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Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

The President's Tax Message

President Ford today proposed in a message to the Congress individual income tax relief of approximately $10 billion and corporate tax rate cuts of $2.5 billion for calendar year 1977. These tax reduction proposals are similar to those initially proposed in October 1975. In addition, the President proposed increases in social security contributions in order to maintain the integrity of the old age and disability trust funds which would otherwise be depleted by the early 1980's.

The President's recommendations also include accelerated depreciation for new plants and equipment built in areas of high unemployment; a tax credit for home insulation; exempting charitable contributions from the burden of minimum taxes; 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.

The President renewed his proposal to eliminate gradually the double taxation of dividends paid by corporations.

MAJOR PROVISIONS

Major Proposed Changes in the Personal Income Tax

- Permanently increase the personal exemption from $750 to $1,000 to replace the temporary tax credit of $35 per exemption and the alternative credit of 2 percent of taxable income up to $9,000. Under the 1976 law taxpayers choose the higher of these two credits.

- Raise the low income allowance for single persons from $1,700 to $1,800 and for joint returns from $2,100 to $2,500.

- Lower marginal tax rates as shown in Table 6.

- Eliminate the earned income credit.

  The effects of these changes on individual and family tax burdens are shown in Tables 7, 8, and 9.

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Major Proposed Changes in Business Taxes

- Reduce the maximum corporate tax rate from 48 to 46 percent.

- Permanently extend the corporate surtax exemption provisions. This would result in a tax rate of 20 percent on the first $25,000 of income and a rate of 22 percent on the second $25,000 of income. These provisions of the Tax Reform Act of 1976 are scheduled to expire at the end of 1977. At that time the first $25,000 of corporate income would be taxed at 22 percent and all income above $25,000 would be taxed at the maximum corporate rate.

- Permanently extend the 10 percent investment tax credit. Under current law the credit reverts to 7 percent at the end of 1980.

- Permit accelerated depreciation for new plant and equipment in labor market areas with unemployment rates of 7 percent or higher. The proposed tax incentive would allow straight line depreciation over a period equal to one-half their useful lives for buildings and would allow five-year amortization with a full investment tax credit for equipment. This incentive would apply to projects which both begin during calendar year 1977 and are completed within 36 months.

- Eliminate the double tax on corporate dividends by means of a deduction at the corporate level for a portion of dividends paid and an adjustment at the shareholder level for the remaining corporate tax on dividend distributions. The proposal contemplates a six-year phase-in of the corporate dividend deduction over the period from 1978 to 1983 and a five-year phase-in of the adjustment at the shareholder level over the period from 1979 to 1983.

- Repeal the provision of current law that allows funding Employee Stock Ownership Plans (ESOPs) through supplemental investment tax credits.

Proposed Changes in Social Security Payroll Taxes

The revenues provided by current payroll tax law are insufficient to finance the current old age, survivors, and disability benefits, and accordingly the trust funds are being depleted. If the tax law remains unchanged, the combined old age and disability trust funds will be exhausted by the early 1980's.

The 1977 Budget Message contained a proposal for a 0.6 percentage point increase, effective January 1, 1977, in the combined rate for employers and employees (0.3 percentage point increase in both the employer and employee share). The total 1977 OASDHI tax rate would then have equalled 12.3 percent.

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However, the Congress failed to act on this proposal. For technical reasons, retroactive social security tax increases are not practical so that this year's budget does include an increase for calendar year 1977. Partly because of these delays, a larger tax increase is now required to replenish the trust funds. The President recommended phasing in the tax rate increase over a three-year period.

Specifically, the President proposed the following schedule of combined employer-employee payroll tax increases:

- a 0.2 percentage point increase effective January 1, 1978 in addition to the 0.4 percentage point increase mandated by current law. The self-employment tax would also be adjusted upward.

- a 0.6 percentage point increase effective January 1, 1979.

- a 0.3 percentage point increase effective January 1, 1980.

The effect on tax burdens of the social security tax increases combined with the individual tax reductions is shown in Tables 13 and 14.

Proposals Affecting Charities and Private Foundations

The President proposed excluding all charitable contributions from the base of the minimum tax to remove any possible disincentive to charitable giving. Under the Tax Reform Act of 1976, the base for the minimum tax includes itemized deductions (with the exception of medical expenses and casualty losses) in excess of 60 percent of adjusted gross income.

The President proposed reducing from 4 percent to 2 percent the excise tax private foundations currently pay on their net investment income to cover the cost of auditing foundations. A 2 percent excise tax will produce sufficient revenue to cover these auditing costs.

Taxable Municipal Bond Option and Industrial Development Bond Proposal

The President proposed giving State and local governments the option of issuing taxable securities in return for a Federal subsidy equal to 30 percent of the net interest cost. The President also recommended limiting industrial development bonds and federal guaranteed financing to the taxable market to prevent overloading the municipal market with bonds which essentially depend on private or Federal credit. The President proposed providing a Federal subsidy not exceeding 20 percent of the net interest cost for industrial development bonds shifted from the tax exempt to the taxable market.

Residential Insulation

The President proposed a 15 percent tax credit for the cost of certain improvements in thermal efficiency in owner-occupied homes. This credit would apply to the first $1,000 of expenditures for energy-saving improvements such as insulation and storm windows and could be claimed during the three years following enactment. Total credits claimed by any tax-filing unit during the three-year period would not exceed $150.

R&D Tax Treatment of Certain Geothermal Resource Discovery Costs

The President proposed amending the section of the tax code dealing with research and development expenditures to cover projects which are certified by ERDA to be for the discovery and development of geothermal resources in order to remove the dampening effect of tax uncertainty on the willingness of private investors to participate in the discovery of geothermal resources. The proposal provides that, with respect to any geothermal project certified by ERDA during the next 10 years, all expenditures incurred before achievement of the commercial development stage will be accorded the treatment allowed by tax law for R&D expenditures, that is, such expenditures will be currently deducted or capitalized and amortized within five years.

Highway Trust Fund Taxes

The President proposed extending the Federal highway program and the highway trust fund taxes scheduled to expire in September 1979.

Miscellaneous Revenue Proposals

The President proposed writing off outstanding silver certificates since these Federal Reserve Bank notes and National Bank notes are not expected to be redeemed. The value of the certificates would be recorded as governmental receipts in the year they are written off.

The President proposed collecting inland waterway user charges to help offset the Federal subsidies presently dedicated to this mode of transportation.

The President proposed allowing the Nuclear Regulatory Commission to collect annual fees to cover the costs of its licensing services and its reactor safety research program in support of licensing.

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