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ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

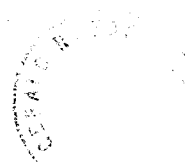
AGENDA

8:30 a.m.

Roosevelt Room

June 29, 1976

- | | |
|---|----------|
| 1. Status of Tax Reform Legislation | Treasury |
| 2. Report on Puerto Rico International Summit | Simon |
| 3. Report on East European Trip | Simon |



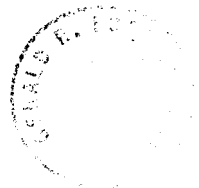
THE WHITE HOUSE

WASHINGTON

June 28, 1976

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached material prepared by William Goldstein on "45-day Extension of Withholding Tax Rates" will be discussed at the Tuesday, June 29, Executive Committee Meeting.





DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

June 28, 1976

To: Economic Policy Board
Executive Committee

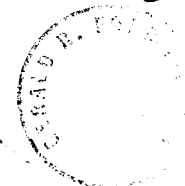
From: William M. Goldstein *Wm G*
Acting Assistant Secretary for Tax Policy

Subject: 45-day Extension of Withholding Tax Rates

On Wednesday, June 30, 1976, Congress will transmit to the President a bill which extends the present withholding rates until August 15, 1976. If the President does not sign this bill, the withholding tables effective on July 1, 1976, will be those tables which were in effect during 1974. The Internal Revenue Service has no discretion to alter this result although they can waive penalties for noncompliance for a reasonable period.

The question for decision is whether the President has any alternative course of action other than to sign the extension bill. It has been suggested that he might veto the bill and indicate that the withholding rates should only be extended in connection with an extension of the individual tax cuts either until June 30, 1977 (the Finance Committee position) or September 30, 1977 (the Budget Committee position). We do not believe that this is a viable alternative.

First of all, it would be difficult to quarrel with the Senatorial position that the nature and extent of the tax cuts should be decided only after the magnitude of offsetting "tax reform" increases is known. While the Administration has preferred to tie tax cuts to spending limits, it is difficult to deny the fiscal soundness of evaluating the extension in the total context of the tax picture for fiscal year 1977. More importantly, if Congress singled out the tax cut for immediate action - i.e., prior to July 4 - this move would be seen as the abandonment of reform for this Congressional session, and this is not a policy which this Administration should either favor or be viewed as favoring. Finally, there is the political consideration that the Democratic leadership might let the President's veto stand and campaign vigorously that the President has caused everyone's withholding tax to go up.



As an alternative to either simply signing or vetoing the withholding tax, we would suggest a strong Presidential statement at the time of approving the extension. Such statement should emphasize the unsatisfactory manner in which Congress has dealt with the whole subject of tax reform, tax cuts, and spending limitations. Once again, Congress will have approached the subject with brinkmanship by extending withholding on the very last day and delaying meaningful action on both the tax cuts and tax reform until some indefinite date. Indeed, it seems quite likely that the same pattern will be repeated on August 15 since the Congressional conference may not be completed by that time.

A Presidential message at this time should also emphasize the Administration's continuing support for tax reform. A New York Times editorial over the weekend criticized the lack of enthusiasm in the Government for tax reform. The President can make a strong case that the Administration has fought hard and is continuing to fight for such important reform measures such as LAL and the alternative tax on minimum taxable income.

William M. Bolstein

