The original documents are located in Box C28, folder "Presidential Handwriting, 9/26/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

 [filed 9/26/75]

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

September 25, 1975

ECONOMIC AND ENERGY MEETING
September 26, 1975
2:30 p.m.
Cabinet Room

From: L. William Seidman LWS

I. PURPOSE

A. To consider alternatives regarding extension of the 1975 tax reductions.

B. To review the status of the oil decontrol issue.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The Weekly Economic Fact Sheet is attached at Tab A. The Economic Policy Board Weekly Report is attached at Tab B.

The House Ways and Means Committee is scheduled to consider extension of provisions in the Tax Reduction Act of 1975 commencing October 7. While there is little apparent sentiment for another rebate in 1976 or for an extension of the 5 percent housing credit, there is considerable support for extending or increasing the other provisions in the Act which will expire at the end of the year. The Investment Tax Credit, which expires in January 1977, is the single provision in the Act which does not lapse at the end of 1975.

The Economic Policy Board has considered the issue of extending the 1975 tax reductions at length. A memorandum on the issue is attached at Tab C.

At their September 17 meeting with you, the Labor-Management Committee made their recommendations regarding extension of the tax reductions. Their statement is attached at Tab D.

B. Participants: William E. Simon, Henry A. Kissinger, L. William Seidman, James T. Lynn, Alan Greenspan, John T. Dunlop, Rogers C.B. Morton, Frank G. Zarb, Arthur F. Burns, Donald Rumsfeld, John O. Marsh, Richard Dunham.

C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Extension of 1975 Tax Reductions

Secretary Simon will review the economic and budgetary outlook as they relate to the issue of continuing the 1975 tax cuts and outline the options regarding the size, duration and composition of a tax reduction extension.

B. Oil Decontrol

Frank Zarb will review the current status of the oil decontrol issue.

A

September 25, 1975
CEA

WEEKLY ECONOMIC FACT SHEET

During the past month, as new statistics have become available, the economic recovery appears to be even stronger than earlier anticipated. Industrial production has grown rapidly since April, employment gains have been sharp, and the unemployment rate has fallen. Moreover, after rising at double digit rates during June and July, consumer prices rose only slightly during August as food and fuel prices stabilized. Abstracting food and fuel, the underlying inflation rate appears to have settled in the six to eight percent range at the present time.

Production

- Last week the Federal Reserve revised upward the industrial production figures for May, June, and July and indicated a preliminary 1.3 percent increase in industrial production for August. Industrial production between April and August exhibited a strong 8.4 percent annual rate of increase.

- The Commerce Department is now projecting (on a tentative and not for publication basis) a 9.7 percent rise (annual rate) in real GNP from the second to the third quarter. This unusually high growth rate is due to a peculiarity, however, in the way in which the GNP price deflator is calculated. Adjusting for this peculiarity would result in something closer to seven percent real growth and a seven percent price change for the quarter. Part of this growth in real GNP is due to a sharp reduction in the rate of inventory liquidation. It appears that real final sales grew in the third quarter by only 3.9 percent.

- New orders for durable goods increased by 0.3 percent in August compared with a 4.9 percent increase in July. New orders have increased at an average monthly rate of 2.3 percent from April to July. The backlog of unfilled orders which have been declining sharply rose by 0.4 percent in July and 0.1 percent in August.

Employment and Unemployment

- The unemployment rate seasonally adjusted remained at 8.4 percent in August, significantly below the 8.9 percent average of the second quarter. Moreover, the average workweek in manufacturing increased sharply from the second quarter level--by 0.7 hours--and overtime increased by 0.3 hours.

Personal Income and Retail Sales

- Total personal income rose $18 billion in August after a small decline in July. Since May 1975 personal income has increased 3.5 percent which implies an annual rate of growth of 14.8 percent in nominal terms.

- Over the last three months retail sales have advanced at an annual rate of 12.4 percent although advanced estimates for the month of August suggest a small decline from the high July rate.

Prices

- After rising at roughly a 12 percent annual rate during July and August, due primarily to rapid increases in food and fuel prices, the CPI rose at a seasonally adjusted annual rate of 2.4 percent in August as food and fuel prices stabilized.

Monetary and Financial

- Interest rates have continued to move upward. Short term Treasury bill rates are approximately one percent higher than they were in May. The pattern of rising rates has spread into longer term markets as well, although rates have eased somewhat since the announcement of only a small rise in the Consumer Price Index for August.

- The rate of growth of the various monetary aggregates has flattened out since early July and this has brought the growth rates since April back to the 7.5 percent upper point of the target range set forth by the Federal Reserve earlier in the year.

Housing

- Housing starts during the month of August were up 43 percent from the abysmal lows of December 1974. Recent increases in interest rates are not favorable, however, and the level of rates could make a considerable difference to the outlook for this industry in 1976.

B

September 22, 1975

ECONOMIC POLICY BOARD WEEKLY REPORT

Issues Considered by the EPB During the Week of September 8

1. Capital Formation Study
   Reviewed memorandum summarizing the findings of the Capital Formation Task Force. The Task Force will prepare a document for review by the Executive Committee with a view to approving the document for publication.

2. Proposed Constitutional Amendment on a Balanced Budget
   Discussed Administration position for up coming congressional testimony.

3. Troika Forecast of September 9, 1975
   Reviewed forecast confirming upturn in the economy and modest increase in estimate of the underlying inflation rate.

4. Tax Reduction Extension Alternatives
   Reviewed options memorandum which will be revised for reconsideration and submission to the President.

5. New York City Situation
   Reviewed situation and draft reply of letter to Senator Humphrey regarding the Federal Government's contingency plans in the event of a New York City default. Reviewed Secretary Simon's testimony on New York City.

6. Inflation Impact Statement
   Reviewed status of inflation impact statement initiative.

7. Standards of Conduct for Multinational Corporations
   CIEP Committee on Multinational Corporations directed to prepare report on current status of codes of conduct exercises in the OECD, the UN, and the OAS, the alternatives to participation in these codes, and an analysis of existing studies on the actual conduct of multinational corporations.

8. OPEC Oil Price Increases
   Reviewed memorandum prepared by CEA summarizing various forecasts of the size of prospective OPEC price increases. CEA and the NSC will jointly prepare a memorandum on policy options regarding OPEC oil price increases for consideration in early October.

Task Force Status Reports

1. Council on Wage and Price Stability

   - o Aluminum - Held hearings in July. Announced taking no further action on industry increase. Increase implemented in early August.
   - o Flour - Investigating timing of increases in family flour prices announced mid July; appear to be strongly linked to Russian grain sales.
   - o Steel - New increases announced in early August by Armco on hot and cold rolled sheets, effective mid-August. U.S. Steel refused to follow and announced lower increases effective October 1.
   - o Automobiles - Increases announced by General Motors were less than expected. Ford Motor increases expected to be in line with General Motors.
   - o Construction Wages - Held hearings on West coast followed by meetings with various parties. Report due soon on recommendations for heading off large increases.
   - o Participated in joint filing with FEA and DOT on fuel cost pass through for airline fares.
   - o Revised earlier comments on proposed EPA truck noise standards. Continue to believe them unjustified on economic grounds. Evidence even stronger now.

2. Food Deputies Report

   - o USDA has reduced their estimate of Soviet production from 180 million tons to 175 million tons but has not reduced their estimate of Soviet import demands.
   - o Increasing evidence of a reduction of Soviet grain exports to Eastern Europe and of greater Eastern Europe demands on U.S. markets.
   - o September USDA crop report estimated feed grain production down approximately six million tons.

Major Upcoming Agenda Items

1. U.S. grain policy.

2. Aviation regulatory reform.

3. Report of Task Force on Taxation of International Investment.

4. Pan Am-American merger.

5. Financial condition of major U.S. cities.

6. Report of Task Force on Antitrust Immunities.

7. Robinson-Patman Act.

8. Report on International Economic Conditions

C

THE WHITE HOUSE

WASHINGTON

September 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Extension of 1975 Tax Reductions

The economic forecasts are now sufficiently complete to allow consideration of tax cuts for the coming year. This memorandum summarizes the economic and budgetary outlook as they relate to the issue of continuing the 1975 tax cuts and outlines options regarding the size, duration, and composition of a tax reduction extension.

Background

Two types of reductions were provided in the Tax Reduction Act of 1975. First, one-shot "stimulus" reductions:

	1975 Liabilities ($ billions)
Rebate	-8.1
Five percent House Credit	-0.6

Secondly, reductions resulting in changes in the tax structure.

Low income allowance and standard deduction	-2.5
$30 credit per exemption	-5.3
Changes in corporate surtax and rates for small business and in WIN credit	-1.5
Earned income credit	-1.5
Investment credit (expires January 1977)	-3.3
	-22.8

All of these reductions expire at the end of 1975, except for the increase in the Investment Tax Credit which expires at the end of 1976. Thus, the reductions that will lapse total $19.5 billion.

There is little apparent sentiment or reason for another rebate in 1976 or for an extension of the five percent housing credit.

The issue is whether to extend the structural changes outlined above. The changes in the low income allowance, the standard deduction, and the $30 exemption credit are built into the wage withholding tables. They account for a 1975 reduction in taxes of approximately $8 billion and if they expire at the end of 1975 there will be an immediate and substantial increase in withholding.

To a lesser extent, a reduction in take home pay will occur even if the provisions are simply extended since the entire 1975 reduction was concentrated in the last eight months of withholding. In order to keep withholding constant, the tax reduction would have to be increased to $12 billion, or 50 percent more than the $8 billion reduction provided by the 1975 Act.

The 1975 legislation provides that both the reduction in liabilities and the reduction in withholding will expire at the end of this year. Thus, unless some action is taken, withholding will increase and disposable incomes will decrease as of January 1976.

The possibility of administratively altering the amount of withholding has also been explored. The Treasury indicates that changes in rates of withholding are a legislative matter with very limited administrative discretion. In 1974, the rates were changed through administrative action under existing legislation. The IRS view is that "there is no room left in the statute for further administrative changes."

Economic Outlook

The Troika forecasting group in its most recent exercise projects roughly a seven percent real rate of growth of gross national product through mid-1976, with the growth rate then declining gradually to somewhat lower sustainable levels by the end of 1977. This should enable the unemployment rate to fall gradually to the 7 1/2 percent range or possibly even as low as seven percent by the end of 1976. This forecast assumed gradual oil decontrol and indefinite extension of the 1975 Tax Reduction Act (except that the tax rebates, payments to social insurance beneficiaries, and the home purchase credit were not expected to be extended).

Moreover, reductions in individual income tax rates were assumed, effective January 1976, so as to keep withholding rates at their current levels. This implies a total package of tax relief for individuals of roughly $12 billion, plus continuation of corporate tax relief for small business and the Investment Tax Credit. The earned income credit of $1.5 billion was also included in the Troika forecast.

To assess the effect of extending the Tax Reduction Act of 1975, the Troika forecasting group ran an alternative simulation with identical assumptions except that the tax cut was allowed to expire. A comparison of the two forecasts reveals that differences in real GNP are relatively small in 1976. (Real GNP is only 4/10 of one percent lower and unemployment 1/10 of one percent higher in the third quarter of 1976. This is because the Troika forecast assumes greater investment in late 1976 as businessmen rush to take advantage of the investment tax credit which is scheduled to be reduced at the end of 1976. In 1977, however, greater investment no longer offsets reduced consumption expenditures and the restraining effect on real GNP is increased. (By the third quarter of 1977 real GNP is 1.1 percent lower and unemployment is 4/10 of one percent higher). The simulation shows that the effect of extending the tax cut has only a negligible unfavorable short run impact on the rate of inflation during 1976 and 1977, although the longer run effects may be greater.

Fiscal policy matters are subject to wide disagreement and, therefore, the Troika estimates of the impact of a reversal of the tax cut may be disputed. Some feel that the prospect of a smaller deficit would have a salutary effect on business and consumer psychology and would moderate inflationary expectations so that the negative impact on real GNP may be lessened and perhaps even reversed. On the other hand, the psychological effect on consumers of an apparent tax increase through failure to extend the reductions may result in a greater decline in consumer spending than is shown in the Troika forecast.

<u>Budget Outlook</u>

With an extension of the tax cut that keeps withholding rates constant and keeps a ten percent investment tax credit through the end of 1977, the current estimates of the budget deficits in fiscal years 1976 and 1977 are $79 and $68 billions, respectively. If the tax cut is allowed to expire, the deficits are lowered to $73 billion in 1976 and to $51 billion in 1977, if it is assumed that the expiration of the tax cut does not slow down the forecast economic recovery. If some slowdown does result from the expiration of the tax cuts, the 1976 deficit would not be affected perceptibly, but the 1977 deficit might be raised to the vicinity of $55 billion.

We are currently reexamining our revenue estimates for 1976 and 1977, and as a result of this exercise, the deficits might be lowered by $3 billion in 1976 and $5 billion in 1977. This would imply deficits in 1976 and 1977 of $76 billion and $63 billion if the tax cut is extended, and deficits of $70 billion and $50 billion if it is not extended and one assumes that the resulting tax increase slows down the recovery.

It should be emphasized that the deficit estimates are extremely sensitive to the underlying economic forecast. For example, an error of one percent in forecasting 1976-77 money GNP can result in a $4 to $5 billion error in our forecast of the 1977 deficit. Based on past experience, it is quite possible that errors in forecasting GNP will far exceed one percent.

Tax Reduction Extension Alternatives

Issue #1 - Should the Administration propose an extension of the 1975 tax reductions?

Option A: Propose no extension of the 1975 reductions.

Pros:

- Reduces the size of the FY 1976 and FY 1977 budget deficits.
- Reduces inflationary pressures.
- Eases Treasury financing difficulties.

Cons:

- Current congressional sentiment suggests that Congress will pass an extension and it may be difficult to sustain a veto.
- Failure to propose an extension of individual tax reductions may prompt criticism, in light of the Administration's capital formation tax proposals, that the Administration favors big business.

- Would be viewed as a tax increase and could have a negative psychological impact.

Option B: Propose a one year extension of the 1975 tax reductions.

By November 10, OMB must publish, in the Current Services Budget, a forecast of the economic and budget outlook for FY 1976 and FY 1977 which would reveal a marked difference in the deficits forecast if a one year only extension is passed.

Pros:

- Occasions reconsideration of the budget impact of further extension again next year.
- Permits more flexibility in dealing with the economy a year from now than would a permanent extension.
- Would enable the reduction in personal income tax, the expiration of the additional investment credit and the proposal for corporate integration to be considered next year as a single package enhancing the possibility of enacting the capital formation proposals.

Cons:

- Requires a consideration of tax legislation immediately prior to the 1976 election.
- Continues uncertainty of future tax rates which may inhibit personal and corporate spending.

Option C: Propose that the 1975 reductions be made permanent.

A permanent extension of the 1975 reductions is favored by the Labor-Management Committee in their statement attached at Tab A.

Pros:

- May help in applying pressure on Congress to restrain the growth of Federal expenditures.
- Would help sustain personal consumption essential to economic recovery.

- Represents a one-time reduction of tax rates to adjust for inflation.

- Consumers will be more likely to adjust their expenditure patterns, especially for durable goods, if the extension is made permanent.

Cons:

- Increases the size of the FY 1976 and FY 1977 budget deficits.

- Increases inflationary pressures.

- Increases Treasury financing difficulties.

Decision

Option A ____________ Propose no extension of the 1975 reductions.

Option B ____________ Propose a one year extension of the 1975 tax reductions.

Option C ____________ Propose that the 1975 reductions be made permanent.

Issue #2 - Tax Reductions for Individuals.

Option A: Extend only those items that affect the withholding schedules--the low income allowance, the standard deduction and the $30 exemption credit. This would reduce tax liabilities by about $8 billion.

Since a simple extension would spread the tax reductions over 12 months rather than over eight months as in 1975, withholding would increase accordingly in January.

Pros:

- Entails a relatively simple approach to restructuring the whole tax schedule and therefore is less likely to encourage other structural changes.
- Limits increase in budget deficit by $4 billion compared with a tax reduction which would maintain the present withholding rates.

Cons:

- Withholding rates will increase by $4 billion at the beginning of January.

  Note: This will involve a small amount for the average family. For example, a couple with two children earning $15,000, or less would have between $1 and $2 per week more withheld.

Option B: Increase those items that affect the withholding schedules to match the current withholding rates. This would reduce tax liabilities by about $12 billion.

This option is favored by the Labor-Management Committee.

Pros:

- Allows withholding to remain constant on average at the beginning of 1976.

Cons:

- Implies larger deficits in 1976 and 1977 than a simple extension.
- Congress may provide even larger cuts to show that they are more generous than the Administration.

Option C: Propose reductions in individual tax liabilities of $12 billion but redistribute the benefits over a wider range of income classes than is implicit in a simple extension of the 1975 reductions.

Pros:

- Provides somewhat more benefit to the middle income taxpayers who bear the bulk of the tax burden.

Cons:

- Only very small benefits are feasible for middle and upper income taxpayers if the tax cut extension is limited to $12 billion and if tax rate increases are avoided for lower income taxpayers.

Decision

Option A ____________ Extend only those items that affect the withholding schedules--the low income allowance, the standard deduction and the $30 exemption credit. This would reduce tax liabilities by about $8 billion.

Option B ____________ Increase those items that affect the withholding schedules to match the current withholding rates. This would reduce tax liabilities by about $12 billion.

Option C ____________ Propose reductions in individual tax liabilities of $12 billion but redistribute the benefits over a wider range of income classes than is implicit in a simple extension of the 1975 reductions.

Issue #3 - Tax Reductions for Corporations

The increase in the Investment Tax Credit does not expire until the end of 1976. The increase in the ITC provides for a reduction in tax liabilities for corporations of approximately $3.3 billion.

<u>Option A</u>: <u>Propose extending the changes in corporate surtax and rates which will expire at the end of 1975. This would reduce tax liabilities by approximately $1.5 billion.</u>

This option is supported by the Labor-Management Committee.

Pros:

- Is consistent with the Administration's goals of lowering the tax burden on capital.
- Particularly lowers the relative tax burden for small business.

Cons:

- Moderately increases the deficit.

<u>Option B</u>: <u>Propose an indefinite extension of the increase in the Investment Tax Credit which is scheduled to lapse at the end of 1976.</u>

This option is supported by the Labor-Management Committee.

Pros:

- Reduces uncertainty for businesses which must plan investment far in advance.
- Is a tax benefit proposal which does not increase the FY 1976 budget deficit.

Cons:

- We do not have to make a decision now and a delay would allow the issue to be considered with our corporate tax reform proposals.
- Postponing proposing a further extension allows time to determine whether economic conditions in 1977 are likely to warrant an extension.

Option C: Propose extending the changes in corporate surtax and rates which would cost about $1.5 billion. (Identical to option A). Propose a $2.5 billion one year reduction in corporate rates with the $2.5 billion earmarked for commencement of corporate integration in 1977 or broadening stock ownership.

Pros:

- May enhance the political chances of corporate tax reform.
- "Tilts" tax cut more in favor of capital formation.

Cons:

- Further increases the deficit.
- May encourage movement in Congress for larger reductions for individuals.

Option D: Do not propose any additional tax reductions for corporations.

Pros:

- Avoids additional increase in budget deficits.

Cons:

- Imposes a significant relative tax increase on small corporations.
- Is inconsistent with our efforts to stimulate capital formation.

Decision

Option A ____________ Propose extending the changes in corporate surtax and rates which will expire at the end of 1975. This would reduce tax liabilities by approximately $1.5 billion.

Option B ____________ Propose an indefinite extension of the increase in the Investment Tax Credit which is scheduled to lapse at the end of 1976.

Option C ____________ Propose extending the changes in corporate surtax and rates which would cost about $1.5 billion. (Identical to option A.) Propose a $2.5 billion one year reduction in corporate rates with the $2.5 billion earmarked for commencement of corporate integration in 1977 or broadening stock ownership.

Option D ____________ Do not propose any additional tax reductions for corporations.

D

September 17, 1975

The President's Labor Management Committee

Without further action by the Congress, withholding tax rates will increase on January 1, 1976. Action should now be taken to maintain the present withholding tax rates and investment tax credit without limit of time.

These recommendations reflect the views of the committee in its statement of December 30, 1974 to spur recovery.

The committee also reiterates its view that this tax action be enacted "independently of tax reform which should be studied and implemented at a later date."

In order to do this, in view of the tax action of the Congress earlier this year, the following should now be enacted with regard to personal taxes:

1. Continue the increased low income allowance

2. Continue the increased percentage standard deduction

3. Continue the current refundable tax credit

4. Increase the tax credit per exemption from the current $30 to a new level of $45

The committee is of the view there should be no tax rebates as in 1975.

The surtax exemption, which primarily benefits small business, should also be continued.

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WASHINGTON

September 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

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The 1975 legislation provides that both the reduction in liabilities and the reduction in withholding will expire at the end of this year. Thus, unless some action is taken, withholding will increase and disposable incomes will decrease as of January 1976.

The possibility of administratively altering the amount of withholding has also been explored. The Treasury indicates that changes in rates of withholding are a legislative matter with very limited administrative discretion. In 1974, the rates were changed through administrative action under existing legislation. The IRS view is that "there is no room left in the statute for further administrative changes."

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It should be emphasized that the deficit estimates are extremely sensitive to the underlying economic forecast. For example, an error of one percent in forecasting 1976-77 money GNP can result in a $4 to $5 billion error in our forecast of the 1977 deficit. Based on past experience, it is quite possible that errors in forecasting GNP will far exceed one percent.

Tax Reduction Extension Alternatives

Issue #1 - Should the Administration propose an extension of the 1975 tax reductions?

Option A: Propose no extension of the 1975 reductions.

Pros:

- Reduces the size of the FY 1976 and FY 1977 budget deficits.
- Reduces inflationary pressures.
- Eases Treasury financing difficulties.

Cons:

- Current congressional sentiment suggests that Congress will pass an extension and it may be difficult to sustain a veto.
- Failure to propose an extension of individual tax reductions may prompt criticism, in light of the Administration's capital formation tax proposals, that the Administration favors big business.

- Would be viewed as a tax increase and could have a negative psychological impact.

Option B: Propose a one year extension of the 1975 tax reductions.

By November 10, OMB must publish, in the Current Services Budget, a forecast of the economic and budget outlook for FY 1976 and FY 1977 which would reveal a marked difference in the deficits forecast if a one year only extension is passed.

Pros:

- Occasions reconsideration of the budget impact of further extension again next year.

- Permits more flexibility in dealing with the economy a year from now than would a permanent extension.

- Would enable the reduction in personal income tax, the expiration of the additional investment credit and the proposal for corporate integration to be considered next year as a single package enhancing the possibility of enacting the capital formation proposals.

Cons:

- Requires a consideration of tax legislation immediately prior to the 1976 election.

- Continues uncertainty of future tax rates which may inhibit personal and corporate spending.

Option C: Propose that the 1975 reductions be made permanent.

A permanent extension of the 1975 reductions is favored by the Labor-Management Committee in their statement attached at Tab A.

Pros:

- May help in applying pressure on Congress to restrain the growth of Federal expenditures.

- Would help sustain personal consumption essential to economic recovery.

- Represents a one-time reduction of tax rates to adjust for inflation.
- Consumers will be more likely to adjust their expenditure patterns, especially for durable goods, if the extension is made permanent.

Cons:

- Increases the size of the FY 1976 and FY 1977 budget deficits.
- Increases inflationary pressures.
- Increases Treasury financing difficulties.

Decision

Option A ____________ Propose no extension of the 1975 reductions.

Supported by: Treasury, Federal Reserve

Option B ____________ Propose a one year extension of the 1975 tax reductions.

Option C ____________ Propose that the 1975 reductions be made permanent.

Supported by: Labor, CEA, Commerce

Issue #2 - Tax Reductions for Individuals.

Option A: Extend only those items that affect the withholding schedules--the low income allowance, the standard deduction and the $30 exemption credit. This would reduce tax liabilities by about $8 billion.

Since a simple extension would spread the tax reductions over 12 months rather than over eight months as in 1975, withholding would increase accordingly in January.

Pros:

- Entails a relatively simple approach to restructuring the whole tax schedule and therefore is less likely to encourage other structural changes.

- Limits increase in budget deficit by $4 billion compared with a tax reduction which would maintain the present withholding rates.

Cons:

- Withholding rates will increase by $4 billion at the beginning of January.

  Note: This will involve a small amount for the average family. For example, a couple with two children earning $15,000, or less would have between $1 and $2 per week more withheld.

Option B: Increase those items that affect the withholding schedules to match the current withholding rates. This would reduce tax liabilities by about $12 billion.

This option is favored by the Labor-Management Committee.

Pros:

- Allows withholding to remain constant on average at the beginning of 1976.

Cons:

- Implies larger deficits in 1976 and 1977 than a simple extension.

- Congress may provide even larger cuts to show that they are more generous than the Administration.

Option C: Propose reductions in individual tax liabilities of $12 billion but redistribute the benefits over a wider range of income classes than is implicit in a simple extension of the 1975 reductions.

Pros:

- Provides somewhat more benefit to the middle income taxpayers who bear the bulk of the tax burden.

Cons:

- Only very small benefits are feasible for middle and upper income taxpayers if the tax cut extension is limited to $12 billion and if tax rate increases are avoided for lower income taxpayers.

Decision

Option A ____________ Extend only those items that affect the withholding schedules--the low income allowance, the standard deduction and the $30 exemption credit. This would reduce tax liabilities by about $8 billion.

Option B ____________ Increase those items that affect the withholding schedules to match the current withholding rates. This would reduce tax liabilities by about $12 billion.

Supported by: Labor, Commerce

Option C ____________ Propose reductions in individual tax liabilities of $12 billion but redistribute the benefits over a wider range of income classes than is implicit in a simple extension of the 1975 reductions.

Supported by: CEA

Issue #3 - Tax Reductions for Corporations

The increase in the Investment Tax Credit does not expire until the end of 1976. The increase in the ITC provides for a reduction in tax liabilities for corporations of approximately $3.3 billion.

<u>Option A:</u> <u>Propose extending the changes in corporate surtax and rates which will expire at the end of 1975. This would reduce tax liabilities by approximately $1.5 billion.</u>

This option is supported by the Labor-Management Committee.

Pros:

- Is consistent with the Administration's goals of lowering the tax burden on capital.
- Particularly lowers the relative tax burden for small business.

Cons:

- Moderately increases the deficit.

<u>Option B:</u> <u>Propose an indefinite extension of the increase in the Investment Tax Credit which is scheduled to lapse at the end of 1976.</u>

This option is supported by the Labor-Management Committee.

Pros:

- Reduces uncertainty for businesses which must plan investment far in advance.
- Is a tax benefit proposal which does not increase the FY 1976 budget deficit.

Cons:

- We do not have to make a decision now and a delay would allow the issue to be considered with our corporate tax reform proposals.
- Postponing proposing a further extension allows time to determine whether economic conditions in 1977 are likely to warrant an extension.

Option C: Propose extending the changes in corporate surtax and rates which would cost about $1.5 billion. (Identical to option A). Propose a $2.5 billion one year reduction in corporate rates with the $2.5 billion earmarked for commencement of corporate integration in 1977 or broadening stock ownership.

Pros:

- May enhance the political chances of corporate tax reform.
- "Tilts" tax cut more in favor of capital formation.

Cons:

- Further increases the deficit.
- May encourage movement in Congress for larger reductions for individuals.

Option D: Do not propose any additional tax reductions for corporations.

Pros:

- Avoids additional increase in budget deficits.

Cons:

- Imposes a significant relative tax increase on small corporations.
- Is inconsistent with our efforts to stimulate capital formation.

Decision

Option A __________ Propose extending the changes in corporate surtax and rates which will expire at the end of 1975. This would reduce tax liabilities by approximately $1.5 billion.

Supported by: CEA, Labor

Option B __________ Propose an indefinite extension of the increase in the Investment Tax Credit which is scheduled to lapse at the end of 1976.

Supported by: CEA, Labor

Option C ____________ Propose extending the changes in corporate surtax and rates which would cost about $1.5 billion. (Identical to option A.) Propose a $2.5 billion one year reduction in corporate rates with the $2.5 billion earmarked for commencement of corporate integration in 1977 or broadening stock ownership.

Supported by: Commerce

Option D ____________ Do not propose any additional tax reductions for corporations.

September 17, 1975

The President's Labor Management Committee

Without further action by the Congress, withholding tax rates will increase on January 1, 1976. Action should now be taken to maintain the present withholding tax rates and investment tax credit without limit of time.

These recommendations reflect the views of the committee in its statement of December 30, 1974 to spur recovery.

The committee also reiterates its view that this tax action be enacted "independently of tax reform which should be studied and implemented at a later date."

In order to do this, in view of the tax action of the Congress earlier this year, the following should now be enacted with regard to personal taxes:

1. Continue the increased low income allowance

2. Continue the increased percentage standard deduction

3. Continue the current refundable tax credit

4. Increase the tax credit per exemption from the current $30 to a new level of $45

The committee is of the view there should be no tax rebates as in 1975.

The surtax exemption, which primarily benefits small business, should also be continued.

THE PRESIDENT HAS SEEN....

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

September 26, 1975

MEMORANDUM FOR THE PRESIDENT

The options being presented on an extension of various elements in the Tax Reduction Act of 1975 are insufficiently broad.

Accordingly, you may wish to ask for additional material.

You may wish to ask for several alternatives for 1976 rates shown as changes against the structure of tax rates for individuals that existed for 1974 liabilities. A comparable table showing the changes embodied in the 1975 Act should also be exhibited. You might wish to emphasize that the 1976 options should start from scratch and not necessarily build upon those embodied in the 1975 Act. Distributions of tax cuts in the amounts of $8 billion, $10 billion, $12 billion and $15 billion would be useful skewing the benefits towards the middle and, perhaps in some instances, the upper middle income groups as well.

These tables should be presented in a form in which the tax cuts are shown on a per family basis both in percent and absolute dollar amounts.

I would stress in making this request that these are not necessarily where your disposition lies but rather that you need a better feel of a broader set of alternatives to make your final judgment in the event you opt for any tax cut extension.

A

Alan Greenspan

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

THE WHITE HOUSE

WASHINGTON

September 30, 1975

ECONOMIC AND ENERGY MEETING
September 26, 1975
2:30 p.m.

MEMORANDUM OF DECISIONS

FROM: L. WILLIAM SEIDMAN LWS

Decision 1: Alternative Tax Reduction Distributions

The President requested the Treasury to prepare a table which would show the effect of distributing a 12 billion dollar individual income tax reduction to provide greater benefits for middle and upper income taxpayers than a simple extension of the 1975 Tax Reduction Act.

Implementation: The Department of the Treasury Office of Tax Analysis has completed the requested table which has been submitted to the President.

THE PRESIDENT HAS SEEN....

Tax Burdens for Various Family Sizes and Incomes

Family size and adjusted gross income	1974 Law	OPTION A Plan 1 ($8 billion)	Plan 2 ($8 billion)	OPTION B Plan 3 ($12 billion)	Plan 4 ($12 billion)	Plan 5 ($12 billion)
Single Person						
$ 5,000	490	403	383	360	357	363
7,000	889	796	776	750	730	756
10,000	1,506	1,476	1,456	1,425	1,396	1,436
12,500	2,027	1,997	1,977	1,982	1,917	1,957
15,000	2,589	2,559	2,539	2,544	2,479	2,519
20,000	3,847	3,817	3,797	3,802	3,737	3,777
30,000	6,970	6,940	6,920	6,925	6,860	6,900
40,000	10,716	10,685	10,665	10,670	10,605	10,645
Couple, No Children						
$ 5,000	322	170	182	95	166	138
7,000	658	492	460	411	424	420
10,000	1,171	1,054	1,014	967	948	974
12,500	1,600	1,540	1,500	1,466	1,410	1,460
15,000	2,062	2,002	1,962	1,972	1,851	1,922
20,000	3,085	3,025	2,985	2,995	2,865	2,945
30,000	5,561	5,504	5,464	5,474	5,344	5,424
40,000	8,702	8,642	8,602	8,612	8,482	8,562
Couple Two Children						
$ 5,000	98	--	11	--	10	--
7,000	402	186	244	80	223	144
10,000	886	709	729	592	678	629
12,500	1,285	1,165	1,185	1,067	1,110	1,085
15,000	1,732	1,612	1,632	1,552	1,536	1,532
20,000	2,710	2,590	2,610	2,530	2,490	2,510
30,000	5,081	4,964	4,984	4,904	4,864	4,884
40,000	8,111	7,994	8,014	7,934	7,894	7,914

Office of the Secretary of the Treasury
Office of Tax Analysis

September 16, 1975

All calculations assume itemized deductions equal to 16 percent of income. Cents are omitted.

Plan 1: Extension of standard deduction, exemption credit provisions of 1975 Act.
Plan 2: Standard deduction changes from Act, plus rate changes (A).
Plan 3: Minimum standard deduction $1,750 (single), $2,200 (joint); percentage 16 percent; maximum $2,450/$2,900; $45 exemption credit.
Plan 4: Standard deduction changes from Act, plus rate changes (B).
Plan 5: Plan 1 plus rate changes (C).