The original documents are located in Box 34, folder "Taxes (4)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

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MEMORANDUM FOR THE PRESS: October 8, 1975

Attached are materials which help explain and illustrate the President's Proposal for Tax Cuts and Federal Spending Restraint. The materials include:

1. The White House Fact Sheet (October 6, 1975).
2. Treasury's Annexes to the Fact Sheet, covering:
   a) Tax Rate Schedules comparing present tax rates with the President's proposals in all tax brackets, for both single and married taxpayers.
   b) Six-point utilities package.
   c) Major 1975 individual tax reductions.
   d) Maximum levels of tax-free earned income for 1976 under the President's Tax Reduction proposal.
3. Eleven supplementary comparison tables.
4. Questions and Answers on the tax proposal.

WS-404

OCTOBER 6, 1975

Office of the White House Press Secretary

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:

	Individual Tax Cuts
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	$ 6.6 billion
TOTAL INDIVIDUAL TAX CUTS	$20.7 billion
	Business Tax Cuts
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)	$ 0.6 billion
TOTAL BUSINESS TAX CUTS	$ 7.0 billion
TOTAL TAX CUTS	$27.7 billion

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 1972-74 law	Tax Liability 1975 law	Tax Liability Proposed 1976 law	Reduction from 1972-74 law	Reduction from 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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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 1972-74 law	Tax Liability 1975 law	Tax Liability Proposed 1976 law	Reduction from 1972-74 law	Reduction from 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	10,605	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).

more

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	+7
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.

# # # # #

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 1/
20,000	24,000	32	34 1/
24,000	28,000	36	36
28,000	32,000	39	39
32,000	36,000	42	42
36,000	40,000	45	45
40,000	44,000	48	48
44,000	52,000	50	50
52,000	64,000	53	53
64,000	76,000	55	55
76,000	88,000	58	58
88,000	100,000	60	60
100,000	120,000	62	62
120,000	140,000	64	64
140,000	160,000	66	66
160,000	180,000	68	68
180,000	200,000	69	69
200,000	--	70	70

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October 6, 1975

1/ While two rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets so that on balance the changes in rates reduce taxes even for those affected by the increased rates.

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	34
18,000	20,000	36	36
20,000	22,000	38	38
22,000	26,000	40	40
26,000	32,000	45	45
32,000	38,000	50	50
38,000	44,000	55	55
44,000	50,000	60	60
50,000	60,000	62	62
60,000	70,000	64	64
70,000	80,000	66	66
80,000	90,000	68	68
90,000	100,000	69	69
100,000	--	70	70

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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

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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.

ANNEX D

Maximum Levels of Tax-Free Income for 1975 Under the President's Tax Reduction Proposal

(rounded to nearest $10)

Filing status	Maximum tax-free 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	3,840
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	2,740
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 assumption: for 1975, 161.2; for 1976, 171.5.

Supplementary Tables

1. Income Distribution of President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law
2. Income Distribution of the Components of the President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law
3. Comparison of Individual Tax Cuts in President's Proposal and in Tax Reduction Act of 1975
4. Income Distribution of President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1975 Law
5. Income Distribution of the Components of the Tax Reduction Act of 1975 at 1975 Levels of Income as Compared to 1972-74 Law
6. Tax Liabilities for Family with No Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income
7. Tax Liabilities for Family with 1 Dependent, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income
8. Tax Liabilities for Family with 2 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income
9. Tax Liabilities for Family with 4 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income
10. Tax Liabilities for Single Person Without Dependents, with Itemized Deductions of 16 Percent of Adjusted Gross Income
11. A Comparison of the Liability Effects of the Tax Reduction Act of 1975 and the President's Tax Cut Proposal on Business Income

Table 1

Income Distribution of President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law

(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 1/	Percentage reduction in tax liability 1/
0 - $5,000	2.0	0.8	1.2	5.9	61.2
$5,000 - 10,000	14.1	9.1	5.0	24.0	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	20.2	17.7
20,000 - 30,000	28.0	24.7	3.3	16.0	11.8
30,000 - 50,000	16.9	15.9	1.0	5.0	6.1
50,000 - 100,000	12.1	11.7	0.4	1.8	3.2
100,000 +	9.4	9.4	0.1	0.4	1.0
Total	129.4	108.7	20.7	100	16.0

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1/ Based on unrounded liability figures.

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

Table 2

Income Distribution of the Components of the President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law

(millions of dollars)

Adjusted Gross Income Class	Components: $1,000 Personal Exemption	Components: Standard Deduction Change	Components: Rate Reduction	Total
$ 0 - $5,000	515	608	102	1,225
5,000 - 10,000	1,908	1,961	1,098	4,967
10,000 - 15,000	2,548	925	2,040	5,513
15,000 - 20,000	2,056	342	1,788	4,186
20,000 - 30,000	1,867	154	1,287	3,308
30,000 - 50,000	802	31	204	1,037
50,000 - 100,000	330	5	48	383
100,000 +	80	1	10	91
TOTAL	10,105	4,026	6,580	20,711

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

Table 3

Comparison of Individual Tax Cuts in President's Proposal and in Tax Reduction Act of 1975

	$ billion
President's Proposal	
Standard deduction	4.0
$1,000 personal exemption	10.1
Rate changes	6.6
TOTAL	20.7
Tax Reduction Act of 1975	
Standard deduction	2.5
$30 personal exemption credit	5.3
Earned income credit	1.5 1/
Housing credit	0.6
TOTAL	10.0

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1/ Includes the refundable portion of the earned income credit.

Table 4

Income Distribution of President's Tax Reduction Proposal
at 1975 Levels of Income as Compared to 1975 law

Adjusted gross income class	Tax liability based on 1975 law 1/	Proposed 1976 tax liability	Tax reduction	Percentage distribution of tax reduction 2/	Percentage reduction in tax liability 2/
	(.......billions of dollars......)			(............percent...........)	
$ 0 - $5,000	1.5	0.8	0.7	5.5	45.6
5,000 - 10,000	12.0	9.1	2.9	24.2	24.0
10,000 - 15,000	20.7	17.6	3.1	26.3	15.1
15,000 - 20,000	21.9	19.5	2.4	20.4	11.0
20,000 - 30,000	26.6	24.7	1.9	16.0	7.1
30,000 - 50,000	16.5	15.9	0.6	4.9	3.5
50,000 - 100,000	11.9	11.7	0.2	2.1	2.1
100,000 +	9.4	9.4	0.1	0.5	0.7
TOTAL	120.6	108.7	11.8	100.0	9.1

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1/ Includes effect of changes in the standard deduction, the $30 exemption credit; the home purchase credit, and the nonrefundable portion of the earned income credit. The refundable portion of the earned income credit is treated as an expenditure item.
2/ Based on unrounded liability figures.
* Less than $50 million.
NOTE: Detail may not add to totals due to rounding. Minor differences may arise in totals appearing on other tables due to the different methods used in estimating these income distributions.

Table 5

Income Distribution of the Components of the Tax Reduction Act of 1975
at 1975 Levels of Income as Compared to 1972-74 Law

(millions of dollars)

Adjusted Gross Income Class	Tax Reductions				Total Tax Reduction	Refundable Portion of Earned Income Credit (Outlays)	Tax Reduction Plus Outlays
	Standard Deduction Change	$30 Credit	Earned Income Credit	Home Purchase Credit			
$ 0-$5,000	502	298	29	6	835	890	1,725
5,000-10,000	1,062	1,190	250	53	2,555	223	2,778
10,000-15,000	374	1,505	0	144	2,023	-	2,023
15,000-20,000	527	1,079	0	156	1,762	-	1,762
20,000-30,000	240	824	0	176	1,240	-	1,240
30,000-50,000	46	257	0	68	371	-	371
50,000-100,000	8	75	0	19	102	-	102
100,000 +	1	15	0	4	20	-	20
TOTAL	2,760	5,243	279	625	8,908	1,113	10,021

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

Table 6

Tax Liabilities for Family with No Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$ 322	$ 170	$ 60	$ 262	$ 110
7,000	658	492	335	323	157
10,000	1,171	1,054	800	371	254
15,000	2,062	2,002	1,750	312	252
20,000	3,085	3,025	2,780	305	245
25,000	4,240	4,180	3,950	290	230
30,000	5,564	5,504	5,328	236	176
40,000	8,702	8,642	8,444	258	198
50,000	12,380	12,320	12,080	300	240

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October 6, 1975

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit.

Table 7

Tax Liabilities for Family with 1 Dependent, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$ 207	$ 73	0	$ 207	$ 73
7,000	526	386	190	336	196
10,000	1,028	938	640	388	298
15,000	1,897	1,807	1,535	362	272
20,000	2,897	2,807	2,530	367	277
25,000	4,030	3,940	3,660	370	280
30,000	5,324	5,234	4,988	336	246
40,000	8,406	8,316	8,054	352	262
50,000	12,028	11,938	11,630	398	308

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If eligible for the EIC under 1975 law, taxpayers with earned income of $5,000 would have no tax liability and would receive $227 in direct payments from the Government. Taxpayers with earned income of $7,000 would have tax liabilities of $286.

Table 8

Tax Liabilities for Family with 2 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 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	387
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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October 6, 1975

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If eligible for the EIC under 1975 law, taxpayers with earned income of $5,000 would have no tax liability and would receive $300 in direct payments from the Government. Taxpayers with income of $7,000 would have a tax liability of $86.

Table 9

Tax Liabilities for Family with 4 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$ 0	$ 0	$ 0	$ 0	$ 0
7,000	170	0	0	$ 170	0
10,000	603	372	190	413	182
15,000	1,402	1,222	965	437	257
20,000	2,335	2,155	1,816	519	339
25,000	3,400	3,220	2,830	570	390
30,000	4,604	4,424	4,008	596	416
40,000	7,529	7,349	6,896	633	453
50,000	11,015	10,835	10,280	735	555

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If eligible for the EIC under 1975 law, taxpayers with earned income of $5,000 would have no tax liability and would receive $300 in direct payments from the Government. Taxpayers with income of $7,000 would have no tax liability and would receive direct payments of $100.

Table 10

Tax Liabilities for Single Person Without Dependents, with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 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

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit.

Table 11

A Comparison of the Liability Effects of the Tax Reduction Act of 1975 and the President's Tax Cut Proposal on Business Income 1/ (1975 Levels of Income)

	Tax Reduction Act of 1975	President's Tax Cut Proposal	Change
	(...............$ billions	....	)
Increase the corporate surtax exemption to $50,000 with a 2 percentage point reduction in the normal tax	-1.5	-1.5	--
Increase the rate of the investment tax credit to 10%	-3.3	-3.3	--
2 percentage point reduction in the corporate surtax	--	-2.2	-2.2
Utilities tax relief previously proposed	--	-0.6	-0.6
WIN credit	*	--	*
TOTAL	-4.8	-7.6	-2.8

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ These figures show the difference between 1972-74 law liability and the two tax programs as applied to calendar 1975 income.

Note: Details may not add to totals due to rounding.

* Less than $50 million.

QUESTIONS AND ANSWERS

ON

PERSONAL & CORPORATE TAX CUTS

PERSONAL TAX CUTS

STANDARD DEDUCTION

Question - What will be the principal differences between those who use the standard deduction and those who itemize?

Answer - Both groups of taxpayers will benefit by the increase in the amount of personal exemption and the general lowering of tax rates. In addition, those households claiming the standard deduction will be allowed an increased deduction in most cases. There are also some itemizers who will benefit by the increase in the size of the standard deduction if their itemized deductions are greater than the standard deduction under the old law but less than the standard deduction under the current proposal.

Question - The President's proposal replaces the low income allowance and the percentage standard deduction with a flat deduction of $2,500 for joint returns and $1,800 for single individuals. How many taxpayers switch to itemizing and how many to the new flat deduction?

Answer - Compared to 1974 law:

200,000 returns switch to itemizing and 10.5 million switch to the standard deduction.

Net there will be 10.3 million more returns using the standard deductions.

Compared to 1975 law:

900,000 returns switch to itemizing, and 3.9 million returns switch to the standard deduction.

Net there will be three million more returns using the standard deduction. 60 million tax returns currently utilize the low income allowance or the standard deduction.

Question - Will a greater proportion of taxpayers be expected to use the standard deduction, rather than itemize deductions, under these proposals?

Answer - Yes. Currently, under 1975 law, 31.3 percent of tax returns must itemize their deductions. Under these proposals the proportion can be expected to decrease to 27.8 percent.

WITHHOLDING

Question - Why would withholding rates rise on 1 January 1976 if the 1975 temporary personal income tax reductions were merely extended?

Answer - The $8 billion in temporary reductions was with reference to 1975 liabilities. The entire annual effect had to be reflected in only 8 months of 1975 following enactment of the 1975 Act. The same $8 billion of relief extended over 1976 would require higher withholding rates than those in effect during the last 8 months of 1975.

Question - Would withholding rates be reduced on January 1, 1976 under these proposals?

Answer - For most taxpayers, withholding rates will be reduced to reflect the additional $8.6 billion personal tax cut beyond extending and annualizing the 1975 cuts.

Question - How much of the proposed tax reduction merely assures that withholding rates will not be higher in 1976 than in the last 8 months of 1975?

Answer - $4 billion. Added to the continuation of the 1975 Act tax relief, the total reduction in 1976 liabilities that assures that personal disposable incomes will not be lower in 1976 than in 1975 is $12 billion.

DOES ANYONE PAY MORE TAXES

Question - The President's proposal increases some marginal tax rates. Does this mean that some families will have a tax increase?

Answer - The marginal tax rate changes interact with the other features of the package--the increased personal exemption and standard deduction--so that all taxpayers will have their tax liabilities decreased in comparison with the 1974 law and practically every taxpayer will have his tax liability reduced in comparison with 1975 law.

SIMPLIFICATION

Question - Will this proposal simplify tax returns?

Answer - Yes, in three ways:

First, more taxpayers will be able to use the standard deduction, rather than itemize their deductions. Presently, under 1975 law, 27 million returns are expected to itemize, while under this proposal, only 24 million will have to itemize.

Second, the standard deduction and personal exemptions are much simpler than under 1975 law. This will also help make the withholding tables easier.

Third, several million returns which owe tax under 1975 law will owe no tax under this proposal. This is the ultimate simplification.

TAX-EXEMPT INCOME LEVELS

Question - For families of different sizes, what are the levels of tax-exempt income implied by the President's proposal?

Answer -

Type of taxpayer	Proposed Maximum Tax-free Earned Income for Tax-payers Not Eligible for Earned Income Credit (Rounded to nearest $100
Single, no dependents	$2,800
Married, joint return	
No dependents	$4,500
1 dependent	$5,500
2 dependents	$6,500
3 dependents	$7,500
4 dependents	$8,500
Single over 65 no dependents	$3,800
Married, joint returns, both over 65	$6,500

Question - Does the proposal increase the tax exempt levels of income for singles and married couples?

Answer -

	Exempt Level of Income		
	1974	1975	1976
Single	$2,050	$2,560	$2,800
Married Couple, no children	2,800	3,830	4,500
Married Couple, two children	4,300	5,760	6,500

Question - Will any families with incomes at or below the poverty level have any tax liabilities under the President's proposals?

Answer - No. Given the probable increases in the Consumer Price Index no families with incomes below poverty levels will have any Federal income tax liability.

EARNED INCOME CREDIT

Question - Does the proposal include extension of the 10 percent earned income credit?

Answer - No recommendation is made with respect to the earned income credit. This is an item the Congress should consider when it reviews outlay programs in light of these tax proposals.

Question - What would be the level of tax-free earned income for taxpayers eligible for the earned income credit, assuming that the earned income credit is retained in its current form?

Answer: Married, joint return.

1 dependent	$6,625
2 dependents	$7,182
3 dependents	$7,727
4 dependents	$8,500
5 dependents	$9,500

MISCELLANEOUS

Question - The Tax Reduction Act of 1975 included a $50 payment to all social security and supplemental income security beneficiaries. Is a similar provision being proposed for 1976?

Answer - No. Social Security benefits will be increased in 1976 to reflect increases in the Consumer Price Index. Moreover, Social Security beneficiaries with taxable income will have lower taxes from the increase in the personal exemption.

Question - Since the $30 tax credit per taxpayer and dependent in the 1975 Act was intended primarily to extend tax relief to taxpayers who itemize deductions, how do the present proposals continue that tax relief?

Answer - Itemizers will benefit from the higher personal exemption. Raising the personal exemption is an alternative to continuing the $30 tax credit. Itemizers will also benefit by rate reductions.

uestion - Will the additional personal exemptions for taxpayers who are over 65 or who are blind also be increased to $1,000?

Answer - Yes.

Question - Does the proposal help married people more than single?

Answer - The proposed single rate schedule follows the pattern adopted by Congress in 1969 which insures that no single taxpayer will pay over 20 percent more than a married couple with the same taxable income.

(Before 1969 the difference could be as large as 40 percent.)

Question - Why are some personal income tax bracket rates increased?

Answer - **The decision to raise a few bracket rates was made in the light of all other changes proposed and is intended to assure equitable distribution of tax relief. Under the changes proposed, no taxpayer will pay a higher total tax.**

Qeustion - Does the proposal include extension of the 5 percent tax credit for purchase of new homes?

Answer - No.

CORPORATE TAX CUTS

CORPORATE TAX RELIEF

Question - Does the two percentage point reduction in the corporate tax rate apply across the board or simply to the 48 percent top rate?

Answer - The two percentage point reduction applies to the 48 percent rate on earnings in excess of $50,000. The provisions of the Tax Reduction Act of 1975 that reduced the rate from 22 percent to 20 percent of the first $25,000 of corporate profits, and from 48 percent to 22 percent or profits between 25,000 and 50,000 will be continued.

Background

Earnings Brackets	1974 Rates	1975 Rates	Proposed Rates
0 - 25,000	22	20	20
25,000 - 50,000	48+	22	22
50,000 and more	48+	48+	46++

+Normal rate = 22	++Normal rate = 22
Surtax rate = 26	Surtax rate = 24
48	46

INVESTMENT TAX CREDIT

Question - What does the tax cut provide for the investment tax credit?

Answer - The Tax Reduction Act of 1975 increased the investment tax credit to 10 percent for both 1975 and 1976. This new tax cut would make permanent the increase to 10 percent for all years after 1976.

Question - Will the temporary increase in the used property dollar limit that qualifies for the investment tax credit be changed?

Answer - No. The limit was increased by the Tax Reduction Act of 1975 to $100,000 for calendar years 1975 and 1976 (and fiscal years 1975-1976 and 1976-1977) but will revert to $50,000 after that time.

Question - Will the extension of the investment tax credit affect business tax liabilities for 1976?

Answer - No. The investment tax credit was scheduled to continue through 1976 under the Tax Reduction Act of 1975. The President's proposals which recommends that the 10 percent investment tax credit be made permanent will affect business tax liabilities after 1976. If the 10 percent investment tax credit is made permanent, there will be no artificial boom (and subsequent bust) in investment in order to beat the expiration rate.

Question - Does the proposal include extension of the additional 1 percent investment tax credit where that additional credit is used in conjunction with an Employee Stock Ownership Plan (ESOP)?

Answer - No.

PUBLIC UTILITIES

Question - How does the proposal to make the 10 percent investment tax credit permanent relate to the proposals regarding electric utilities that the Administration presented to the Ways and Means Committee on July 8, 1975?

Answer - The Administration proposals for electric utilities are included in these proposals. The electric utility proposals include a 12 percent investment tax credit for investments in qualified electric utility property.

Question - What would the proposals for utilities do to help reduce dependence on foreign oil?

Answer - Several incentives are provided to encourage investment in generating facilities not fueled by petroleum and to encourage conversion of present petroleum-fueled facilities to other energy sources. Investments in petroleum-fueled facilities would be ineligible for the 12 percent tax credit rate. Rapid 5-year amortization is allowed in lieu of normal depreciation and the investment tax credit for investments to convert or replace petroleum-fueled facilities in favor of facilities not fueled by petroleum.

Question - How would these proposals affect the reduced limitations on investment tax credit for public utilities which were in the Reduction Act of 1975?

Answer - The same schedule of percent-of-income limitations would apply as in the 1975 Act. The higher tax credit may still not exceed 100 percent of income in 1975-76. This percentage is reduced by 10 percent each year until it reverts permanently to the 50 percent level in 1981.

CORPORATE SURTAX EXEMPTION

Question - How will the surtax exemption be affected?

Answer - The surtax exemption revisions made in the Tax Reduction Act of 1975 will become permanent. The rates are 20 percent on the first $25,000 of taxable income and 22 percent on the next $25,000. The decrease in the corporate surtax rates means that all income above $50,000 will be taxed at 46 percent--but this change does not effect the surtax exemption per se.

INTEGRATION

Question - How does this proposal relate to the proposal for integration of the personal and corporate income taxes made on July 31, 1975?

Answer - The proposal for integration raised many fundamental and complex questions of tax policy which the Congress has indicated, appropriately, that it wishes to study over a considerable period of time. The integration proposal has not been incorporated into this proposal for immediate action. The Administration still supports the basic concept of integration.

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THE WHITE HOUSE

WASHINGTON

October 16, 1975

MEMORANDUM FOR DOMESTIC COUNCIL STAFF

FROM: Jennifer Morgan (for JIM CANNON)

Attached for your review are the Q's & A's for the President's speech of October 6, 1975 to accompany Mr. Cannon's memo and the material previously distributed at the Domestic Council staff meeting on Wednesday, October 15, 1975.

Attachment

QUESTIONS & ANSWERS

WHEN

Q. Your speech doesn't indicate when Congress is expected to put into effect the full tax cut or when or how Congress is to signal its agreement with the expenditure limit. What do you expect?

A. I expect Congress to enact my tax proposal and adopt the limit now, before they recess again, so that the American people can have the benefit of the tax reductions effective January 1.

TOO SHORT NOTICE?

Q. Isn't it totally unrealistic to expect Congress to agree to an expenditure ceiling on such short notice?

A. Not at all. The Congressional Budget Office and the two Budget Committees have been at work for months on the second concurrent budget resolution covering FY 1976 and I'm sure they also have data on FY 1977.

SHORT NOTICE?

Q. They may have some FY 1977 data but surely they can't be expected to put together an FY 1977 budget on such short notice. After all, under their new statutory budget procedures, they aren't expected to have even a first resolution on FY 1977 until May of next year -- after you have come up with a 1977 Current Services budget in November and a 1977 Presidential budget in January.

A. I recognize that it would speed up their timetable, but bear in mind we are not asking Congress to make decisions now on what the FY 1977 budget should look like. All Congress has to do is come up with an expenditure ceiling -- the $395 billion. Congress can do it, and they should do it to give the American people the tax cut January 1 that such a pledge now to moderate federal spending growth would permit.

DO YOU KNOW WHERE TO CUT?

Q. But do you in the Executive Branch even know what would have to be cut to hold to the $395 billion?

A. We have identified ways of doing it. Of course, the exact package will be presented only after extensive work by the Departments and Agencies and the President has finalized his budget. But we know it can be done and in our view it must be done. It's time that we slow down the growth of government and give our people the tax cut this would permit.

WHICH PROGRAMS CUT?

Q. What programs will be cut?

A. The programs to be cut and the specific amounts will be worked out in the budget process that is just getting underway. At the outset, one point should be clear: we are talking about slowing down the rate of spending. Our proposal, while stringent, would still provide for $25 billion more spending in FY 77 than our current estimates for FY 76. The first step in achieving our goal is for the Congress to resist adding any more to this year's budget.

Without any restraint, the big increases would occur in Feder pay and retirement benefits; Social Security, medicare, medicaid, food stamps and the other big income assistance programs. Clearly, these areas will have to be restrained from the levels they would otherwise reach.

We're going to have to ferret out programs that have outlived their usefulness in all departments and agencies. We also must take steps to moderate the growth in expenditures for many other programs.

In addition, we are going to have to ask agencies to do their job with the same number or fewer people than they have this year, even where the workload has increased. The answer to more workload will have to be greater productivity not more people or dollars.

WORK WITH BUDGET COMMITTEES

Q. Are you willing to share with the budget committees the cuts you presently have in mind?

A. I think we can talk with them about the general kinds of things we should look at.

WHY SET CEILING SO EARLY?

Q. How can you set an expenditure ceiling so early? After all, you are asking Congress to determine what kinds of expenditures and deficit are right for the economy almost a full year before FY 1977 even begins.

A. Let's make this clear. The purpose of the President's proposals is not stimulus but rather long term braking of expenditures. If additional stimulus turns out to be needed, it should be by tax cuts, not increases in expenditures over the $395 billion.

EXPENDITURE LEVELS

Q. Does the Administration accept the \$370 billion 1976 expenditure level as an accepted fact?

A. We do not. If the Congress were to restrict its actions, spending in 1976 could still be held below \$365 billion.

(See attached sheet for the range of possibilities.)

October 6, 1975

1976 Budget Outlays
Changes Since May 30
(In billions)

May 30 estimate...........................	358.9
Congressional action and inaction:	
Appropriations action:	
Continuing resolution (Job Opportunities program, older Americans, etc.)...............................	.5
Education (overturn of veto).........	.4
Other appropriation action completed.	.5
Possible further appropriation action	-1.5 to 0
Continuing inaction on pending reduction proposals..........................	2.8 to 6.5
Overturn of rescissions and deferrals....	.5
Other completed actions.................	.3
Possible further Congressional action....	0 to 8.2
Total Congressional action and inaction	3.5 to 16.9
Other changes:	
Unemployment assistance..................	2.5 to 3.5
Interest on the public debt..............	.75 to 1.75
Veterans GI bill benefits................	0.5 to .75
Medicare and Medicaid....................	.8
Earned income credit.....................	1.2
Removal of energy equalization payments (energy program affects receipts and outlays in approximately equal amounts).	-5.8
Other....................................	.4 to .8
Total	362.4 to 378.8

Mid-point of ranges is approximately........ 370

October 6, 1975

Budget Outlays
1977 Compared with 1976
(In billions)

	1976	1977	Diff.
Pay increases:			
Civilian agencies	---	2	2
Defense	---	4	4
Total	---	6	6

Under present law, salaries for Federal civilian personnel are made comparable with salaries of similar employees in the private sector unless the President proposes an alternative plan and the Congress does not overturn the plan. Military personnel salaries are adjusted in direct relationship to civilian salaries. In October, 1976 classified salaries will rise an estimated 11.5% unless an alternative plan is proposed. This increase includes a catchup of 3.66% representing the difference from comparability applied in October 1975.

	1976	1977	Diff.
Federal retirement benefits:			
Military retirees	7-1/4	8-1/2	
Civilian retirees	8-1/2	10-1/2	
Total	15-3/4	19	3

Retirement payment increases are based on increases in the consumer price index. (Retirement benefits rise if the CPI rises 3% over the last base period and the rise is sustained for three months. The increase also includes a 1% "kicker.") Estimates assume increases will occur about as follows:

April 1976	5-3/4%
January 1977	4-3/4%

	1976	1977	Diff.
Social security and railroad retirement:			
Social security benefits	73-1/2	85-1/2	
Railroad retirement benefits	3-1/2	3-1/2	
Total	77	89	12

These benefits are tied directly to CPI increases occurring between the first quarter of each calendar year and the first quarter of the next calendar year. The increases are made in July of each year. The following increases are assumed:

July 1976 .... 7%
July 1977 .... 5%

	1976	1977	Diff.
Medicare and Medicaid:			
Medicare	17-1/2	21-1/2	
Medicaid	7-1/2	9	
Total	25	30-1/2	5

Health costs are expected to continue to rise faster than the CPI. For the Medicare program, it is assumed that hospital costs will rise 15.2% and physicians' reimbursement costs will rise 10.8%. Participation in the Medicare program is expected to increase from 24.2 million persons to 24.9 million. In the Medicaid program, participation is expected to go from 25.6 million to 26.1 million.

	1976	1977	Diff.
Public assistance and related and Housing payments:			
Coal miner benefits	1.0	1.0	
Public assistance (cash payments)	6.3	6.8	
Housing payments	2.3	3.1	
Food stamps	5.8	5.9	
Supplemental Security Income	5.1	5.9	
Total	20-1/2	22-1/2	2

The food stamp program is tied to the CPI. Increases of around 4% are expected in January 1976 and again in July 1976. Increases of around 3% are expected in January and July, 1977. The SSI program is tied to the CPI on the same schedule as social security (see above).

	1976	1977	Diff.
Interest on the public debt	37-1/2	46-1/2	9

Based upon an interest rate for 91 day bills of approximately 6-1/2%.

	1976	1977	Diff.
Wastewater treatment plant construction	2	4	2

Of an $18 billion program, contracts for about $7 billion have been awarded. The remaining $11 billion has been made available for future construction contracts.

Defense

The increase shown reflects necessary increases resulting from prior contracts and other commitments for military procurement, research and development and maintenance of bases. This amount is exclusive of increases of $4 billion for military and civilian pay increases and $1 billion for retired pay noted above. The figure does not include amounts for any policy changes.

	1976	1977	Diff.
ERDA, transportation and Export-Import Bank:			
Energy research and development	4	5	+1
Transportation programs (DOT) -- largely mass transit and highways	12-1/2	13-1/2	+1
Export-Import Bank -- By law, the Export-Import Bank has been included in the budget totals after having been off budget for several years	---	1-3/4	+1-3/4
Total	16-1/2	20-1/4	3-3/4

Other net changes:

Includes the effect of a large number of net changes. Increases are relatively small but affect a very large number of agencies and programs. Decreases include an expected drop of more than a billion in programs affected by the unemployment rate since the rate is expected to drop.

The figures include nearly $1 billion for expected inaction on budget reductions proposed by the President not affecting programs listed above. Over $2 billion in increases is included for Congressional initiatives like the need to cover the possible overturn of the veto of Child Nutrition Act now threatened. Also included are add-ons that have already occurred like the half a billion increase for education programs resulting from the overturn of the veto of the Education appropriation.

DEFICIT LEVELS

Q. Does the Administration accept as a fact that the 1976 deficit will be $70 billion?

A. We do not. With restraint by Congress, the deficit could still be below $65 billion.

EXPENDITURE LEVEL COMPARISON

Q. How does the $370 billion expenditure level compare with the estimates being developed for the current services budget?

A. The current services budget applies to fiscal year 1977, rather than 1976. It is still too early to know what the figures will be, but they are sure to be higher than the proposed $395 billion ceiling.

WHEN PRESENT BALANCED BUDGET

Q. When will you present a balanced budget?

A. A balanced budget is possible in fiscal year 1979 if (1) the Congress limits 1977 spending and continues spending restraint thereafter and (2) the economy continues to move upward as we expect.

MIDDLE EAST EXPENDITURES

Q. Why doesn't your table on expenditure increases include expenditures for the Middle East agreement?

A. Outlays related to the Middle East settlement have not yet been determined. The agencies involved are still deciding on the kinds of equipment that would be provided and how it should be provided. It will not be possible to determine the expenditure effect until I make a decision on the appropriation request.

DEFENSE EXPENDITURES

Q. What portion of the $52 billion of increases from 1976 to 1977 are for the Defense Department?

A. At least $8 billion is for the Defense Department including Military assistance. This includes over $4 billion in pay increases, $1 billion for military retirees, and $3 billion for other purposes.

ENERGY PROGRAM

Q. What assumptions are you making regarding an energy program?

A. The estimates for outlays in 1976 and in 1977 do not include any amounts for energy equalization payments. These payments were previously assumed as one of the ways additional taxes received as a result of my energy program would be distributed. The deficit estimates assume that any new taxes for energy purposes would be redistributed in their entirety.

EIA FUNDING

Q. What assumptions have you made for funding of the President's $100 billion energy initiative? Are you proposing that the Energy Independence Authority plan not be reflected in the budget?

A. The EIA proposal assumes that the Treasury borrowing of the authority would affect the budget in the conventional manner. No amounts are included in the present figures. It is unlikely that the proposal would have a significant effect on budget outlays through fiscal year 1977.

SERVICES BUDGET

Q. How does the $395 billion ceiling compare with the current services budget?

A. The current services budget cannot take into account pending or contemplated legislation. Therefore, while it is too early to know precisely what the current services total will be, it is sure to be above the proposed $395 billion ceiling.

PERSONAL TAX CUTS

STANDARD DEDUCTION

Question - What will be the principal differences between those who use the standard deduction and those who itemize?

Answer - Both groups of taxpayers will benefit by the increase in the amount of personal exemption and the general lowering of tax rates. In addition, those households claiming the standard deduction will be allowed an increased deduction in most cases. There are also some itemizers who will benefit by the increase in the size of the standard deduction if their itemized deductions are greater than the standard deduction under the old law but less than the standard deduction under the current proposal.

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Third, several million returns which owe tax under 1975 law will owe no tax under this proposal. This is the ultimate simplification.

TAX-EXEMPT INCOME LEVELS

Question - For families of different sizes, what are the levels of tax-exempt income implied by the President's proposal?

Answer -

Type of taxpayer	Proposed Maximum Tax-free Earned Income for Taxpayers Not Eligible for Earned Income Credit (Rounded to nearest $100
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Married, joint return	
No dependents	$4,500
1 dependent	$5,500
2 dependents	$6,500
3 dependents	$7,500
4 dependents	$8,500
Single over 65 no dependents	$3,800
Married, joint returns, both over 65	$6,500

Question - Does the proposal increase the tax exempt levels of income for singles and married couples?

Answer -

	Exempt Level of Income		
	1974	1975	1976
Single	$2,050	$2,560	$2,800
Married Couple, no children	2,800	3,830	4,500
Married Couple, two children	4,300	5,760	6,500

Question - Will any families with incomes at or below the poverty level have any tax liabilities under the President's proposals?

Answer - No. Given the probable increases in the Consumer Price Index no families with incomes below poverty levels will have any Federal income tax liability.

EARNED INCOME CREDIT

Question - Does the proposal include extension of the 10 percent earned income credit?

Answer - No recommendation is made with respect to the earned income credit. This is an item the Congress should consider when it reviews outlay programs in light of these tax proposals.

Question - What would be the level of tax-free earned income for taxpayers eligible for the earned income credit, assuming that the earned income credit is retained in its current form?

Answer: Married, joint return.

1 dependent	$6,625
2 dependents	$7,182
3 dependents	$7,727
4 dependents	$8,500
5 dependents	$9,500

MISCELLANEOUS

Question - The Tax Reduction Act of 1975 included a $50 payment to all social security and supplemental income security beneficiaries. Is a similar provision being proposed for 1976?

Answer - No. Social Security benefits will be increased in 1976 to reflect increases in the Consumer Price Index. Moreover, Social Security beneficiaries with taxable income will have lower taxes from the increase in the personal exemption.

Question - Since the $30 tax credit per taxpayer and dependent in the 1975 Act was intended primarily to extend tax relief to taxpayers who itemize deductions, how do the present proposals continue that tax relief?

Answer - Itemizers will benefit from the higher personal exemption. Raising the personal exemption is an alternative to continuing the $30 tax credit. Itemizers will also benefit by rate reductions.

uestion - Will the additional personal exemptions for taxpayers who are over 65 or who are blind also be increased to $1,000?

Answer - Yes.

Question - Does the proposal help married people more than single?

Answer - The proposed single rate schedule follows the pattern adopted by Congress in 1969 which insures that no single taxpayer will pay over 20 percent more than a married couple with the same taxable income.

(Before 1969 the difference could be as large as 40 percent.)

Question - Why are some personal income tax bracket rates increased?

Answer - The decision to raise a few bracket rates was made in the light of all other changes proposed and is intended to assure equitable distribution of tax relief. Under the changes proposed, no taxpayer will pay a higher total tax.

Qeustion - Does the proposal include extension of the 5 percent tax credit for purchase of new homes?

Answer - No.

CORPORATE TAX RELIEF

Question - Does the two percentage point reduction in the corporate tax rate apply across the board or simply to the 48 percent top rate?

Answer - The two percentage point reduction applies to the 48 percent rate on earnings in excess of $50,000. The provisions of the Tax Reduction Act of 1975 that reduced the rate from 22 percent to 20 percent of the first $25,000 of corporate profits, and from 48 percent to 22 percent or profits between 25,000 and 50,000 will be continued.

Background

Earnings Brackets	1974 Rates	1975 Rates	Proposed Rates
0 - 25,000	22	20	20
25,000 - 50,000	48+	22	22
50,000 and more	48+	48+	46++

+Normal rate = 22
Surtax rate = 26
48

++Normal rate = 22
Surtax rate = 24
46

INVESTMENT TAX CREDIT

Question - What does the tax cut provide for the investment tax credit?

Answer - The Tax Reduction Act of 1975 increased the investment tax credit to 10 percent for both 1975 and 1976. This new tax cut would make permanent the increase to 10 percent for all years after 1976.

Question - Will the temporary increase in the used property dollar limit that qualifies for the investment tax credit be changed?

Answer - No. The limit was increased by the Tax Reduction Act of 1975 to $100,000 for calendar years 1975 and 1976 (and fiscal years 1975-1976 and 1976-1977) but will revert to $50,000 after that time.

Question - Will the extension of the investment tax credit affect business tax liabilities for 1976?

Answer - No. The investment tax credit was scheduled to continue through 1976 under the Tax Reduction Act of 1975. The President's proposals which recommends that the 10 percent investment tax credit be made permanent will affect business tax liabilities after 1976. If the 10 percent investment tax credit is made permanent, there will be no artificial boom (and subsequent bust) in investment in order to beat the expiration rate.

Question - Does the proposal include extension of the additional 1 percent investment tax credit where that additional credit is used in conjunction with an Employee Stock Ownership Plan (ESOP)?

Answer - No.

PUBLIC UTILITIES

Question - How does the proposal to make the 10 percent investment tax credit permanent relate to the proposals regarding electric utilities that the Administration presented to the Ways and Means Committee on July 8, 1975?

Answer - The Administration proposals for electric utilities are included in these proposals. The electric utility proposals include a 12 percent investment tax credit for investments in qualified electric utility property.

Question - What would the proposals for utilities do to help reduce dependence on foreign oil?

Answer - Several incentives are provided to encourage investment in generating facilities not fueled by petroleum and to encourage conversion of present petroleum-fueled facilities to other energy sources. Investments in petroleum-fueled facilities would be ineligible for the 12 percent tax credit rate. Rapid 5-year amortization is allowed in lieu of normal depreciation and the investment tax credit for investments to convert or replace petroleum-fueled facilities in favor of facilities not fueled by petroleum.

Question - How would these proposals affect the reduced limitations on investment tax credit for public utilities which were in the Reduction Act of 1975?

Answer - The same schedule of percent-of-income limitations would apply as in the 1975 Act. The higher tax credit may still not exceed 100 percent of income in 1975-76. This percentage is reduced by 10 percent each year until it reverts permanently to the 50 percent level in 1981.

CORPORATE SURTAX EXEMPTION

Question - How will the surtax exemption be affected?

Answer - The surtax exemption revisions made in the Tax Reduction Act of 1975 will become permanent. The rates are 20 percent on the first $25,000 of taxable income and 22 percent on the next $25,000. The decrease in the corporate surtax rates means that all income above $50,000 will be taxed at 46 percent--but this change does not effect the surtax exemption per se.

INTEGRATION

Question - How does this proposal relate to the proposal for integration of the personal and corporate income taxes made on July 31, 1975?

Answer - The proposal for integration raised many fundamental and complex questions of tax policy which the Congress has indicated, appropriately, that it wishes to study over a considerable period of time. The integration proposal has not been incorporated into this proposal for immediate action. The Administration still supports the basic concept of integration.

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ANNEX A

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 1/
20,000	24,000	32	34 1/
24,000	28,000	36	36
28,000	32,000	39	39
32,000	36,000	42	42
36,000	40,000	45	45
40,000	44,000	48	48
44,000	52,000	50	50
52,000	64,000	53	53
64,000	76,000	55	55
76,000	88,000	58	58
88,000	100,000	60	60
100,000	120,000	62	62
120,000	140,000	64	64
140,000	160,000	66	66
160,000	180,000	68	68
180,000	200,000	69	69
200,000	--	70	70

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1/ While two rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets so that on balance the changes in rates reduce taxes even for those affected by the increased rates.

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	34
18,000	20,000	36	36
20,000	22,000	38	38
22,000	26,000	40	40
26,000	32,000	45	45
32,000	38,000	50	50
38,000	44,000	55	55
44,000	50,000	60	60
50,000	60,000	62	62
60,000	70,000	64	64
70,000	80,000	66	66
80,000	90,000	68	68
90,000	100,000	69	69
100,000	--	70	70

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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:

<u>Standard deduction liberalization</u>

-- 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

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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.

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

(rounded to nearest $10)

Filing status	Maximum tax-free 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	3,840
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	2,740
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 assumption: for 1975, 161.2; for 1976, 171.5.

Supplementary Tables

1. Income Distribution of President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law

2. Income Distribution of the Components of the President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law

3. Comparison of Individual Tax Cuts in President's Proposal and in Tax Reduction Act of 1975

4. Income Distribution of President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1975 Law

5. Income Distribution of the Components of the Tax Reduction Act of 1975 at 1975 Levels of Income as Compared to 1972-74 Law

6. Tax Liabilities for Family with No Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income

7. Tax Liabilities for Family with 1 Dependent, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income

8. Tax Liabilities for Family with 2 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income

9. Tax Liabilities for Family with 4 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income

10. Tax Liabilities for Single Person Without Dependents, with Itemized Deductions of 16 Percent of Adjusted Gross Income

11. A Comparison of the Liability Effects of the Tax Reduction Act of 1975 and the President's Tax Cut Proposal on Business Income

Table 1

Income Distribution of President's Tax Reduction Proposal
at 1975 Levels of Income as Compared to 1972-74 Law

(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 1/	Percentage reduction in tax liability 1/
0 - $5,000	2.0	0.8	1.2	5.9	61.2
$5,000 - 10,000	14.1	9.1	5.0	24.0	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	20.2	17.7
20,000 - 30,000	28.0	24.7	3.3	16.0	11.8
30,000 - 50,000	16.9	15.9	1.0	5.0	6.1
50,000 - 100,000	12.1	11.7	0.4	1.8	3.2
100,000 +	9.4	9.4	0.1	0.4	1.0
Total	129.4	108.7	20.7	100	16.0

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1/ Based on unrounded liability figures.

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

Table 2

Income Distribution of the Components of the President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law

(millions of dollars)

Adjusted Gross Income Class	Components: $1,000 Personal Exemption	Components: Standard Deduction Change	Components: Rate Reduction	Total
$ 0 - $5,000	515	608	102	1,225
5,000 - 10,000	1,908	1,961	1,098	4,967
10,000 - 15,000	2,548	925	2,040	5,513
15,000 - 20,000	2,056	342	1,788	4,186
20,000 - 30,000	1,867	154	1,287	3,308
30,000 - 50,000	802	31	204	1,037
50,000 - 100,000	330	5	48	383
100,000 +	80	1	10	91
TOTAL	10,105	4,026	6,580	20,711

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

Table 3

Comparison of Individual Tax Cuts in President's Proposal and in Tax Reduction Act of 1975

	$ billion
President's Proposal	
Standard deduction	4.0
$1,000 personal exemption	10.1
Rate changes	6.6
TOTAL	20.7
Tax Reduction Act of 1975	
Standard deduction	2.5
$30 personal exemption credit	5.3
Earned income credit	1.5 1/
Housing credit	0.6
TOTAL	10.0

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1/ Includes the refundable portion of the earned income credit.

Table 4

Income Distribution of President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1975 law

Adjusted gross income class	Tax liability based on 1975 law 1/	Proposed 1976 tax liability	Tax reduction	Percentage distribution of tax reduction 2/	Percentage reduction in tax liability 2/
	(.......billions of dollars		......)	(............percent	..........)
$ 0 - $5,000	1.5	0.8	0.7	5.5	45.6
5,000 - 10,000	12.0	9.1	2.9	24.2	24.0
10,000 - 15,000	20.7	17.6	3.1	26.3	15.1
15,000 - 20,000	21.9	19.5	2.4	20.4	11.0
20,000 - 30,000	26.6	24.7	1.9	16.0	7.1
30,000 - 50,000	16.5	15.9	0.6	4.9	3.5
50,000 - 100,000	11.9	11.7	0.2	2.1	2.1
100,000 +	9.4	9.4	0.1	0.5	0.7
TOTAL	120.6	108.7	11.8	100.0	9.1

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1/ Includes effect of changes in the standard deduction, the $30 exemption credit; the home purchase credit, and the nonrefundable portion of the earned income credit. The refundable portion of the earned income credit is treated as an expenditure item.
2/ Based on unrounded liability figures.
* Less than $50 million.
NOTE: Detail may not add to totals due to rounding. Minor differences may arise in totals appearing on other tables due to the different methods used in estimating these income distributions.

Table 5

Income Distribution of the Components of the Tax Reduction Act of 1975 at 1975 Levels of Income as Compared to 1972-74 Law

(millions of dollars)

Adjusted Gross Income Class	Tax Reductions: Standard Deduction Change	Tax Reductions: $30 Credit	Tax Reductions: Earned Income Credit	Tax Reductions: Home Purchase Credit	Total Tax Reduction	Refundable Portion of Earned Income Credit (Outlays)	Tax Reduction Plus Outlays
$ 0-$5,000	502	298	29	6	835	890	1,725
5,000-10,000	1,062	1,190	250	53	2,555	223	2,778
10,000-15,000	374	1,505	0	144	2,023	-	2,023
15,000-20,000	527	1,079	0	156	1,762	-	1,762
20,000-30,000	240	824	0	176	1,240	-	1,240
30,000-50,000	46	257	0	68	371	-	371
50,000-100,000	8	75	0	19	102	-	102
100,000 +	1	15	0	4	20	-	20
TOTAL	2,760	5,243	279	625	8,908	1,113	10,021

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

Table 6

Tax Liabilities for Family with No Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$ 322	$ 170	$ 60	$ 262	$ 110
7,000	658	492	335	323	157
10,000	1,171	1,054	800	371	254
15,000	2,062	2,002	1,750	312	252
20,000	3,085	3,025	2,780	305	245
25,000	4,240	4,180	3,950	290	230
30,000	5,564	5,504	5,328	236	176
40,000	8,702	8,642	8,444	258	198
50,000	12,380	12,320	12,080	300	240

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit.

Table 7

Tax Liabilities for Family with 1 Dependent, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$ 207	$ 73	0	$ 207	$ 73
7,000	526	386	190	336	196
10,000	1,028	938	640	388	298
15,000	1,897	1,807	1,535	362	272
20,000	2,897	2,807	2,530	367	277
25,000	4,030	3,940	3,660	370	280
30,000	5,324	5,234	4,988	336	246
40,000	8,406	8,316	8,054	352	262
50,000	12,028	11,938	11,630	398	308

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If eligible for the EIC under 1975 law, taxpayers with earned income of $5,000 would have no tax liability and would receive $227 in direct payments from the Government. Taxpayers with earned income of $7,000 would have tax liabilities of $286.

Table 9

Tax Liabilities for Family with 4 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability			Proposed Reduction from	
	1972-74 law	1975 law 2/	Proposed 1976 law	1972-74 law	1975 law 2/
$ 5,000	$ 0	$ 0	$ 0	$ 0	$ 0
7,000	170	0	0	$ 170	0
10,000	603	372	190	413	182
15,000	1,402	1,222	965	437	257
20,000	2,335	2,155	1,816	519	339
25,000	3,400	3,220	2,830	570	390
30,000	4,604	4,424	4,008	596	416
40,000	7,529	7,349	6,896	633	453
50,000	11,015	10,835	10,280	735	555

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If eligible for the EIC under 1975 law, taxpayers with earned income of $5,000 would have no tax liability and would receive $300 in direct payments from the Government. Taxpayers with income of $7,000 would have no tax liability and would receive direct payments of $100.

Table 10

Tax Liabilities for Single Person Without Dependents, with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 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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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit.

Table II

A Comparison of the Liability Effects
of the Tax Reduction Act of 1975 and the
President's Tax Cut Proposal on Business Income 1/
(1975 Levels of Income)

	Tax Reduction Act of 1975	President's Tax Cut Proposal	Change
	(...............$ billions	....	)
Increase the corporate surtax exemption to $50,000 with a 2 percentage point reduction in the normal tax	-1.5	-1.5	--
Increase the rate of the investment tax credit to 10%	-3.3	-3.3	--
2 percentage point reduction in the corporate surtax	--	-2.2	-2.2
Utilities tax relief previously proposed	--	-0.6	-0.6
WIN credit	*	--	*
TOTAL	-4.8	-7.6	-2.8

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1/ These figures show the difference between 1972-74 law liability and the two tax programs as applied to calendar 1975 income.

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

* Less than $50 million.