of Excise Tax on Trucks	---	-0.7	-0-	+0.7
Deleted.				
Subtotal	-3.6	-7.4	-4.8	+2.6

creases in Nontax Expenditures				
Social Security	---	-3.4	-1.7	+1.7
Adopted: $50 to each social security recipient.				
Unemployment Compensation	---	-0.2	-0.2	---
Adopted: extends eligibility 13 weeks, but not beyond June 30, 1975.				
Subtotal	---	-3.6	-1.9	+1.7
Gross revenue loss	-19.8	-34.3	-24.8	+9.5
x Increases				
Depletion	+2.2	+1.7	+1.7	---
Eliminated for all but first 2,000 bbls. a day. 2,000 limit reduced 200 per year to 1,000 in 1980, then 2% to 15% in 1984.				
Foreign Oil Tax	---	+1.5	+0.3	-1.2
Limits excess credits for foreign oil production (more liberal than 1974 Treasury proposals).				
Deferral	---	+0.5	-0-	-0.5
Amends technical rules relating to tax-haven companies. Similar to 1974 agreed version. Effective in 1976.				
Subtotal	+2.2	+3.7	+2.0	-1.7
Total	-17.6	-30.6	-22.8	+7.8