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THE WHITE HOUSE
WASHINGTON

December 20, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN
FROM: JIM CONNOR *JEC*
SUBJECT: Tax Policy Issues

The President reviewed your memorandum of December 17 on the above subject and made the following decisions:

Proposal to end withholding on dividends to foreigners - Delete

Sliding scale capital gains tax - Delete

Possible Stimulative Investment Measures

"No on all" was noted by the President.

Please follow up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE

WASHINGTON

December 17, 1976

MEETING WITH THE ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

December 18, 1976

11:00 a.m.

Cabinet Room

From: L. William Seidman

LWS

I. PURPOSE

- A. To discuss the economic assumptions for use in the 1978 Budget.
- B. To discuss tax policy issues in preparation for your FY 1978 budget and for your Tax and State of the Union messages.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. Background: At your meeting with the EPB Executive Committee on December 13 you made several decisions on tax policy issues and deferred three decisions until you were able to review the results of the pending economic forecast exercise.

Yesterday, the Troika forecasting group received the Fourth Quarter GNP flash figures and is completing the final refinements on the forecast. An economic assumptions sheet will be completed late this evening and provided you tomorrow morning before the meeting.

A short memorandum summarizing the three deferred issues and providing effects on fiscal year receipts is attached at Tab A. Greater detail is available in the December 11 memorandum which you already have.

- B. Participants: William E. Simon, L. William Seidman, James T. Lynn, Alan Greenspan, Elliot Richardson, W.J. Usery, James M. Cannon, Arthur F. Burns.
- C. Press Plan: White House Photographer.

III. AGENDA

A. Economic Assumptions

Alan Greenspan will review the economic outlook and economic assumptions for use in the 1978 Budget.

B. Tax Policy Issues

Secretary Simon will review the remaining tax policy issues requiring your decision in preparation for your FY 1978 budget and for your Tax and State of the Union messages.

THE WHITE HOUSE
WASHINGTON

December 17, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Tax Policy Issues

At your meeting with the EPB Executive Committee on December 13 you made several decisions on tax policy issues and deferred three decisions until you were able to review the results of the pending economic forecast exercise.

The three issues you deferred are: (1) Whether to retain or delete the proposal to end withholding on dividends to foreigners; (2) whether to retain or delete the proposed sliding scale capital gains tax; and (3) whether to propose additional tax incentives designed to stimulate private investment. These issues were discussed in the December 11 memorandum which you have.

Modifying Certain Outstanding Proposals to Increase Tax Revenues

	Effects on Fiscal Year Receipts (\$ billions)		
	1977	1978	1979
<u>Proposal to end withholding on dividends to foreigners</u>	0.1	0.2	0.3

Retain _____ Supported by: Treasury, Commerce, Domestic Council

Delete MR7 Supported by: CEA, OMB

No Comment: Labor *AB*

<u>Sliding scale capital gains tax</u>	-0.1	0.6	0.9
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Sliding scale capital gains tax

Retain _____ Supported by: CEA, Treasury, Domestic Council

Delete RR7 Supported by: OMB, Commerce*

No Comment: Labor

* Commerce feels should be tied to integration.

Possible Stimulative Investment Measures

Four alternatives to stimulate increased investment are presented for your consideration.

Option 1 _____ Advance the dividend deduction feature of the integration proposal.

Effect on Fiscal Year Receipts (\$ billions)		
1977	1978	1979
2.1	4.9	5.2

Option 2 _____ Increase the investment tax credit to 12 percent and to 14 percent on assets with lives of 12 years or more. Permit the full amount of the credit to apply against all income tax liabilities with refundability to the extent it is in excess of current tax liabilities.

No on all

Effect on Fiscal Year Receipts (\$ billions)		
1977	1978	1979
2.1	5.2	5.9

Supported by: Commerce, Labor

Option 3 _____ Reduce the top corporate rate 2 percentage points more from 46 percent to 44 percent.

You have already approved reproposing a reduction from 48 percent to 46 percent.

Effect on Fiscal Year Receipts (\$ billions)		
1977	1978	1979
0.9	2.1	2.5

Option 4 _____ Increase the investment tax credit to 12 percent only for assets with lives of 12 years or longer. Permit the full amount of the credit to apply against all income tax liabilities with refundability to the extent it is in excess of current tax liabilities.

Effect on Fiscal Year Receipts (\$ billions)		
1977	1978	1979
1.1	3.1	3.6

Supported by: CEA

Option 5 _____ Do not propose additional stimulative investment measures.

Supported by: OMB, Domestic Council

Treasury supports some additional measures to stimulate investment but has no preference for the method of stimulation except that it should include measures to benefit small business. Treasury supports preparing a package of the above stimulative measures at a level of approximately \$4 billion annually.