The original documents are located in Box 29, folder "Taxes - General (1)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

Ron Nessen:

STATUS OF TX X CUT/ SPENDING LIMITATION

House Ways and Means Demo members have continued to block attempts to permit the House to vote on the President'ts Tax Cut and Spending Limitation.

Our intent is to continue to add these provisions by Amendment to the Tax Bill, the Debt Authorization Bill, or as a seperare Bill which has originated in the Budget Committee. The President feels that the full House has a right to express its opinion on these imprtant measures, and the Committee's should allow such xom consideration.

Bill Gorog

(Ron....I will be at Ways and Means Minority meeting from 10:00 to 11;00.. then back in my office 7060)

Before I ~~complete~~ conclude , I want to ~~w~~say that I understand that both the Senate and the President have had ~~xs~~some trouble with some of the changes that we have made in the Senate language in our policy statement. I want to say that the changes are not substantive . Let me go through some of them with you.

For example, I understand that some ~~objectives~~ object to adding the language "and if economic conditions warrant doing so" at the beginning of the third paragraph. I want to point out that this phrase is almost the same as that provided in the proviso at the end of the third paragraph. There, it is indicated that nothing would preclude the right of Congress to change the expenditure figure if this is warranted by economic conditions.

1. [As far as I am concerned, - and I speak as Chairman of the Committee -] this means nothing more than ~~r~~was meant by the proviso at the end of the paragraph. Therefore, it really is simply a redundant statement. However, some of the House Members felt that it was important to have this phrase appear up above to be sure that no one misunderstood that there was a condition that if the economic conditions change the commitment might have to be modified.

I know, also, that there are some who think that the omission of the word "changing" in front of economic conditions at the end of the third paragraph had some significance. I do not believe that there is any substantive effect occurring from this ommission. I believe that it is clear that the economic conditions existing today do not warrant departing from the commitment s specified, and I believe that it is only if economic conditions were to change that this would be true.

Also I know of no other circumstances at this time which would require a change from this commitment. Of course other circumstances which are unforeseen at the present time may untilmately require some change.

I understand, also, that some question has arisen where we made reference to "additional reduction in taxes". It was the intention of all of us to refer to any reduction in taxes which occurs after June 30, 1976, even though it is the same amount of reduction which is alræady provided for in the period up to June 30, 1976. In other words, an extension of the existing tax reduction beyond June 30, 1976 would give rise to the requirement of an equal reduction in spending to offset a tax reduction.

The determination to control spending is, in my opinion, a determination which the Congress shares with the President. I know of his interest in reducing the national ~~debt~~ deficit, and I can assure him that Congress shares this determination with him and that the statements that we are making in this tax bill reinforce that determination.

PERSONAL TAX CUTS

Q & A

Withholding

Question - Why would withholding rates rise on 1 January 1976 if the 1975 temporary personal income tax reductions were merely extended?

Answer - The $8 billion in temporary reductions was with reference to 1975 liabilities. The entire annual effect had to be reflected in only 8 months of 1975 following enactment of the 1975 Act. The same $8 billion of relief extended over 1976 would require higher withholding rates than those in effect during the last 8 months of 1975.

Present Withholding at Annual Rate

Question - How much of the proposed tax reduction merely assures that withholding rates will not be higher in 1976 than in the last 8 months of 1975? .

Answer- $4 billion. Added to the continuation of the 1975 Act tax relief, the total reduction in 1976 liabilities that assures that personal disposable incomes will not be lower in 1976 than in 1975 is $12 billion.

New Withholding Cuts

Question - Would withholding rates be reduced on January 1, 1976 under these proposals?

Answer - For most taxpayers, withholding rates will be reduced to reflect the additional $8.6 billion personal tax cut beyond extending and annualizing the 1975 cuts.

Aged and Blind Exemptions

Question - Will the additional personal exemptions for taxpayers who are over 65 or who are blind also be increased to $1,000?

Answer - Yes.

Replacing $30 Exemption Credit

Question - Since the $30 tax credit per taxpayer and dependent in the 1975 Act was intended primarily to extend tax relief to taxpayers who itemize deductions, how do the present proposals continue that tax relief?

Answer - Itemizers will benefit from the higher personal exemption. Raising the personal exemption is an alternative to continuing the $30 tax credit. Itemizers will also benefit by rate reductions.

Reduced Tax Burdens for All

Question - The President's proposal increases some marginal tax rates. Does this mean that some families will have a tax increase?

Answer - The marginal tax rate changes interact with the other features of the package--the increased personal exemption and standard deduction--so that all taxpayers will have their tax liabilities decreased in comparison with the 1974 law and practically every taxpayer will have his tax liability reduced in comparison with 1975 law.

Increased Tax Bracket Rates

QUESTION - Why are some personal income tax bracket rates increased?

ANSWER - The decision to raise a few bracket rates was made in the light of all other changes proposed and is intended to assure equitable distribution of tax relief. Under the changes proposed, no taxpayer will pay a higher total tax.

Standard Deductions vs Itemizers

QUESTION - What will be the principal differences between those who use the standard deduction and those who itemize?

ANSWER - Both groups of taxpayers will benefit by the increase in the amount of personal exemption and the general lowering of tax rates. In addition, those households claiming the standard deduction will be allowed an increased deduction in most cases. There are also some itemizers who will benefit by the increase in the size of the standard deduction if their itemized deductions are greater than deductions under the old law but less than deductions under the current proposal.

MORE USE OF STANDARD DEDUCTION

QUESTION - The President's proposal replaces the low income allowance and the percentage standard deduction with a flat deduction of $2,500 for joint returns and $1,800 for single individuals. How many taxpayers will switch to itemizing and how many to the new flat deduction?

ANSWER - Compared to 1975 law:

900,000 returns switch to itemizing, and 3.9 million returns switch to the standard deduction.

Net there will be 3 million more returns using the standard deduction.

MORE USE OF STANDARD DEDUCTION

QUESTION - Will a greater proportion of taxpayers be expected to use the standard deduction, rather than itemize deductions, under these proposals?

ANSWER - Yes. Currently, under 1975 law, 31.3 percent of tax returns must itemize their deductions. Under these proposals the proportion can be expected to decrease to 27.8 percent.

SIMPLIFICATION

Question - Will this proposal simplify tax returns?

Answer - Yes, in three ways:

First, more taxpayers will be able to use the standard deduction, rather than itemize their deductions. Presently, under 1975 law, 27 million returns are expected to itemize, while under this proposal, only 24 million will have to itemize.

Second, the standard deduction and personal exemptions are much simpler than under 1975 law. This will also help make the withholding tables easier.

Third, 2.2 million returns which owe tax under 1975 law will owe no tax under this proposal. This is the ultimate simplification.

TAX-EXEMPT INCOME LEVELS

Question - For families of different sizes, what are the levels of tax-exempt income implied by the President's proposal?

Answer -

Type of taxpayer	Proposed Maximum Tax-free Earned Income for Tax-payers Not Eligible for Earned Income Credit (Rounded to nearest $10)
Single, no dependents	$2,800
Married, joint return	
No dependents	$4,500
1 dependent	$5,500
2 dependents	$6,500
3 dependents	$7,500
4 dependents	$8,500
Single over 65 no dependents	$3,800
Married, joint returns, both over 65	$6,500

NOT TAXING FAMILIES BELOW POVERTY LINE

QUESTION - Will any families with incomes at or below the poverty level have any tax liabilities under the President's proposals?

ANSWER - No. Given the probable increases in the Consumer Price Index ho families with incomes below poverty levels will have any Federal income tax liability.

TAXPAYERS MADE NONTAXABLE

QUESTION - As compared to 1975 law, how many taxpayers are made nontaxable?

ANSWER - 2.2 million.

EARNED INCOME CREDIT

Question - Does the proposal include extension of the 10 percent earned income credit?

Answer - No recommendation is made with respect to the earned income credit. This is an item the Congress should consider when it reviews outlay programs in light of these tax proposals.

TAX-FREE INCOME LEVELS AND THE EARNED INCOME CREDIT

QUESTION: What would be the level of tax-free earned income for taxpayers eligible for the earned income credit, assuming that the earned income credit is retained in its current form?

ANSWER: Married, joint return

1 dependent	$6,625
2 dependents	$7,182
3 dependents	$7,727
4 dependents	$8,500
5 dependents	$9,500

SOCIAL SECURITY BENEFITS

Question - The Tax Reduction Act of 1975 included a $50 payment to all social security and supplemental income security beneficiaries. Is a similar provision being proposed for 1976?

Answer - No. Social Security benefits will be increased in 1976 to reflect increases in the Consumer Price Index. Moreover, Social Security beneficiaries with taxable income will have lower taxes from the increase in the personal exemption.

HOME PURCHASE CREDIT

Question - Does the proposal include extension of the 5 percent tax credit for purchase of new homes?

Answer - No.

CORPORATE TAX CUTS

Q & A

Investment Tax Credit

Question - What does the tax cut provide for the investment tax credit?

Answer - The Tax Reduction Act of 1975 increased the investment tax credit to 10 percent for both 1975 and 1976. This new tax cut would make permanent the increase to 10 percent for all years after 1976.

Investment Tax Credit

Question - Will the extension of the investment tax credit affect business tax liabilities for 1976?

Answer - No. The investment tax credit was scheduled to continue through 1976 under the Tax Reduction Act of 1975. The President's proposals which recommends that the 10 percent investment tax credit be made permanent will affect business tax liabilities after 1976. If the 10 percent investment tax credit is made permanent, there will be no artificial boom (and subsequent bust) in investment in order to beat the expiration rate.

Investment Tax Credit

Question - Will the temporary increase in the used property dollar limit that qualifies for the investment tax credit be changed?

Answer - No. The limit was increased by the Tax Reduction Act of 1975 to $100,000 for calendar years 1975 and 1976 (and fiscal years 1975-1976 and 1976-1977) but will revert to $50,000 after that time.

Investment Tax Credit

Question - Does the proposal include extension of the additional 1 percent investment tax credit where that additional credit is used in conjunction with an Employee Stock Ownership Plan (ESOP)?

Answer - No.

Investment Tax Credit

Question - How would these proposals affect the reduced limitations on investment tax credit for public utilities which were in the Reduction Act of 1975?

Answer - The same schedule of percent-of-income limitations would apply as in the 1975 Act. The higher tax credit may still not exceed 100 percent of income in 1975-76. This percentage is reduced by 10 percent each year until it reverts permanently to the 50 percent level in 1981.

Public Utilities

QUESTION - How does the proposal to make the 10 percent investment tax credit permanent relate to the proposals regarding electric utilities that the Administration presented to the Ways and Means Committee on July 8, 1975?

ANSWER - The Administration proposals for electric utilities are included in these proposals. The electric utility proposals include a 12 percent investment tax credit for investments in qualified electric utility property.

Utilities

Question - What would the proposals for utilities do to help reduce dependence on foreign oil?

Answer - Several incentives are provided to encourage investment in generating facilities not fueled by petroleum and to encourage conversion of present petroleum-fueled facilities to other energy sources. Investments in petroleum-fueled facilities would be ineligible for the 12 percent tax credit rate. Rapid 5-year amortization is allowed in lieu of normal depreciation and the investment tax credit for investments to convert or replace petroleum-fueled facilities in favor of facilities not fueled by petroleum.

Corporate Surtax Exemption

Question - How will the surtax exemption be effected?

Answer - The surtax exemption revisions made in the Tax Reduction Act of 1975 will become permanent. These rates are 20 percent on the first $25,000 of taxable income and 22 percent on the next $25,000. The decrease in the corporate surtax rates means that all income above $50,000 will be taxed at 46 percent--but this change does not effect the surtax exemption per se.

Integration

QUESTION: How does this proposal relate to the proposal for integration of the personal and corporate income taxes made on July 31, 1975?

ANSWER: The proposal for integration raised many fundamental and complex questions of tax policy which the Congress has indicated, appropriately, that it wishes to study over a considerable period of time. The integration proposal has not been incorporated into this proposal for immediate action. The Administration still supports the basic concept of integration.

Permanent Reductions

Question - Are the 1976 tax reductions meant to be temporary (as in 1975) or permanent?

Answer - The reductions are to be made permanent.

Timetable for Enactment

Question - When would this proposal have to be enacted in order to prevent withholding rates from increasing in January?

Answer - By mid-November. About six weeks are required to revise withholding tables.