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THE WHITE HOUSE

WASHINGTON

July 7, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. William Seidman
FROM: Jim Connor
SUBJECT: Tax Reform Testimony

The President has reviewed your memorandum of today's date on the above subject and approved the following:

Option 3 - Do not propose any changes in alcohol and tobacco taxes at this time.

Please follow-up with appropriate action.

cc: Don Rumsfeld



THE WHITE HOUSE

WASHINGTON

July 7, 1975

MEMORANDUM FOR JIM CONNOR

FROM: L. WILLIAM SEIDMAN

lws

SUBJECT: Tax Reform Testimony

The Economic Policy Board Executive Committee has reviewed the draft Treasury testimony on tax reform and has requested that one outstanding issue -- the Administration's position on alcohol and tobacco taxes -- be reviewed by the President prior to Secretary Simon's testimony before the House Ways and Means Committee on Tuesday, July 8, at 9:00 a.m.

Attached is a memorandum on the issue which I would like to review briefly with the President sometime today. I have already notified the Scheduling Office of this request.



THE WHITE HOUSE

WASHINGTON

July 7, 1975

MEMORANDUM FOR THE PRESIDENT:

Subject: Tax Reform Testimony

The Economic Policy Board Executive Committee has reviewed the draft Treasury testimony on tax reform and has requested that one outstanding issue -- the Administration's position on alcohol and tobacco taxes -- be reviewed by you prior to Secretary Simon's testimony before the House Ways and Means Committee on Tuesday, July 8, at 9:00 A.M.

Attached is a memorandum on the issue which Bill Seidman would like to review briefly with you sometime today.

Jim Connor

I expect that Messrs. Seidman and Greenspan will discuss this with you at their 4:00 p.m. meeting.



THE WHITE HOUSE

WASHINGTON

July 7, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. William Seidman *lws*

SUBJECT: Tax Reform Testimony

The Economic Policy Board reviewed with you on June 17 a series of proposals regarding the Administration's position on tax reform. In accordance with your decisions, the Department of the Treasury has prepared draft testimony which has been reviewed by the Economic Policy Board Executive Committee members.

Secretary Simon is scheduled to deliver that testimony before the House Ways and Means Committee on Tuesday, July 8, at 9:00 a.m.

One outstanding issue, the Administration's position on alcohol and tobacco taxes, requires your decision.

At the June 17 meeting you indicated that you were not disposed to propose major increases in Federal alcohol and tobacco taxes but that you did favor placing them on an ad valorem basis for the future. You expressed a desire to review some data on how much additional revenue would have resulted from an ad valorem tax over the last several years before deciding the question of whether or not in addition to proposing placing the tax on an ad valorem basis for the future the Administration should also propose a moderate increase in these taxes. The revenue effect of placing alcohol and tobacco taxes on an ad valorem basis over the past five years is as follows:



Revenue -- Alcohol and Tobacco Taxes

<u>Fiscal Year</u>	<u>Actual</u>	<u>If ad valorem based on rates for FY 1970</u>	
		<u>Total</u>	<u>Increase</u>
1971	7.0	7.2	0.2
1972	7.3	7.5	0.2
1973	7.4	7.7	0.3
1974	7.7	8.2	0.5
1975	7.7	9.1	1.4

The Economic Policy Board Executive Committee considered three options this morning and requested that they be presented to you for your decision.

Option 1: Recommend a slight increase in alcohol and tobacco taxes to cover the rate of inflation during the past three years in addition to proposing placing the taxes on an ad valorem basis.

Pros:

- This would realize approximately \$1.1 billion in additional Federal tax revenues during the first year the taxes were in effect.
- This proposal may help to offset congressional pressure to repeal DISC in view of the congressional Budget Committee's projection that the tax reform bill will need to net an additional \$1 billion in tax revenues.

Cons:

- This would place you in the position of advocating an increase in alcohol and tobacco taxes with only marginal likelihood of their success.



Option 2: Propose putting alcohol and tobacco taxes on an ad valorem basis but do not propose any increase in their present rate.

Pros:

- Since this would involve only changes in future taxes, it would likely be more acceptable to the Congress than an immediate increase in rates.

Cons:

- This would involve collecting approximately \$1.1 billion less in revenues during the first year the taxes were in effect than under Option 1.

Option 3: Do not propose any changes in alcohol and tobacco taxes at this time.

Pros:

- Avoids the politically unpopular position of advocating an increase in alcohol and tobacco taxes.

Cons:

- Without Administration support, it is unlikely that any action would be taken on alcohol and tobacco taxes in the current reform effort.

Recommendations :

Secretary Simon and Secretary Dunlop strongly endorse Option 1.

Decision

Option 1 _____ Recommend a slight increase in alcohol and tobacco taxes to cover the rate of inflation during the past three years in addition to proposing placing the taxes on an ad valorem basis



- Option 2 BEF Propose putting alcohol and tobacco taxes on an ad valorem basis but do not propose any increase in their present rate.
- Option 3 MP7 Do not propose any changes in alcohol and tobacco taxes at this time.

For your information, the Economic Policy Board Executive Committee also approved making no mention of the excise tax on trucks in the prepared tax reform testimony and stating, if questioned, that the Administration does not recommend elimination of the excise tax on trucks.