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Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

In October 1975, I presented to the Congress a program of tax cuts and spending restraints that would have reduced the burden of government for all taxpayers. It would have given the American people more freedom to spend their incomes as they choose rather than as Washington chooses for them. However, Congress decided otherwise -- to increase spending far more than I wanted and to cut taxes far less than I wanted.

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 reductions in 1977. First, I again urge a permanent increase in the personal exemption from \$750 to \$1000 to replace the system of temporary tax credits that have so greatly complicated the individual income tax return. I am also recommending an increase in the low income allowance and a series of permanent tax rate reductions. In total, my proposals provide income tax relief for individuals of approximately \$10 billion in 1977. The tax reductions of 1975 and 1976 focused tax relief on the lower income taxpayer. However, it is high time to focus substantial tax relief on middle income taxpayers. The tax relief I seek will cut the 1977 income taxes of a typical family with four with an income of \$15,000 by \$227.

In the long run, inflation and real economic growth constantly push taxpayers into higher and higher tax brackets if tax law remains unchanged. Some believe that these additional tax receipts should be spent on new Federal programs. I do not. Instead, I believe that the Congress should periodically counteract the growing burden imposed by the tax system by providing offsetting tax cuts while continuing to restrain the rate of growth of Federal spending.

The creation of good permanent jobs for our expanding labor force requires a higher level of private investment. I am, therefore, recommending again a permanent reduction in the corporate income tax from 48 to 46 percent. This would reduce business tax liabilities by \$2.5 billion in 1977.

I also urge making permanent the 10 percent investment tax credit and the surtax exemption provisions of 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 integrate corporate and personal income taxes gradually over a period of years beginning in 1978. All of these changes in the tax laws will increase the funds available, directly and indirectly, for new and better plants, machinery, stores and equipment.

I am again recommending accelerated depreciation for new plants and equipment installed in rural and urban labor market areas where unemployment is 7 percent or higher. I am firmly

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convinced that this is a far better way to help create jobs in those areas that have lagged behind in the economic recovery than adding layer upon layer of new hastily conceived spending programs.

A year ago, in my 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. Therefore, much as I didn't like doing it, I felt compelled to recommend payroll tax rate increases beginning January 1, 1977. The employee share of this increase would have amounted to less than one dollar per week for taxpayers at the top end of the pay scale and a few cents per week for those at the bottom. Congress failed to act on this proposal. Partly because of the delay, a higher tax increase is now necessary if the social security system is to remain intact. 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 inflation adjustment for future benefits for currently employed workers, 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. These will be proposed again in my budget, but 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 integrated with the rest of our welfare system and makes future reform of that system even 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.

GERALD R. FORD

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January 4, 1977.

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