The original documents are located in Box 32, folder "Taxes - General" of the John Marsh Files at the Gerald R. Ford Presidential Library.

JUL 1 1975

THE WHITE HOUSE
WASHINGTON

M

Date: 6-30-75

TO: Jack Marsh

FROM: Max L. Friedersdorf

For Your Information ✓

Please Handle

Please See Me

Comments, Please

Other Keep handy

(A/m)

THE WHITE HOUSE

WASHINGTON

June 30, 1975

MEMORANDUM FOR: MAX L. FRIEDERSDORF

THROUGH: VERN LOEN VL

FROM: TOM LOEFFLER T.L.

SUBJECT: Committee on Ways and Means -- Tax Reform Consideration

The Committee on Ways and Means is holding tax reform hearings which commenced on Monday, June 23, 1975. This begins the first phase of a series of tax reform hearings, the second phase of which will begin in November of this year after completion of development and passage of the bill resulting from the hearings now ongoing.

The first set of public hearings on tax reform will be in three parts: (1) panel discussions on the objectives and approaches to tax reform; (2) testimony from Administration officials beginning July 8; and (3) presentation of testimony from the interested public. These first-phase hearings are scheduled to be completed by the end of July. Mark-up sessions should begin in early September after the August recess.

TOPICS FOR TAX REFORM CONSIDERATION IN FIRST PHASE

1. Tax shelters and minimum tax.
2. Tax simplification and reform of domestic income of individuals.
3. Foreign income.
4. Administrative provisions.
5. Repeal and revision of obsolete, rarely used, etc. provisions.
6. Extension of individual and corporate tax reductions provided in the Tax Reduction Act of 1975.

7. Capital formation (including fast depreciation, investment credit, and integration of corporate and individual taxes).
8. Capital gain and losses.

TOPICS LIKELY TO BE GIVEN TAX REFORM
CONSIDERATION IN SECOND PHASE

1. Estate and gift taxation.
2. Tax treatment of single persons and married couples.
3. Tax exempt state and municipal bonds.
4. Small business tax problems including Subchapter S.
5. Percentage depletion for minerals generally.
6. Tax treatment of financial institutions.
7. Tax treatment of cooperatives.
8. Tax treatment of insurance companies, including casualty and life companies.
9. Tax exempt organizations including private foundations.
10. Charitable contribution deductions.
11. Net operating loss deductions.
12. Bank holding companies; real estate investment trusts.
13. Excise taxes.
14. Integration of pensions and social security.
15. Tax treatment of annuities.

CC: Charlie Leppert
Bill Kendall
Pat O'Donnell

Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

OCT 18 1975

THE WHITE HOUSE
WASHINGTON

From: Robert T. Hartmann RTH by Neta M

To: Don Rumsfeld
✓Jack Marsh

Date: October 17, 1975 Time ~~a.m.~~ p.m.

I have been requested by my friend, Jim Bass, Vice President of American Airlines, to provide copies of this to you for your information.

R — copies

1. Seidman

2. Simon

done 10/21

Attachment 1

THE CASE FOR LEGISLATION TO REFUND EARNED BUT EXPIRING INVESTMENT TAX CREDITS

I. Administration Position Statements On Refunding Unused Investment Tax Credits

1. On October 8, 1974, in addressing a Joint Session of Congress, President Ford stated:

> "To help industry to buy more machines and create more jobs, I am recommending a liberalized 10 percent investment tax credit. This credit should be especially helpful to capital-intensive industries, such as primary metals, public utilities, where capacity shortages have developed."

The White House Fact Sheet provided the following details regarding the Administration's Investment Tax Credit proposals:

> "Replace the present limit on the maximum credit which may be claimed with eventual full refundability for the excess of credits over tax liability. Credits in excess of the present limitations may be carried back three years and then to the succeeding three years to offset tax liability, after which time any remaining excess credits will be refunded directly to the taxpayers. This will
>
> -- Help growing companies which have present investments which are large in comparison with their current incomes.
>
> -- Help companies in financial difficulties, which get no benefit from credit because they have little or no income tax liability against which to apply it.
>
> -- Help small businesses, which under present law are more severely affected by the restrictions and limitations."

2. On December 9, 1974, Assistant Secretary of Treasury Frederic Hickman made the following remarks concerning the Administration's investment tax credit proposals:

"A one-sentence summary of the proposed restructuring is that it represents a new way of dividing up the benefit pie.

The businesses that will benefit most are those for which the present credit works unfairly -- including, particularly, small businesses, growing businesses, businesses in financial difficulty and utilities.

These limitations cause the present credit to be seriously unneutral.

Because of the income limitation, the credit offers no assistance at all to companies in financial difficulty and with no taxable income. Thus, the companies for which increased productivity is the most critical get nothing at all, and the government is constantly importuned to aid them in other ways, while their investment credits simply go down the drain.

The income limitation also causes the credit to discriminate against the innovative, growing firm. They are making large investments now that will produce income in the future. But they lose the credit because of the accidental fact that the smaller investments which they made in the past do not produce enough income to absorb the credit. Big companies with steady budgets avoid this problem. But many smaller companies are hit hard."

3. On January 15, 1975, in his State of the Union address to Congress, President Ford noted that:

"This tax cut does not include the more fundamental reforms needed in our tax system but it points us in the right direction -- allowing taxpayers rather than the Government to spend their pay."

The accompanying Fact Sheet noted that the Administration was simply deferring its refundability proposal:

"This increase in the credit will provide benefits of $4 billion in 1975 to immediately stimulate job-creating investment. (In view of the need for speedy enactment and the temporary nature of the increased credit, this change does not include the basic restructuring of the credit as proposed on a permanent basis in October, 1974.)"

4. On January 16, 1975 Presidential Assistant L. William Seidman in a press conference underscored the Administration's hope of dealing with this basic defect in the Investment Tax Credit:

MR. SEIDMAN: "The basic question is that a tax credit does not do a company any good if it is in a loss position and a good many of the utilities are in that position, so what are we doing about it.

First, as part of the tax reform package, there will again be considered the provision that was originally suggested; that is, if you do not have income from which to deduct the tax credit, it will be paid back to you as a specific subsidy. That is one possibility. That is not part of the current one-year program, but it is very much a possibility when we get to tax reform."

5. The Administration's last comment in this area came on July 8, 1975. In his testimony on Tax Reform before the House Ways and Means Committee, Treasury Secretary William Simon noted:

"The investment credit has been a valuable device for reducing the cost and increasing the supply of capital. It has been particularly helpful in stimulating investment in periods of economic sluggishness. However, the credit has discriminatory aspects and is significantly more helpful to some kinds of companies and to some kinds of activities than to others. It is, for example, of maximum benefit to profitable companies with assets predominantly in the range from about 7 to 10 years. On the other hand, it is of no benefit to companies that are unprofitable and tends to be of lesser benefit to small companies and growing companies.

Companies whose assets are predominantly very long lived are also discriminated against. These discriminations are magnified as the credit increases and we have been concerned about raising the level too far without trying to remedy the more discriminatory aspects. A further difficulty with the credit is that it engenders great political temptation to turn it off and on, which substantially lessens its long term effectiveness."

II. Senate Actions to Refund Unused Tax Credits

1. On July 22, 1975, the Senate Finance Committee adopted a proposal to allow a refundable income tax credit for expenditures for insulation of a home. The credit is an amount equal to 30% of the first $750 of qualified expenditures.

2. Also, on July 22, 1975, the Committee adopted a proposal to allow a refundable income tax credit for expenditures for solar and geothermal energy equipment placed in a home. The amount of the credit is an amount equal to 40% of the first $1,000 and 25% of the next $6,400 of qualified investment.

3. On July 30, 1975, the Senate Finance Committee adopted a proposal to allow a refundable income tax credit to individuals age 18 and over. The credit would be equal to the amount estimated to be the revenue from the windfall profits tax also adopted by the Committee on decontrolled oil, plus the additional corporate and individual income taxes attributable to the decontrol profits, and the revenue from the existing $2 tariff.

ESTIMATES OF REVENUE EFFECT OF LEGISLATION TO REFUND EARNED BUT EXPIRING INVESTMENT CREDITS AT END OF CARRYOVER PERIODS *

1. Estimates of Credits to be Refunded as Compared with Credits Usable Under Existing Law ($ amounts in millions)

Year	Credits To Be Used Under Present Law	Credits To Expire Under Present Law	Percentage of Expiring Credits to Used Credits
1975	$5,890	$100	1.7%
1976	6,500	150	2.3%
1977	5,500	220	2.6%
TOTALS	$17,890	$470	2.6%

2. Estimate by Industry of Investment Credits Expiring in 1975, 1976 and 1977 ($ amounts in millions)

	1975	1976	1977	Total	% of Total
Agriculture	$0.4	$0.7	$1.1	$ 2.2	.46%
Mining	2.5	5.0	7.8	15.3	3.19%
Construction	0.4	0.9	1.4	2.7	.56%
Manufacturing	14.0	27.0	43.0	84.0	17.49%
(Petrol. Manufac. already in Mfg.)	2.7	5.6	8.7	17.0	3.54%
Transportation	80.0	100.0	155.0	335.0	69.78%
Communication	1.1	2.2	3.4	6.7	1.39%
Elec. & Gas Util.	1.4	2.8	4.4	8.6	1.79%
Wholesale Trade	0.4	0.7	1.1	2.2	.46%
Retail Trade	1.0	2.1	3.2	6.3	.13%
Finance Etc.	1.0	2.1	3.2	6.3	.13%
Services	1.8	3.5	5.5	10.8	2.25%
TOTAL	$104.	$147.	$229.	$480.1*	

* Estimates prepared by Dr. Gerard Brannon, Professor, Georgetown University

Attachment 3

UNITED AIRLINES

Office of the Chairman

September 4, 1975

TO: ALL MEMBERS OF THE HOUSE WAYS AND MEANS COMMITTEE

For many months, United Airlines has been considering the question of a necessary replacement airplane for part of its existing fleet. Last week, after reviewing the situation with painstaking care, our company decided that we must defer indefinitely any decision to purchase the Boeing 727-300 airplane.

We are bringing this matter to your attention because of its national interest implications and because of the reasons underlying our decision. Those reasons, as described in the attached press release, bear directly on Investment Tax Credit legislation now pending before your Committee.

The Boeing 727-300 airplane, as planned, appears to be the best long-run aircraft to meet the needs of United Airlines. It has specific advantages over existing aircraft, and offers the prospect of improved productivity. The unfortunate truth, however, is that, under current and projected economic conditions, United simply cannot afford to invest in this improved aircraft type. Continued inflation, sharply escalating fuel costs, and an uncertain regulatory environment all contributed to United's decision. In addition, the fact that existing law on Investment Tax Credit does not offer any incentive to make this significant capital investment was a critical element in our decision.

This initial purchase of approximately $600 million would have a significant impact on the manufacturer. Beyond this specific order, there may, in our judgment, be grave implications for the future of United States aerospace manufacturing enterprise. This is one of the few remaining technical or

P.O. Box 66100, Chicago, Illinois 60666 • Location: Elk Grove Township, Illinois, on Route 62, one-half mile west of Route 83

manufacturing areas in which the United States retains world-wide leadership. If other air carriers are required to reach the same conclusion as United, the future of United States airframe and engine manufacturers will be jeopardized.

One way to overcome this serious national problem is to provide a greater incentive for investment such as proposed in H.R. 8670, now before your Committee.

Sincerely yours,

Edward E. Carlson

Edward E. Carlson
Chairman

EEC:mhe
Attachments

...The Wall Street Journal, Sept. 2, 1975

United Airlines Defers Decision On Buying 727s

Boeing Says Indefinite Delay Will Mean More Layoffs; Economic Climate Cited

A WALL STREET JOURNAL *News Roundup*

United Airlines, a unit of UAL Inc., deferred indefinitely any decision on whether

Economic Regulation

Mr. Carlson said, "The debate about the future of economic regulation of air transportation continues and no one can predict the outcome. It is unclear whether the airlines would be even further hampered by regulatory constraints."

Airlines can't generate sufficient profits to take advantage of the investment tax credit, he said, because "inhibiting regulatory forces cripple air carriers in their attempts at capital formation and there aren't any reasonable incentives available to United to encourage large capital expenditures. Under all these circumstances it simply isn't possible to do any rational planning for the acquisition of necessary new air-

UNITED AIRLINES
August 29, 1975

FOR IMMEDIATE RELEASE

United Airlines announced on August 28, following the August Board of Directors meeting, that it has deferred indefinitely a decision whether to purchase the Boeing 727-300 aircraft.

Edward E. Carlson, Chairman and Chief Executive of United, issued the following statement:

"The 727-300 has more to offer than any other aircraft for our fleet needs, and as a long run replacement airplane. However, a number of factors have combined to foreclose new type equipment purchases at this time. First, the uncertain general economic climate threatens to extend for some time. Second, future traffic growth will be stunted by the lack of disposable income and continued inflation. Third, the rapidly escalating price of fuel has jeopardized the entire air transportation structure because of the enormous cost burden on the carriers -- without an opportunity to recover those costs. Fourth, the debate about the future of economic regulation of air transportation continues, and no one can predict the outcome. It is unclear whether the airlines will be even further hampered by regulatory constraints.

United and the vast majority of airlines have not be able to generate sufficient profits to enable them to enjoy the benefits of the Investment Tax Credit. The critical fact is that inhibiting regulatory forces cripple air carriers in their attempts at capital formation, and there are no reasonable incentives available to United to encourage large capital expenditures. Under all these circumstances it is simply not possible to do any rational planning for the acquisition of necessary new aircraft.

United recognizes the necessity and desirability of replacing its existing fleet. It is also vital to the national interest to maintain the integrity and strength of our aircraft manufacturing industry. Without it the United States will surrender its leadership in one of the few remaining key manufacturing or technical industries. However, until such time as the general economic climate improves, and economic incentives for capital investment are provided, it would not be prudent for United's management to commit itself to a massive new equipment expenditure."

Attachment 4

Transport Workers Union of America

Affiliated with American Federation of Labor and Congress of Industrial Organizations

LEGISLATIVE DEPARTMENT

100 INDIANA AVE., N. W. WASHINGTON, D. C. 20001 District 7-7407

INT'L HDQRS., 1980 BROADWAY, NEW YORK, N. Y. 10023 873-6000

October 3, 1975

The Honorable Harold E. Ford, Member
House Ways and Means Committee
U. S. House of Representatives
Washington, D. C. 20515

Dear Congressman Ford:

The Transport Workers Union, AFL-CIO, representing more than 55,000 members employed by this nation's airlines, is deeply concerned with the very serious financial difficulties these airlines are experiencing. We are concerned that unless their financial crisis improves soon, the impact upon our membership and the economy as a whole will be devastating. The attached editorial from The Wall Street Journal of September 25, "Airline Industry Lenders Grow More Doubtful That They Should and Can Continue Support", brings the airlines financial situation into focus.

Two bills are pending before the Ways and Means Committee that will go a long way in helping the airlines solve their financial problem. H.R.8670 and H.R.8939 provide for the refund of expiring investment tax credits which the airlines have already earned through investments in capital equipment. These investment tax credits, totalling millions of dollars in cash benefits, will be lost permanently unless the Committee acts favorably on this legislation.

The Transport Workers Union, AFL-CIO, supports the airlines in urging your support of H.R.8670 and H.R.8939.

Respectfully yours,

James F. Horst

James F. Horst
International Exec. Vice President

JFH:bk
opeiu-153-AFL-CIO
Enclosure

Wall Steet Journal
Sep. 25, 1975

Airline Industry Lenders Grow More Doubtful That They Should and Can Continue Support

By TODD E. FANDELL

The problem-plagued airline industry has been less than an attraction in the stock market recently. Despite improving traffic, long-term earnings prospects are clouded by confusing uncertainties over fuel prices, fare levels, labor and other costs, the economy's course and the status of government regulation, combined with the industry's declining and historically inadequate earnings record.

Now, even the usually taciturn lenders are speaking out forcefully, in angry

Frederick W. Bradley Jr., vice president of First National City Bank of New York. Further, institutional lenders haven't indicated any interest in extending long-term loans to the industry and many banks are much less interested in airline loans than in the past, he adds.

Metropolitan Life Insurance Co. has been a big airline supporter in the past, but its airline investments peaked in 1969 at $607.5 million and have dropped to about $500 million. 'It has been six years since we committed any money to a domestic

October 21

THE WHITE HOUSE
WASHINGTON

TO: BILL SEIDMAN

FROM: JOHN O. MARSH, JR.

_____ For Direct Reply

_____ For Draft Response

XX For Your Information

_____ Please Advise

October 21

THE WHITE HOUSE
WASHINGTON

TO: BILL SIMON

FROM: JOHN O. MARSH, JR.

_____ For Direct Reply

_____ For Draft Response

XX For Your Information

_____ Please Advise

THE WHITE HOUSE

WASHINGTON

September 23, 1976

MEMORANDUM FOR: MIKE DUVAL

FROM: JACK MARSH

You may wish to show the President the attached "Dear Colleague" letter in reference to the higher education tax credit bill. This is the Roth Amendment which was in the Senate bill and was dropped in Conference on the big tax reform bill.

This has passed the Senate as an amendment to a minor bill (Smith College Bill) and is now back in the House.

Coughlin reports he believes the problem now is that the measure is being stalled by a failure to appoint conferees by the Speaker which is more fully set out in the letter attached.

LAWRENCE COUGHLIN
13TH DISTRICT, PENNSYLVANIA

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEES:
FOREIGN OPERATIONS
LEGISLATIVE

Congress of the United States
House of Representatives
Washington, D.C. 20515

WASHINGTON OFFICE:
306 CANNON BUILDING
(202) 225-6111

DISTRICT OFFICE:
700 ONE MONTGOMERY PLAZA
NORRISTOWN, PA. 19401
(215) 277-4040
596-1755

September 23, 1976

FOR MEMBER'S IMMEDIATE ATTENTION

Dear Colleague:

I urgently ask your help in bringing higher education tax credit legislation to a House vote by asking the Speaker to appoint conferees for H.R. 1386 as soon as possible.

On September 16, the Senate amended H.R. 1386, which passed the House last Spring, to provide families with tax credits to offset their children's vocational and higher education expenses. I have been informed, moreover, that when an identical amendment was dropped by the Tax Reform Act Conference Committee Ways and Means Chairman Ullman assured the conferees of his efforts to bring the tax credit issue to a full House vote in the 94th Congress. As of this time, the House has not appointed conferees to enable this.

All of us are familiar with the Senate's tax credit amendment. A family would be able to reduce its 1977 tax bill by up to $100 for each child's vocational or college education expenses. The amount of the credit would increase in $50 increments annually until 1980.

Nearly four dozen Members, from both parties, have sponsored higher education tax credit bills. Almost twice this number urged hearings on the tax credit approach. The Senate has passed such legislation in four of the past five Congresses, including the 94th Congress. President Ford, himself, publicly endorsed the tax credit approach to education. Despite this overwhelming bi-partisan support, the full House has <u>never</u> had the opportunity to express its will.

I, therefore, earnestly enlist your assistance in urging action on this legislation. It is the last chance for the 94th Congress to go on record on this important issue. Regardless of our individual opinions on this particular Senate amendment, I know you will agree to the importance of the issue itself.

Please, write, call, or otherwise relay to the Speaker your desire that conferees for H.R. 1386 be appointed without delay. If you have any questions, or need further information, please contact Chris of my staff at x56111.

Sincerely,

Larry

LAWRENCE COUGHLIN

FACT SHEET ON TAX CREDITS FOR HIGHER EDUCATION EXPENSES

General:

Almost four dozen Congressmen have sponsored bills providing tax credits for education costs.

Nearly twice that number urged Ways and Means Committee Chairman Ullman to hold hearings on the tax credit approach. Hearings were never held.

The Senate has passed tax credit legislation in four of the past five Congresses, including the 94th Congress. In each instance, the Senate position was dropped in House-Senate Conferences.

What the present tax credit provision would do:

A family would be able to reduce its 1977 tax bill by up to $100 for each child's vocational or college education expenses. The amount of the credit allowed would increase by $50 each year until 1980. The credit would then be $250 per student.

Recent legislative history:

The Tax Reform Act was amended by the Senate to include the above tax credit provision. The House-Senate Conference Committee, which had to convene to resolve the differences between the two chambers' tax reform bills, dropped the tax credit provision.

This was done with the assurance from Ways and Means Committee Chairman Ullman, however, that he'd do everything he could to bring the issue to a House vote, if the Senate added the provision to another bill.

The Senate did precisely this with an amendment to H.R. 1386. H.R. 1386 is a private relief bill for Smith College which passed the House last May. The Senate amended the bill on September 16, 1976 with the tax credit provision (explained above), requested a conference with the House to resolve the differences, and appointed conferees. As of September 23, however, the House has not appointed conferees.

If a conference is not convened, the tax credit provision (as well as the Smith College relief) will die with the end of the 94th Congress.

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