THE WHITE HOUSE

WASHINGTON

November 3, 1975

FOR: RON NESSEN

FROM: TERRI OCHAL

Mr. Seidman has approved the attached Q&A's for use at the President's Press Conference tonight.

SPENDING LIMITATION TO THE TAX BILL

QUESTION - The House Ways and Means Committee has blocked your attempt to add a spending limitation to the tax bill. What do you expect to happen now?

ANSWER - The Committee has blocked this action on technical grounds. There will be one more opportunity for the Committee members to add amendments to the Tax Bill before the legislation is submitted to the House. We hope that in light of the importance of the spending limitation that such an amendment will be accepted by the Full Committee.

William F. Gorog

Nov. 3, 1975

SPENDING LIMITATION IN ADVANCE OF BUDGET CONSIDERATIONS

Q: You have been criticized for attempting to disrupt the procedures of the Budget Committee by asking for a spending limitation this far in advance of the scheduled budget considerations. Why is such action needed now instead of in May of next year?

A: The new procedures of the Budget Committee are excellent, and have been needed for years. I feel however, that one more step is essential in the process...that step is to establish how much the country can afford to spend...in advance of consideration of spending programs. This is a procedure accepted by every sound business and by every well managed family. The Government should adopt the same procedure.

This step would be a help to the Members of the Congress. It would permit an objective analysis of how much we can afford...without the pressure of looking at individual programs. If they adopt my request for a limit on spending, we can then approach spending on the basis of determining which programs have highest priority. This would permit reaching a balanced budget and prevent the Nation from following in the footsteps of New York City.

Gorog
11/3/75

November 5, 1975

SUBJECT: FATE OF ~~TAX~~ CUT BILL UNCERTAIN

The House Ways and Means Committee yesterday moved toward approval of legislation extending this years tax cuts into 1976. However, several key provisions were watered down so that the final fate of the bill remains uncertain. The measure does not include the $395 billion budget ceiling, proposed by the President.

What's your reaction to the House Ways and Means Committee action yesterday?

GUIDANCE: As I understand it, the Chairman ruled out of order an attempt to establish the $395 billion ceiling. This included a motion to refer a few sections of the tax cut bill from Ways and Means to the Budget Committee

We feel there is a lot of support in the House for referring the tax bill to the Budget Committee, thus indicating their support for a spending ceiling. The opportunity to even give people a chance to vote on this is being circumvented by parliamentary manuevering.

We feel it is important to give members of the House an opportunity to vote on whether they want a ceiling or not, and this should not be avoided by parliamentary maneuvering.

JGC

THE WHITE HOUSE

WASHINGTON

January 5, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Estate Tax Proposal: Family Farms and Businesses

The Office of Tax Analysis of the Department of the Treasury has prepared the attached description of the specific details of your proposal to ease the estate tax burden on transfer of family farms and small businesses.

February 11, 1976

SUBJECT: PRESIDENT'S BUSINESS TAX PROPOSALS

Yesterday Art Pine had an article stating that the Administration is unable to provide any firm justification for three of the business tax breaks the President proposed last month, including the tax break for stock buyers, the accelerated depreciation tax for plant expansion, and the utility construction incentive.

Is it true that the Administration can't justify these proposals?

GUIDANCE: ~~"Justification" is not the correct word~~. The President's business tax incentives, if adopted, will create productive permanent jobs in the private sector; but it is impossible to project just how many jobs will be added, because that depends on judgmental decisions by employers and plant managers.

As you know, the January unemployment figures show that nearly 100% of the people who lost their jobs during the recession have been rehired. However, plants and businesses have not been expanding at a rate where they can hire the new entrants into the job force, and the President's tax incentives are designed to provide an environment where these people can be hired in the private sector, not the public sector. However, we cannot produce computer answers as to how many people will actually be hired; at least, not in any way in which we have confidence.

Please feel free to call Bill Gorog with any further questions.

ME

March 18, 1976

SUBJECT: ELEMENTS OF SIMON TAX REVISION TESTIMONY

Yesterday Secretary Simon testified before the Senate Finance Committee on a wide range of tax issues. Much of the testimony was a reiteration of tax proposals offered by the Nixon Administration in 1973; however, some clarification may be needed on a couple of new items raised and discussed in the papers this morning.

GUIDANCE:

1. The "interspousal transfer of wealth" to which Simon alluded yesterday (which made headlines in the Wall Street Journal article) has not yet been firmly decided upon -- Treasury will be analyzing it over the weekend, and will then make a decision whether or not to favor it.

2. On the President's estate tax proposal, the President has, of course, proposed raising the exemption from $60,000 to $150,000. Yesterday Secretary Simon testified that to hold down the revenue loss from this, the Administration would propose leaving the tax rate for property over $150,000 remain what it currently is -- 30%. In other words, if the estate amounts to $155,000, the $150,000 would be tax-exempt, and the additional $5,000 would be taxed at the current rate. (Make sense?)

June 23, 1976

SUBJECT: SENATE TAX REVISION BILL

The Senate has for several days now been considering the Senate Finance Committee's complicated tax revision legislation. While several miscellaneous amendments have been tacked onto it, the bill basically appears to be along the lines of the Finance Committee bill.

<u>What is the White House opinion of the tax bill that is moving through the Senate?</u>

GUIDANCE: The bill as it currently exists is disappointing because it does not give the taxpayer the additional tax cuts which the President feels are so vital to the economy--particularly the increase in personal exemptions from $750 to $1,000.

The legislation at this point is complicated and ever-changing, and it may be several days after Senate action on it is completed before we have a complete analysis of the legislation.

ME

July 21, 1976

SUBJECT: TAX CUT EXTENSION

Yesterday the Senate voted to extend last year's antirecession tax cut through the end of 1977. This was done as part of the Long committee tax "reform" bill that has been sloshing around the Senate floor for weeks.

What, in light of the Lynn remarks in the Cabinet meeting yeterday, does the President feel about the action the Senate took yesterday?

First of all, with regard to the entire bill, the Administration feels it is premature to commit ourselves favorably or unfavorably becuase it is still in the legislative process, and has already been altered substantially on the floor of the Senate.

Secondly, with regard to the specific amendment passed yesterday, the President, as I mentioned yesterday, has proposed a permanent $10 billion permanent tax reduction in excess of what is contained in this amendment. It is the additional tax cut, with which we are so concerned, that relfects the fundamental difference between the Administration's and the Congress' approach to furthering economic recovery.

ME

September 9, 1976

SUBJECT: COMPROMISE TAX BILL

Yesterday the conference committee on the tax bill appears to have reached a compromise, including portions of the House and Senate bills both. The House bill has generally been referred to as a "reform" bill, while the Senate bill has generally been labelled a "special interest bill."

Has the President decided whether or not to sign the compromise tax bill?

GUIDANCE: As I understand it, there are still some issues to be resolved in the House-Senate conference committee, and until we see the completed version of the bill, it is impossible to tell whether or not the President will sign it.

At this time, the bill, as the President indicated in his statement upon the signing of the withholding tax extension bill, does not include either the additional $10 billion tax cut or the estate and gift tax reforms that the President proposed last January.

NOTE: Treasury feels that some form of estate and gift tax reform may still be included in the final form of the bill. Also, the bill does still include the Ribicoff amendment and some objectionable capital gains tax provisions adopted from the House version.

ME

September 10, 1976

SUBJECT: TAX BILL

SITUATION: House-Senate conferees last night completed work on the tax bill.

QUESTION: Will the President sign the new tax bill when it reaches the White House?

GUIDANCE: The President is pleased that the bill contains a number of reform measures which the Administration initiated to close or restrict many of the tax shelters under which high income tax payers have been escaping taxes. He also is pleased that the bill contains the revisions in estate and gift tax laws which he recommended.

He is disappointed, however, that the bill did not contain larger tax cuts for individuals.

The bill, however, is a complicated one - over 1000 pages - and it contains other provisions which we want to analyze before definately deciding whether the President will sign it. [FYI: Chances are 99 percent that he will sign the bill.]

BACKGROUND: A summary of some of the bill's more important provisions affecting individuals and corporations, prepared by the Washington *Post*, is attached.

JBS

Major Provisions of Tax Bill Voted by House-Senate Unit

By Peter Milius
Washington Post Staff Writer

The tax bill that House-Senate conferees agreed to yesterday will affect every taxpayer in the country if, as expected, it is approved a final time by both houses and signed by President Ford. Here are some of the more important provisions affecting individuals and corporations:

$35 anti-recession credit. Each taxpayer allowed special credit, or reduction, in taxes owed this year and next. Credit equals $35 for taxpayer plus $35 for each dependent, or 2 per cent of first $9,000 in taxable income, whichever is greater.

Minimum standard deduction. Standard deduction for non-itemizers stays at 16 per cent of adjusted gross income, but minimum standard deduction—the minimum amount that can be taken regardless of income—rises this year to $2,100 for joint returns, $1,700 for single individuals.

Capital gains. Holding period to qualify for capital gains taxation goes from six months to nine months in 1977, 12 months thereafter. Amount of capital losses that can be used to offset ordinary income also rises, to $2,000 next year, $3,000 thereafter.

Child care. Present deduction changed effective this year to credit for 20 per cent of child care costs, up to maximum tax reduction of $400 for one child, $800 for two or more. Credit available where one parent works full time and other is part-time worker or full-time student, instead of both having to work full time as now. Also available to divorced or separated parent with custody of children. Credit available without regard to family income; present income ceilings dropped.

Alimony. Starting next year, rules changed to make alimony deduction available to non-itemizers. Deduction to be taken in computing adjusted gross income rather than taxable income, as now.

Moving expenses. Maximum permissible deduction raised from present $2,500 to $3,000, beginning next year.

Business use of home. Generally, deduction limited beginning this year to portion of home used exclusively and on regular basis for business, and also limited to income produced by work done in home.

Vacation homes. If taxpayer uses home more than two weeks or 10 per cent of time it is occupied, whichever is greater, deductions limited to rental income. Exception: deductions for interest and taxes can be taken in full even if they exceed rental income.

Individual retirement accounts. Where taxpayer's spouse is not in work force and is given half interest in such an account, maximum that can be set aside tax-free to increase next year from present $1,500 to $1,750 or 15 per cent of compensation, whichever is less.

Capital gains on house sales. Under present law, persons 65 and over who sell their houses and do not buy another pay no tax on capital gain if sales price is under $20,000, and pay on increasing percentages of gain as price rises beyond $20,000. Bill makes this cutoff $35,000.

Retirement income credit. "Retirement income" redefined to include earnings as well as pensions, annuities, dividends, interest and such. For single person 65 or over, or couple filing jointly where only one is 65 or over, credit to be 15 per cent of first $2,500 of retirement income minus Social Security payments and similar benefits. It will be first $3,750 for couple filing jointly where both are 65 or over. Credit to phase out where income over $7,500 if single, $10,000 if married and filing jointly. All effective this year.

Income earned abroad. Present exclusion to be reduced this year from $20,000 to $15,000 for all but workers employed by charitable organizations.

Corporate surtax exemption. Corporate tax rates this year and next to be 20 per cent on first $25,000, 22 per cent on next $25,000, 48 per cent thereafter. Rates before last year were 22 per cent on first $25,000, 48 per cent above that.

Investment tax credit. Stays at 10 per cent through 1980 instead of reverting to 7 per cent next year. Also, railroads and airlines allowed to use credits to reduce taxes to zero this year and next, instead of reducing taxes by half, which is the normal limit.

Employee stock ownership plans. Last year's provision, giving companies extra percentage point of investment tax credit if they put money in an ESOP, to continue through 1980.

Net operating losses. Companies given two years more than under present law to carry them forward, can use them to offset profits in good years and thus lower taxes.

Private foundations. Amount they must pay out each year currently is their total adjusted net income or 6.75 per cent of their non-charitable assets, whichever is greater. This mandatory payout reduced by bill to 5 per cent of assets.

Provisions dropped. The conferees dropped Senate provisions calling for college tuition credits and various tax cuts ostensibly aimed at saving energy, including a credit for installation of storm windows and other forms of insulation. Also dropped was a Senate provision reducing estate taxes, which may be taken up in the House later this month as separate legislation.

Questions have been raised about the NEW YORK TIMES article indicating that Ford rejects easing of cable TV curbs.

First of all, no recommendations on the cable-TV issue have been made to the President during the last few months nor ~~has he reviewed the work that has been done on this matter.~~ has a summary of the work, because it has not been completed.

The Domestic Council's Review Group on Regulatory Reform has been conducting an analysis of cable-TV regulations during the last six months. Based on this analysis the review group decided that it could not make recommendations to the senior White House staff for any change in FCC regulation ~~at this time~~ until additional work has been done.

The review group was not able to establish to its satisfaction the effects of a number of proposed reforms on consumers of broadcast and cable services throughout the economy. Also, recent changes in FCC regulation have not been in effect long enough to allow the anlysis to be conducted.

The Review Group expects to continue its work in 14 different areas for an additional length of time with a view to making recommendations to EPB and the White House staff.

REVISED GUIDANCE

H.R. 12455, which passed the Senate last night, is the day care "compromise" bill, not the tax revision bill (which was approved by the Finance Committee yesterday p.m.)

We are looking at the tax revision bill (which contains tax credits for families with children in day care centers.)

However, we are opposed to H.R. 12455, which is an even worse bill than that vetoed by the President on April 6. (This bill would not only eliminate postponement of the standards, but would permit subsidies to families who can afford to send their children to day care centers on their own.)

Tax Incentive Proposal

QUESTION - How many jobs will be created by ~~this~~ your proposal to give a tax incentive for businessmen to build or expand plants in hi unemployment areas?

ANSWER - There is no reliable way to forecast the number of new jobs which might be created. Business must have a chance to examine the program and make specific investment decisions. We are optimistic, however, that a substantial number of projects now deferred will be started because of the tax postponement and cost of capital incentives in our plan.

QUESTION - Why not make the program available to more or all areas?

ANSWER - Since the middle 1960's, there has been a fairly dramatic shift toward greater regional variation in unemployment. Analysis of Department of Labor data shows this. Hence, slack in labor markets is not at all uniformly distributed among areas. Consequently, by targeting to the areas with the most slack, we hope to provide stimulus to the areas with the greatest need.

QUESTION - How are geographic areas with high unemployment to be identified?

ANSWER - Unemployment data are available by defined labor market areas by the U.S. Labor Department. Attached is a list of areas in Florida that qualify as having a rate of unemployment in excess of 7%. Areas of a State that are outside defined labor market areas would be considered as a whole, and if this portion of a State were experiencing unemployment in excess of 7% it would also be eligible.

QUESTION - How many Labor Market Areas (LMAs) are there? How many would qualify for the benefits of your new proposal? Isn't it true that if such places as Philadelphia and San Francisco qualify so would the attractive outlying industrial parks in Valley Forge, Pennsylvania and Palo Alto, California? If so, how is this proposal going to impact upon employment in the hard core urban areas?

ANSWER - Of the 260 LMAs, we presently estimate that 166 would qualify for the benefits of this program. It is true that a typical LMA includes not only the core city but the surrounding counties which make up the typical commuting unit. It is also true that facilities located in the areas you mentioned would qualify.

Nevertheless, we see benefits to the unemployment situation in the following respects. First, acceleration of activity in the construction field would have an immediate impact on one of the most depressed types of employment. Many of the construction workers live in the core cities and would be put to work immediately on this new construction. Second, as the new facilities create jobs and pressure is placed on the labor market, workers from the inner city may either commute to the new facilities or replace other workers who prefer new facilities closer to their homes. The creation of new jobs in an LMA necessarily benefits the economy of the entire area.

QUESTION - In States like Hawaii, where all of the State except Honolulu would qualify, how would a businessman know the precise boundary lines so he could build a new plant and qualify under the program?

ANSWER - This information will be available from the U. S. Department of Labor and will be patterned on existing definitions of labor market areas.

QUESTION - What is to prevent a firm from locating a new plant just a block away from a low unemployment area and thus not benefiting a high unemployment area?

ANSWER - Nothing, however, the firm would be at a disadvantage in readily recruiting a work force because of its location on the transportation fringe of a labor market area and in competing for workers in a labor market that is tighter than other places in the State.

QUESTION - Eight States do not have sufficiently high unemployment to qualify under the program. Some of these States, however, are experiencing 6% unemployment and qualify as high unemployment areas under other Federal programs. Is this new program fair to these 8 States?

ANSWER - Yes it is. Cut-off points are common to most government programs. The objective is to direct job-producing investment to areas suffering the greatest unemployment.

Q. What else would you suggest to make the Federal tax laws more equitable than they now are?

A. It is clear that the Federal tax law must be reformed in the interests of achieving greater fairness among taxpayers, and I have submitted legislation to that end -- legislation that would require high income taxpayers to pay a reasonable tax, that would restrict the use of artificial accounting losses as tax shelters, and would gradually reduce the double taxation on corporate dividends so that we might encourage greater investment in the country's future. I hope that the Congress will join with me in this effort to make our tax system fairer and more equitable.

Statement by the Press Sec'y

The President is very pleased by the actions taken in the Congress tonight on the tax bill.

The bill which has been enacted not only continues cuts the taxes for the first half of 1976 but also represents a good faith commitment by the Congress to match future tax reductions with dollar-for-dollar reductions in projected spending. This has been the essential issue at stake throughout these debates, and the President is gratified that the Congress has now accepted this principle.

The essence of the bill, then, is that taxpayers will continue to enjoy a measure of tax relief in 1976 and that for the first time in history, future reductions in taxes will lead to similar reductions in spending.

# # #

1) Ullman ~~statement~~

2) Will G.F. sign?

TAX REDUCTION/SPENDING CEILING

Q. Will you veto legislation which reduces taxes without Congressional assurances that federal expenditures for fiscal year 1977 will be no greater than $395,000,000,000?

A. I wish to reaffirm my determination to veto any tax cut without affirmative action by Congress which would limit federal spending for fiscal year 1977 to $395,000,000,000. It would be dangerous and irresponsible to cut taxes and not cut the growth in federal spending. That would only leave us with huge deficits, higher interest rates, more inflation and eventually more unemployment.

TAX REDUCTION/SPENDING CEILING

Q. How do you arrive at figures of $28 billion dollars in the form of a permanent tax reduction, and a $395 billion dollar spending ceiling for fiscal year 1977?

A. I selected $395 billion dollars as the ceiling by looking ahead at both what was necessary and what was obtainable. To assist me in what was obtainable, OMB produced numerous tentative alternative ways of reducing the $423 billion dollars by certain amounts. The purpose of this procedure was not to predetermine the budget, but simply to permit decision as to an attainable ceiling, and this is all we asked Congress to do now. Just as I expect to utilize fully the regular budget process involving the expertise and initiatives of all the departments and agencies in the setting of priorities and in the determining of the exact way of keeping the expenditures within the $395 billion dollar ceiling, I would fully expect the Congress to fully utilize its budget process and other processes in similar fashion in the spring of next year. All I ask now that the Congress join me in setting the overall ceiling so that we can at least begin to go on the road toward control of government growth and at the same time give the kind of tax relief to the American people which I believe all of us would like to give.

TAX REDUCTION/SPENDING CEILING

Q. Doesn't your tax reduction/spending ceiling program artificially stimulate the economy before the election and subsequently cause a drastic reduction in economic growth?

A In the short-term this package will provide us with a stronger foundation to sustain the momentum of our current recovery. In the long-term, the discipline imposed upon the growth in the budget will reduce the inflationary pressure generated by Federal spending.

There can be no question that curbing the explosive growth in an essential weapon in the long-term fight against inflation. Furthermore, by reducing taxes, as well as spending, we will also encourage greater savings and investment, a process that is imperative if we are to create jobs and increase productivity and increase real earnings in this country.

In short, it is going to provide a higher standard of living for all of us.

SUBJECT: PRESIDEN T''S BUDSINESS TAX PROPOSALS

Yesterday Art Pine had an articlestating that the Administration is unable to provide any firm justification for three of the business tax breaks the Presidnt proposæd last month, including the tax break for stock buyers, the accelerated depreciation tax for plant expansion, and the utility constraction incentive.

Is it ~~ture~~ true that the Administration can't justify these proposals?

The P's business tax

~~"Justification" is not the correct word.~~ ~~We are certain~~ ~~these~~ incentives, if adopted, will create productive permanent jobs in the private sector; but it is impossible to ~~fo~~ project just how many jobs will be added, because that depends upon judgmental decisions by employers and plant managers.

~~The problem is, industry is not expanding at a rate where it can~~ As you know, the January unemployment figures ~~are~~ show that nearly ~~all~~ 100% of the people who lost their jobs during the recession have been rehired. However, plants and businesses have not been expanding at a rate where they can hire the new entrants into the job force, and the Presidet's tax incentives are designed to provide an environment where these people can be hired in the private sector, not in the public secotr. Hoewever, we cannot produce computer answers ~~which~~ as to how many peopole will acutally be hired, at least, not any in which we have confidence.

Please feel free to call Bill Gorog with any further questions. 456-6070.

Subject: Estate Tax Proposal: Family Farms and Businesses

Your proposal to ease the estate tax burden on transfer of family farms and small businesses can be stated as follows:

-- To the extent that a decedent's Federal estate tax liability is attributable to his interest in a family farm or other closely-held business qualifying under section 6166 of the Internal Revenue Code,* payment of the tax need not be made or need not commence until five years following the regular due date thereof.

-- At the end of the five-year period, the deferred tax would, at the taxpayer's option, be payable in equal annual installments over the next 20 years, with simple interest at the rate of 4 percent per annum.

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* Normally, estate taxes are due within nine months following a decedent's death, but under section 6166, Federal estate taxes attributable to a qualifying business interest may be paid over a period of ten years. To qualify:

-- Decedent's estate must include an interest in a sole proprietorship carrying on a trade or business, <u>or</u> at least a 20 percent interest in a partnership, with ten or less partners, carrying on a trade or business, <u>or</u> 20 percent of the voting stock of a corporation, with ten or less shareholders, carrying on a trade or business.

-- Decedent's business interest must exceed, in value, 35 percent of his total estate before deductions, or 50 percent of his taxable estate (i.e., his total estate less deductions allowed under the statute).

- o No interest would accrue during the five-year moratorium period, and no principal or interest payments would be required during that period.

-- The five-year moratorium and 20-year extended payment proposal would apply in full only to the first $300,000 in value of the family farm or business.

- o Between $300,000 and $600,000 there would be a dollar for dollar reduction in the value of the farm or business qualifying for the moratorium and extended payment provisions.

- o That portion of the tax not so qualifying would continue to qualify for installment payments under the present ten-year rule under section 6166.

-- The executor would be relieved from personal liability to the extent that estate taxes are paid under the five-year moratorium and 20-year extended payment proposal, or under the existing ten-year rule.

- o The underlying property would be subject to the estate tax lien until payment in full of all estate taxes and interest.

THE WHITE HOUSE
WASHINGTON

Jack Hushen wants to know if this is o.k. to run by the wires?

OK ___________

NO ___________ (hold a while)

OK ___________ (with attached changes)

p

President Ford will announce his decision regarding an extension of the tax cut in a[redacted] televised address to the nation from the Oval Office at[redacted] 8:01 p.m. today. A briefing will be held for correspondents at 5:30 p.m. in room 450 Executive Office Building. [redacted] All newsmen should enter through the 17th Street entrance. Newsmen who do not have a White House[redacted] pass[redacted] should call 456-2100 for clearance. The briefers will be Treasury Secretary William Simon, OMB Director James Lynn and Alan Greenspan, chairman of the Council of Economic Advisers. The briefing is embargoed until the President begins his address.