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THE PRESIDENT HAS SEEN *def.*

THE WHITE HOUSE

WASHINGTON

January 9, 1975

ECONOMIC REVIEW MEETING

January 10, 1975

2:00 p.m.

(30 minutes)

From: L. William Seidman *LWS*

I. PURPOSE

To review the economic aspects of the State of the Union Message.

II. PARTICIPANTS AND PRESS PLAN

A. Participants: William E. Simon, L. William Seidman, Alan Greenspan, Roy L. Ash, William D. Eberle, James T. Lynn, Arthur F. Burns.

B. Press Plan: David Kennerley.

III. DISCUSSION POINTS

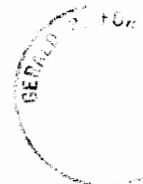
A. Taxes

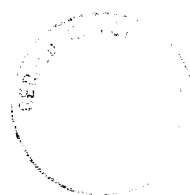
Secretary Simon will review the tax package with emphasis on:

- (1) The level of the temporary tax cut.
- (2) Tax reductions in the energy tax package. See Tab A.

B. Review of State of the Union Message

Executive Committee members will briefly offer comments on the draft State of the Union Message.





January 9, 1975

Issue Paper

TAX REDUCTIONS IN THE ENERGY TAX PACKAGE

Background

The crude oil tax and tariff, along with price decontrol and the windfall profits tax, are estimated to bring in \$31 billion in added revenues. It is proposed to return this amount (in full) to the economy in the following manner:

1. Offset by increased Government expenditures		
a) Increase in Federal costs <u>1/</u>	\$3.0	b. <u>2/</u>
b) Reimbursement of S&L costs	2.0	b.
2. Corporations (1/4 of remainder)	6.5	
3. Individuals (3/4)		
a) Storm-window credit	0.5	
b) Other	19.0	
Total	31.0	

1/ It is assumed that the limitation on cost-of-living adjustments to Federal transfer programs is in effect.

2/ This estimate has been reduced by \$1.0 billion (and the total revenue raised estimate has been reduced by the same amount) to improve the appearance of the budget expenditure total.

Issue: How should the \$19 billion be returned to individual taxpayers?

Your advisers are divided on the three options presented below. We are all agreed, however, that there is no way to make each person or family whole for the impact of the energy tax. To attempt to do that, or even to claim that we attempted to do that, would be fruitless.

Instead, we should cast the proposal in terms of "We are providing tax relief for low- and medium-income taxpayers that more than takes care of the price increases in all but a few extreme situations."

Option A: Per-capita credit of \$90 for everyone, man, woman and child.

This option would provide a tax reduction of \$90 per person, including a reimbursable credit for all persons not paying income taxes. It would be proposed as a one-year tax cut.

Pros

- 1) Simple and easily understandable.
- 2) May be possible to limit to one year, which would permit further consideration of how much and what type of permanent tax reduction would be appropriate.
- 3) Takes care of the nontaxpayer for one year.

Cons

- 1) Congress will say this only "keeps people even" and will do low-income relief in addition. That will use up several billions in additional revenues.
- 2) No reason to expect it will disappear so long as the excise and tariffs remain.
- 3) Will not conform to public's notion of fairness.

4) Greatly overcompensates low-income taxpayers and non-taxpayers.

- . Welfare mother with six children would get \$630.
- . Actual additional cost to this group is estimated at about \$1.5 billion. Proposal would give them about \$3 billion.

5) Attaches inordinate weight to family size. For family with \$12,000 income (AGI):

	<u>Present</u>	<u>Tax Liability</u> <u>\$ Credit</u>	<u>% Change</u>
No children	\$1,534	\$180	-12%
6 children	\$ 660	\$720	-109%

6) Impossible to administer properly if it includes children.

- . Will induce widespread cheating with no way to police.
- . Can't tell how many children there actually are. Can't tell which adult or other institution should receive the \$90 on behalf of a particular child.

7) Will be perceived as a "negative income tax," introducing an extraneous and controversial issue into the energy proposals.

8) Removes 8.2 million returns from tax rolls, compared with 5.4 million for Option B.

Option B: Income tax reduction for taxpayers combined with a \$50 refund per adult for nontaxpayers.

This option is an alternative that avoids the across-the-board equal payment per person nature of Option A and avoids the complication of payments to children, but provides explicit relief for nontaxpayers.

The proposal is in two parts: (1) Tax reductions for all taxpayers. (See Table III, attached.) (2) Adult nontaxpayers would file a simple return showing income only and

would claim a refund of \$50 per adult. Those with incomes between \$4,300 and \$5,600 would get a check for less than \$50 (per a simple table) to compensate for fact that they got some tax relief, but less than \$50 per adult. This proposal would return about \$1.4 billion to some 27 million individuals.

Pros

- 1) Compensates nontaxpayers to an adequate degree without putting too much emphasis on family size.
- 2) Not unduly complex; can be understood by the public.
- 3) Probably would be regarded by the public as fair. Avoids welfare mother problem. Minimizes amount handed out on skid row.
- 4) Permits income tax reductions to be made for middle- and upper-level taxpayers in a sensible way.

Cons

- 1) Reimbursable tax credit would be difficult to administer and police, though not nearly to the extent as in Option A, where children are involved.
- 2) Would be viewed as the beginning of a "negative income tax," adding a new complexity to the issue.
- 3) Represents a major reduction of tax revenue that might be difficult to reverse if it were ever desired to reduce or eliminate the crude oil tax.

Note: Both Options A and B have a disadvantage in the event the limitation on cost-of-living adjustments does not go into effect. In that case, many nontaxpayers (but not all) would be compensated for the energy-tax cost by automatic increases in social security benefits, food stamps, SSI, etc. The payments to nontaxpayers under Options A and B would then, in a sense, be "duplicative" reimbursement.

Option C: Low-income set-aside.

General tax reductions would be made, as in Option B, helping all taxpayers but emphasizing relief for low- and middle-income persons.

In the budget we would earmark \$1.5 billion (or so) to compensate low-income families for the added cost of the energy tax. We would not earmark the programs to which this \$1.5 billion would be added, but would tell Congress that we will work with them in assigning it equitably.

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- 1) We will get some flak on our inability to devise an acceptable plan to reimburse low-income families.
- 2) Raises the possibility that Congress might pass an "energy-stamp" program (which might not be too different from the nontaxable credit in Options A and B).

Estimated Distribution by Adjusted Gross Income
 Class of a \$2000/\$2600 Low Income
 Allowance and Reduction in Individual Tax Rates 1/
 (1974 Level of Income)

Adjusted Gross Income Class	Present Law Tax Liability	Revenue Cost	Percentage Reduction
(\$000)	(.....\$millions.....)		(.....%.....)
0-3	283	246	86.9
3-5	1,779	1,235	69.4
5-7	4,092	2,083	50.9
7-10	9,251	3,732	40.3
10-15	21,239	5,266	24.8
15-20	20,910	2,985	14.3
20-50	38,417	2,358	6.1
50-100	11,876	125	1.1
100 and over	10,952	29	0.3
Total	118,800	18,059	15.2

Office of the Secretary of the Treasury
 Office of Tax Analysis

January 8, 1975

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Jan. 14, 1975

BUDGET OUTLOOK
(billions of dollars)

	<u>Original 75 budget</u>	<u>Current outlook</u>	
		FY 1975	FY 1976
<u>Receipts</u>			
Current <u>base</u> estimate		285.5	309.1
Effect of SOTU programs *		- 5.0	- 6.4
Total Receipts	295.0	<u>280.5</u>	<u>302.7</u>
<u>Outlays</u>			
Current <u>base</u> estimate		313.2	347.8
Effect of SOTU program *		.5	.9
Total Outlays	304.4	<u>313.7</u>	<u>348.7</u>
<u>Deficit</u>	<u>9.4</u>	<u>33.2</u>	<u>46.0</u>

* Net of all energy, tax, and "Cap" programs.

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CURRENT BUDGET OUTLOOK UNDER EXISTING POLICIES
(fiscal years; in billions of dollars)

	<u>1975</u>	<u>1976</u>	<u>Transition quarter</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
DOD - Military and MAP ^{a/}	84.9	94.6	26.0	106.0	117.0	125.0	134.0
Nondefense outlays ^{b/}	<u>227.6</u>	<u>253.2</u>	<u>66.0</u>	<u>284.6</u>	<u>297.5</u>	<u>316.2</u>	<u>334.8</u>
Total outlays	312.5	347.8	92.0	390.6	414.5	441.2	468.8
Receipts	²⁹³ <u>287.6</u>	<u>310.2</u>	<u>85.8</u>	<u>360.0</u>	<u>411.9</u>	<u>461.3</u>	<u>511.3</u>
Surplus or deficit (-)	-24.9 ₃₀	-37.6	-6.2	-30.6	-2.6	20.1	42.5

a/ Long-range projections assume 2% annual growth in real terms, 1977-80.

b/ Excludes estimates for national health insurance of \$3.7 billion in 1977; \$8.2 billion in 1978; \$9.0 billion in 1979; and \$9.9 billion in 1980.

Exp - 304.5

*1975 - 30
76 - 45*

January 3, 1975

January 2, 1975

CHANGE IN LATEST BUDGET TOTALS

(Outlays in billions of dollars)

	<u>1975</u>	<u>1976</u>	<u>July- Sept. 1976</u>	<u>1977</u>
<u>As of December 26</u>	312.6	346.7	91.3	380.7
<u>Presidential recommendations and decisions:</u>				
Agriculture-feeding programs	-.1	.2	.3	.3
Corps of Engineers .....	.1	---	---	.3
<u>Reestimates and other changes:</u>				
Foreign Economic Assistance:				
Petrodollar facility.....	---	1.0	---	1.0
Other.....	---	---	---	.4
Treasury:				
Interest on the debt	---	1.7	.8	4.6
Other-mainly gold sales	-.4	-.1	---	---
HEW-Changed effective date assumptions on budget restraint items:				
Social Security trust .....	.4	.1	---	---
Other .....	.1	---	---	---
Labor-latest economic assumptions:				
Unemployment trust	-.1	-.6	-.3	4.5
Other	---	.1	---	-1.2
All other agencies	-.1	.1	-.1	---
<u>Allowance for contingencies</u>	---	-1.4	---	---
<u>As of December 31</u>	<u>312.5</u>	<u>347.8</u>	<u>92.0</u>	<u>390.6</u>

1/2/75

Status Report
Fiscal Year 1974, 1975, and 1976 Outlays^{1/}
(in billions of dollars)

	<u>1974</u>	<u>1975</u>			<u>1976</u>		
	<u>Actual</u>	<u>Nov. 26 estimate</u>	<u>Current estimate</u>	<u>Change</u>	<u>Planning ceilings (July)</u>	<u>Current estimate</u>	<u>Change</u>
<u>Outlays</u>							
DOD (Military) and MAP.....	78.4	83.2	84.9	1.7	93.0	94.6	1.6
HEW.....	93.7	108.5	109.3	0.8	118.5	120.4	1.9
(Social security trust funds).....	(67.2)	(77.9)	(78.1)	(0.3)	(86.9)	(88.8)	(1.9)
Labor.....	9.0	15.3	19.2	3.9	10.6	22.8	12.2
(Unemployment trust fund).....	(6.1)	(10.0)	(13.0)	(3.0)	(7.8)	(16.1)	(8.3)
(Other (mostly EEA)).....	(2.8)	(5.3)	(6.2)	(.9)	(2.8)	(6.7 ^{2/})	(3.9)
Treasury	36.0	40.1	39.8	-0.3	39.3	43.0	3.7
(Interest on the public debt).....	(29.3)	(33.0)	(33.0)	(--)	(31.8)	(35.7)	(3.9)
Veterans Administration.....	13.3	14.5	15.4	0.9	14.7	15.6	0.9
Petrodollar facility.....	--	--	--	--	--	1.0	1.0
Receipts from offshore oilands..	<u>-6.7</u>	<u>-8.0</u>	<u>-5.0</u>	<u>3.0</u>	<u>-8.0</u>	<u>-8.0</u>	<u>--</u>
Subtotal.....	223.7	253.5	263.6	10.1	268.1	289.4	21.3
All other.....	<u>44.7</u>	<u>48.6</u>	<u>48.9</u>	<u>.3</u>	<u>60.3</u>	<u>58.4</u>	<u>-1.9</u>
Total.....	268.4	302.2	312.5	10.3	328.4	347.8	19.4

^{1/} The current estimates were based upon the adjusted base economic forecast prepared by Troika staff (January 2, 1975).

^{2/} Assumes that new employment and unemployment assistance programs end on date (December 31, 1975) specified in pending bill. Continuation of programs through FY 1976 would add \$2.2 billion to outlays and deficit.

BUDGET DEFICITS AND SURPLUSES AS A PERCENT OF GNP

<u>Fiscal Year</u>	<u>Deficit</u>	<u>Surplus</u>
1940.....	2.8	
1941.....	4.4	
1942.....	13.9	
1943.....	30.3	
1944.....	22.9	
1945.....	20.8	
1946.....	9.0	
1947.....		3.0
1948.....		3.6
1949.....		0.4
1950.....	0.8	
1951.....		2.4
1952.....		*
1953.....	1.5	
1954.....	0.3	
1955.....	0.8	
1956.....		1.0
1957.....		0.8
1958.....	0.7	
1959.....	2.7	
1960.....	0.1	
1961.....	0.7	
1962.....	1.3	
1963.....	0.8	
1964.....	1.0	
1965.....	0.2	
1966.....	0.5	
1967.....	1.1	
1968.....	3.0	
1969.....		0.4
1970.....	0.3	
1971.....	2.3	
1972.....	2.1	
1973.....	1.2	
1974.....	0.3	
Current Policy:		
1975.....	1.7	
1976.....	2.4	
One Year tax cut:		
1975.....	2.5	
1976.....	2.4	
Two Year tax cut:		
1975.....	2.5	
1976.....	2.8	

*Less than 0.05 percent

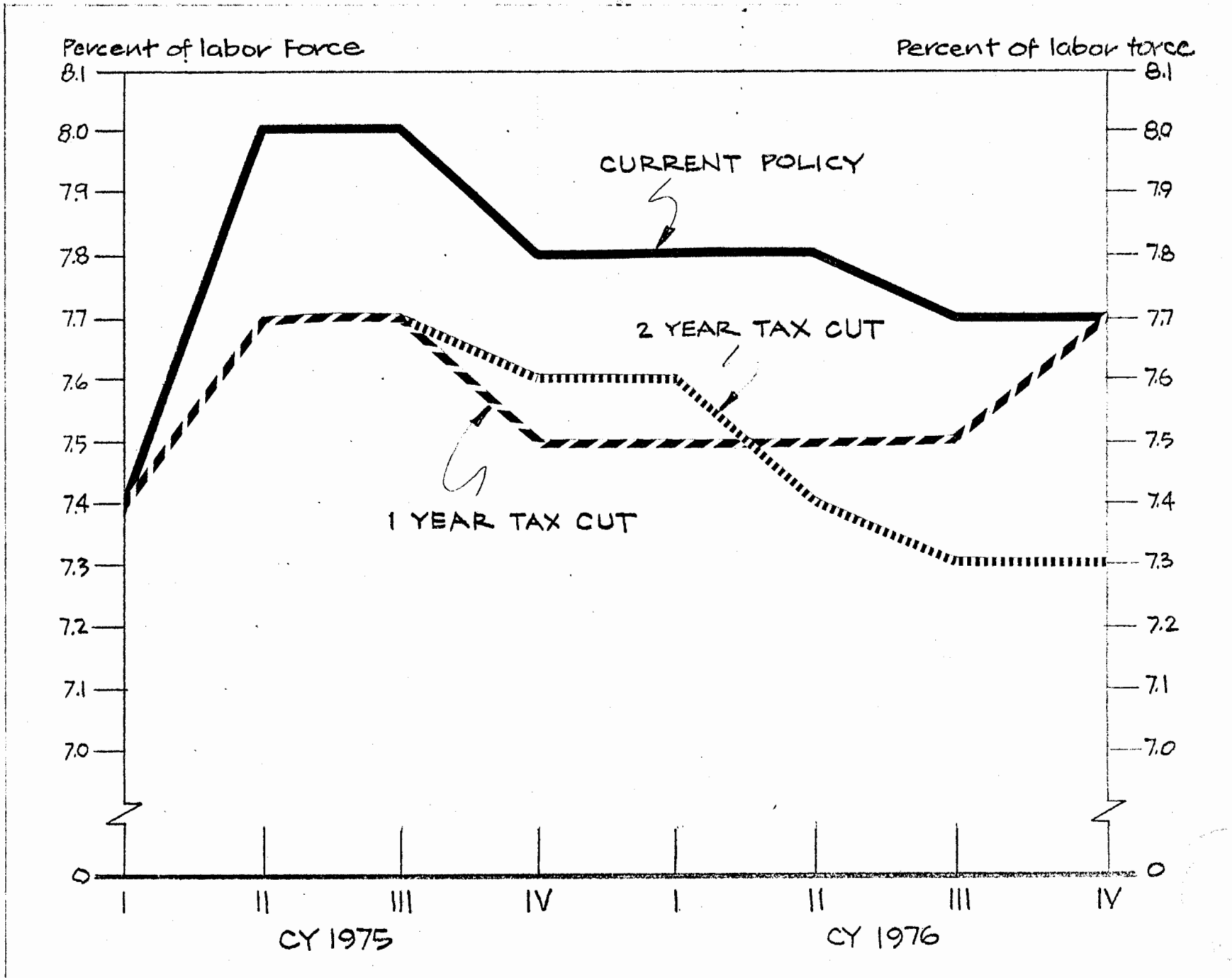
ECONOMIC POLICIES AND BUDGET DEFICITS
(fiscal years; in billions of dollars)

	<u>1-Year Stimulus</u>		<u>2-Year Stimulus</u>	
	<u>1975</u>	<u>1976</u>	<u>1975</u>	<u>1976</u>
Budget deficit without policy changes	24.9	37.6	24.9	37.6
Increases:				
Tax cut (gross)	11.5	3.5	11.5	9.6
Cost-of-living adjustments	---	*	---	.1
Interest .....	.2	.9	.2	.9
Energy initiatives	---	2.0	---	2.0
Decreases:				
Higher tax receipts due to higher incomes and profits	-.6	-2.2	-.6	-2.6
Lower unemployment payments	<u>-.2</u>	<u>-.7</u>	<u>-.2</u>	<u>-.7</u>
Budget deficit with policy changes	35.8	41.1	35.8	46.9

* Less than \$50 million

January 3, 1975

Projected Unemployment Rates



January 2, 1975

Planned Reductions
in the 1976 Budget

	<u>Effect on outlays for</u>	
	<u>1975</u>	<u>1976</u>
	(In billions)	
Budget restraint message of November 26	\$-4.6	\$-6.7
Amounts overturned by Congress:		
Override of veterans education veto .....	.5	.2
Appropriation bills .....	.7	.6
Change in effective dates because Congress has not acted .....	.7	.1
Planned further rescissions and deferrals	<u>-.3</u>	<u>-.5</u>
Remaining savings, November 26 message ...	-3.1	-6.3
Other rescission and deferral messages	-.7	-2.2
Overturn of REA and REAP	<u>.2</u>	<u>.2</u>
Remaining savings from all rescissions and deferrals	-3.6	-8.3
Further 1976 budget reductions proposed:		
Agriculture	---	-.4
HEW	---	-.9
Defense	---	-.7
All other agencies	<u>-.4</u>	<u>-.8</u>
Total reductions planned ^{a/}	-4.0	-11.1

^{a/} Includes administrative actions of \$1.0 billion in 1975 and \$1.1 billion in 1976.

New Programs in the 1976 Budget
that May Be Considered Initiatives

1976
Outlays
Affected
(in millions)

A. Consolidation, restructuring or reform of existing programs:

Agriculture - Child nutrition programs consolidation 1,746

Transportation:

Aviation -- Comprehensive proposal which would:

- (1) convert present airport grant program into block grants to States and local airports;
- (2) provide additional long-term authorization for new airway facilities;
- (3) restructure aviation tax system to provide more equitable charges (decrease overall air carrier fees and increase general aviation charges); and
- (4) open trust fund to permit funding of FAA maintenance costs, +\$30M outlay and +\$17M receipts in 1976. 648

Highways -- Comprehensive long-range proposal which would:

- (1) provide long-term highway funding through 1980;
- (2) extend highway trust fund, but restrict trust funded programs to interstate highway system and reduce trust fund receipts by returning 2¢ of gas tax to general fund and rescinding 1¢ of gas tax (if States pick up) in 1978 and beyond;
- (3) prioritize completion of interstate segments and reduce categorical funding programs; and
- (4) rescind all unobligated contract authority as of October 1, 1976. None

1976
Outlays
Affected
(in millions)

A. Consolidation, restructuring or reform of existing programs -- Continued:

Veterans Administration:

To carry out recommendations of Quality Survey of VA hospitals 212

Activation of ten new outpatient clinics 9

Interior -- Consolidation into a new Office of Water Research and Technology functions of the Office of Saline Water and the Office of Water Resources Research 19

B. New programs appearing in the budget for the first time but previously announced:

Treasury -- Petrodollar facility 1,000

Labor, HEW and Commerce -- Program announced at Columbus, Ohio on August 30 for "partnership of labor and educators," including grants to provide data on available occupations and a Federal-State-local partnership of fellowships 5

Interior:

Plan to lease all promising Outer Continental Shelf oillands by 1978 announced in November 1974 85

Trust Territory initiatives under pending legislation 88

Veterans Administration -- Grants for State veterans cemeteries 5

C. "New" programs not previously announced:

Interior -- Biological services are planned for the Fish and Wildlife Service. The Service will study the resource programs of the entire Department to understand adverse effects on fish and wildlife and their habitats 9

SBA -- Legislation is proposed to permit full cost recovery interest rates on SBA direct loans 200

1976
Outlays
Affected
(in millions)

D. New Defense programs:

Operations:

Two new Army divisions	70
Increased Air Force tactical air crew ratios	100

Procurement:

Contingency stockpiling for allies:	
(1) 30-day stockpile for Asian allies	5
(2) Inventory replenishment fund in advance of foreign sales	30
Navy Captor Mine	5
Navy trainer aircraft	2
B-1 Bomber	15
Air Force Modular Guided Glide Bomb	2

R&D:

Airborne Intelligence System (Navy)	12
Navy air combat fighter - major development	66
Short-Range Air Defense Missile (Navy)	10
Various Army ordnance and missile programs	7
Advanced Air Defense Supression System	12
Air Force air combat fighter - major development	120

Construction:

DIA building	4
Diego Garcia expansion	10

January 4, 1975

TAX PROPOSALS AND OPTIONS

Tax cut for temporary economic stimulus.

Issue 1 - Size of temporary tax cut.

A tax cut of less than \$10 billion was generally viewed as too small for a significant effect on spending and confidence. A major concern of a larger tax cut is its impact on an already large budget deficit.

Option A: \$10 billion.

Option B: \$15 billion.

Option C: \$20 billion. (Recommendation of Labor-Management Committee.)

Recommendation: Option B. (Opinions mixed)

Issue 2 - Division of allocation of tax reductions between individuals and corporations.

Option A: Two-thirds, individuals, one-third corporations.

Option B: Three-fourths individuals, one-fourth corporations.

Recommendation: Option B.

This is consistent with the recommendation of the Labor-Management Committee. At present personal and corporate income tax receipts are divided approximately three-quarters individuals and one-quarter corporations.

Issue 3 - Form and speed of a temporary tax reduction to provide stimulus.

The basic issue is how rapidly the additional stimulus should be applied and the impact psychologically and on capital markets. There are two basic decisions which must be made: (1) Does the reduction apply to 1974 or 1975 tax liabilities? (2) If it applies to 1974 tax liabilities is it refunded in a lump sum, or in approximately three periodic payments.

Option A: Lump sum negative surtax (i.e. a rebate) for tax liabilities applicable for calendar year 1974.

Option B: Three periodic refund payments for tax liabilities applicable for calendar year 1974.

Option C: Negative surtax on income accruing in 1975 applied by lower withholding rates.

Recommendation: Option B. (Opinions mixed)

Issue 4 - Distribution of temporary tax cut to individuals.

Option A: Same percentage for everyone; i.e., a proportional reduction. Maintains present degree of progressivity.

Option B: Percentage declines as incomes rise; i.e., increase in progressivity. Labor-Management Committee supports increase in progressivity. If reduction is really temporary, increase in progressivity is not important.

Issue 5 - Kind and amount of restructuring of the Investment Tax Credit.

Option A: Increase rate of present credit for utilities from 4 percent to 12 percent and for all other corporations from 7 percent to 12 percent plus temporary restructuring of income limitations for utilities. A basis adjustment would not be included.

Option B: Full restructuring including a basis adjustment which, for the revenue loss as in Option A, would permit an increase in the rate to 8 percent for all corporations and utilities.

Recommendation: Option A. This has the merit of simplicity, not engaging in a major restructuring for a temporary one year credit, and avoiding the controversial basis adjustment issue.

Energy taxes.Issue 1 - The timing of decontrol and the imposition of a windfall profits tax.

Option A: Announce decontrol of all oil prices effective immediately and request a windfall profits tax which will in the aggregate amount recapture from producers the full amount of the price increase resulting from decontrol.

Option B: Announce decontrol of all oil prices effective April 1 and request a windfall profits tax effective April 1 which will in the aggregate amount recapture from producers the full amount of the price increase resulting from decontrols.

Option C: Institute decontrol as soon as the windfall profits tax and tax rebate program are passed.

Recommendation: Option C.

Issue 2 - Distribution of the refund of energy taxes through individual income tax reduction.

Option A: Tax cuts that roughly offset the extra price burdens for each income class.

Readily understandable.

Burden estimates "soft" and arguable. Congress likely to use higher burden estimates and make larger reductions for lower income classes at expense of amounts proposed for business.


Can't tailor the tax system precisely enough to zero out in each income class.

Option B: Tax cuts that give somewhat more back to bottom income classes.

We agreed to sign Ways and Means Bill which would use same energy revenues to bring the minimum standard deduction up to "poverty levels."

Congress is almost sure to use these revenues to provide additional relief for low income groups anyway. No reason for us to oppose low income relief which is inevitable.

Low income relief funded this way will do "double duty." It will offset increased price burden at the same time that it brings MSD up to poverty level. If we deal separately with low income relief, we will pay for part of it twice (probably at expense of relief elsewhere).

 Issue 3 - Distribution of energy revenues to corporations.

Recommendation: ~~Temporary rate reduction~~ or negative surtax with understanding that revenues may be reassigned for restructuring of business taxes.

Issue 4 - Termination of the oil depletion allowance.

Option A: Continue to oppose the elimination of percentage depletion.

Defer Option B: Support a phase out of percentage depletion along the lines of the mini-tax reform bill.

Option C: Phase out percentage depletion when the market for oil is completely free.

Distribution of Individual Income Tax Reductions and Energy Burden by
Adjusted Gross Income Class

(1974 Level of Income)

Adjusted Gross Income Class	: \$27 Billion Tax Cut for : Individuals to Stimulate : Economy and Refund Costs : of Energy Conservation		: Excise & Price : Increases to : Achieve Energy : Conservation	: Net of Excise- : Price Burden & : Permanent : Income Tax Cut : % of : Present Law	: Net of Excise-Price : Burden & Both Per- : manent & Temporary : Income Tax Cut : % of : Present Law		
	: Permanent Cut: : \$2,000/\$2,600 : Low Income : Allowance & : Reduced Margin- : al Tax Rates	: Temporary Cut: : 15% Negative : Surcharge with : \$500 Maximum					
(\$000)	(. \$ Billions)		(. % . .)	(\$Billions)	(. % . .)		
0-3	244	2	231 ←	-13	-4.5	-15	-5.3
3-5	1,185	89	731	-454	-25.5 ←	-543	-30.5
5-7	2,008	312	1,234	-774	-18.9	-1,086	-26.5
7-10	3,431	873	2,212	-1,219	-13.2	-2,092	-22.6
10-15	4,493	2,505	3,880	-613	-2.9	-3,118	-14.7
15-20	2,586	2,730	3,040	454	2.2	-2,276	-10.9
20-50	2,000	4,025	3,527	1,527	4.0	-2,498	-6.5
50-100	104	326	557	453	3.8	127	1.1
100 & Over	24	80	351	327	3.0	247	2.3
Total	16,075	10,943	15,763	-312	-0.3	-11,254	-9.5

January 10, 1975

Tax Decisions to be Made

1. Form of Temporary Tax Cut

<u>Original goal</u>	<u>(\$ Billions)</u>
25%--corporations	3.75
75%--individuals	11.25
	<u>15.00</u>

→ Option A

Investment credit to 12 percent	
No restructuring except utilities	4.1 - 25%
10% of tax refund	11.8 - 75%
	<u>15.9</u>

Option B

Investment credit to 11%, otherwise as above	3.4 - 24%
10% of tax refund, no maximum, as in A	11.8 - 75%
	<u>15.2</u>

2. Use of Energy Tax Refunds

<u>Amounts available</u>	<u>A</u>	<u>B</u>
	<u>(\$ Billions)</u>	<u>(\$ Billions)</u>
Total	31	30
Government		
Federal	3.0	3.0 (2.9)
State & local	2.0	2.0 (1.9)
Corporations (1/4 of remainder)	6.5	6.0 (6.3)
Individuals (3/4 of remainder)	19.0	18.5 (18.4)
Storm windows	0.5	
Other	18.5	

3. Amount to be Returned to Persons not Adequately Compensated (NAC) Through Tax System

Increase in CPI, assuming costs passed through completely	2.0%
	(1.4% immediate, remainder indirect with lag.)
Less allowance for fact that substantial portion will reduce profits, not increase prices	1.7%
Increase required to stay even with disposable income of \$4300 (present poverty level, family of 4)	\$73
\$5600 (new poverty level)	\$90

4. Methods of Returning Energy Tax Revenues

A. Per capita for every man, woman and child, whether or not in the tax system.

\$ 90 per person
\$140 per adult only

Aggregate to persons NAC	-	\$3.8
Excess over estimated consumption persons NAC	-	\$2.3

- Can't administer with children.
- Very large payments to low income persons, wholly out of line with increased consumption costs.
- Makes 8.2 million additional returns nontaxable, compared with 5.4 million for B.
- Perceived as negative income tax.

- B. Give ~~tax reductions~~ (MSD + bracket rate changes) with per adult cash payment for persons NAC.

Amount of cash payment

\$50 (\$100 for husband & wife) - \$1.4 billion

~~additional \$10 for single only would total~~ \$1.5 billion

Option (a) returns \$1.4 billion to 27 million persons.

- Generally related to consumption in lowest brackets.
- Buys general tax relief at sometime, saves buying it with other revenues now or later.
- Avoids unduly large handouts to skid-row, welfare mothers, etc.
- Is feasible administratively (tho' many problems) because children are omitted.

- C. General tax reductions (as in B) plus budget set aside of \$1.5 billion (or some other amount) for Congress to use in dealing with persons NAC.

ECONOMIC REVIEW MEETING

Friday, January 10, 1975

2:00 P. M.

ALL INFORMATION CONTAINED HEREIN IS UNCLASSIFIED

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