7/15/77 [1]

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THE PRESIDENT'S SCHEDULE

Friday - July 15, 1977

7:30 (60 min.)	Breakfast with Vice President Walter F. Mondale, Secretary Cyrus Vance and Dr. Zbigniew Brzezinski - The Roosevelt Room.
8:45	Dr. Zbigniew Brzezinski - The Oval Office.
9:00 (15 min.)	Senator Mark Hatfield. (Mr. Frank Moore). The Oval Office.
9:15	Mr. Frank Moore - The Oval Office.
9:30 (30 min.)	Meeting with the House Select Committee on Aging. (Mr. Frank Moore) - State Dining Room.
10:30	Mr. Jody Powell - The Oval Office.
10:40 (5 min.)	Mr. and Mrs. Joe Kane/Family. (Mr. Jody Powell) The Oval Office.
11:00 (20 min.)	Mr. Charles Schultze - The Oval Office.
11:30 (20 min.)	Judge William Gunter, Mr. Stephens Clay and Mr. Robert Lipshutz - The Oval Office.
12:30	Lunch with Mrs. Rosalynn Carter - Oval Office.
1:00	Meeting with Editors - The Cabinet Room.
2:00 (10 min.)	His Beatitude Elias IV, Patriarch of the Antiochian Orthodox Church. (Dr. Zbigniew Brzezinski) - The Oval Office.
2:20 (10 min.)	Judge John Irwin. (Mr. Robert Lipshutz). The Oval Office.
2:30 (2-1/2 hrs.)	Meeting Concerning Tax Reform. (Mr. Stuart Eizenstat) - Cabinet Room.
5:00	Depart South Grounds via Helicopter en route Camp David.

THE WHITE HOUSE
WASHINGTON

July 15, 1977

Richard Harden -

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Hamilton Jordan
Bert Lance

Re: Proposed Administrative Support Unit

7 1+

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Route
so I can
other c

THE WHITE HOUSE

WASHINGTON

July 11, 1977

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR: THE PRESIDENT

FROM: RICHARD HARDEN Richard

SUBJECT: Proposed Administrative Support U

First of all, I would like to be considered for the position of director the proposed unit. Having made my intention clear, I would like to outline some thoughts about the operation of the unit.

I see the unit operating the following series of support systems for all the agencies in the EOP:

1. Non-White House Central Files Support System
2. Data Processing Support System
3. Financial Management Support System
4. Information Management Support System
5. Library Services Support System
6. Personnel Management Support System
7. Printing and Reproduction Support System
8. Supplies and Procurement Support System

In developing the various support systems, I see making extensive use of resources external to the EOP. I have already initiated the followi actions in this regard:

1. Asked GSA to examine the feasibility of opening a retail supply store in the Old EOB.

2. Met with representatives from the Treasury Department to explore the possibility of them using the EOP as a pilot project in developing the types of centralized accounting and personnel systems we developed in Georgia.

3. Have had tentative discussions with GSA about conducting a review of the EOP printing operations.

4. Have made tentative arrangements to conduct a comprehensive review of the information needs of the EOP units in order to properly plan for the data processing requirements.

5. Have worked with Stu and his staff to determine the type of information system that he will need to properly support the domestic process management system.

Hugh and I have been working together these last few months, and I think the two of us can help you make sure all the systems within the EOP operate efficiently and properly support you and your staff advisors.

When you have a little more time, I would like to sit down and discuss some of these points with you in greater detail.

THE PRESIDENT HAS SEEN.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

C

July 15, 1977

PRIORITY

MEMORANDUM FOR THE PRESIDENT

Subject: Tax Reform

Attached are four memoranda for the tax reform discussion.

The first memorandum is a general explanation of the Treasury proposals, reflecting modifications made to take into account the prior discussions with you. This memorandum indicates how the various proposals fit into the objectives of simplification, equity, and incentives. It shows the overall revenue effect of the various Treasury suggestions. It also contains a series of tables which distribute the tax burden under the proposal by income classes, show the effective rates of the proposals by income classes, and indicate the tax burdens of the average taxpayer in the various income classes.

The second memorandum presents a brief updated explanation of each of the Treasury proposals, together with a summary statement as to why it is included.

The third memorandum is a brief analysis of alternative business tax reductions.

The fourth memorandum is a series of option papers on various alternative proposals not included in the Treasury basic presentation.

Mike

W. Michael Blumenthal

Attachments

MEMORANDUM NO. 1
White House Conference
July 15, 1977

General Explanation of Treasury Proposals

Proposals to Meet Objectives

The Treasury proposals are designed to meet the objectives of tax simplification, an improvement in the equity of the tax system and a stimulus for growth in the economy and increased production. In some cases proposals are concerned with two of these objectives.

In terms of tax simplification, the principal changes suggested are--

- Combining the credit (which in this Treasury draft is raised to $250 per capita) with the personal exemption--this has been found to be the leading cause of error on the 1040 return.
- Trading off itemized deductions for rate reductions. Deductions for gasoline taxes, sales taxes and miscellaneous tax deductions would no longer be allowed (real property and income tax deductions would be retained), medical and casualty losses would be combined in a catastropic loss category, the $10,000 investment interest limit would be imposed on mortgage and personal interest expense deductions and the political contribution deduction would be repealed (but the credit for political contributions would be retained).
- Capital gains would be taxed as ordinary income. (This is made possible by bringing the general rates down to a maximum of 50 percent.)
- A limitation on deductions and exclusions and a separate limitation on certain credits would be substituted for the more complex minimum tax.
- Minor modifications would be made in the earned income credit.

In terms of improved equity, the principal changes are--

- The marriage penalty for those with incomes below $50,000 would be reduced to a maximum of less than $100.

- The tradeoff for rate reductions of itemized deductions, referred to above, would also improve the equity of the tax system.

- The taxing of capital gains as ordinary income and allowing capital losses generally in full against ordinary income (but in the case of securities to the extent of $10,000) would be an improvement in equity as well as a tax simplification.

- Gains would be taxed at death, except in the case of transfers to a spouse, or a farm or small business kept in the family (subject to a long averaging period and an overall small estate exemption).

- Tax shelter provisions would be tightened, especially those on real estate and corporate farms.

- Transfer payments such as social security, unemployment compensation and veterans benefits are included in the tax base above $15,000 of income for a single individual and above $20,000 of income for a married couple.

- Numerous fringe benefits would be specifically included in the tax base. These would include premiums on group term insurance above $25,000 (present law includes these premiums on insurance above $50,000), prepaid legal expenses, and health insurance provided on a discriminatory basis.

- Scholarship and fellowship payments except for tuition and fees would be taxed.

- The interest element built up each year in life insurance and annuity contracts would be taxed to the policyholder and be subject to a 20-percent withholding rate at the insurance company level.

- A number of deductions or other provisions relating to foreign income would be removed or modified. These include the repeal of DISC and the taxation of foreign flag shipping income.

- The special bad debt deductions of banks would be eliminated, and for savings and loan and mutual savings banks it would be reduced. Credit unions would be subjected to tax.

- Percentage depletion for hard minerals would be repealed.

- The deductibility of dues for entertainment facilties (such as clubs, hunting lodges, etc.), and admission tickets for entertainment (such as sporting events and theater) would be denied as business expense deductions. In addition, one-half of business meals would be denied as deductions.

- A taxable bond option would be provided for state and municipal bonds.

- Tax avoidance would be prevented by making provision for withholding on interest (and dividends unless the double tax relief is agreed to).

In terms of economic growth or incentives, the principal changes recommended are--

- A reduction in rates for individuals to a range of 13 to 50 percent (but with tax credits providing further relief in the lower tax brackets).

- A general business tax reduction of approximately $4.6 billion in the form of relief from double taxation, a corporate rate reduction, or further acceleration of depreciation. Because increases in tax provisions relating to corporations described elsewhere largely offset this decrease, it is believed that other reductions amounting to perhaps $3 billion a year should also be made. These are referred to further below.

- Changes in several small business provisions to benefit these organizations.

The nature of a possible $3 billion additional decrease in corporate taxes will vary according to which of the three options, or a combination of them, is finally decided upon. Possible reductions for this purpose are:

- Expensing qualifying facilities added primarily to meet environmental standards or allowing 5-year amortization for these facilities in addition to the full investment tax credit. The expensing of these facilities on a full-year basis could be expected to result in a revenue loss of something like $2.4 billion, while the 5-year amortization in addition to the full investment credit could involve a revenue loss of perhaps $700 million a year. (Some reduction in this area is much sought after by business because these facilities are not considered productive, although needed for the benefit of society.)

- Reductions in the corporate rate. This option could be used in connection with either the reduction in double taxation or with the option dealing with accelerated depreciation. A corporate rate reduction amounts to about a billion dollars a point. Some reduction in the corporate rate would be very popular with business.

- Further variance in ADR accelerated depreciation. The variance presently amounting to 20 percent could be increased to 30 percent at a revenue cost of about $2 billion a year.

- The regular investment credit could be allowed for industrial plants. This could be combined with either option 1 or option 3. This would amount to approximately $700 million a year. There is some lag in the building of industrial plant so that this could well have a desirable economic effect.

- Depreciation could be under the same rules now applicable in the case of the investment credit beginning when the portion of the facility is paid for, rather than when the facility is placed in service. The revenue cost of such a proposal is about $200 million a year. This is viewed as especially desirable in the case of large facilities such as electric power plants where a long period of time is required to complete the construction.

Tax Expenditures

The principal "tax expenditures" for individuals and business were listed in pie charts presented at a prior meeting. For individuals, 14 specific categories plus a miscellaneous category were listed. The Treasury recommendations deal with 11 of the 14 specific categories of the expenditures, as well as numerous groups within the miscellaneous category. The only specific categories in this chart for which no recommendations are made are those relating to the deductibility of charitable contributions, additional exemptions for those over 65, and the investment credit.

The pie chart previously presented for corporations listed 10 categories plus an "all other" category. Specific recommendations are made in 5 of these specific categories as well as many of the items in the "all other" category.

Additional Proposals

As a result of the further analysis of tax expenditures since the first White House meeting on tax reform, about 25 items have been added to the program (listed in table 1). Most of these represent the repeal of "tax expenditure" items and therefore are base broadening. Among the more important items added are the repeal of scholarship and fellowship exclusions (except for tuition and fees), taxing social security, unemployment and veterans payments above $15,000 for single individuals and above $20,000 for married couples, provision for taxing gains at death, taxing credit unions, imposing a tax shelter limitation on real estate depreciation, and tightening up the provisions relating to entertainment deductions.

Views of Congressional Groups

The Treasury Department has had a series of general conferences with various groups, including ones with the leadership of the Senate Finance Committee and the House Ways and Means Committee. Meetings with other Congressional groups will also be held. The possible inclusion of various items in the tax reform proposals was discussed with them. They expressed the greatest concern about taxing gains at death, although there also was substantial concern expressed over the possibility of a minimum tax on tax-exempt state and municipal bonds and any reduction in the deduction for charitable contributions. (These last two items are not in the Treasury list.)

Substantial concern was also expressed about the taxing of social security and veterans payments. Much less concern was voiced over taxing unemployment compensation. In the case of social security, there seemed to be some feeling that at a relatively high income level this income could be taxed but there was much uncertainty as to what that level should be. Clearly they thought the level should be above the $15,000 or $20,000 included in the Treasury's proposal.

In the case of denial of deductions for entertainment expenses, concern was expressed as to the effect of any attempt to cut back on the deductibility of business meals. They expected a major lobbying effort against this by the restaurants. Much less concern was expressed about denying the deduction for club dues and similar facilities.

For the most part there seemed to be relatively wide agreement that capital gains could be taxed as ordinary income. However, considerable concern was expressed over the need for a basis adjustment to reflect inflation in the case of assets held for a long period of time.

In addition, individual members expressed concern with the limitation on home mortgage interest, the need for substantial small business reductions and the possible taxation of credit unions.

Another general concern expressed was that we not come up with too long a list of tax reform items. Some thought that a long list of tax reform items increased the opposition to the bill and would require more time in the consideration of the bill.

Revenue Effects of Proposals

Table 2 shows the estimated effects of the basic Treasury proposal in a full year of operation at 1976 income levels. This table does not take into account any feedback arising from the improvement in the economy which will be generated by the proposals themselves. On this basis, these proposals will result in a revenue loss of $13.7 billion.

The proposed individual reductions would amount to about $13.5 billion. The principal revenue loser is the combined proposal substituting the tax credit for the exemption and reducing tax rates generally. This is by itself expected to result in a revenue loss of slightly over

$25 billion. The revenue-raising proposals for individuals amount to almost $12 billion, reducing the net revenue loss for individuals to $13.5 billion.

The changes primarily affecting business almost balance out--a revenue loss of $233 million. However, this does not take into account a possible further increase of about $3 billion a year. Here the big revenue loser is the general business reduction which could take any one of three forms: a reduction in double taxation, an acceleration in depreciation combined with the allowance an investment credit for industrial plant, or a reduction in the corporate rates. As showed here this business reduction in a full year of operation would amount to from $4.5 billion to $4.8 billion. This could be increased if a larger reduction for business is believed desirable or could be combined with a varied, additional corporate reduction of about $3 billion. Most of the business loss is offset by the repeal of the DISC provision, the repeal of the corporate capital gains rate, repeal of percentage depletion for hard minerals and the denial of part or all of the entertainment expense deduction.

Table 3 shows the estimated effect of the Treasury proposals in each of the fiscal years 1978 through 1982. This table also takes into account the feedback, or macro-economic, effect expected to result from the proposals set forth here. On this basis, the revenue loss is expected to be about $15 billion in 1979, growing to $18 billion by 1982. In the absence of the macroeconomic effect the reduction would be $20 billion in 1979, growing to $33 billion by 1982. This is attributable to the general growth of the economy otherwise which expands the size of most revenue losers.

Tax Burden, Distribution, and Effective Rate Tables

Table 4 presents a series of tax burden tables indicating for different income levels and various maritial and dependency statuses the average size of the tax reduction under the Treasury proposals. The average amount of tax in each class is compared with the result under the 1977 law. The dollar reductions increase as the income level rises but percentage reductions in tax decline as income rises. The tax burden tables are shown for single individuals and married couples with no dependents and married couples with from 1 to 5 or more dependents and single persons and heads of households.

The third page of Table 4 indicates that a typical family of four with income between $15,000 and $20,000 now pays average tax liability of $1,742. Under the Treasury proposal, this would be reduced to $1,360, a 21.9 percent reduction. The burden tables indicate that the tax program would provide larger tax cuts for families with low income and for large families at any given income level. Taxpayers with incomes of over $100,000 would generally have a tax increase.

Table 5 shows the distribution of three alternative tax proposals made by income class and the percentage distribution of the burden by these classes. It indicates that the share of the reduction going to each of the lower and middle income classes, up to $30,000, is larger than the distribution of taxes under the 1977 law. For the income classes above $30,000 the portion of the tax burden is increased relatively evenly with the percentage shift in tax burden growing somewhat in the highest income classes. The three alternatives use the same data except each assumes the adoption of a different optional reduction in business taxes. The first option provides for partial relief from double taxation while the second and third options substitute an increase in accelerated depreciation (and investment credit for plant) and a reduction in corporate rates, respectively.

Table 6 contains the same type of distributional data for each component of the Treasury proposals.

Table 7 shows effective tax rates before and after the proposed modification in the tax law. This is shown both without and with the imputed corporate tax changes. The table indicates that in the case of individual tax changes alone the effective rates below $100,000 of expanded income decrease while the effective rates in the higher tax brackets rise to a level of 40 percent for those with incomes of $200,000 and over. The effective rates which include the imputed corporate tax also rise for incomes above $100,000. These top effective rates are much lower, however, because effective rates for corporations are substantially lower.

Table 8 shows the frequency distribution under this set of proposals. Under present law the frequency distribution was relatively highly concentrated at given effective rate levels up through incomes of about $50,000. Above that level, however, the effective tax rates show a wider and wider dispersion as the income level rises. For income level above $200,000 the effective tax rate on those in this tax bracket varies widely from about 5 percent to about 58 percent under present law. Under the proposals provided here, this dispersion in effective tax rates is narrowed appreciably with about 82 percent of the class having effective tax rates ranging from 50 percent down to about 32 percnet. Under 1977 law the range accounting for 82 percent of the income class is 60 plus percent down to about 22 percent.

Table 1

Additional Treasury Proposals Added to Tax Reform Program Since May 18, 1977, meeting with President Carter

1. Industrial Development Bonds.--It is proposed to eliminate industrial development bonds from the category of tax exempt state and local bonds but to permit a partial subsidy under the taxable bond option for those bonds that would have qualified for exemption.

2. The exclusion from income for amounts paid under employer financed health and accident plans would be limited to those that cover employees on a nondiscriminatory basis.

3. Percentage depletion for hard minerals would be phased out 100 percent over 10 years instead of 50 percent over five years.

4. Mutual credit unions would be subject to tax on a basis similar to savings and loan associations.

5. Limits would be placed on depreciation of real estate which would curb its use as a tax shelter.

6. Large farm operations - those with annual receipts of $1 million or more - would be required to compute their taxable income on an accrual method.

7. The exclusion of income on premiums paid by an employer on group term life insurance for his employees would be reduced so that it would apply only to group insurance below $25,000 face amount.

8. Appreciation in assets transferred at death or by gift would be taxed at such time.

9. The exclusion from income of amounts paid under employer financed prepaid legal insurance plans would be eliminated.

10. Travel and entertainment expense deductions would be cut back by the elimination entirely of deductions for club dues, entertainment facilities, amounts spent for tickets to theatre and sporting events and amounts spent for resort type vacation entertainment. The deductibility of business meals would be limited to 50 percent of the amount otherwise allowable as a business expense. A new limit on deductions for foreign conventions would permit such deductions only where it is reasonable to hold the foreign convention abroad.

11. The interest buildup in the savings portion of permanent insurance contracts and annuity contracts would be taxed currently.

12. Capital losses on marketable securities would be allowed up to $10,000 per year in excess of gains on such securities. The earlier proposal set an $8,000 limit.

13. The exclusion of income for amounts received by way of scholarship or fellowship would be limited to allowances for tuition and fees.

14. The itemized deduction for contributions to political candidates and committees would be repealed.

15. In the area of pension benefits for high income employees, a reduced ceiling would be placed on eligible benefits, the rules permitting high income employees to receive extraordinary benefits by taking advantage of integration with social security would be changed, a limit would be placed on amounts that could be contributed for the benefit of shareholder employees of any corporation to equate them with deductibility of contributions for the self employed and subchapter S corporations. This would largely solve the problem of professional corporations obtaining extraordinary deferral through pension benefits. In addition, the $5,000 death benefit exclusion for noninsured payments would be repealed.

16. The availability of the retirement income credit for employees under age 65 would be repealed, but there would be some liberalization in computing benefits for elderly retired employees over 65.

17. Earned income credit computational errors would be treated as arithmetic errors so that the Service could provide automatic refunds.

18. An overall limit on deductions as a percentage of total income and credits as a percentage of total tax would be introduced in lieu of the minimum tax in order to prevent returns with large income and no tax.

19. The unitary income concept by which states tax foreign operations through allocation of income on a worldwide basis would be prohibited.

20. Special benefits would be provided for small business by way of simplified depreciation, a safe harbour from the accumulated earnings tax and easier applicability of subchapter S by which small corporations are taxed as partnerships.

21. The at risk limitation enacted in the 1976 Tax Reform Act would be applied to all taxpayers except low income housing, which would reduce the availability of tax shelters. The use of deductions such as those for research and development expenses as tax shelters will be prevented by limiting those deductions to those persons making such expenditures in their trade or business.

22. Social security benefits, veterans' benefits and unemployment insurance benefits would be taxed once a beneficiary reached certain income levels.

Table 2
Treasury Tax Reform Proposals, in a Full Year
of Operation at 1976 Income Levels

($ millions)

		Full-year 1976 levels
Changes primarily affecting individual income:		
$250 tax credit and reduced tax rates		-25,386
Working spouse exclusion		-1,687
Capital gains taxation:		
Tax as ordinary income		3,514
Property transferred at death		1,605*
Itemized deduction changes:		
Repeal gasoline tax deductions		543
Repeal sales tax deductions		1,521
Repeal miscellaneous taxes deductions		345
Deduction for medical and casualty expenses		1,279
Interest expense deductions		25
Repeal political contributions deductions		3
Tax shelters:		
Individual real estate shelters		439 !
Limit exclusions and deductions to 75 percent of income and tax credits to 90 percent of tax before credits		77
Repeal individual minimum tax		-163
Provisions effecting the elderly:		
Tax credit for the elderly		7
Taxation of social security and railroad retirement benefits		607 !
Taxation of veterans benefits		221 *
Employee exclusions:		
Foreign earned income		33
Taxation of unemployment benefits		275
Group term life insurance		165
Prepaid legal insurance		40
Nondiscrimination rule for health and group term life plans		30
Tax qualified retirement plans:		
Limit on benefits, contributions, integration, shareholder employees.		10 !
Death benefit exclusion		30
Other exclusions:		
Scholarships, fellowships, GI bill benefits		170 *
Tax interest element of annuity and insurance contracts		1,275 *
Withholding on interest income		1,362 *
Taxable bond option and industrial development bonds 1/.		173
Earned income credit		*
Total individual income provisions		-13,487
Changes primarily affecting business income:		
Business tax reductions:		
Option 1: Reduce double taxation of dividends 2/		-4,561
Option 2: Accelerate depreciation and increase ITC	-4,800	
Option 3: Cut corporate tax rates 4%	-4,500	
Small business		-10
Foreign:		
Repeal DISC		1,229
Tax 50 percent shipping income		100
Prohibit uniform apportionment rule		--
Corporate capital gains		700
Financial institutions:		
Bad debt reserves:		
Commercial banks		200
Mutual savings banks and savings and loans		169 *
Credit unions		140 *
Repeal depletion on hard minerals		734 *
Amend entertainment deductions		750 !
Corporate real estate shelters		267
Corporate family farm accounting		30 !
At risk limitation		20 !
Total business income provisions		-233 3/
Total individual and business		-13,720 3/

Office of the Secretary of the Treasury — July 14, 1977
Office of Tax Analysis

1/ Tax effect only, excludes $187 million of outlays.
2/ Includes the repeal of the dividend exclusion.
3/ Does not include possible additional business tax cuts of $3 billion.

Table 3

Estimated Effects of Treasury Tax Reform Proposals on Calendar Year Tax Liabilities 1/

(Effective January 1, 1979)

($ billions)

	Calendar Years			
	1979	1980	1981	1982
Proposals primarily affecting individual income	-20.9	-23.5	-26.7	-30.6
Proposals primarily affecting business income	0.5	-0.8	-2.2	-2.5
Total individual and business	-20.4	-24.3	-28.9	-33.1
Macroeconomic induced effects	+5.1	+8.5	+11.5	+14.9
Net	-15.3	-15.8	-17.4	-18.2

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

1/ Does not include possible additional business tax cuts of $3 billion.

Table 4

Comparison of 1977 Tax Liability and Proposed Tax Liability

Joint Returns, No Dependents

Expanded income class (000)	1977 Law Tax			Treasury Proposal			Change in Tax Liability		
	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Average tax liability: Amount	Average tax liability: Percentage change from 1977 law
Less than 10	1,028	2.5	170	619	1.6	102	-409	-68	-40.0
10 - 15	4,321	10.8	1,127	3,610	9.6	941	-711	-186	-16.5
15 - 20	6,825	17.0	2,114	6,093	16.2	1,887	-732	-227	-10.7
20 - 30	10,519	26.2	3,671	9,523	25.3	3,323	-996	-348	-9.5
30 - 50	7,060	17.6	7,033	6,774	18.0	6,748	-286	-285	-4.1
50 - 100	5,011	12.5	17,234	4,897	13.0	16,841	-114	-393	-2.3
100 - 200	2,752	6.9	40,824	3,006	8.0	44,583	254	3,759	9.2
200 and over	2,605	6.5	133,470	3,121	8.3	159,883	516	26,413	19.8
Total	$40,121	100.0%	$ 2,310	$37,644	100.0%	$ 2,167	$-2,477	$ -143	-6.2%

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

Note Details may not add to totals due to rounding.

Note table does not include imputed corporate tax.

Table 4 (con't)

Comparison of 1977 Tax Liability and Proposed Tax Liability

Joint Return, One Dependent

Expanded income class ($000)	1977 Law Tax			Treasury Proposal			Change in Tax Liability		
	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Average tax liability	
								Amount	Percentage change from 1977 law
Less than 10	166	0.8	67	-114	-0.6	-46	-280	-113	-168.7
10 - 15	2,491	11.6	1,024	1,809	9.6	744	-682	-280	-27.3
15 - 20	3,974	18.5	1,932	3,347	17.8	1,627	-627	-305	-15.8
20 - 30	6,341	29.6	3,411	5,634	30.0	3,031	-707	-380	-11.1
30 - 50	3,940	18.4	6,742	3,585	19.1	6,136	-355	-606	-9.0
50 - 100	2,467	11.5	17,017	2,295	12.2	15,827	-172	-1,190	-7.0
100 - 200	1,227	5.7	42,163	1,215	6.5	41,742	-12	-421	-1.0
200 and over	848	4.0	122,043	1,029	5.5	147,988	181	25,945	21.3
Total	$21,454	100.0%	$ 2,234	$18,800	100.0%	$ 1,958	$-2,654	$ -276	-12.4%

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

Note Details may not add to totals due to rounding.

Note table does not include imputed corporate tax.

3

Table 4 (con't)

Comparison of 1977 Tax Liability and Proposed Tax Liability

Joint Return, Two Dependents

Expanded income class (000)	1977 Law Tax			Treasury Proposal			Change in Tax Liability		
	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Average tax liability: Amount	Average tax liability: Percentage change from 1977 law
Less than 10	22	0.1	13	-127	-0.7	-74	-149	-87	-669.2
10 - 15	1,997	8.9	863	1,151	6.0	497	-846	-366	-42.4
15 - 20	4,017	17.8	1,742	3,137	16.4	1,360	-880	-382	-21.9
20 - 30	6,803	30.2	3,132	5,881	30.7	2,707	-922	-425	-13.6
30 - 50	4,391	19.5	6,312	3,944	20.6	5,670	-447	-642	-10.2
50 - 100	3,149	14.0	16,385	2,864	15.0	14,901	-285	-1,484	-9.1
100 - 200	1,316	5.8	41,016	1,296	6.8	40,383	-20	-633	-1.5
200 and over	829	3.7	128,147	998	5.2	154,210	169	26,063	20.3
Total	$22,525	100.0%	$ 2,383	$19,142	100.0%	$ 2,025	$-3,382	$ -358	-15.0%

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

Note Details may not add to totals due to rounding.

Note table does not include imputed corporate tax.

Table 4 (con't)

Comparison of 1977 Tax Liability and Proposed Tax Liability

Joint Return, Three Dependents

Expanded income class ($000)	1977 Law Tax			Treasury Proposal			Change in Tax Liability		
	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Average tax liability: Amount	Average tax liability: Percentage change from 1977 law
Less than 10	-40	-0.3	-45	-68	-0.6	-76	-28	-31	-68.9
10 - 15	793	5.9	696	327	2.9	287	-466	-409	-58.8
15 - 20	2,154	16.0	1,563	1,527	13.4	1,108	-627	-455	-29.1
20 - 30	3,665	27.3	2,876	3,098	27.2	2,431	-567	-445	-15.5
30 - 50	2,779	20.7	5,902	2,512	22.1	5,335	-267	-567	-9.6
50 - 100	2,449	18.2	15,979	2,181	19.1	14,229	-268	-1,750	-11.0
100 - 200	1,031	7.7	40,569	1,048	9.2	41,224	17	655	1.6
200 and over	614	4.6	127,062	766	6.7	158,665	152	31,603	24.9
Total	$13,446	100.0%	$ 2,496	$11,392	100.0%	$ 2,114	$-2,054	$ -382	-15.3%

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

Note Details may not add to totals due to rounding.

Note table does not include imputed corporate tax.

Table 4 (con't)

Comparison of 1977 Tax Liability and Proposed Tax Liability

Joint Return, Four Dependents

Expanded income class ($000)	1977 Law Tax			Treasury Proposal			Change in Tax Liability		
	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Average tax liability: Amount	Average tax liability: Percentage change from 1977 law
Less than 10	-31	-0.6	-64	-31	-0.6	-64	**	***	*
10 - 15	296	5.0	528	6	1.3	118	-230	-410	-77.7
15 - 20	941	15.9	1,380	597	12.0	875	-344	-505	-36.6
20 - 30	1,608	27.2	2,598	1,340	27.0	2,164	-268	-434	-16.7
30 - 50	1,216	20.6	5,740	1,112	22.4	5,247	-104	-493	-8.6
50 - 100	963	16.3	16,596	873	17.6	15,049	-90	-1,547	-9.3
100 - 200	598	10.1	42,203	610	12.3	43,097	12	894	2.1
200 and over	314	5.3	128,082	396	8.0	161,816	82	33,734	26.3
Total	$5,906	100.0%	$ 2,245	$4,964	100.0%	$ 1,887	$-942	$ -358	-15.9%

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

Note Details may not add to totals due to rounding.
Note table does not include imputed corporate tax.
*Less than .05 percent.
**Less than $500 thousand.
***Less than 50 cents.

Table 4 (con't)

Comparison of 1977 Tax Liability and Proposed Tax Liability

Joint Return, Five or More Dependents

Expanded income class ($000)	1977 Law Tax			Treasury Proposal			Change in Tax Liability		
	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Average tax liability: Amount	Average tax liability: Percentage change from 1977 law
Less than 10	-27	-0.9	-73	-27	-0.9	-73	--	--	--
10 - 15	131	4.0	261	6	0.2	12	-125	-249	-95.4
15 - 20	351	10.7	1,006	156	5.8	447	-195	-559	-55.6
20 - 30	790	24.0	2,281	619	23.1	1,790	-171	-491	-21.5
30 - 50	652	19.8	5,215	590	22.1	4,723	-62	-492	-9.4
50 - 100	825	25.0	15,283	725	27.1	13,431	-100	-1,852	-12.1
100 - 200	345	10.5	37,314	349	13.0	37,692	4	378	1.0
200 and over	227	6.9	117,247	256	9.6	131,866	29	14,619	12.5
Total	$3,294	100.0%	$ 1,881	$2,676	100.0%	$ 1,528	$-618	$ -353	-18.8%

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

Note Details may not add to totals due to rounding.

Note table does not include imputed corporate tax.

Table 4 (con't)

Comparison of 1977 Tax Liability and Proposed Tax Liability

Single Returns

Expanded income class ($000)	1977 Law Tax			Treasury Proposal			Change in Tax Liability		
	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Percentage distribution	Average tax liability	Amount $ mil.	Average tax liability: Amount	Average tax liability: Percentage change from 1977 law
Less than 10	6,076	26.6	219	5,263	23.7	190	-813	-29	-13.2
10 - 15	6,105	26.7	1,599	5,907	26.6	1,547	-198	-52	-3.3
15 - 20	3,729	16.3	2,776	3,660	16.5	2,724	-69	-52	-1.9
20 - 30	2,436	10.7	4,262	2,500	11.3	4,373	64	111	2.6
30 - 50	1,669	7.3	8,296	1,765	8.0	8,778	96	482	5.8
50 - 100	1,311	5.7	18,531	1,435	6.5	20,291	124	1,760	9.5
100 - 200	714	3.1	42,053	746	3.4	43,956	32	1,903	4.5
200 and over	812	3.6	162,816	893	4.0	178,988	81	16,172	9.9
Total	$22,853	100.0%	$ 672	$22,170	100.0%	$ 652	$-683	$ -20	-3.0%

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

Note Details may not add to totals due to rounding.

Note table does not include imputed corporate tax.

Table 4 (con't)

Comparison of 1977 Tax Liability and Proposed Tax Liability

Head of Household and Married Filing Separate Returns

Expanded income class ($000)	1977 Law Tax: Amount $ mil.	1977 Law Tax: Percentage distribution	1977 Law Tax: Average tax liability	Treasury Proposal: Amount $ mil.	Treasury Proposal: Percentage distribution	Treasury Proposal: Average tax liability	Change in Tax Liability: Amount $ mil.	Change in Tax Liability: Average tax liability: Amount	Change in Tax Liability: Average tax liability: Percentage change from 1977 law
Less than 10	1,184	18.9	214	732	13.3	132	-452	-82	-38.3
10 - 15	2,023	32.2	1,345	1,794	32.4	1,193	-229	-152	-11.3
15 - 20	1,113	17.7	2,326	1,035	18.7	2,163	-78	-163	-7.0
20 - 30	776	12.4	3,913	747	13.5	3,764	-29	-149	-3.8
30 - 50	423	6.7	7,708	426	7.7	7,758	3	50	0.6
50 - 100	379	6.0	18,115	368	6.6	17,584	-11	-531	-2.9
100 - 200	129	2.1	38,611	147	2.7	44,138	18	5,527	14.3
200 and over	253	4.0	175,951	287	5.2	198,958	34	23,007	13.1
Total	$6,282	100.0%	$ 805	$5,535	100.0%	$ 709	$-747	$ -96	-11.9%

Office of the Secretary of the Treasury
Office of Tax Analysis

July 14, 1977

Note Details may not add to totals due to rounding.

Note table does not include imputed corporate tax.

Table 5

Distribution of Tax Liability Under Three Options for Business Tax Reduction as Compared to 1977 Tax Law

($ millions)

Expanded income class	1977 Law 1/		Alternative Tax Proposals 1/					
			Option 1		Option 2		Option 3	
	Amount	Percentage distribution	Amount	Percentage distribution	Amount	Percentage distribution	Amount	Percentage distribution
($000)								
Less than than 5	$3,056	1.7%	$ 2,595	1.5%	$ 2,801	1.6%	$ 2,783	1.6%
5 - 10	11,829	6.5	9,776	5.8	9,913	5.8	9,892	5.8
10 - 15	22,394	12.2	18,828	11.1	18,926	11.2	18,902	11.2
15 - 20	27,008	14.7	23,425	13.8	23,483	13.8	23,461	13.8
20 - 30	39,582	21.6	35,939	21.2	35,995	21.2	35,955	21.2
30 - 50	29,291	16.0	27,836	16.4	27,817	16.4	27,771	16.4
50 - 100	23,636	12.9	22,817	13.5	22,676	13.4	22,629	13.4
100 - 200	13,520	7.4	13,966	8.2	13,814	8.1	13,778	8.1
200 & over	13,017	7.1	14,429	8.5	14,265	8.4	14,220	8.4
Total	183,333	100.0	169,613	100.0	169,690	100.0	169,390	100.0

Office of the Secretary of the Treasury, Office of Tax Analysis — July 14, 1977

1/ Includes $47,500 million of corporate taxes imputed to individuals.

Option 1 -- Reduced double taxation of dividends and repeal of dividend exclusion -- $4,600
Option 2 -- $4,500 million of corporate rate reduction.
Option 3 -- $4,800 million of investment tax credit and depreciation changes.

Table 6

Estimated Tax Changes Resulting from Proposed Tax Reform Distributed by Expanded Income

($ millions)

Expanded income class	Changes Primarily Affecting Individual Income													
	$250 Proposed Credit		Reduced tax rates	Working spouse exclusion	Capital Gains Taxation		Itemized Deduction Changes					Tax Shelters		
	Returns with tax decreases	Returns with tax increases			Tax as ordinary income	Property transferred at death	Repeal gasoline tax deduction	Repeal sales tax deduction	Repeal miscellaneous tax and political contribution deduction	Deduction for medical and casualty expenses	Interest expense deduction	Real estate shelters	Limitation on exclusions deductions and credits	Repeal minimum tax
($000)														
Less than 5	-353	1	-59	*	13	*	*	1	*	1	*	10	14	-8
5 - 10	-1,522	117	-952	-31	43	*	14	25	5	39	*	9	2	*
10 - 15	-1,863	434	-2,414	-313	35	*	60	110	27	135	*	7	8	*
15 - 20	-951	366	-3,529	-491	102	*	114	240	50	240	*	9	11	-2
20 - 30	-229	752	-5,705	-535	3	*	201	490	89	384	*	17	14	-1
30 - 50	-5	999	-4,653	-224	433	240	104	350	68	261	3	65	14	-7
50 - 100	-1	641	-3,853	-73	716	446	37	205	50	139	9	93	6	-19
100 - 200	*	154	-1,511	-17	755	354	9	72	29	48	8	95	3	-44
200 and over	*	43	-1,292	-4	1,415	565	3	28	29	32	4	133	5	-82
Total	-4,925	3,508	-23,969	-1,687	3,514	1,605	543	1,521	348	1,279	25	439	77	-163

($ millions)

Expanded income class	Changes Primarily Affecting Individual Income									
	Provisions affecting the elderly		Taxation of veterans benefits	Employee Exclusions						
	Tax credit for elderly	Taxation of social security and railroad retirement benefits		Foreign earned income	Taxation of unemployment benefits	Group term life insurance	Prepaid legal insurance	Nondiscrimination rule for health and group term life plans	Tax Qualified Retirement Plans: Limit on benefits, contributions, integration, shareholder employees	Tax Qualified Retirement Plans: Death benefit exclusion
($000)										
Less than 5	1	*	*	*	*	*	2	2	*	*
5 - 10	15	*	*	*	1	*	6	2	*	*
10 - 15	8	5	3	1	3	*	8	2	*	*
15 - 20	6	31	13	1	15	1	8	2	*	*
20 - 30	-6	221	107	4	138	37	9	4	*	*
30 - 50	-9	228	71	4	69	54	4	5	2	8
50 - 100	-4	100	22	6	42	46	1	5	2	9
100 - 200	-2	19	5	3	6	19	*	4	3	4
200 and over	-1	3	*	12	1	7	*	4	3	9
Total	7	607	221	33	275	165	40	30	10	30

(Table 6 con't)

($ millions)

Expanded income class	Changes Primarily Affecting Individual Income: Other Exclusion: Scholarship: fellowship, GI bill, benefits	Other Exclusion: Tax interest element of annuity and insurance contracts	Withholding on interest income	Taxable bond option and industrial development bonds	Reduce double taxation of dividends (Option 1)	Changes Primarily Affecting Business Income: Small business	Foreign: Repeal DISC	Foreign: Tax 50 percent of shipping income	Corporate capital gains	Financial Institutions: Bad Debt Reserves: Commercial banks	Financial Institutions: Bad Debt Reserves: Mutual savings banks & savings & loans	Financial Institutions: Credit unions
($000)												
Less than 5	46	79	11	3	-488	-1	76	6	43	12	10	9
5 - 10	109	89	104	23	-449	-1	85	7	49	14	12	10
10 - 15	10	102	149	31	-459	-1	99	8	56	16	14	11
15 - 20	2	92	132	27	-383	-1	89	7	51	14	12	10
20 - 30	2	169	226	46	-651	-1	163	13	93	27	22	18
30 - 50	1	197	241	33	-676	-2	190	16	108	31	26	22
50 - 100	*	201	224	4	-568	-2	194	16	110	31	27	22
100 - 200	*	156	127	2	-396	-1	151	12	86	25	21	17
200 and over	*	190	148	5	-492	*	182	15	104	30	25	21
Total	170	1,275	1,362	173	-4,562	-10	1,229	100	700	200	169	140

(Table 6 con't)

($ millions)

Expanded income class	Changes Primarily Affecting Business Income					Tax Changes		
	Repeal depletion on hard minerals	Amend entertainment deductions	Real estate shelters	Corporate family farm accounting	At risk limitation	Changes primarily affecting individual income	Changes primarily affecting business income	Total
($000)								
Less than 5	45	46	16	*	1	-236	-225	-461
5 - 10	51	52	19	*	1	-1,902	-150	-2,052
10 - 15	59	60	21	*	2	-3,452	-114	-3,566
15 - 20	53	54	19	*	1	-3,511	-74	-3,585
20 - 30	97	99	36	*	3	-3,563	-81	-3,644
30 - 50	113	116	41	*	3	-1,444	-12	-1,456
50 - 100	117	118	42	15	3	-946	125	-821
100 - 200	90	92	33	11	2	301	143	444
200 and over	109	112	40	4	3	1,260	153	1,413
Total	734	750	267	30	20	-13,487	-233	-13,720

July 14, 1977

MEMORANDUM NO. 2
White House Conference

July 15, 1977

DESCRIPTION OF TREASURY TAX PROPOSALS

Personal Credit

Proposal

The current $750 personal exemption and the general tax credit of $35 per exemption (or 2 percent of the first $9,000 of taxable income) would be replaced by a single credit for personal exemptions of $250 per taxpayer or dependent (plus an additional credit for aged and blind).

Reason

Under present law, allowance for dependents is provided by a dual system for deduction and credit. Simplicity requires that only one route be followed. Widespread support for a credit because of greater benefit at lower levels is indicated by recent adoption of $35 per capita credit. A credit also makes it easier to build in recycling of energy taxes which should be on per capita basis.

Tax Rates

Proposal

The marginal tax rate schedule which now goes from 14 to 70 percent would be reduced to 13 to 50 percent. The 50 percent top rate would apply to taxable income in excess of $80,000 per year.

Reason

High marginal rates can reduce incentive for work and savings and create pressure for capital gains and other preferences. It would be impossible to achieve full taxation of capital gains without reduction of top rate to 50 percent. Equity and mitigation of effects of inflation require rate reduction down the line.

Working Spouse Exclusion

Proposal

To reduce the "marriage penalty," a special tax deduction would be permitted for two-earner married couples. The deduction would be equal to 10 percent of the first $6,000 of earnings of the lower earning spouse. The maximum deduction would be $600. It would be subtracted from gross income in arriving at adjusted gross income.

Reason

Married couples are allowed to split their income which is a tax advantage to unequal earners. However, single persons are less heavily taxed per person, with the result that there is a marriage penalty when two relatively equal earners marry. A special deduction can largely eliminate this problem. It can also reduce the work disincentive for second earners who are in effect subject to relatively high rates on first dollar of earnings. The proposal reduces the marriage penalty to less than $100 for families with incomes of less than $50,000.

Capital Gains and Losses

Proposal

Capital gains realized during life would be taxed as ordinary income. Capital losses would be allowed in full except that losses from marketable securities would be allowed in any year only to the extent of gains from marketable securities plus $10,000 a year. Gain attributable to the first $50,000 of selling price of a principal residence occupied for 5 years (the 5-year period is not applicable in case of death) is exempt without regard to the age of the seller.

To offset a part of the effects on the timber industry from repeal of capital gains, regeneration and reforestation costs would be expensed.

Reason

As a matter of equity, the current preferential tax rate for capital gain income cannot be justified. Also, the definition of capital gain under current law is the major source of complexity in the Code. Deferral of taxation until sale or disposition is a major advantage that would be retained.

Capital Gains and Losses on Transfers at Death or by Gift

Proposal

The appreciation on property transferred at death would be taxed. The basis for the heir would be equal to the fair market value at the time of death. A carryover basis would be given for marital deduction transfers to a surviving spouse and for closely held business interests and farms. Life insurance proceeds and $10,000 of personal and household effects, would be exempt. The residence exemption of $50,000 would also apply. There would be an overall exemption so that estates under $60,000 would not be taxed on appreciation on property transferred at death.

In the case of property transferred by gift during lifetime, the appreciation would be taxed. Basis would be stepped up to fair market value.

In the case of transfers to charity by bequest or gift of marketable securities, real estate and tangible personal property to be used for the exempt purpose of the donee charity, the income tax deduction for contributions is reduced by one-half of the appreciation. As to other property, the deduction would be limited to basis. Income tax deductions for bequests to charity are allowed in the year of death subject to today's percentage limits.

Reason

If capital gains are taxed in full, investors will be locked in; that is, they will have an increased incentive to hold assets. This can be offset if gains are taxed at death. Also, taxation at death would improve equity between those who realize gains during life and those who hold until death.

Reducing the charitable deduction by one-half of the appreciation maintains the current advantage for charitable gifts over sale with respect to those donations most important to charities. For certain property (such as paintings donated by artists), the charitable deduction will increase over current law.

Itemized Deductions

Proposals

Deduction for Taxes

Deductions for State and local personal property taxes, State and local general sales taxes, State and local taxes on the sale of gasoline, diesel fuel and other motor fuels and other miscellaneous State and local taxes would no longer be allowed as an itemized nonbusiness expense deduction. Taxpayers who itemize their deductions would still be able to deduct real estate and income taxes.

Deduction for Medical and Casualty Expenses

The deductions for medical and casualty expenses would be combined, and the new "catastrophe" deduction would be limited to extraordinary expenses, which would be defined as medical and casualty expenses in excess of 10 percent of adjusted gross income. For individual casualty losses, only the excess over $100 would be included. No medical expense deduction would be permitted for expenses lavish or extravagant under the circumstances. Medical insurance premiums would not be separately deductible, but would be treated as other medical expenses and hence be deductible only when, in combination with other items, they exceed 10 percent of adjusted gross income. The separate 1 percent floor on drug expenses would be repealed.

Deduction for Interest

The deduction of nonbusiness investment interest is allowed currently only to the extent of investment income plus $10,000. This limitation on the deductibility of interest would be extended to all personal interest, including home mortgage and consumer loan interest.

Deduction for Political Contributions

The itemized deduction for political contributions would be repealed. The credit for political contributions, however, would be retained.

Reason

Return preparation and recordkeeping should be reduced by eliminating many of the itemized deductions. Medical and casualty loss deductions should be limited to truly extraordinary amounts having a serious impact on ability to pay. Present rules require many taxpayers to compile records to deduct relatively ordinary expenditures.

Gasoline and sales tax deductions do not accurately reflect expenditures but are generally based on averages reflected in tables. The deduction is only an advantage to those who itemize and therefore probably has little impact on the ability of the states to impose the tax. The deduction accentuates the regressive nature of these taxes.

The income tax and real property tax deductions do not involve serious recordkeeping problems and deductibility enhances state tax power and is a form of revenue sharing as local governments look to the net burden on their citizens. In the case of progressive income taxes, this after tax cost may actually reflect an equitable tax burden.

The interest deduction can encourage homeownership but there is no reason to provide a subsidy to extremely expensive investments in real estate whether it is a luxurious first home or second and third homes. $10,000 permits full

Itemized Deductions (Continued)

deductibility of interest on mortgages at least up to $110,000 with a 9 percent interest rate. The limit tends to move in the same direction as a switch to a tax credit without a severe wrenching of the system.

The alternative of a credit and deduction for political contributions creates unnecessary complexity. With a top rate of 50 percent, the deduction is only beneficial because of higher limit. There is no reason to retain it.

Depreciation of Buildings

Proposal

Buildings (except for low income housing) would be brought under a new separate mandatory depreciation system. Under the proposal, buildings would have a guideline salvage value at the end of 10 years, expressed as a percentage of basis. These guidelines would be set by Treasury's Office of Industrial Economics. Straight line depreciation over each 10-year period would be allowed for the difference between basis (originally cost) and the guideline salvage value. If, at the end of the 10-year period, the actual value of the building was less than the guideline salvage value, the taxpayer could recoup the differential as additional depreciation over the next 5 years. At the same time, regular depreciation would be available over the next 10 years for the differential between current basis and the guideline salvage value 10 years away for a building 10 years older than before. Salvage value would never be less than the remaining mortgage balance on the property.

Depreciation of Buildings (Continued)

Reason

Present allowable depreciation for buildings far exceeds economic decline enabling investors in real estate not only to avoid tax on all profits but to shelter outside income as well. Real estate shelters are a principal means by which high income individuals avoid equitable share of burden and have a high degree of visibility. A tax reform program which fails to deal with the problem may well be (unfairly) labelled a failure. Benefits for low income housing where the tax benefits have a major effect should be retained but according to a recent Congressional Budget Office study these now receive only about 11 percent of the total subsidy.

Limit Exclusions and Deductions to 75 Percent of Income and Tax Credits to 90 Percent of Tax Before Credits

Proposal

To ensure that all taxpayers with significant amounts of economic income pay at least some tax, exclusions and deductions for individuals would be subject to a limit of 75 percent of income. Also, tax credits could not exceed 90 percent of tax before credits. The exclusions and deductions that would be subject to the limit are: accelerated depreciation (including first year allowance) on personal property, five-year amortization, percentage depletion in excess of cost depletion, intangible drilling expenses and itemized deductions (other than medical and casualty). The tax credits subject to the limit are the investment credit, the jobs credit, and the WIN credit.

The existing minimum tax would be repealed.

Reason

No tax reform program will completely eliminate the problem of the high income low tax individual. In part, Limit Exclusions and Deductions to 75 Percent of Income and Tax Credits to 90 Percent of Tax Before Credits (Continued)

this is a problem of how statistics are presented in that some people with little economic income are shown to have significant income. Further, we do not intend to eliminate all exclusions from income; for example, itemized deductions for charitable contributions and mortgage interest or special preferences for the oil and gas industry. Certainly, however, we do not want a program which despite significant reform actually increases instances of zero tax individuals. The minimum tax is an effective means but it is believed to be complex. It appears simpler than the minimum tax to utilize a limit on deductions so that there is only one tax calculation.

Presently, the investment tax credit, the WIN credit and the jobs credit can completely eliminate tax liability up to $25,000, $50,000 or $100,000 respectively. A limit is needed to prevent this occurrence.

Credit for the Elderly

Proposal

The retirement income credit would be repealed for public employees under the age of 65. The credit for the elderly would be converted to a deduction with the present phase-out rule, but the limits would be increased to $3,000 for single individuals and $4,500 for married couples.

Reason

A switch to a deduction will achieve simplicity. The phase-out already in the law eliminates any problem of greater benefit going to those at higher tax levels.

Social Security and Railroad Retirement

Proposal

For each dollar of adjusted gross income (other than the benefits involved) above $15,000 for single individuals or $20,000 for married couples, 50¢ of social security and railroad retirement benefits would be taxable. To give tax recognition to employee contributions, the maximum amount of social security and railroad retirement benefits that would be taxable would be two-thirds of the benefits received during a year.

Reason

To the extent social security and railroad retirement are substitutes for private pensions or individual savings, they should be part of the tax base. Relief to the elderly may be appropriate but there is little justification for it above certain income levels.

Veterans' Benefits

Proposal

For each dollar of adjusted gross income (other than the benefits involved) above $15,000 for single individuals or $20,000 for married couples, 50¢ of veterans' benefits other than GI bill benefits would be taxable. GI bill benefits would be taxed in the same manner as scholarships and fellowships.

Reasons

Veterans' benefits are a tax free source of income which are worth more the higher the taxpayer's marginal tax rate. Equity would be improved if these benefits were taxable in the case of individuals who are relatively well off.

Americans Living Abroad

Proposal

The present exclusions for Americans living abroad (including government workers) would be replaced with a deduction for certain housing and education costs which are considered to exceed the cost of comparable services in the United States and to be incurred by the taxpayer as a consequence of his foreign employment. In the case of housing, the deductible amount would be the amount spent for rent and utilities to the extent that those costs exceeded 15 percent of foreign earned income. The deduction would be subject to a ceiling set by reasonable rental costs in that area. In the case of education, the deduction would be available for expenditures incurred directly by the taxpayer or paid on his behalf by the employer for: (a) tuition at the elementary or secondary level for the instruction of minor dependents at private foreign schools or at U.S. public schools, and (b) travel to and from such schools when beyond reasonable commuting distance. The maximum deduction would be $2,000 of such costs per child per year.

Americans Living Abroad (Continued)

Reason

U.S. citizens should be taxed the same regardless of where they live. Special deductions for housing and education can mitigate any special difficulties from living in foreign countries where certain costs may be much higher than those borne anywhere in the U.S.

Unemployment Compensation

Proposal

Unemployment compensation would be taxed in the same manner as veterans benefits. For each dollar of adjusted gross income (other than the benefits involved) above $15,000 for single individuals or $20,000 for married couples, 50¢ of unemployment compensation would be taxable.

Reason

Nontaxation of unemployment compensation creates a disincentive to work. This is particularly true if the beneficiary has property income or is married to a spouse with substantial earnings. Taxing the benefits would treat unemployment benefits the same as earnings.

Group Term Life Insurance

Proposal

Employer paid premiums on the first $50,000 of group term life insurance coverage are tax free to employees. The $50,000 limit would be reduced to $25,000. Employer paid premiums for group term life insurance in excess of $25,000 would be taxable to the employees.

Reason

Insurance protection is generally related to salary and as such really is compensation. The $25,000 floor is provided to leave out of the tax base those cases where the premium payment is relatively small.

Prepaid Legal Insurance

Proposal

The new tax preference for employer financed prepaid legal insurance enacted in 1976 would be repealed. Employees would include in income either their share of employer contributions to a group legal services plan or the value of the benefits received under the plan.

Reason

There is no general reason to provide exclusion for employer provided benefits where a deduction is not allowed an individual for the same expenses. This provision adopted just last year should be repealed before it becomes a model for other exclusions. Life and health insurance exclusions are not a precedent. Benefits from these are more basic and, in any event, exclusion grew out of earlier administrative exemptions.

Nondiscriminatory Health and Group Term Life Plans

Proposal

Employer financed pension plans are required to cover employees on a nondiscriminatory basis. The proposal would extend the nondiscrimination rule to employer financed health and group term life plans.

Reason

Present law gives a benefit to an employer-sponsored program of health, disability or term life insurance. This makes sense only to the extent there is assurance of wide coverage, particularly for those least likely to secure their own protection.

Tax-Qualified Retirement Plans

Proposals

Limit on Benefits and Contributions

The maximum annual benefit payable under a defined benefit plan would be reduced from the present limit of $84,525 to $60,000 at normal retirement (or the actuarial equivalent under any form of benefit, including a joint and survivor annuity). The maximum annual contribution to a defined contribution plan would be reduced from the present limit of $28,175 to $15,000. Taxpayers adopting both types of plans would have to cut back on these limitations, so that the benefits expressed as a percentage of the limitations would total not more than 100 percent, rather than 140 percent as under present law. Automatic cost of living adjustments would not be permitted.

Integration

For service after 1978, employers would no longer be able to use the funds they pay into the Social Security system to reduce the benefits payable to their employees, unless they provide a retirement benefit including Social Security of at least 2 percent of final pay for each year of service. Equivalent rules would apply to defined contribution plans.

Shareholder-Employees

The annual contribution under a qualified plan would be limited to $7,500 for any shareholder-employee holding more than 10 percent of the corporate stock.

Death Benefit Exclusion

The $5,000 exclusion under present law for uninsured death benefits would be repealed.

Reason

While it is worthwhile to provide incentives for retirement savings, the present system unduly aids some to accumulate large amounts while many others (those most in need) are excluded. These proposals will increase the equity in the distribution of the tax burden.

Scholarships, Fellowships, and GI Bill Benefits

Proposal

The present exclusion for scholarships (including national health scholarships), fellowships, and GI bill benefits would be limited to amounts allowed for tuition and fees.

Reason

This is all that is necessary to provide equal treatment between scholarship recipients and students at free or low cost schools. It would eliminate extensive litigation as to whether amounts received (e.g., by medical residents) is a scholarship or compensation for services and would provide more equal treatment by taxing amounts used for living expenses regardless of source.

Interest Element of Insurance and Annuity Contracts

Proposal

On permanent insurance and annuity contracts issued after enactment, the interest buildup in the savings portion would be taxed currently to the policyholder. The interest buildup would be measured by the annual increase in cash value less the annual net premium allocable to the savings portion. The other portion of annual net premium would be allocable to the current term protection and it would be calculated from a standard IRS prescribed table to provide administrative simplification. Withholding tax at the same rate as bank and corporate interest would be imposed upon insurance companies, who would report to policyholders the amount of taxable interest. The withholding tax would be a credit claimed by the policyholder.

Reason

Whole life insurance is a combination of term insurance and a savings account. Interest credited to such savings should not be treated more favorably than interest on similar investments such as bank accounts. Recently investment vehicles have been developed to take advantage of the exemption without the necessity of actually purchasing insurance protection.

Withholding on Interest and Dividends

Proposal

Interest and dividends (if no integration) would generally be made subject to withholding at a 20 percent rate. Exemption from withholding would be provided in situations where individuals and exempt organizations certify that they have no tax liability. If government accounts can be held in savings and loans, the withheld amounts can be transferred from the accounts of the individual to the account of the government in the same association and earn the same interest rate as the U.S. government pays commercial banks on their tax and loan accounts.

Reason

This is necessary to prevent tax avoidance which may cost as much as $1.4 billion per year. Nontaxpayers could file a certificate and avoid withholding.

Taxable Bond Option

Proposal

State and local governments would be permitted to issue taxable bonds and other debt obligations with the Federal Government automatically paying 40 percent of the net interest cost. State and local governments could continue to issue tax exempt bonds.

Reason

Tax exempt bonds sell at lower rates than equivalent taxable issues thereby imposing an implicit tax on the purchaser. Nevertheless, high bracket taxpayers can obtain a higher after tax return from tax exempt issues indicating that the loss of tax revenue is not completely passed on to the states. This windfall to high bracket investors can be substantially reduced and the borrowing costs to local governments lowered by offering the taxable bond option.

Industrial Development Bonds

Proposal

The interest on industrial development bonds, except those bonds issued under the $1 million and the $5 million exceptions, would no longer be tax exempt. Instead, the Federal Government would pay 20 percent of the net interest cost of taxable industrial development bonds under the taxable bond option provision.

Reason

These bonds issued for private purposes compete with state and local issues and drive up interest rates. There is no real advantage to any municipality if all offer them. The subsidy should not be increased which would be the effect of the taxable bond option.

Earned Income Credit

Proposal

The earned income credit would be modified to permit IRS to treat failure to claim the credit as an arithmetic error: (1) the dependency test for the credit would be made the same as that for personal exemptions and (2) the definition of earned income would be changed so that it can be inferred from data presently reported on tax returns.

Reason

The credit should be made easier for taxpayers to use.

Business Tax Alternatives

Proposals

Option 1: Corporate taxes attributed to dividends paid would be treated as a withholding tax. The individual shareholder would gross up his dividends by the amount of the taxes withheld by the corporation. The grossed-up dividends would be taken into income by the shareholder but a credit against tax would be allowed for the corporate taxes attributable to the dividends received. Tax exempt and foreign shareholders would not receive a credit for corporate taxes. In the first year, 1979, the gross-up and credit would be based on an effective tax rate of 20 percent. Corporations with an effective tax rate of less than 20 percent would be subject to a special withholding tax to increase the amount of taxes attributed to the dividends to 20 percent. There would be no adjustment for corporations with effective tax rates above 20 percent. In the following two years the 20 percent figure for computing gross-up and credit would be increased to 25 and finally 30 percent.

The $100 dividend exclusion would be repealed.

Option 2: The investment tax credit would be extended to industrial structures, but not other structures. The net tax liability limitation of the investment tax credit would be increased from 50 percent to 100 percent for all taxpayers. The 20 percent variance permitted in computing useful lives for depreciation of machinery and equipment under the ADR system would be increased to 40 percent.

Option 3: The present corporate tax rates of 20 percent on the first $25,000 of income, 22 percent on the next $25,000 and 48 percent on income above $50,000 would be reduced to 18 percent, 20 percent and 44 percent respectively.

Reason

See separate memorandum on business tax alternatives.

Small Business Proposals

Proposals

Depreciation

The Secretary of the Treasury would be authorized to promulgate regulations simplifying the Asset Depreciation Range (ADR) System. In doing so, Treasury could:

1. Eliminate the reporting requirements;

2. Require small business taxpayers to choose between only two methods of depreciation -- straight line or the double declining balance method;

3. Eliminate salvage value.

Accumulated Earnings Tax

Corporations are able to accumulate a minimum amount of earnings and profits without being subject to an accumulated earnings tax of 27-1/2 or 38-1/2 percent. The minimum accumulated earnings credit is now $150,000. The proposal would allow a corporation which has reached the $150,000 ceiling to avoid the accumulated earnings tax by distributing 75 percent of its current profits to shareholders. 25 percent of these profits could be accumulated without regard to the reasonable needs of the business.

Subchapter S Corporations

Number of Shareholders.--The maximum number of shareholders that a subchapter S corporation can have would be increased from 10 to 15, the number now permitted under limited circumstances. Upon death, an individual shareholder's stock could pass to a trust established under his will for the benefit of his immediate family (spouse and descendants). To qualify, the trust would have to distribute all of its income currently. It would be viewed as a single shareholder for purposes of the new 15 shareholder requirement.

Passive Income Test.--A corporation could qualify for subchapter S status even though it obtains more than 20 percent of its receipts from passive investment sources such as dividends and rents.

Making an Election.--A corporation could elect subchapter S status for a particular taxable year at any time before or within 60 days after the beginning of the year. Now, an election must be made within 30 days before or after the first day of the year.

Termination of Election.--In general, the termination of subchapter S status would take effect on the date of the triggering event, rather than being retroactive to the first day of the taxable year. The old retroactive rule would continue to apply to terminations occurring during the first year of subchapter S status to prevent abuse.

Inadvertent Terminations.--The procedures for reestablishing subchapter S status within five years after an inadvertent termination would be liberalized. A corporation whose subchapter S status terminated because it failed to satisfy the small business requirement (such as the 15 shareholder limit) could request reinstatement of its former status by filing a timely subchapter S return. In deciding whether to grant reinstatement, Treasury could consider whether or not the termination was inadvertent.

Net Operating Loss Carryforward.--The losses which flow through to a subchapter S shareholder are deductible to the extent of his corporate equity and loans. At present, carryovers are not allowed, so that once a shareholder's aggregate losses exceed his equity and loans, the excess will never be deductible. Under the proposal, the excess would become deductible in later years to the extent of subsequent increases in the shareholder's equity and loan accounts. This follows the partnership provisions under current law.

Reason

These proposals are intended to reduce to the extent possible unnecessary tax obstacles to continued operation of small businesses.

DISC

Proposal

The tax deferral benefits granted to Domestic International Sales Corporations and their shareholders would be terminated. Accumulated untaxed DISC income attributable to past years would remain tax-free as long as invested in qualified property.

Reason

Under flexible exchange rates, DISC cannot have a significant effect on the balance of trade and U.S. employment. Equal government expenditures in other areas should create many more jobs.

Foreign Shippers

Proposal

The source rules for shipping and air traffic would be modified so that one-half of any voyage to or from the United States would give rise to U.S. source income. The statutory reciprocal exemption would be limited to operators of ships resident of, or if a company, directly and beneficially owned by residents of, a country which grants an equivalent exemption to U.S. citizens and corporations. Foreign shippers could elect to be taxed on presumed net income equal to 10 percent of gross income from U.S. sources. The investment credit would be denied with respect to property (principally ships and planes) leased to an entity exempt from U.S. tax by statute or treaty. This is consistent with the denial of the credit under current law where the property is used by an exempt organization or leased to a governmental unit.

Reason

The original purpose of the reciprocal exemption to prevent double taxation is not served since shippers locate in tax havens and use flags of convenience. The subsidy to foreign shipping operating in the U.S. should be reduced.

Prohibition of Unitary Apportionment to Foreign Corporations

Proposal

The application of the unitary apportionment system to foreign corporations would be prohibited. In constructing the base for a unitary apportionment, state tax authorities would be prohibited from including the activities of a foreign parent, brother-sister or subsidiary corporation.

The inclusion in a combined report of foreign or domestic branches of a corporation doing business in a state would not be affected by the provision. The right of a state to tax income received by a corporation doing business in the state from a foreign affiliate (e.g., interest, dividends, or royalties) would also not be affected.

Reason

The unitary apportionment method takes into account the income of any related corporations which have activities outside the state which are dependent upon or contribute to the business of the corporation within the taxing state.

Prohibition of Unitary Apportionment to Foreign Corporations (Continued)

The inclusion of foreign corporations under the unitary method of apportionment often results in state taxation of foreign source income by apportioning too much income to the United States. The inclusion of foreign corporations also cause severe administrative burdens for foreign corporate taxpayers.

Financial Institutions

Proposals

Commercial Banks

Commercial banks would be required to use the statutory experience method for computing additions to bad debt reserves. The transition rules provided for the percentage method, allowing it to be used until 1988, would be repealed.

Mutual Savings Banks, Building and Loan Associations, and Cooperative Banks

The taxable income method for these institutions for computing additions to bad debt reserves would be phased down to a 20 percent exclusion over a 5-year period.

Credit Unions

The tax exemption for credit unions would be repealed. In computing taxable income, credit unions would be required to use the statutory experience method for computing additions to bad debt reserves.

Financial Institutions (Continued)

Reason

These institutions, particularly as they move to a more competitive position, should be taxed on a more equal basis. Consistent with out general efforts we should move toward a full tax basis.

Travel and Entertainment and Foreign Conventions

Proposal

Entertainment deductions would be totally disallowed with respect to entertainment facilities (yachts, hunting lodges, club dues) and for entertainment costs involving theatre tickets, sporting events, golf fees and the like. 50 percent of otherwise deductible business meal expenses would be allowed as a business deduction. No deduction would be allowed for expenses incurred to attend a convention, seminar, or other meeting held outside of the United States and Possessions unless it is reasonable for the meeting to be held outside of the U.S. For qualified foreign conventions the deduction allowed for subsistence would not exceed 125 percent of the government per diem for the area.

Reason

Much purely personal entertainment is undoubtedly improperly deducted under present law. Moreover, even business entertainment provides personal benefit. Consistency requires that this be provided out of after-tax dollars.

Capitalization of Production Costs

At Risk Limitation

Proposal

The at risk limitation, enacted in the Tax Reform Act of 1976, would be applied to all taxpayers, including regular business corporations, which use tax sheltered devices, and to all activities, except real estate. The special partnership at risk provision would be repealed.

Reason

Taxpayers' deductions in connection with an activity are limited to their investment but such investment can be with borrowed funds. The picture of a high income individual contributing cash of $20,000 to a partnership and obtaining an immediate tax saving in excess of that amount is a symbol of the unfairness of our tax laws. This is particularly galling if the taxpayer bears no risk with respect to his purported investment in excess of the $20,000 cash. If the property does decline reflecting the tax deductions, the taxpayer will not bear the loss; the stated price may be grossly inflated where the "lender" is also the seller thereby creating purely artificial losses. To deal

Capitalization of Production Costs (Continued)

that the item be expensed. Tax shelter promoters have seized on these opportunities to package the deductions and make them available to those not engaged in the trade or business. In the 1976 Act, Congress acted to prevent such shelters in the area of production of books, records, films and similar property. Promoters are beginning to seek out other opportunities and this should be prevented by making the 1976 provision more generally applicable to all activities for those not engaged in the trade or business involved.

Family Farm Exemption from Accrual Reporting

Proposal

Generally the tax shelter aspects for farming were significantly reduced by the Tax Reform Act of 1976. However, the "family owned" rule provided an exception from the use of accrual accounting for some of the largest farm operations in America. Moreover, while farm syndicates were required to capitalize many expenses previously deducted, they are not required to adopt full accrual accounting. The proposal would require large farm corporations and farm syndicates as defined in the 1976 Tax Reform Act to use the accrual method of accounting. "Family owned" corporations would no longer be excepted from the accrual accounting rule unless they had gross receipts of $1,000,000 or less.

Reason

Cash accounting for farmers was allowed administratively over 50 years ago with the small farmer in mind. It was intended to simplify recordkeeping, not to provide a preference for farm income. Large operations can be expected to compute their income correctly for tax purposes.

MEMORANDUM No. 3
White House Conference
July 15, 1977

Alternative Capital Formation Programs

The purpose of this memorandum is to present a comparison of three capital formation programs: one which reduces double taxation of corporate dividend income at the shareholder level; a second which provides for accelerated depreciation, an investment credit for industrial structures and increases the tax liability limitation on the investment credit to 100 percent; and a third alternative which would reduce corporate rates.

The first option which reduces double taxation of dividends is a much more modest proposal than that presented at the last White House tax reform conference. This provision involves a revenue loss of about $4.6 billion as contrasted to $8.0 billion in the proposal previously presented. The Treasury staff has found a way of providing for phasing-in on a year-by-year basis the reduction of the double tax burden. Under this procedure it is also possible to provide for partial relief from the double taxation on dividends without providing for full relief. Under this proposal, the individual shareholder would "gross up" his dividends by the proportion of the corporate taxes to be treated as a withholding tax. The grossed up dividends would be taken into income by the shareholder but a credit against tax would be allowed for the portion of the corporate taxes treated as a withholding tax and attributable to the dividends received. Tax-exempt and foreign shareholders would not receive a credit for corporate taxes. In the first year, 1979, the gross up and credit would be based upon an effective tax rate of 20 percent. Corporations with an effective rate of less than 20 percent would be subject to a special withholding tax to increase the amount of taxes attributable to the dividend to 20 percent. There would be no adjustment for corporations with effective tax rates above 20 percent. In the following 2 years, the 20 percent figure for computing the gross up and credit would be increased to 25 percent and finally to 30 percent.

Providing for the double taxation relief in this manner takes into account the fact that the real effective corporate rates of tax may vary widely. The portion not treated as a withholding tax for the individual would continue to vary as under existing law. By adopting this form of relief from double taxation, it would be possible to treat all shareholders as receiving a uniform "gross up" in tax while allowing corporations, to the extent of any remaining tax, to maintain the differentials presently in existence. This type of treatment also makes it possible to phase in relief from double taxation at any rate desired, stepping up the relief from double tax as it becomes appropriate in future years. However, under this proposal no commitment would be made beyond treating 30 percentage points of the corporate effective rate as a withholding tax for the shareholder.

A second option is the package developed by the Council of Economic Advisers. Under this package, the present 20-percent variance permitted in computing useful lives for depreciation of machinery and equipment under the ADR system would be increased to 40 percent. Second, the investment credit would be extended to industrial buildings generally. Third, the investment tax credit would be allowed to offset 100 percent of tax liability rather than 50 percent generally allowable under present law.

A third option is a general reduction in corporate rates. The corporate rates under present law and under this option would be as follows:

Income Level	Present Law	Option 3
First $25,000	20%	18%
Next $25,000	22%	20%
Over $50,000	48%	44%

Generally this provides a 4-percentage point reduction divided equally between the normal tax and surtax.

Each of the three options when fully effective involve revenue losses of about $4.5 billion. A comparison of the revenue effect of these options over the years ahead are as follows:

	Fiscal Years			
	1979	1980	1981	1982
	(..............$ billions.........)			
Option 1	-4.7	-6.6	-8.5	-9.1
Option 2	-2.8	-4.8	-5.4	-5.9 */
Option 3	-6.6	-7.3	-8.0	-8.7

*/ The cost of the accelerated depreciation feature of this option is still being phased-in.

- Increasing the investment credit and increasing accelerated depreciation both represent increases in "tax expenditures" and as such will increase the discriminations in the tax system.

- Including industrial structures in the base of the investment credit can be supported on the grounds that this is an important area of investment, which has been lagging. It will, however, present difficulties in making the somewhat arbitrary distinction between industrial and commercial facilities. This is also an area where depreciation allowances are already very generous.

The third option which would provide a reduction in corporate rates, has the following special characteristics:

- Of the three options it is probably the simplest to put into effect and would be widely supported by business.

- Next to relief from double taxation, it does the most to reduce the discrimination against investment in the corporate sector and against equity financing.

- This type of relief is especially beneficial to small business. This is shown by the fact that the starting rate for small corporations under this proposal would be reduced from 20 percent to 18 percent. This would be received favorably by small business although an effort undoubtedly would be made to have all of the 4 percentage points applied against the tax on small business, bringing the rate down to 16 percent.

- One difficulty with reducing the rate on small business is that to the extent that this rate is appreciably below the individual income tax rate at which income would otherwise be taxed, there is an incentive to use small corporations as tax shelters. This undoubtedly would become an increasing problem under this option.

MEMORANDUM NO. 4
White House Conference
July 15, 1977

Various Options to Treasury Proposals

Option: Floor under all itemized deductions.

Description of Option

The basic proposal would repeal or reduce many of the itemized deductions.

An alternative to attacking the itemized deductions directly would be to place a floor under all itemized deductions. For example, a taxpayer might be permitted to deduct itemized deductions only in excess of 15 percent of adjusted gross income.

Instead of proposing a floor under itemized deductions, it would be possible to permit those using the standard deduction to use a rate schedule with marginal rates of 10 percent lower than in the rate schedule for itemizers. This approach instead of penalizing itemizers gives a benefit to those using the standard deduction.

Discussion

Floor

° A floor under itemized deductions would further limit the number of itemizers, increase tax revenues and thus allow tax rate reductions.

° It would require an extra calculation for all itemizers and potential itemizers.

° It would have an adverse effect on deductions for expenses such as charitable contributions or those which represent negative income (such as interest expense). (A floor under itemized deductions was proposed by President Kennedy in 1963 but was rejected.)

Separate rate schedule

° The separate rate schedule encourages switching to the standard deduction.

° This approach loses revenue which would have to be offset by rate increases.

- This approach would not be viewed as a simplification. Under present law, taxpayers must decide whether to itemize or claim the standard deduction. This requires the taxpayer to determine whether total itemized deductions exceed the allowable standard deduction. Under this proposal, taxpayers would have to go one step further and calculate taxes under two rate schedules to determine whether it is better to itemize or use the standard deduction. Many taxpayers would find this quite confusing.

Revenue Impact

A 15 percent floor under itemized deductions would increase revenue by $12 billion. Reducing marginal tax rates by 10 percent for taxpayers claiming the standard deduction would reduce Federal revenues by $6 billion.

Option: Place a floor under the charitable deduction and limit the deduction to basis.

Description of Option

Only charitable deductions in excess of 3 percent of AGI or $5,000 whichever is lower would be deductible. In the case of appreciated property, the taxpayer's deduction would be limited to his basis in the property.

Discussion

- Return preparation problems and exaggeration of small deductions could be mitigated by placing a floor under the charitable deduction.

- Taxpayers would have a strong incentive to bunch charitable giving in alternate years to minimize the impact of the floor.

- Limiting the charitable deduction to the taxpayer's basis in the case of appreciated property would make the tax system neutral between giving cash and giving appreciated property.

- Charitable organizations would strenuously oppose any modification of the charitable deduction which constrains it further.

- Limiting the deduction to the taxpayer's basis would be strongly opposed by those charitable organziations such as universities which rely heavily on appreciated property as a major source of fund raising.

Revenue Gain

$3.0 billion

Option: Place a $2,000 ceiling on the real property tax deduction.

Description of Option

The basic plan contains no cutback in the deduction for real property taxes. Under this option, taxpayers would be permitted to itemize real property taxes up to a ceiling of $2,000 a year.

Discussion

° A disallowance of the real property tax deduction would reduce the bias in the tax system favoring homeownership over renting.

° A limit, even though it affects only a few taxpayers, would be strongly opposed because it would be viewed as a precedent for future reductions in the property tax deduction.

° The real property tax is the only major source of revenue for many local governments. Any cutback in the deductibility of real property taxes would be strongly opposed by these governments.

Revenue Gain

$0.5 billion

Option: Include tax exempt interest under minimum tax

Description of Option

Interest on state and local government bonds could be included as an item of tax preference under the minimum tax or under any replacement for the minimum tax.

Discussion

- This proposal would insure that an individual who holds only tax exempt bonds would pay some Federal income tax.
- Inclusion of this proposal in the package, however, would endanger the taxable bond option proposal. In 1969, state and local governments adopted the strategy of opposing both taxable bond option and the minimum tax provision presumably so as not to be in position of favoring a new tax benefit while opposing the removal of another benefit.

Revenue Gain

This would raise $50-$100 million per year under the present minimum tax.

Option: Eliminate oil and gas tax preferences.

Description of Option

Percentage depletion of oil and gas and expensing of intangible drilling expenses would be repealed.

Discussion

Background.--In 1975, Congress provided for the elimination of percentage depletion of oil and gas except for

(1) regulated natural gas,
(2) natural gas sold under a fixed contract, and
(3) independent producers and royalty owners.

In the case of independent producers and royalty owners, Congress provided that depletion would be phased down from 2,000 barrels to 1,000 barrels per day and from 22 percent to 15 percent by 1984.

In 1976, Congress added intangible drilling expenses as preference item for the minimum tax on individuals. The energy bill before the Ways and Means Committee (except for investments by outsiders) would repeal this 1976 change.

Comment

- In view of the fact that the Administration supported an oil and natural gas tax incentive in the energy bill for exploration and development, it would be difficult for us to support a proposal to eliminate the tax preferences for oil and gas at this time. The energy proposals have been criticized by some (unjustifiably) for not providing additional incentives for production.

- Another reason why this is probably not an optimal time to reopen the issue of percentage depletion for oil and gas, is the fact that Congress provided a 10-year phase down of percentage depletion for oil and gas beginning in 1975.

Revenue Gain

$1.2 billion

Option: Elimination of deferral on foreign source earnings.

Description of Option

All foreign income of controlled foreign corporations attributable to U.S. shareholders would be taxed currently.

Discussion

- U.S. investors pay little U.S. tax in distributed foreign subsidiary income. Elimination or the retention of deferral would have only a marginal impact on the location of investment. Therefore, the size of the tax incentive to invest abroad rather than in the United States is quite limited.

- Since foreign investment is denied the investment tax credit and the acceleration of tax depreciation permitted by the ADR system, apart from tax deferral, foreign investment is disadvantaged relative to domestic investment. Eliminating deferral would not be neutral in its effect on investment.

- Foreign countries and the United States frequently have differences as to the year in which specific types of tax deductions may be taken or income reported. Eliminating deferral would mean income may be reported (and therefore be taxable in the United States) in 1 year but be reported in the foreign country in a subsequent year. This means the United States, without tax deferral might tax income in 1 year only to have excess credits in a subsequent year which arise from the difference in the reporting time for the same income in the foreign country. This leads to complexities and confusion for taxpayers if tax deferral is removed.

- While U.S. taxation of foreign subsidiary income is not taxed until the dividend is repatriated to the U.S., income earned by a foreign branch of a U.S. corporation is taxed on a current basis. The termination of deferral would mitigate the influence of tax considerations on the choice of the legal form of foreign operations.

- Repeal of deferral would eliminate to a large extent existing incentives to misallocate income and deductions between domestic and foreign affiliates of a multinational firm in order to avoid paying taxes.

Revenue Gain

$500 million

Option: Combine child care credit and working spouse exclusion into a single credit.

Description of Option

The child care credit and the working spouse exclusion might be combined into a single tax credit equal to 20 percent of the first $4,000 of earnings of the lesser earning spouse. This credit would be extended to all two earner families regardless of whether they have children or incur child care expenses.

Discussion

- The child care credit is justified as tax relief for two earner families compared to one earner families. Thus, it reduces the so-called "marriage penalty."

- The child care credit is partly justified on the grounds that child care expenses are cost of earning income when the second spouse enters the labor market. To the extent this is the basis for the credit a separate child care credit conditioned on incurring child care expenses or on having children appears justified.

Revenue Loss

Revenue loss of about $500 million per year.

Chart 1

Revenue Cost of Major Individual Tax Expenditures, FY 1977

($ millions)

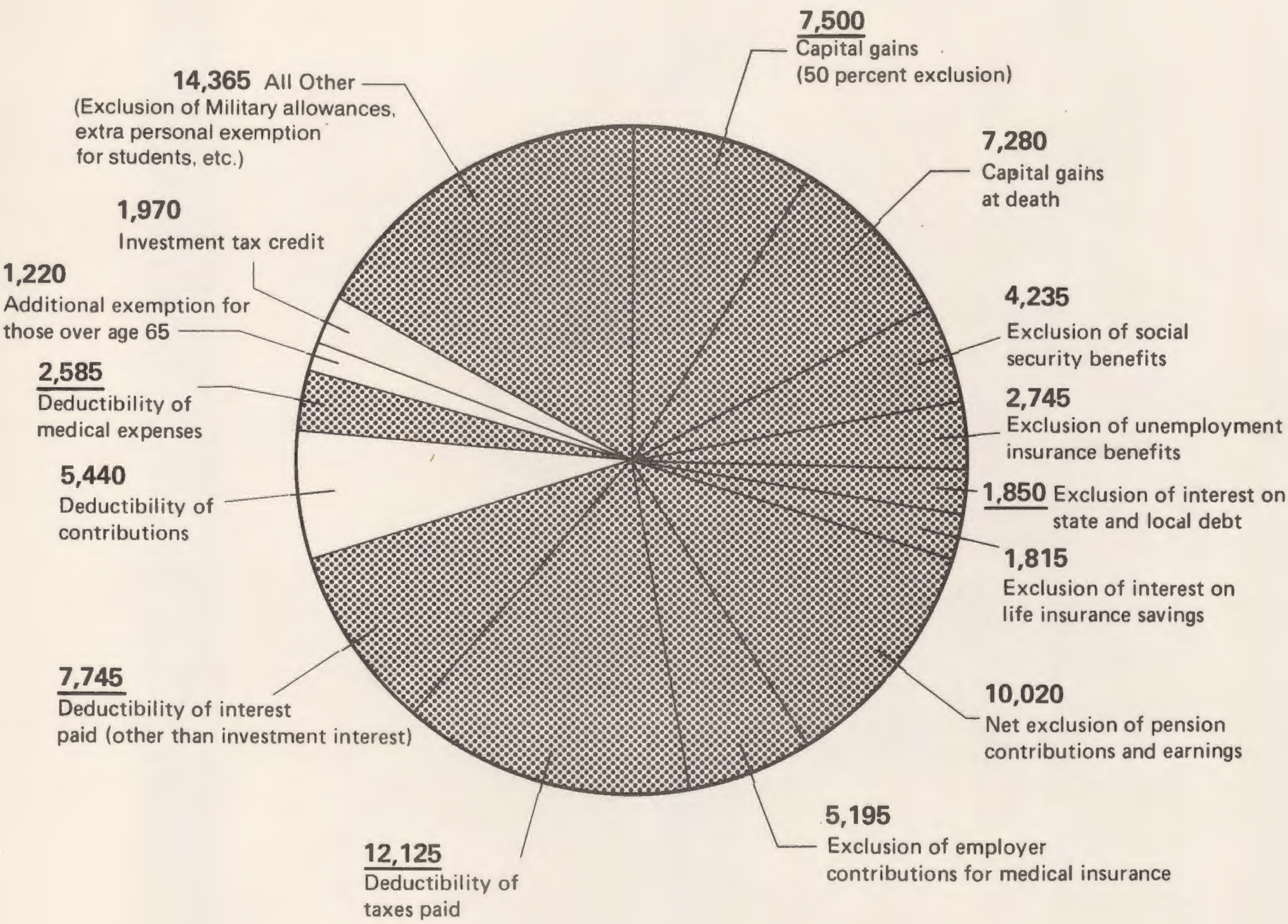


Chart 2

Revenue Cost of Major Corporate Tax Expenditures Fiscal Year 1977

($ millions)

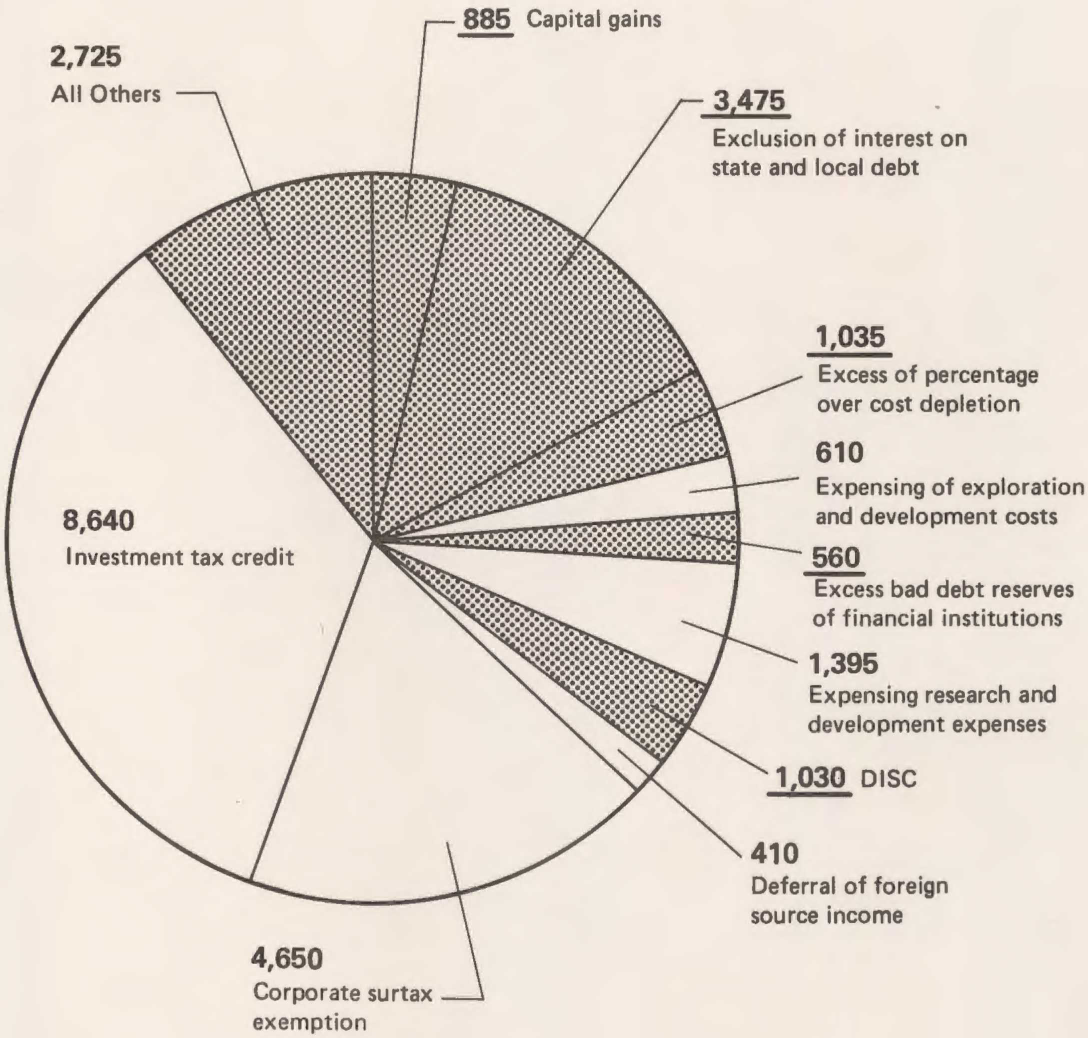


Chart 3

Tax Reform Program: Effective Individual Tax Rates as a Percent of Expanded Income, 1976 Level of Income.

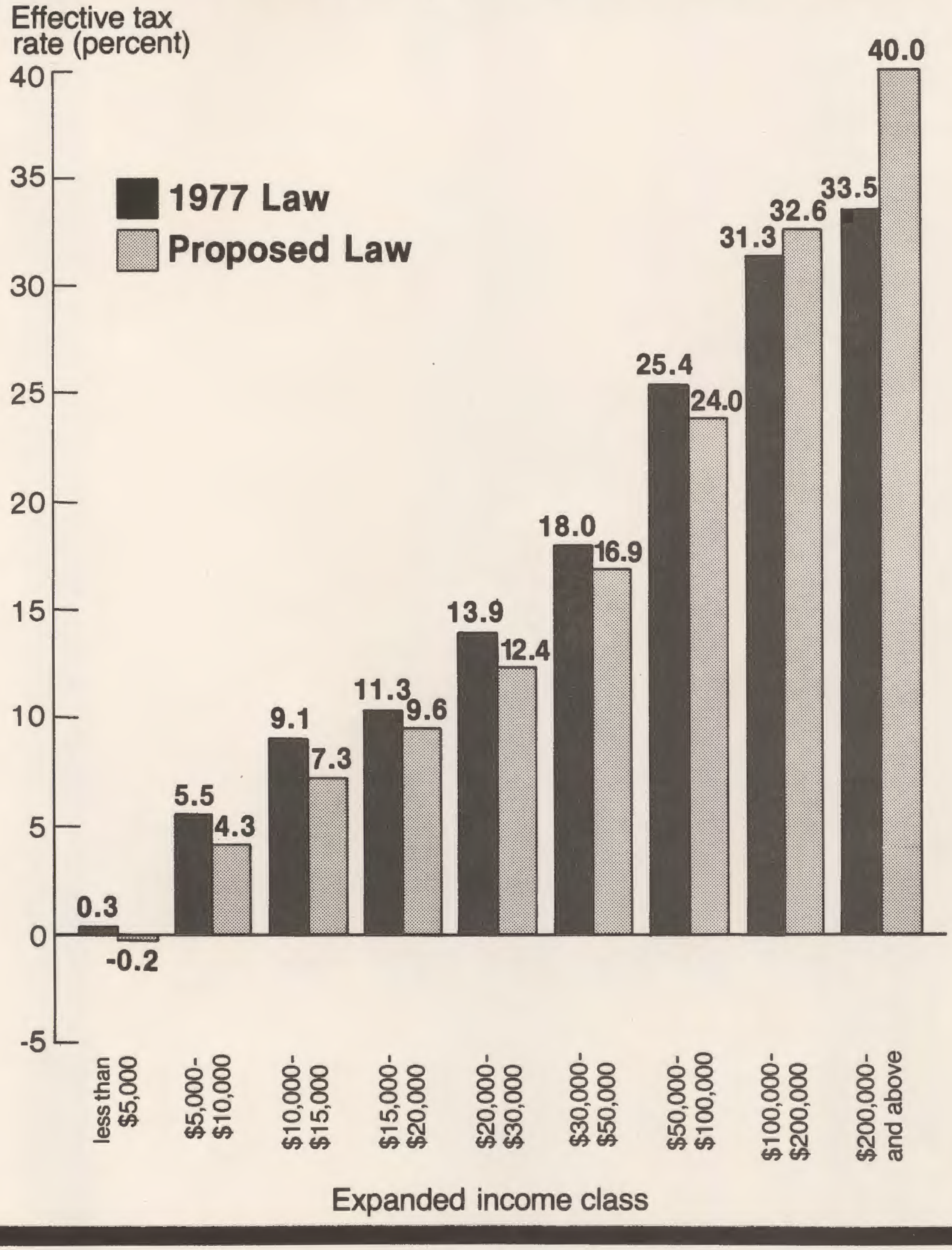
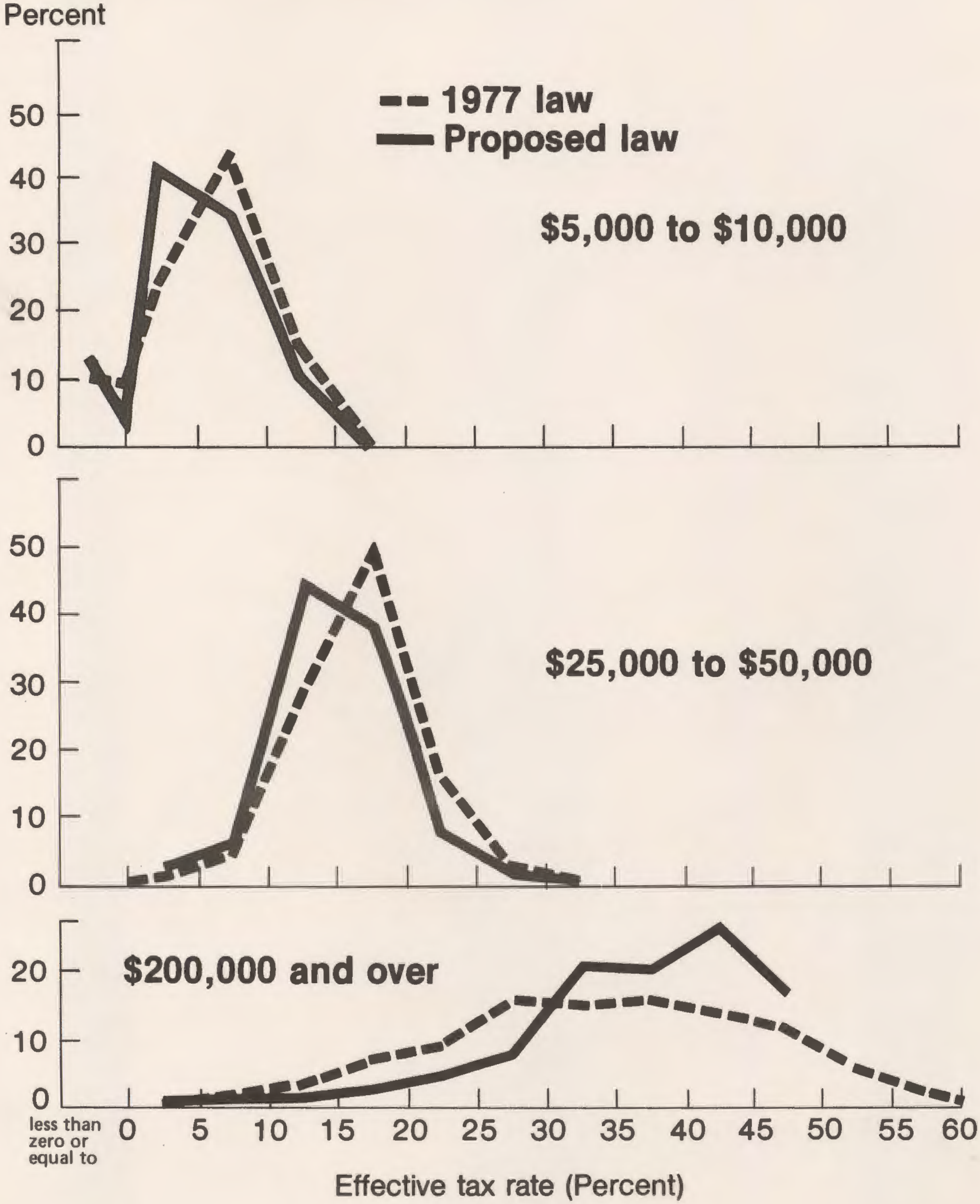


Chart 4

Frequency Distribution of Returns by Effective Tax Rate, in Selected Expanded Income Classes



2:20 PM

THE PRESIDENT HAS SEEN.

MEETING WITH JUDGE JOHN IRWIN
CANDIDATE FOR FBI DIRECTOR

Friday, July 15, 1977
2:20 p.m. (10 minutes)
The Oval Office

From: Mary C. Lawton, U.S. Department of Justice and
Robert J. Lipshutz, Counsel to the President

I. PURPOSE

Judge John Irwin is among the five individuals recommended by the Committee on Selection of the Director of the FBI. He will be interviewed extensively by Attorney General Bell at one o'clock and will then meet briefly with you that afternoon.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: Judge Irwin is presently an Associate Justice of the Massachusetts Superior Court (the general trial court for the State). He has been on the bench only one year. Prior to his ascending the Bench he was a prosecutor, first for Middlesex County and then for the State Attorney General's office. He served as Chief of the State Criminal Bureau under Attorneys General of both parties, handling organized crime and corruption cases. A copy of his resume is attached to this briefing paper.

B Participants: Judge John Irwin
The Vice President

C. Press Plan: Due to the short time available for you to talk with Judge Irwin, no press or photographers have been scheduled for this meeting.

X

JOHN J. IRWIN, JR.
Associate Justice
Massachusetts Supreme Court

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EDUCATION

School	Year	Degree
Boston College	1948-1952	A.B.
Boston College Law School	1954-1957	LL.D.

MILITARY SERVICE

Branch	Year	Grade
U. S. Army	1952-1954	Corporal

EMPLOYMENT

Middlesex County	Middlesex County, MA	9/59-2/70	Assistant District Attorney - prosecuted criminal cases for County, was head of homicide section, became first assistant attorney, chief trial lawyer, prosecuted larger, complex criminal trials.
Commonwealth of Massachusetts	Boston, MA	2/70-8/76	Chief of Criminal Bureau - Administered, managed, prepared budget, planned and managed LEAA funding. Responsible for setting investigative policy for the office of Attorney General.
Commonwealth of Massachusetts	Boston, MA	8/76-Present	Associate Justice - trial Judge for Superior Court, Commonwealth of Massachusetts.

PROFESSIONAL AND CIVIC ASSOCIATIONS:

Massachusetts Bar Association
Middlesex County Bar Association
National Association of Attorney's General
Committee to Revise Rules of Criminal Procedures for Commonwealth of Massachusetts.

WRITINGS:

"Criminal Law" - Boston College Law Review
"Pre-Trial Motions and Discoveries in Criminal Cases" - Massachusetts Law Quarterly

POLICE RECORD: None

1:00 PM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 14, 1977

TO: The President

FROM: Walt Wurfel W

RE: Your Q & A Session with Non-Washington Editors/News Directors, 1:00 p.m., Friday, July 15, Cabinet Room

This group will meet in the morning with Dr. Brzezinski, Charles Warren and Sol Linowitz. After seeing you they will be briefed on airline deregulation by Mary Schuman. (An agenda is attached.)

They come from 20 states. Twenty-three are newspaper or editorial page editors. Six are broadcasters. (A list of participants is attached.)

A photo pool will be in the Cabinet Room the first two minutes. No White House reporting pool will cover any session. The whole day is on the record.

THE WHITE HOUSE

WASHINGTON

AGENDA

July 15 Briefing
Editors and News Directors

8:30 - 8:50 a.m.	Coffee and Danish
8:50 - 9:00 a.m.	Welcome WALT WURFEL Deputy Press Secretary PAT BARIO Associate Press Secretary PAT BAUER Deputy Editor, News Summary
9:00 - 10:00 a.m.	ZBIGNIEW BRZEZINSKI National Security Council "CARTER ADMINISTRATION FOREIGN POLICY"
10:00 - 11:00 a.m.	CHARLES WARREN Chairman, Council on Environmental Quality "ENVIRONMENTAL ASPECTS OF THE NATIONAL ENERGY PLAN"
11:00 - 11:15 a.m.	Buffet Lunch
11:15 - 12:15 p.m.	SOL LINOWITZ Co-Negotiator, Panama Canal Treaty "PANAMA CANAL NEGOTIATIONS"
12:15 - 12:35 p.m.	Break
12:35 - 1:00 p.m.	En Route to Cabinet Room
1:00 - 1:30 p.m.	Q and A with PRESIDENT CARTER
1:30 - 2:15 p.m.	Filing Time
2:15 - 3:15 p.m.	MARY SCHUMAN Assistant Director, Domestic Policy Staff "AIRLINE DEREGULATION"

PARTICIPANTS
JULY 15 BRIEFING

ALABAMA: John Bloomer, editor, Birmingham News. Conservative; negative on B-1 decision and China relations.

L. Peyton Bobo, editor, Millport Gazette. Weekly, highly supportive. Bobo's wife was Carter-Mondale county coordinator during general election.

CALIFORNIA: Dennis Swanson, news director, KABC-TV, Los Angeles.

Chester Washington, editor and publisher, Los Angeles Central Newswave Publications. Largest black weekly in the US. Washington is 70 yrs. old, liberal, influential in Watts; very close to Tom Bradley and County Supervisor Ken Hahn; supportive.

William Peterson, news director, KCST-TV (ABC), San Diego.

DELAWARE: Joe Smyth, editor, Delaware State News, Dover. Smyth is iconoclastic, strong on free speech, tending toward sensationalism; fairly favorable to you; friend of Sen. Biden.

FLORIDA: Joseph Morland, Jr., news director, WJXT-TV, Jacksonville (owned by Washington Post).

GEORGIA: Quimby Melton, Jr., publisher, Griffin Daily News.

Thomas Coffey, associate editor and chief editorial writer, Savannah News-Press.

ILLINOIS: Richard Hargraves, publisher, Midland Publications, Spring Valley. Very conservative small weeklies; rural central Illinois; receptive to your openness.

KENTUCKY: Bruce Van Dusen, editor and publisher, The Voice Newspapers (suburban weekly), Louisville. Van Dusen is close to George Romney.

LOUISIANA: Phil Johnson, news director, WWL-TV, New Orleans (CBS).

William Hugh Shearman, publisher, Lake Charles American Press. Fairly conservative, especially on fiscal, energy matters; liberal on social concerns; pro-management, oppose you on labor package.

MISSOURI: Richard Bush, editor, Neosho Daily News. Republican, endorsed Ford in '76; most concerned with Farm Bill.

MONTANA: Albert Gaskill, editor, Montana Standard.

NEW JERSEY: Esther Blaustein, editor, Jewish Community News of New Jersey, Union.

NEW YORK: Walter Goodman, editorial board, The New York Times.

Linda Glazer, publisher, The Saratogian. A Gannett paper, fairly progressive; supportive, endorsed you in '76; Glazer is new publisher, 33 yrs. old.

NORTH CAROLINA: A. Rabun Matthews, news director, WFMY-TV (CBS), Greensboro.

OHIO: Thomas Vail, editor and publisher, Cleveland Plain Dealer. Largest paper in state; approved B-1 decision; you met Vail at Editorial Board meeting during general election campaign.

PENNSYLVANIA: Wayne Powell, editor, Carlisle Evening Sentinel. Very Republican area and newspaper; negative on Andy Young.

John McCullough, editorial page editor, Philadelphia Bulletin. Pro-energy conservation, very favorable to you; supportive of Andy Young; concerns: Frankfort Arsenal, mass transit development.

SOUTH CAROLINA: Arthur Wilcox, editor, Charleston News Courier. Most conservative major paper in state; Republican; endorsed Ford in '76; preservationist on the environment.

TENNESSEE: Lee Anderson, editor, Chattanooga News-Free Press. Conservative, Republican; supportive on B-1, neutron bomb, human rights; negative on Clinch River.

TEXAS: Ray Mariotti, editor, Austin American Statesman. Cox paper, strongly supportive, endorsed you in '76; liberal for Texas; cartoonist Ben Sargent is especially supportive in conflicts with Congress.

John B. Anderson, managing editor, Corpus Christi Caller. Part of Harte-Hanks chain; very liberal for Texas; endorsed you in '76; strong on environmental issues.

Hugh Powers, assistant editor, Houston Chronicle. Conservative, old-line Democratic, endorsed Ford in '76; attacked energy plan and B-1 decision.

WASHINGTON: J.M. McClelland, Jr., president and editorial chairman, Longview Publishing Co. Largest of three-paper chain is Longview Daily News; Republican, endorsed Ford; concerns: nuclear power (Trojan plant is nearby), Judge Boldt's Indian Fishing Rights decision.

WEST VIRGINIA: Jacquelyn A. Mullen, news director-designate, WOWK-TV, Huntington, (ABC).

9:00 AM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 14, 1977

MEETING WITH SENATOR MARK HATFIELD
Friday, July 15, 1977
9:00 a.m. (15 minutes)
Oval Office

From: Frank Moore F.M.

I. PURPOSE

To meet and have personal discussions with the Senator.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: This meeting was arranged as a result of a personal telephone call from the Senator to you.

B. Participants: The President
Senator Mark Hatfield

C. Press Plan: White House Photo

III. TALKING POINTS

A. While the topic for discussion will be private and personal in nature, you may want to take this opportunity to thank the Senator for his leadership in opposing the Clinch River Breeder Reactor in the Appropriations Committee and on the floor.

B. Of course, Senator Hatfield was also our most vigorous opponent in the debate on the neuton bomb.

9:30 Am

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 14, 1977

MEETING WITH THE HOUSE SELECT COMMITTEE ON AGING
Friday, July 15, 1977
9:30 a.m. (30 minutes)
The State Dining Room

From: Frank Moore F.M.

I. PURPOSE

To discuss the problems of the aging.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

Background: There are five major topics which the Committee would like to discuss: age discrimination, improved health care, housing, transportation, and crime. Age Discrimination: The Committee is very interested in the passage of H.R. 5383, as amended by the Employment Opportunities Subcommittee of the Education and Labor Committee which would 1) abolish mandatory retirement and extend the Age Discrimination in Employment Act to include hiring and advancement protection to all federal employees 40 years and above; 2) raise the upper age limit for protection of other covered workers; public and private from age 65 to 70; and 3) clarify the pension exemption. Improved Health Care: The Committee believes that home health benefits under Medicare and Medicaid should be expanded to provide eligibility to more people in need of health services, but who do not need costly full-time institutionalization. The Committee recommends the establishment of multi-purpose senior centers providing basic service assistance in health, nutritional guidance, recreation, and social endeavors; it also recommends that outpatient clinics specializing in geriactrics be established and expanded. There are three bills pending which would implement these recommendations: H.R. 1116 would remove the limit on Medicare home health visits and the prior hospitalization requirement; H.R. 1123 would authorize an additional $80 million per year for senior centers and H.R. 1122 would amend the Internal Revenue Code to allow a tax deduction for donations to senior citizens. Senior citizens are also in need of eyeglasses, dentures and hearing aids, which, in many cases, the elderly cannot afford because public and private health benefit programs provide only limited assistance. The solution would be to extend the optional Part B Section of Medicare so that it would cover the cost of hearing aids, eyeglasses and dentures. The Committee also recommends adding medical supplies, including prescriptive drugs under Medicare. H.R. 1127 would extend medical care and to provide safeguards against abuse of people purchasing these devices. H.R. 453 would extend Medicare to include coverage of prescriptive drugs. Housing: The Committee is also interested in having an Assistant Secretary for the Elderly at the Department of Housing and Urban Development appointed to plan and control the use of funds available for housing and related facilities for the elderly. Section 202 housing has run into snags at HUD resulting in the delay of the full implementation of this program. Transportation: Transportation opportunities for the elderly can be improved by reducing airfares, allowing greater individual tax deductions to promote volunteer drivers, and tax exemptions for companies providing non-profit transportation for the elderly. Public Transportation should also be designed so that it is more accessible to the elderly. Crime: The elderly are haunted by crime. The Committee advocates federal programs in conjunction with state and local law enforcement agencies to get rid of the street criminals who prey on older people and to give added enforcement against swindlers and con-men who take advantage of older people. The Committee should also be interested in hospital cost containment. Since 1950, the cost of a day's stay in the hospital has increased more that 1000% -- over eight times faster than the Consumer

MEMBER	DISTRICT DATA	WHEN ELECTED	1976%	COMMITTEE ASSIGNMENT
William Walsh (R-NY.-33)	Central part of state Major city: Auburn 46% White collar; 37% blue collar 4% Black	1972	68.5	#7 Public Works and Transportation #6 Veterans' Affairs
Charles Grassley (R-IOWA-3)	Northern part of state Major city: Mason City 40% White collar; 32% blue collar 2% Black	1974	56.5	#11 Agriculture #9 Banking Finance and Urban Affairs
James Abdnor (R-SDAK.-2)	Central and state at larte Major city: Pierre 40% White collar; 21% blue collar 8% Indian	1972	69.9	#9 Public Works and Transportation #5 Veterans Affairs
Thad Cochran (R-MISS.-4)	Southwestern corner of state Major city: Vicksburg 47% White collar; 35% blue collar 43% Black	1972	76.0	#8 Public Works and Transportation #4 Standards of Official Conduct
Mattew Rinaldo (R-NJ.-12)	Southern part of state Major city: Atlantic city 56% White collar; 34% blue collar 12% Black	1972	73.1	#11 Interstate and Foreign Commerce
Marc Marks R-PA.-24)	Northwestern corner of state Major city: Erie 42% White collar; 45% blue collar 3% Black	1976	55.4	#5 District of Columbia #14 Interstate and Foreign Commerce

MEMBER	DISTRICT DATA	WHEN ELECTED	1976%	COMMITTEE ASSIGNMENT
Edward Roybal (D-CA.-25)	Southern coast of state Major city: Los Angeles 39% White collar; 38% blue collar 5% Black; 2% Japanese-Chinese 60% Spanish	1962	71.9	#20 Appropriations
Fred Rooney (D-PA.-15)	Eastern coast of state Major city: Easton 41% White collar; 47% blue collar 1% black	1963	65.2	#6 Interstate and Foreign Commerce #12 Merchant Marine and Fisheries
Mario Biaggi (D-NY.-10)	Southern part of state Major city: New York 52% White collar; 34% blue collar 13% Black; 9% Spanish	1968	91.6	#10 Education and Labor #7 Merchant Marine and Fisheries
Walter Flowers (D-ALA.-7)	Central part of state Major city: Tuscaloosa 38% White collar; 43% blue collar 38% Black	1968	100	#7 Judiciary #3 Science and Technology
Ike Andrews (D-NC.-4)	Central part of state Major city: Raleigh 50% White collar; 35% blue collar 23% Black	1972	60.6	#11 Education and Labor
John L. Burton (D-CA.-5)	Western coast of state Major city: San Francisco 69% White collar; 17% blue collar 10% Black, 5% Chinese, 2% Japanese 2% Filipino, and 7% Spanish	1974	61.8	#12 Government Operations #14 House Administration
Edward Beard (D-RI.-2)	Main part of state at large Major city: Providence 45% White collar; 42% blue collar 3% Black	1974	76.5	#15 Education and Labor #14 Veterans' Affairs
Michael Blouin (D-IOWA-2)	Northeastern coast of state Major city: Cedar Rapids 41% White collar; 34% blue collar	1974	50.3	#12 Education and Labor #27 Government Operations
Don Bonker (D-WASH.-3)	Southwestern part of state Major city: Olympia 42% White collar; 42% blue collar 1% Black 2% Spanish	1974	70.8	#17 International Relations #19 Merchant Marine and Fisheries

MEMBER	DISTRICT DATA	WHEN ELECTED	1976%	COMMITTEE ASSIGNMENT
William Walsh (R-NY.-33)	Central part of state Major city: Auburn 46% White collar; 37% blue collar 4% Black	1972	68.5	#7 Public Works and Transportation #6 Veterans' Affairs
Charles Grassley (R-IOWA-3)	Northern part of state Major city: Mason City 40% White collar; 32% blue collar 2% Black	1974	56.5	#11 Agriculture #9 Banking Finance and Urban Affairs
James Abdnor (R-SDAK.-2)	Central and state at larte Major city: Pierre 40% White collar; 21% blue collar 8% Indian	1972	69.9	#9 Public Works and Transportation #5 Veterans Affairs
Thad Cochran (R-MISS.-4)	Southwestern corner of state Major city: Vicksburg 47% White collar; 35% blue collar 43% Black	1972	76.0	#8 Public Works and Transportation #4 Standards of Official Conduct
Mattew Rinaldo (R-NJ.-12)	Southern part of state Major city: Atlantic city 56% White collar; 34% blue collar 12% Black	1972	73.1	#11 Interstate and Foreign Commerce
Marc Marks R-PA.-24)	Northwestern corner of state Major city: Erie 42% White collar; 45% blue collar 3% Black	1976	55.4	#5 District of Columbia #14 Interstate and Foreign Commerce

MEMBER	DISTRICT DATA	WHEN ELECTED	1976%	COMMITTEE ASSIGNMENT
Thomas Downy (D-NY.-2)	Southern part of state Major city: Long Island Island surburbs : Levittown Springfield Gardens	1974	57.1	#24 Armed Services #19 Science Technology
James Florio (D-NJ.-1)	Southern part of state Major city: Camden 46% White collar; 42% blue collar 13% Black, 2% Spanish	1974	70.1	#20 Interior and Insular Affairs #19 Interstate and Foreign Commerce
Harold Ford (D-TN.-8)	Southwestern corner of state Major city: Memphis 47% White collar; 36% blue collar 47% Black	1974	60.7	#19 Ways and Means
William Hughes (D-NJ.-2)	Southern coast of state Major city: Atlantic City 42% White collar; 41% blue collar 13% Black; 2% Spanish	1974	61.7	#15 Judiciary #25 Merchant Marine and Fisheries
Marilyn Lloyd (D-TN.-3)	Southern part of state Major city: Chattanooga 42% White collar; 45% blue collar 11% Black	1974	67.5	#17 Public Works and Transportation #15 Science and Technology
Jim Santini (D-NEV.-at large)	State at large Major cities: Reno, Las Vegas and Carson City 47% White collar; 26% blue collar 6% Black; 6% Spanish	1974	77.1	#14 Interior and Insular Affairs #21 Interstate and Foreign Commerce
Ted Risenhoover (D-OK.-2)	Eastern part of state Major city: Muskogee 41% White collar; 39% blue collar 6% Black; 8% Indian	1974	54.0	#19 Interior and Insular Affairs #19 Public Works and Transportation
Robert Drinan (D-MASS.-4)	Central part of state Major city: Newton and a few Bostonian surburbs	1970	52.1	#15 Government Operations #11 Judiciary
David Evans (D-IND-6)	Central part of state Major city: Indianapolis 44% White collar; 42% blue collar 4% Black	1974	54.9	#21 Banking Finance and Urban Affairs #19 Government Operations

MEMBER	DISTRICT DATA	WHEN ELECTED	1976%	COMMITTEE ASSIGNMENT
Helen Meyner (D-NJ.-13)	Northern part of state Major city: Morristown 51% White collar; 37% blue collar 2% Black	1974	50.4	#8 District of Columbia #16 International Relations
Marty Russo (D-ILL.-3)	Northern part of state Major city: Chicago 53% White collar; 37% blue collar 5% Black; 2% Spanish	1974	58.9	#23 Interstate and Foreign Commerce #14 Small Business
Stanley Lundine (D-NY.-39)	Southwestern part of state Major city: Jamestown 43% White collar; 39% blue collar 1% Black	1976	61.8	#24 Banking Finance and Urban Affairs
Mary Oakar (D-OH.-20)	Northern part of state Major city: Cleveland 41% White collar; 47% blue collar 3% Black; 2% Spanish	1976	81.0	#28 Banking Finance and Urban Affairs
	REPUBLICANS			
Bob Wilson (R-CA.-41)	Southern tip of state Major city: San Francisco 64% White collar; 23% blue collar 1% Black; 9% Spanish	1952	57.7	#1 Armed Services
William Wampler (R-VA.-9)	Western part of state Major city: Bristol 32% White collar; 52% blue collar 2% Black	1966	57.3	#1 Agriculture
John Hammerschmidt (R-ARK.-3)	Western part of state Major city: Fort Smith 38% White collar; 42% blue collar 3% Black	1966	-	#5 Public Works and Transportation #1 Veterans Affairs
William Cohen (R-MA.-2)	Northern part of state Major city: Lewistown 37% White collar; 47% blue collar	1972	77.1	#6 Judiciary #7 Small Business
Ronald Sarasin (R-CONN.-5)	Southern part of state Major city: Danbury 51% White collar; 40% blue collar 1% Black; 1% Spanish	1972	66.5	#4 Education and Labor

THE WHITE HOUSE

WASHINGTON

July 14, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: MARGARET COSTANZA MC

RE: The Federal Council on the Aging

The Federal Council on the Aging was established under the Older American Act of 1965. The fifteen members are appointed by The President subject to confirmation by the Senate. The President designates one of the members as Chairman. The duties and responsibilities of the Council are set forth in Section 205 (d) of the Act as amended, as follows:

(d) The Council shall --

(1) advise and assist the President on matters relating to the special needs of older Americans;

(2) assist the Commissioner in making the appraisal of needs required by section 402;

(3) review and evaluate on a continuing basis, Federal policies regarding the aging and programs and other activities affecting the aging conducted or assisted by all Federal departments and agencies for the purpose of appraising their value and their impact on the lives of older Americans; and

(4) serve as a spokesman on behalf of older Americans by making recommendations to the President, to the Secretary, the Commissioner, and to the Congress with respect to Federal policies regarding the aging and federally conducted or assisted programs and other activities relating to or affecting them;

(5) inform the public about the problems and needs of the aging, in consultation with the National Information and Resource Clearing House for the Aging, by collecting and disseminating information, conducting or commissioning studies and publishing the results thereof, and by issuing publications and reports; and

(6) provide public forums for discussing and publicizing the problems and needs of the aging and obtaining information relating thereto by conducting public hearings, and by conducting or sponsoring conferences, workshops, and other such meetings.

July 14, 1977

SUGGESTED STATEMENT TO BE MADE BY
THE PRESIDENT ON THE ROLE OF NELSON CRUIKSHANK

The following suggested statement was prepared by Mr. Cruikshank and reflects his understanding of The President's position as stated during the Campaign:

I have established the position of Counselor to The President on Aging in order to achieve the following objectives:

a. To insure that I will have placed before me proposed initiatives in the field of aging designed not only to meet the needs of older persons but also designed to make it possible for the nation to benefit from the unique contributions that older persons can make to the strengthening of our nation by opening up opportunities for their continued involvement in the life of our day.

b. To insure that whenever policy issues are presented to me in such areas as social security, employment, housing, health, transportation and welfare I will be reminded of the impact that proposed solutions will have on the lives of older persons.

c. To have placed before me proposals designed to make it possible for me to make the maximum possible contribution to coordinating programs in the Executive Branch that have an impact on the lives of older persons.

d. To have a personal representative who can present my views on issues in the field of aging to the departments and agencies of the Executive Branch, to the members of Congress and to representatives of organizations in both the public and private sectors.

I have also designated the Counselor as Chairman of the Federal Council on the Aging. Putting these two functions in the hands of one person will make it possible for him in his capacity as Chairman of that body to present to me a broad consensus of views in the field of aging that are represented by the membership of the Federal Council on the Aging. The Older Americans Act provides that the Secretary of HEW and the Commissioner on Aging are ex-officio members of the Council. This provision makes possible the kind of coordination of effort between governmental agencies in the field of aging that I hope to see extended.

10:40 am

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

C

July 14, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Jody Powell JP

RE : Meeting with Joe Kane and Family
Friday, July 15, 1977

Joe Kane is with Time Magazine and is being transferred from Washington to the Los Angeles Bureau of Time. He has asked for an opportunity to just stop by for a quick farewell.

You may remember that Joe was with Time in Atlanta and is the person who did your first Time cover story in 1971. He left Atlanta and covered the Pentagon for a while -- subsequently transferred to HEW.

Tomorrow he will have with him his wife, Judy, and their four sons -- Christopher, Gregory, Timothy and Jason.

X

THE WHITE HOUSE
WASHINGTON

July 15, 1977

Jim King -

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

RE: William H. Shaheen appointment

THE WHITE HOUSE

WASHINGTON

July 14, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES B. KING JBK

SUBJECT: United States Attorney for the District of New Hampshire

Attached for your signature is the nomination document for William H. Shaheen, of New Hampshire, to be United States Attorney for the District of New Hampshire for the term of four years vice William J. Deachman.

Mr. Shaheen has been a partner in the law firm of Keefe, Dunnington and Shaheen in Dover since 1976.

All necessary checks have been completed.

good!

J

To the Senate of the United States:

I nominate William H. Shaheen, of New Hampshire, to be United States Attorney for the District of New Hampshire for the term of four years vice William J. Deachman III, term expired.

Jimmy Carter

2:00 p.m.

MEMORANDUM THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 15, 1977

TO: The President

FROM: Patricia Bario PB

RE: 20-minute interview at 2:00 p.m. Monday with National Black Network

PURPOSE OF THE MEETING

To reach a potential 17 million Blacks through 81 affiliated radio stations. It seems a pitch for the voter registration bill--and the Consumer Protection Agency would be appropriate. Also, black editors keep telling us that their readers don't believe in the energy crisis.

BACKGROUND

The National Black Network is four years old. It is the first nationwide, black-owned and operated radio network. The network produces 120 newscasts weekly, each about five minutes long. They claim a potential of reaching 70 percent of the black market. They also produce "Black Issues and the Black Press", an award-winning show which you last did during the primary.

FORMAT

Vince Sanders, News Director, and Joe Brown, Editor, will conduct the interview to be used for "Black Issues and the Black Press". It will be a Q and A, Meet the Press type of format.

MEMORANDUM

THE PRESIDENT HAS SEEN.

C

THE WHITE HOUSE

WASHINGTON

July 15, 1977

TO: The President

FROM: Patricia Bario PB

RE: 20-minute interview at 2:00 p.m. Monday with National Black Network

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FORMAT

Vince Sanders, News Director, and Joe Brown, Editor, will conduct the interview to be used for "Black Issues and the Black Press". It will be a Q and A, Meet the Press type of format.

THE WHITE HOUSE

WASHINGTON

May 4, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: THE VICE PRESIDENT
STU EIZENSTAT

SUBJECT: Review of Administration Actions Benefitting Moderate and Lower-Income Americans

1. General Economic Policy

The Administration has developed a set of policies designed to achieve a steady economic growth, as well as a steady reduction in both unemployment and inflation. The achievement of these objectives -- more than any other set of programs -- will improve the real living standards of low and moderate-income Americans. The Administration's policies are designed to reduce unemployment by the end of this year to around 7%, down from 7.8% in December 1976 and to 4.5% by 1981. The Administration has adopted an anti-inflation program designed to reduce inflation by 2% by the end of 1979. We have rejected high unemployment as a morally unacceptable and ineffective way of combating inflation. We have also rejected the efforts of the two previous Republican Administrations to slow inflation by dampening consumer demand, and have instead decided to tackle the problem directly.

2. Tax Policies

(a) Permanent Tax Reductions for Low and Middle-Income Taxpayers

The Administration proposed $4 billion per year in new permanent tax reductions for low and moderate-income taxpayers, through an increase in the standard deduction from $1700 to $2200 for single persons and $2100 to $3000 for married couples. This change will mean that 3.4 million low-income taxpayers and their families will no longer have to pay any Federal income taxes. 55% of this tax reduction will go to individuals and families with less than $10,000 in income and 88% of the tax reduction will go to those with less than $15,000 in income. A family of four with an income of $8,000 will get a tax cut of approximately $145.

This proposal will also amount to a major simplification of our tax laws. Five million middle and low-income taxpayers will be able to switch from itemizing their deductions to taking simple standard deduction. Approximately 75% of American taxpayers will be able to take the standard deduction and make a simple computation of their tax liability.

(b) Extension of General Tax Credit and Earned Income Tax Credit

The Administration (unlike the previous Administration) supports the extension through 1978 of two expiring provisions -- the earned income tax credit and the general personal tax credits -- which amount to $12 billion in individual tax relief. Extension of the earned income credit will mean $1.3 billion in tax cuts for poor working families with incomes up to $8,000. It is a refundable credit, which means that cash refunds are made even if the family has no tax liability. Extension of the $35 general tax credit will mean $10.7 billion in tax cuts for individuals, about 1/2 of which will go to those earning less than $15,000 per year.

(c) Comprehensive Tax Reform

The Administration has initiated a comprehensive review of our entire Federal tax system, with the goal of delivering a comprehensive tax reform proposal to Congress by July. A fundamental objective of the reform will be to achieve a tax system which is simpler and fairer for middle and low-income taxpayers.

3. Job Creation

(a) Public Works Jobs

The Administration proposed $4 billion for FY 1977 and FY 1978 in expanded public works jobs programs for communities. The Administration has supported redesign of the funding formulas so that funding will be better targeted to communities with high unemployment.

(b) Public Service Jobs

The Administration proposed a dramatic expansion of the Public Service jobs program for the unemployed by 415,000 jobs, to a total of 725,000 (from 310,000 to 600,000 by the end of 1977 and to 725,000 during 1978). The Labor Department will require that 340,000 of these new jobs go to long-term unemployed, low-income people. Many will be welfare recipients. In addition, we have proposed substantial increases in jobs programs for migrants and Indians, and the Job Corps would be doubled in job slots.

(c) Youth Employment Program

The Administration is devoting $1.5 billion to youth job creation. All of the funds are for unemployed youth.

There are three parts to the Administration's proposals:

A. National Young Adult Conservation Corps -- 35,000 jobs in conservation camps on federal, state and local parklands.

B. Youth Community Conservation and Improvement Programs -- 30,000 jobs in well-supervised local work sites.

C. Comprehensive Youth Employment and Training Program -- 138,000 jobs through the locally administered Comprehensive Employment and Training Act system targeted to disadvantaged youth.

(d) Summer Youth Jobs

Congress has appropriated, and the President has signed into law, $595 million for 1.1 million youth jobs this summer.

4. Income Security

The single largest federal impact on the poor comes through the various income maintenance programs. In its first three months, the Administration has taken steps to improve these programs.

(a) Welfare Reform

The President announced this week the major principles of his welfare reform program. The program will redirect disparate programs to better serve the poor in an efficient and equitable manner. Included as part of this program will be the creation of in excess of 1 million jobs for low-income persons. These reforms will help millions of people while also reducing the stigma long associated with welfare. By creating jobs, this program will not only provide an opportunity to the poor, but will also permit a wide range of public services to be provided for all citizens.

(b) Social Security Financing

The Administration will soon announce proposals for Social Security financing which insure the integrity of the system while minimizing the tax burden already imposed on middle and low-income workers.

(c) Food Stamps

The food stamp program has the broadest reach of the existing income maintenance programs. Nevertheless, the purchase requirement has been an obstacle to participation by the poorest citizens. The Administration has proposed reforms in the food stamp program which would eliminate the purchase requirement and standardize deductions. The effect of these changes is to redirect the resources of the program to aid those most in need.

(d) Child Nutrition

The Administration has made proposals to reform the operation of these programs to eliminate fraud and abuse by vendors and to insure that children receive the school lunches, breakfasts, and summer meals which are intended for them.

(e) Extension of Federal Supplemental Benefits

The Administration supported extension through December 31, 1977 of Federal Supplemental Benefits for the unemployed. If the program had been permitted to expire as scheduled on March 31, 1977, approximately 2 million individuals would have been left without any extended protection.

5. Health Policy

(a) Child Health Assessment Program (CHAP)

CHAP is a $180 million reform of Medicaid's Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT). The CHAP program:

-- will raise the number of eligible low-income children screened from 1.9 million in FY 1976 to 9.8 million in FY 1982.

-- will phase in, over three years, a network of health providers to treat disadvantaged children whose health problems are detected during assessment; the providers will also be encouraged to follow-up on their treatment.

-- will extend eligibility to 700,000 additional low-income children.

-- will provide $25 million for new community health centers in low-income areas.

(b) Immunization

The Administration has proposed a $6 million program to immunize 5-1/2 million low-income children over the next 30 months.

(c) Physician Extenders

The Administration has proposed a $25 million program to extend Medicare cost reimbursement to nurse practitioners and physician's assistants in clinics, in order to improve the quality of care in medically underserved, and typically low-income, areas.

(d) Alternatives to Abortion

The $35 million total for this program includes:

-- $14 million to community health centers for the development of family planning and counseling programs. These funds are expected to assist 130,000 people, most of whom are low-income.

-- $10 million for family planning project grants, which will assist some 278,000 young people, most of whom, again, are low-income.

(e) Training

The Administration has proposed increases of $101 million over the previous Administration's last budget for health professions training. These expenditures are primarily dedicated to training physicians and other health professionals to serve currently underserved areas.

(f) Medicare Part B Premium Freeze

The Administration's budget contains funds to reduce the premiums of the elderly by $37 million in 1977 and $182 million in 1978. This program would assist the 26 million Medicare beneficiaries.

6. Community Development

(a) Urban Development Action Grant

The Administration has proposed a $400 million program designed to leverage significant private investment in severely distressed cities through economic development and neighborhood reclamation projects.

(b) Community Development Block Grant

The Administration has proposed expanded funding (an increase in budget authority of $500 million for FY 1978), and has developed new formulas, to permit HUD to more adequately assist older cities, which have the greatest concentrations of poor citizens. Formula changes have been proposed which make certain that Community Development funds are targeted to low and moderate-income families, the intended beneficiaries of the program.

(c) Supplemental Housing Assistance Authorization Act of 1977

The President has just signed this legislation, which provides substantial increases in funding for the following programs: Section 8 housing assistance (+$378 million); public housing operating subsidies (+$19 million); urban homesteading (+$10 million); FHA General Insurance Fund (+$841 million); riot reinsurance and crime insurance. The Act also establishes a National Commission on Neighborhoods, most of whose members will be community workers appointed by the President. Under our program the goals for assisted housing units are increased to 400,000 from the previous Administration's objective of 360,000.

(d) Moratorium on Evictions

The Department of HUD has halted evictions in HUD-owned properties to allow Secretary Harris the time needed to develop a policy which assists tenants in foreclosed FHA-insured properties.

(e) Fair Housing

The Administration has emphasized the revision of enforcement procedures under the fair housing law. A review of HUD grant recipients is underway to determine whether or not they are in compliance with this law. The Administration's commitment to vigorous enforcement of fair housing laws was demonstrated by its recent steps to terminate Community Development Grants to two non-complying cities.

(f) Urban and Regional Policy Task Force

Under the leadership of Secretary Harris, other key departments (Commerce, Labor, HEW, Transportation, Treasury, EPA) are working on the development of a coordinated urban revitalization policy.

(g) Other Community Development Programs

The Administration restored other budget cuts sought by the previous Administration, increasing budget authority for water and sewer programs in the Department of Agriculture, for ACTION, and for the Community Services Administration (CSA). The increase of $44 million in budget authority for CSA restored funding for the senior opportunities and services program, community food and nutrition program, and state economic opportunity offices.

(h) Countercyclical Aid

The Administration proposed a five-year extension and substantial expansion of countercyclical aid for hard pressed cities, with a permanent trigger to guard against the adverse effects of any future recession.

7. Education and Social Services

(a) Education

The Administration has requested increased budget authority of $365 million for elementary, secondary and vocational education, including $350 million in increased budget authority, under Title I of the Elementary and Secondary Education Act, for education of disadvantaged children. The Administration also requested increases for bilingual education, emergency school aid, and education of the handicapped.

In higher education, the Administration has proposed increasing the maximum Basic Opportunity Grant from $1,400 to

$1,800, thereby helping over one-half million students, and creating 30,000 student jobs in the work-study program. The Administration has also sought budget authority increases of $424 million in 1977 and $933 million in 1978.

(b) Social Services

The Administration has proposed an increase of $200 million in special funding for child day care services under Title XX of the Social Security Act.

8. Civil Rights and Justice

(a) Universal Voter Registration

The Administration has proposed election day registration, to reduce complex procedures which have hindered participation of the handicapped, the poor, the aged and working families.

(b) Legal Services Corporation

The Administration has proposed an increase of $85 million over the previous Administration's budget and significant increase over the 1977 level, in order to help provide adequate legal representation for the poor.

(c) Civil Rights

The Administration has issued regulations to implement Congressional guarantees of non-discrimination against handicapped persons in programs receiving federal assistance.

The Administration has also proposed additional funds for 1977 and 1978 for the Civil Rights Division of the Justice Department.

THE WHITE HOUSE
WASHINGTON

July 15, 1977

Bob Lipshutz -
Jim Schlesinger -

The attached was returned in the President's outbox today. It is forwarded to you for your information. The original was delivered to Bob Linder for appropriate handling.

Rick Hutcheson

cc: Bob Linder

RE: PROPOSED EXECUTIVE ORDER CONCERNING FEDERAL ENERGY CONSERVATION.

7/1

X

THE PRESIDENT HAS SEEN.

7/15/77

THE WHITE HOUSE

WASHINGTON

July 7, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: BOB LIPSHUTZ

RE: Proposed Executive Order Concerning Federal Energy Conservation

The attached order, prepared by the energy staff, would implement the two provisions of the energy plan requiring Federal agencies to:

1) purchase automobiles which exceed the average fuel economy under the EPCA by at least two miles per gallon in 1978 and four miles per gallon in 1980, and

2) by 1985 to reduce energy consumption in existing Federal buildings by 20 percent from 1975 levels, and in new buildings by 45 percent.

The order has been approved by Justice and OMB. We recommend approval.

✓ Approve ______ Disapprove

J

ASSISTANT ATTORNEY GENERAL

Department of Justice
Washington, D.C. 20530

JUL 1 1977

The President,

The White House

My dear Mr. President:

I am herewith transmitting a proposed Executive order entitled "Relating to Energy Policy and Conservation."

The proposed order was prepared by the White House energy staff and, after extensive consultation with the energy staff, revised by the Office of Management and Budget to incorporate, wherever appropriate, the views of interested agencies. The proposed order has been forwarded, with the approval of the Director of the Office of Management and Budget, for the consideration of this Department as to form and legality.

The proposed Executive order is approved as to form and legality.

Respectfully,

John M. Harmon

John M. Harmon
Assistant Attorney General
Office of Legal Counsel

ASSISTANT ATTORNEY GENERAL

Department of Justice
Washington, D.C. 20530

JUL 1 1977

MEMORANDUM

Re: Proposed Executive order entitled "Relating to Energy Policy and Conservation."

The attached proposed Executive order was prepared by the White House energy staff. The Office of Management and Budget has forwarded it, with the Director's approval, for the consideration of this Department as to form and legality.

The proposed order would implement two provisions of the President's national energy plan submitted to the Congress, as outlined in the White House Detailed Fact Sheet on the President's Energy Program dated April 20, 1977:

Part III., A., 1., i. Federal Energy Management Program

"The President will direct Federal agencies to alter their auto purchasing practices so that new cars purchased by the Government will, on the average, exceed the average fuel economy standard under the EPCA by at least 2 mpg in 1978, and by at least 4 mpg in 1980 and thereafter (administrative)."

Part III., A., 2., c. Federal Buildings

"The President will direct all Federal agencies to adopt procedures which aim at reducing energy use per square foot by 1985 by 20 percent from 1975 energy consumption levels for existing Federal buildings and by 45 percent for new

EXECUTIVE ORDER

RELATING TO ENERGY POLICY AND CONSERVATION

By virtue of the authority vested in me by the Constitution and the statutes of the United States of America, including the Energy Policy and Conservation Act (89 Stat. 871, 42 U.S.C. 6201 et seq.), the Motor Vehicle Information and Cost Savings Act, as amended (15 U.S.C. 1901 et seq.), Section 205(a) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 486(a)), and Section 301 of Title 3 of the United States Code, and as President of the United States of America, it is hereby ordered as follows:

Section 1. Section 1 of Executive Order No. 11912 of April 13, 1976, is amended to read as follows:

"Section 1. (a) The Administrator of General Services is designated and empowered to perform, without approval, ratification or other action by the President, the function vested in the President by Section 510 of the Motor Vehicle Information and Cost Savings Act, as amended (89 Stat. 915, 15 U.S.C. 2010). In performing this function, the Administrator of General Services shall:

(1) Promulgate rules which will ensure that the minimum statutory requirement for fleet average fuel economy is exceeded (i) for fiscal year 1978 by 2 miles per gallon, (ii) for fiscal year 1979 by 3 miles per gallon, and (iii) for fiscal years 1980 and after by 4 miles per gallon.

(2) Promulgate rules which will ensure that Executive

not apply to automobiles designed to perform combat-related missions for the Armed Forces or designed to be used in law enforcement work or emergency rescue work, and (ii) may provide for granting exemptions for individual automobiles used for special purposes as determined to be appropriate by the Administrator of General Services with the concurrence of the Administrator of the Federal Energy Administration.

"(b) The Administrator of General Services shall promulgate rules which will ensure that each class of non-passenger automobiles acquired by all Executive agencies in each fiscal year, beginning with fiscal year 1979, achieve for such fiscal year a fleet average fuel economy not less than the average fuel economy standard for such class, established pursuant to Section 502(b) of the Motor Vehicle Information and Cost Savings Act, as amended (89 Stat. 903, 15 U.S.C. 2002(b)), for the model year which includes January 1 of such fiscal year; except that, such rules (1) shall not apply to automobiles designed to perform combat-related missions for the Armed Forces or designed to be used in law enforcement work or emergency rescue work, and (2) may provide for granting exceptions for other categories of automobiles used for special purposes as determined to be appropriate by the Administrator of General Services with the concurrence of the Administrator of the Federal Energy Administration.".

Sec. 2. Executive Order No. 11912 of April 13, 1976, is further amended by adding the following new Section:

"Sec. 10. (a)(1) The Administrator of the Federal Energy Administration, hereinafter referred to as the Administhe heads of such other Executive agencies as he deems appropriate, the ten-year plan for energy conservation with respect to Government buildings, as provided by section 381(a)(2) of the Energy Policy and Conservation Act (42 U.S.C. 6361(a)(2)).

(2) The goals established in subsection (b) shall apply to the following categories of Federally-owned buildings: (i) office buildings, (ii) hospitals, (iii) schools, (iv) prison facilities, (v) multi-family dwellings, (vi) storage facilities, and (vii) such other categories of buildings for which the Administrator determines the establishment of energy-efficiency performance goals is feasible.

"(b) The Administrator shall establish requirements and procedures, which shall be observed by each agency unless a waiver is granted by the Administrator, designed to ensure that each agency to the maximum extent practicable aims to achieve the following goals:

(1) For the total of all Federally-owned existing buildings the goal shall be a reduction of 20 percent in the average annual energy use per gross square foot of floor area in 1985 from the average energy use per gross square foot of floor area in 1975. This goal shall apply to all buildings for which construction was or design specifications were completed prior to the date of promulgation of the guidelines pursuant to subsection (d) of this Section.

(2) For the total of all Federally-owned new buildings

new buildings for which design specifications are completed after the date of promulgation of the guidelines pursuant to subsection (d) of this Section.

"(c) The Administrator, with the concurrence of the Director of the Office of Management and Budget, in consultation with the heads of the Executive agencies specified in subsection (a) and the Director of the National Bureau of Standards, shall establish, for purposes of developing the ten-year plan, a practical and effective method for estimating and comparing life cycle capital and operating costs for Federal buildings, including residential, commercial, and industrial type categories. Such method shall be consistent with the Office of Management and Budget Circular No. A-94, and shall be adopted and used by all agencies in developing their plans pursuant to subsection (e), annual reports pursuant to subsection (g), and budget estimates pursuant to subsection (h). For purposes of this paragraph, the term "life cycle cost" means the total costs of owning, operating, and maintaining a building over its economic life, including its fuel and energy costs, determined on the basis of a systematic evaluation and comparison of alternative building systems.

"(d) Not later than November 1, 1977, the Administrator, with the concurrence of the Director of the Office of Management and Budget, and after consultation with the Administrator of General Services and the heads of the Executive agencies specified in subsection (a) shall issue guidelines for the plans to be submitted pursuant to

EXECUTIVE ORDER

RELATING TO ENERGY POLICY AND CONSERVATION

By virtue of the authority vested in me by the Constitution and the statutes of the United States of America, including the Energy Policy and Conservation Act (89 Stat. 871, 42 U.S.C. 6201 _et seq._), the Motor Vehicle Information and Cost Savings Act, as amended (15 U.S.C. 1901 _et seq._), Section 205(a) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 486(a)), and Section 301 of Title 3 of the United States Code, and as President of the United States of America, it is hereby ordered as follows:

Section 1. Section 1 of Executive Order No. 11912 of April 13, 1976, is amended to read as follows:

"Section 1. (a) The Administrator of General Services is designated and empowered to perform, without approval, ratification or other action by the President, the function vested in the President by Section 510 of the Motor Vehicle Information and Cost Savings Act, as amended (89 Stat. 915, 15 U.S.C. 2010). In performing this function, the Administrator of General Services shall:

(1) Promulgate rules which will ensure that the minimum statutory requirement for fleet average fuel economy is exceeded (i) for fiscal year 1978 by 2 miles per gallon, (ii) for fiscal year 1979 by 3 miles per gallon, and (iii) for fiscal years 1980 and after by 4 miles per gallon.

(2) Promulgate rules which will ensure that Executive agencies do not acquire, subsequent to fiscal year 1977, any passenger automobile unless such automobile meets or exceeds the average fuel economy standard for the appropriate model year established by, or pursuant to, Section 502(a) of the Motor Vehicle Information and Cost Savings Act, as amended (15 U.S.C. 2002(a)); except that, such rules (i) shall

not apply to automobiles designed to perform combat-related missions for the Armed Forces or designed to be used in law enforcement work or emergency rescue work, and (ii) may provide for granting exemptions for individual automobiles used for special purposes as determined to be appropriate by the Administrator of General Services with the concurrence of the Administrator of the Federal Energy Administration.

"(b) The Administrator of General Services shall promulgate rules which will ensure that each class of non-passenger automobiles acquired by all Executive agencies in each fiscal year, beginning with fiscal year 1979, achieve for such fiscal year a fleet average fuel economy not less than the average fuel economy standard for such class, established pursuant to Section 502(b) of the Motor Vehicle Information and Cost Savings Act, as amended (89 Stat. 903, 15 U.S.C. 2002(b)), for the model year which includes January 1 of such fiscal year; except that, such rules (1) shall not apply to automobiles designed to perform combat-related missions for the Armed Forces or designed to be used in law enforcement work or emergency rescue work, and (2) may provide for granting exceptions for other categories of automobiles used for special purposes as determined to be appropriate by the Administrator of General Services with the concurrence of the Administrator of the Federal Energy Administration.".

Sec. 2. Executive Order No. 11912 of April 13, 1976, is further amended by adding the following new Section:

"Sec. 10. (a)(1) The Administrator of the Federal Energy Administration, hereinafter referred to as the Administrator, shall develop, with the concurrence of the Director of the Office of Management and Budget, and in consultation with the Secretary of Defense, the Secretary of Housing and Urban Development, the Administrator of Veterans' Affairs, the Administrator of the Energy Research and Development Administration, the Administrator of General Services, and the heads of such other Executive agencies as he deems appropriate, the ten-year plan for energy conservation with respect to Government buildings, as provided by section 381(a)(2) of the Energy Policy and Conservation Act (42 U.S.C. 6361(a)(2)).

(2) The goals established in subsection (b) shall apply to the following categories of Federally-owned buildings: (i) office buildings, (ii) hospitals, (iii) schools, (iv) prison facilities, (v) multi-family dwellings, (vi) storage facilities, and (vii) such other categories of buildings for which the Administrator determines the establishment of energy-efficiency performance goals is feasible.

"(b) The Administrator shall establish requirements and procedures, which shall be observed by each agency unless a waiver is granted by the Administrator, designed to ensure that each agency to the maximum extent practicable aims to achieve the following goals:

(1) For the total of all Federally-owned existing buildings the goal shall be a reduction of 20 percent in the average annual energy use per gross square foot of floor area in 1985 from the average energy use per gross square foot of floor area in 1975. This goal shall apply to all buildings for which construction was or design specifications were completed prior to the date of promulgation of the guidelines pursuant to subsection (d) of this Section.

(2) For the total of all Federally-owned new buildings the goal shall be a reduction of 45 percent in the average annual energy requirement per gross square foot of floor area in 1985 from the average annual energy use per gross square foot of floor area in 1975. This goal shall apply to all

new buildings for which design specifications are completed after the date of promulgation of the guidelines pursuant to subsection (d) of this Section.

"(c) The Administrator, with the concurrence of the Director of the Office of Management and Budget, in consultation with the heads of the Executive agencies specified in subsection (a) and the Director of the National Bureau of Standards, shall establish, for purposes of developing the ten-year plan, a practical and effective method for estimating and comparing life cycle capital and operating costs for Federal buildings, including residential, commercial, and industrial type categories. Such method shall be consistent with the Office of Management and Budget Circular No. A-94, and shall be adopted and used by all agencies in developing their plans pursuant to subsection (e), annual reports pursuant to subsection (g), and budget estimates pursuant to subsection (h). For purposes of this paragraph, the term "life cycle cost" means the total costs of owning, operating, and maintaining a building over its economic life, including its fuel and energy costs, determined on the basis of a systematic evaluation and comparison of alternative building systems.

"(d) Not later than November 1, 1977, the Administrator, with the concurrence of the Director of the Office of Management and Budget, and after consultation with the Administrator of General Services and the heads of the Executive agencies specified in subsection (a) shall issue guidelines for the plans to be submitted pursuant to subsection (e).

"(e) (1) The head of each Executive agency that maintains any existing building or will maintain any new building shall submit no later than six months after the issuance of guidelines pursuant to subsection (d), to the Administrator a ten-year plan designed to the maximum extent practicable to meet the goals in subsection (b) for the total of existing or new Federal buildings. Such ten-year plans shall only consider improvements that are cost-effective consistent with the criteria established by the Director of the Office of Management and Budget (OMB Circular A-94) and the method established pursuant to subsection (c) of this Section. The plan submitted shall specify appropriate energy-saving initiatives and shall estimate the expected improvements by fiscal year in terms of specific accomplishments -- energy savings and cost savings -- together with the estimated costs of achieving the savings.

(2) The plans submitted shall, to the maximum extent practicable, include the results of preliminary energy audits of all existing buildings with over 30,000 gross square feet of space owned and maintained by Executive agencies. Further, the second annual report submitted under subsection (g)(2) of this Section shall, to the maximum extent practicable, include the results of preliminary energy audits of all existing buildings with more than 5,000 but not more than 30,000 gross square feet of space. The purpose of such preliminary energy audits shall be to identify the type, size, energy use level and major energy using systems of existing Federal buildings.

(3) The Administrator shall evaluate agency plans relative to the guidelines established pursuant to subsection (d) for such plans and relative to the cost estimating method established pursuant to subsection (c). Plans determined to be deficient by the Administrator will be returned to the submitting agency head for revision and resubmission within 60 days.

(4) The head of any Executive agency submitting a plan, should he disagree with the Administrator's determination

with respect to that plan, may appeal to the Director of the Office of Management and Budget for resolution of the disagreement.

"(f) The head of each agency submitting a plan or revised plan determined not deficient by the Administrator or, on appeal, by the Director of the Office of Management and Budget, shall implement the plan in accord with approved budget estimates.

"(g)(1) Each Executive agency shall submit to the Administrator an overall plan for conserving fuel and energy in all operations of the agency. This overall plan shall be in addition to and include any ten-year plan for energy conservation in Government buildings submitted in accord with Subsection (e).

(2) By July 1 of each year, each Executive agency shall submit a report to the Administrator on progress made toward achieving the goals established in the overall plan required by paragraph (1) of this subsection. The annual report shall include quantitative measures and accomplishment with respect to energy saving actions taken, the cost of these actions, the energy saved, the costs saved, and other benefits realized.

(3) The Administrator shall prepare a consolidated annual report on Federal government progress toward achieving the goals, including aggregate quantitative measures of accomplishment as well as suggested revisions to the ten-year plan, and submit the report to the President by August 15 of each year.

"(h) Each agency required to submit a plan shall submit to the Director of the Office of Management and Budget with the agency's annual budget submission, and in accordance with procedures and requirements that the Director shall establish, estimates for implementation of the agency's plan. The Director of the Office of Management and Budget shall consult with the Administrator about the agency budget estimates.

"(i) Each agency shall program its proposed energy conservation improvements of buildings so as to give the highest priority to the most cost-effective projects.

"(j) No agency of the Federal government may enter into a lease or a commitment to lease a building the construction of which has not commenced by the effective date of this Order unless the building will likely meet or exceed the general goal set forth in subsection (b)(2).

"(k) The provisions of this Section do not apply to housing units repossessed by the Federal Government.".

Jimmy Carter

THE WHITE HOUSE,