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[filed 12/30/75]

THE PRESIDENT HAS SEEN.....

IMMEDIATE
PRECEDENCE

UNCLAS
CLASSIFICATION

FOR COMMCENTER USE ONLY

FROM: WILLIAM SEIDMAN

DEX
DAC 156

GPS _____

TO: DICK CHENEY FOR
THE PRESIDENT

LDX _____

PAGES 5

TTY _____

CITE _____

INFO:

DTG: 282249Z DEC 76

RELEASED BY [Signature]

TOR: 282344Z

SPECIAL INSTRUCTIONS:

Have Greenpan
add rationale - fill in -
4 plain

It doesn't have much substance
except a recitation of my proposals.
For example in both middle income & corporate
tax reduction proposals can't not
cite some illustrations to
justify need.

1976 DEC 28 22 49

ACTION

THE PRESIDENT HAS SEEN . . .

THE WHITE HOUSE

WASHINGTON

December 30, 1976

MEMORANDUM FOR: ALAN GREENSPAN
FROM: JIM CAVANAUGH
SUBJECT: Tax Message

The President has reviewed the attached tax message to the Congress and has asked that you develop some examples in both middle income and corporate tax reduction proposals to use as examples to justify the need for his proposals. He would like to send this message to the Congress next week.

Attachment

THE WHITE HOUSE

WASHINGTON

December 28, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Tax Message

A tax message, for transmittal to the Congress the first week in January, incorporating your recent decisions on your tax program is attached. This draft was reviewed and commented on by the EPB Executive Committee. It has also been reviewed and revised by Bob Hartmann.

The Treasury is preparing, and should have completed by tomorrow evening, a fact sheet complete with tables explaining in greater detail your tax proposals and their impact on individual income taxpayers.

Attachment

TAX MESSAGE

In October of 1975, I presented to the Congress a program of tax cuts and spending restraints that would have reduced the burden of government on all taxpayers. It would have given the American people more freedom to spend their income as they choose rather than have Washington make so many decisions on how to spend their earnings. The Congress adopted only a few of my proposals for spending restraint and provided the American people with a less generous tax cut than I proposed.

My forthcoming 1978 Budget will provide a detailed blueprint for Federal spending. Today, as I promised, I am outlining my proposals for personal and business tax reduction. First, I urge an increase in the personal exemption from \$750 to \$1000 to replace the system of per exemption and other tax credits that have so greatly complicated the individual income tax return. I also urge an increase in the low income allowance and a series of tax rate reductions. In total, my proposals provide individual tax relief of \$10 billion in 1977. This relief is focused on middle income Americans with earnings between \$10,000 and \$30,000 to help compensate for the effect of inflation which is continuously pushing these taxpayers into higher tax brackets. The tax reductions of

1975 and 1976 focused tax relief on the lower income taxpayer and this was appropriate. However, it is high time to focus substantial tax relief on middle income taxpayers.

The creation of good permanent jobs for our expanding labor force requires an increased level of private investment. I am, therefore, recommending again a permanent reduction in the corporate surtax from 48 to 46 percent, and permanent extensions of the 10 percent investment tax credit and the increased surtax exemption provided by the Tax Reform Act of 1976. In the longer run we must eliminate the double taxation of dividend payments. I am, therefore, renewing my proposal to gradually integrate corporate and personal income taxes over a period of years beginning in 1978. To stimulate growth in employment in those areas most severely impacted by the recent recession, I am again recommending accelerated depreciation for new plants and equipment in areas of high unemployment. These proposals will provide a \$2.6 billion reduction in business tax liabilities in 1977.

In the 1977 Budget I noted that the Old Age, Survivors and Disability Trust Funds would be depleted in the early 1980's unless some action was taken. I, therefore, recommended a six-tenths of one percent increase in the combined employee-employer payroll tax rate beginning January 1, 1977. The employee share of this

increase would have amounted to less than one dollar per week for all taxpayers. Congress failed to act on this proposal. Partly because of the delay, a higher tax increase is now necessary. Because current law already prescribes a four-tenths of one percent increase in the tax rate in 1978, I do not believe that a very large additional increase is appropriate in that year. I am therefore proposing an additional two-tenths of one percent rate increase in 1978 supplemented by a six-tenths of one percent rate increase in 1979 and a three-tenths of one percent rate increase in 1980. These increases will restore the fiscal integrity of the Social Security Trust Funds in the short run and, together with my proposals for correcting the overindexing for inflation contained in current law, will greatly reduce the long-run deficit faced by the Social Security System.

I have in the past urged several other changes in our tax laws which are both necessary and desirable, but which need not be discussed in detail at this time. These include a tax credit for home insulation, exempting charitable contributions from the burden of the minimum tax, increasing the railroad retirement tax in a manner consistent with the recommended Social Security tax increases and providing State and local Governments with an option to issue taxable bonds subsidized in part by the Federal Government.

I am also recommending repeal of the earned income credit and the provision for funding Employee Stock Ownership Plans through additional investment tax credits. The earned income credit is not well integrated into the rest of our welfare system and will make future reform of that system more difficult. The Employee Stock Ownership Plan provides a very large taxpayer subsidy to employers who wish to purchase stock in their firm for their employees. I do not believe that this is an equitable approach to the encouragement of stock ownership.

I urge that the Congress take prompt action on all of the above tax proposals.