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SUMMARY OF  
TAX REDUCTION ACT OF 1975  
(H.R. 2166)

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AS PASSED BY THE HOUSE

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PREPARED FOR THE USE OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE

BY THE STAFF OF THE  
JOINT COMMITTEE ON INTERNAL  
REVENUE TAXATION



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# TAX REDUCTION ACT OF 1975

## I. INTRODUCTION

The Tax Reduction Act of 1975 (H.R. 2166), as passed by the House, provides tax reductions intended to increase purchasing power and investment incentives. In general, the tax reduction features of the bill provide—

Refunds of 1974 individual income taxes.

Reductions in 1975 individual income taxes.

Increases in investment tax credit, primarily for 1975.

Increase in 1975 corporate surtax exemption.

In addition, the House included in this bill the repeal of the percentage depletion allowance for oil and gas.

The economic stimulus of the House bill is concerned with taxes on both individuals and businesses. In the case of individuals, the stimulus takes the form of a lump sum refund or part (or, in some cases, all) of a taxpayer's 1974 tax liability plus increased take-home pay through lower withholding reflecting the changes in the standard deduction and a new earned income credit. In the case of business, the stimulus takes the form of an incentive to purchase machinery and equipment through a larger investment credit and a reduction in taxes primarily for small corporations, through an increase in the surtax exemption.

The tax reductions provided under the bill total \$21.3 billion, \$19.8 billion for 1975 (including the refunds in 1975 on account of 1974 tax liabilities), plus an additional \$1.5 billion reduction for 1976. Of this amount, it is estimated that \$16.2 billion, or 76 percent, will go to individuals; the remaining \$5.1 billion of tax reductions, or 24 percent, will go to businesses.

One-half of the individual income tax reductions, or \$8.1 billion, is granted in the form of a lump sum refund based on 1974 tax liabilities. The other one-half represents an increase in the minimum and regular standard deduction (a \$5.2 billion reduction in 1975 tax liabilities) and a refundable credit on earned income for 1975 (a \$2.9 billion reduction in 1975 liabilities).

In the case of the individual income tax reductions, the bill assumes it will be possible to make the lump sum payments starting in May of this year, and it is assumed that the tax cuts for 1975 liabilities can be reflected in lower withholding beginning in May for the remainder of the year.

## II. SUMMARY OF HOUSE BILL

### A. Refund of 1974 Individual Income Taxes

*Present law.*—Under present law individual taxpayers generally are required to file their 1974 tax returns by April 15, 1975. (This is true in the case of calendar year taxpayers, who account for the great bulk of all individual taxpayers.)

*House bill.*—The bill provides a refund of 1974 tax liability to be paid in one installment beginning in May 1975. It generally is to be 10 percent of tax liability up to a maximum refund of \$200. However, each taxpayer is to receive a refund of at least \$100 (or the full amount of his or her actual tax liability if less than \$100). The refund is to be phased down from the maximum of \$200 to \$100 as the taxpayer's adjusted gross income rises from \$20,000 to \$30,000.

*Revenue effect.*—The refund of 1974 taxes is estimated to result in a revenue loss of \$8.1 billion.

*Effective date.*—The refund is to apply only to 1974 individual income tax liabilities.

### B. Income Tax Reductions in 1975 for Individuals

#### 1. Increase in Low Income Allowance and Standard Deduction

*Present law.*—The low income allowance (also known as the minimum standard deduction) determines the minimum amount of income an individual must have in order to pay Federal income taxes. Under present law, the low income allowance is \$1,300 both for single individuals and for married couples filing joint returns.<sup>1</sup> Under present law, the percentage standard deduction is 15 percent of adjusted gross income, with a maximum deduction of \$2,000.

*House bill.*—The bill raises the minimum standard deduction to \$1,900 for single persons and to \$2,500 for joint returns. It also increases the percentage standard deduction to 16 percent with a maximum of \$2,500 for single persons and \$3,000 for joint returns. These changes are expected to result in (1) more than 4½ million returns becoming nontaxable and (2) a shift of almost 10 million returns from itemized deductions to the standard deduction.

*Revenue effect.*—The increases in the low income allowance and the percentage standard deduction are estimated to result in a revenue loss of \$5.2 billion.

*Effective date.*—The increases in the low income allowance and the standard deduction apply only for 1975.

#### 2. Refundable Earned Income Tax Credit

*Present law.*—Under present law an individual is not required to pay income tax unless his income exceeds the amount of the minimum standard deduction plus the sum of available personal exemptions. Social security taxes, however, are paid on all covered earnings by workers and employers, regardless of how small the amount. For 1975, the social security tax rate on employees is 5.85 percent of employee

<sup>1</sup> This means that under present law a single individual does not pay tax unless income exceeds \$2,050 (the \$1,300 allowance plus \$750 for one personal exemption), a married couple does not pay tax unless their income exceeds \$2,800 (\$1,300 plus two \$750 exemptions and an additional exemption for each dependent).

wages up to \$14,100. Self-employed individuals pay a tax at a 7.9 percent rate on up to \$14,100 of net earnings from self employment, if those earnings exceed \$400.

*House bill.*—The bill provides for a refundable credit of 5 percent of earned income up to a maximum of \$200—closely matching the social security tax on the first \$4,000 of income (but not coming from the social security trust fund or reducing the receipts available for such purposes). The credit is to be phased out from the maximum \$200 to zero as earned income (or adjusted gross income, if greater) rises from \$4,000 to \$6,000.

*Revenue effect.*—This change is estimated to result in a revenue loss of \$2.9 billion.

*Effective date.*—The earned income credit applies only for 1975.

### 3. Change in Withholding Tables

*Present law.*—Under present law, the statutory withholding tables take into account the personal exemption, the low income allowance, and the percentage standard deduction through lower withholding than would otherwise be the case.

*House bill.*—The bill provides a new *annual* percentage-method withholding table (reflecting the increases in the low income allowance, the percentage standard deduction, and the provision for an earned income credit). Tables for other periods are to be calculated by the Internal Revenue Service from this table. The Internal Revenue Service also is to calculate wage bracket withholding tables which are consistent with the percentage-method withholding tables referred to above.

*Effective date.*—The withholding changes made by the bill are to take effect on May 1. Since income tax withholding for the first one-third of the year will have been at current rates, the withholding rates for the last two-thirds of the year are to be additionally reduced so that amounts withheld by the end of the year will approximately equal the decrease in the 1975 tax liability resulting from this bill.

### C. Investment Credit

#### *Present Law*

Present law provides a 7-percent investment credit (4 percent with respect to certain public utility property). The investment credit is available with respect to: (1) tangible personal property; (2) other tangible property (not including a building and structural components) which is an integral part of manufacturing, production, etc., or which constitutes a research or storage facility; and (3) elevators and escalators. Generally, the credit is not available with respect to property used outside the United States.

To be eligible for the credit, the property must be depreciable property with a useful life of at least 3 years. Property with a useful life of 3 or 4 years qualifies for the credit to the extent of one-third of its cost; property with a useful life of 5 or 6 years qualifies with respect to two-thirds of its cost; and property with a useful life of 7 years or more qualifies for the credit to the full extent of the property's cost. (However, in the case of used property, not more than \$50,000 of cost may be taken into account by a taxpayer as qualified investment for purposes of the credit for a taxable year.)

Property becomes eligible for the credit when it is placed in service. Property is considered to be placed in service in the earlier of (1) the taxable year in which depreciation on the property begins, or (2) the taxable year in which the property is placed in a condition or state of readiness and availability for a specifically assigned function.

The amount of the credit that a taxpayer may take in any one year cannot exceed the first \$25,000 of tax liability (as otherwise computed) plus 50 percent of the tax liability in excess of \$25,000. Investment credits which because of this limitation cannot be used in the current year may be carried back 3 taxable years and then carried forward 7 taxable years and used in those years to the extent permissible within the limitations applicable in those years.

Public utility property to which the 4-percent investment tax credit applies is property used predominantly in the trade or business of furnishing or selling (1) electrical energy, water, or sewage disposal services, (2) gas through a local distribution system, or (3) telephone service, telegraph service through domestic telegraph operations, or other communications services (other than international telegraph services). In general, the reduced credit applies only if the rates for these services or items are established or approved by certain types of governmental regulatory bodies.

#### *House Bill*

*Increase in rate.*—The investment credit rate is to be increased for all taxpayers (including public utilities) to 10 percent from 7 percent, or from 4 percent in the case of certain public utility property. (The additional credit for public utilities is limited to \$100 million for any one taxpayer.)

*Increase in 50-percent limit for public utility property.*—The bill modifies the limitation on the amount of tax liability that may be offset by the investment tax credit for a year in the case of most public utility property (which under present law is entitled to only a 4-percent investment credit). The percentage limits for public utility property is to be increased from the general 50-percent limit to 100 percent of the income tax liability for 1975 and 1976. In each of the next 5 taxable years, the increase for public utilities is to be reduced by 10 percentage points until 1981 and thereafter, at which time the 50-percent limitation again is effective. Thus, the percentage limitation is to be 90 percent in 1977, 80 percent in 1978, 70 percent in 1979, and 60 percent in 1980.<sup>2</sup>

*Progress payments.*—In the case of long-lead-time property, that is, property that requires at least 2 years to construct, the bill provides that the investment tax credit is to be available to the extent that progress payments are made during the construction period (rather than being allowed in the later year when the property is ultimately placed in service). During the first 5 years this provision is in effect, a transitional rule provides for a phase-in to the new system at the rate of 20 percent a year.

*Increase in limitation for used property.*—As an aid to small business, the bill increases from \$50,000 to \$75,000 the amount of used property which can qualify for the investment credit for any one year.

<sup>2</sup> In the case of companies that have substantial amounts of investment in public utility property and also substantial amounts of investment in other property eligible for the credit in the same year, the increase in the 50-percent limit is to be proportional to the amount of the eligible public utility property as compared to the total eligible property.

*Revenue Effect*

These changes in the investment credit are estimated to result in a revenue loss of \$3.9 billion (of which \$1.5 billion is expected to occur in 1976).

*Effective Date*

The 10-percent credit is to be available for property acquired and placed in service after January 21, 1975, and before January 1, 1976; it is also to be available for property placed in service in 1976, if the property was acquired pursuant to an order placed before January 1, 1976.

In addition, in the case of property constructed, reconstructed or erected by a taxpayer, the 10-percent credit is to be available for property completed by the taxpayer after January 21, 1975, but only to the extent of the portion of the value actually attributable to construction, etc., by the taxpayer after January 21, 1975, and before January 1, 1976. On this same basis, the 10-percent rate is to be available for qualified progress expenditures made in the period after January 21, 1975 and before January 1, 1976.

The provisions increasing the amount of used property which can qualify for the investment credit apply to taxable years beginning in 1975. The provisions with respect to progress payments apply to payments made after January 21, 1975, in taxable years ending after December 31, 1974.

**D. Increase in Corporate Surtax Exemption**

*Present law.*—Under the present law, corporate income is subject to a normal tax at a rate of 22 percent and a surtax at a rate of 26 percent (for a total tax rate of 48 percent). However, the first \$25,000 of corporate income is exempt from the surtax. In effect, then, the first \$25,000 of corporate income is taxed at the rate of 22 percent and the income in excess of \$25,000 is taxed at a 48-percent rate.

*House bill.*—The House bill increases the surtax exemption from \$25,000 to \$50,000. This will result in an annual tax savings of \$6,500 for a corporation having \$50,000 or more of taxable income.

*Revenue effect.*—The increase in the corporate surtax exemption is expected to result in a revenue loss of \$1.2 billion, of which it is estimated about 60 percent, or \$730 million, will go to corporations with incomes under \$100,000.

*Effective date.*—The increase in the corporate surtax exemption is effective for one year—1975.

**E. Repeal of percentage depletion for oil and gas**

*Present law.*—Under present law, percentage depletion in the case of oil and gas wells, is allowed at the rate of 22 percent of the gross income from the property. (The amount of the deduction, however, may not exceed 50 percent of the net income from the property, computed before any allowance for depletion.) The percentage depletion deduction may be taken by a taxpayer without regard to his cost basis for the property.

*House bill.*—Under the House bill, except as noted below, no deduction for percentage depletion is allowable with respect to oil or gas produced on or after January 1, 1975. Thereafter, depletion for oil and gas is to be computed on a cost basis.

Under the bill, the present 22-percent depletion allowance is continued for certain gas wells. Percentage depletion is continued for domestically produced natural gas sold under a fixed price contract in effect on February 1, 1975, which does not permit adjustments in the price after that date to reflect, to any extent, the producer's increased tax liabilities arising from the elimination of the depletion allowance. Price increases which occur after February 1, 1975, are to be presumed to take account of the increased tax liabilities due to the repeal of percentage depletion, unless the taxpayer demonstrates to the contrary by clear and convincing evidence.

Percentage depletion also remains in effect at a 22 percent rate for "regulated natural gas" produced and sold prior to July 1, 1976, if no price increase is permitted after February 1, 1975, which reflects, to any extent, the producer's increased tax liabilities as a result of the elimination of percentage depletion. "Regulated natural gas" is defined as gas subject to regulation by the Federal Power Commission (i.e., gas sold in interstate commerce). Any price increase which occurs after February 1, 1975, is to be presumed to take such increased tax liabilities into account, unless the taxpayer can demonstrate by clear and convincing evidence that this is not the case.

The House bill did not affect the status of geothermal steam for purposes of percentage depletion. Some courts have held that geothermal steam is a "gas" which is entitled to percentage depletion at a 22-percent rate.<sup>3</sup> The current position of Treasury is that geothermal steam is not a gas entitled to percentage depletion. The House bill did not resolve this issue, and specifically left the matter open for final court determination. However, if the courts ultimately determine that geothermal steam is a gas which is entitled to percentage depletion, the House bill would allow depletion in this case at the current rate of 22 percent.

*Revenue effect.*—It is estimated that the provisions eliminating the deduction for percentage depletion in the case of oil and natural gas will result in a revenue gain of \$2.2 billion in 1975 and \$2.7 billion in 1976.

*Effective date.*—The repeal of the percentage depletion allowance applies generally to oil and natural gas produced on or after January 1, 1975.

### III. SUMMARY OF ADMINISTRATION PROPOSAL

The Administration proposed that individual taxpayers receive cash refunds of 12 percent of their tax liabilities reported on their 1974 tax returns, up to a maximum refund of \$1,000. The refunds would be paid in two equal installments—the first payments beginning in May and the second payments beginning in September.

*Revenue effect.*—The 12-percent rebate would involve a revenue loss of \$12.2 billion.

<sup>3</sup> *Reich v. Commissioner*, 454 F.2d 1157 (CA 9 1972); *George D. Rowan*, T.C. Memo 1969-160 (1969) (intangible drilling expenses).

#### IV. SUMMARY OF REPUBLICAN WAYS AND MEANS COMMITTEE MEMBERS' ALTERNATIVE

The Republican members of the House Committee on Ways and Means proposed an alternative to the individual income tax reductions provided in H.R. 2166. This proposal would substitute for the individual income tax reduction provisions (titles I and II of the bill which provide an immediate refund of 1974 taxes and, for 1975, increase the standard deduction and provide an earned income, credit which are reflected in reduced withholding) a new title I which would provide a graduated tax refund for 1974 taxes and make no changes for 1975 taxes. The payment of the refund would be the same as in the House bill; that is, payments made by the Internal Revenue Service beginning in May.

The tax refund is based on a graduated schedule of rates applied to the tax liability of the taxpayer. The beginning rate is 18 percent of the first \$500 of tax liability. The amount of the refund is based on a sliding scale of rates which reaches a maximum refund of \$430 for a taxpayer with a tax liability of \$4,500. Refunds for taxpayers who have tax liabilities in excess of \$4,500 are phased down to a minimum of \$200 for taxpayers with tax liabilities in excess of \$8,000. In general, the maximum refund would be available on a joint return (plus 2 dependents) with adjusted gross income slightly over \$28,000; those taxpayers with adjusted gross incomes in excess of that level would be subject to the phasedown of the amount of the refund.

A table of the graduated schedule of tax refund rates under this proposal is set forth below:

If the Amount of Tax is Between:	The tax rebate is:
0 to \$500.....	18 percent of the tax.
\$500 to \$1,000.....	\$90 plus 15 percent of the excess over \$500.
\$1,000 to \$1,500.....	\$165 plus 14 percent of the excess over \$1,000.
\$1,500 to \$2,000.....	\$235 plus 11 percent of the excess over \$1,500.
\$2,000 to \$2,500.....	\$290 plus 10 percent of the excess over \$2,000.
\$2,500 to \$3,000.....	\$340 plus 7 percent of the excess over \$2,500.
\$3,000 to \$3,500.....	\$375 plus 6 percent of the excess over \$3,000.
\$3,500 to \$4,000.....	\$405 plus 3 percent of the excess over \$3,500.
\$4,000 to \$4,500.....	\$420 plus 2 percent of the excess over \$4,000.
\$4,500 to \$5,000.....	\$430 less 1 percent of the excess over \$4,500.
\$5,000 to \$5,500.....	\$425 less 2 percent of the excess over \$5,000.
\$5,500 to \$6,000.....	\$415 less 5 percent of the excess over \$5,500.
\$6,000 to \$6,500.....	\$390 less 6 percent of the excess over \$6,000.
\$6,500 to \$7,000.....	\$360 less 9 percent of the excess over \$6,500.
\$7,000 to \$7,500.....	\$315 less 10 percent of the excess over \$7,000.
\$7,500 to \$8,000.....	\$265 less 13 percent of the excess over \$7,500.
\$8,000 and over.....	\$200.

*Revenue effect.*—This proposal would involve a revenue loss of \$12.2 billion, which is the same total amount as the administration's proposal.

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(NOTE.—The revenue estimates presented in the first part of this pamphlet are based on the overall estimated income levels of the relevant year; i.e., as to the effects of the title II provisions (standard deduction and earned income credit), the estimates are based on overall 1975 income levels. Since distribution data are not yet available for 1975 income levels, the distribution tables in this statistical appendix have been prepared on the basis of distribution data at 1974 income levels.)

# 1. Effect of Individual Income Tax Provisions of the Bill (Titles I and II) <sup>1</sup>

## (a) Distribution of Tax Reduction by AGI Class

[1974 income levels]

Adjusted gross income class (thousands)	Number of returns affected (thousands)			Decrease in tax liability			
	Total number with tax decrease <sup>2</sup>	Number made non- taxable	Number shifting to the standard deduction	Amount <sup>3</sup> (millions)	Percentage distribution of total decrease		
					By income class	Cumulative	By segment
0 to \$3.....	16,543	4,000	99	\$1,665	10.5	10.5	} 55.1
\$3 to \$5.....	8,697	4,710	546	2,654	16.7	27.2	
\$5 to \$7.....	8,484	697	1,287	1,934	12.2	39.4	
\$7 to \$10.....	11,428	88	2,674	2,494	15.7	55.1	} 34.4
\$10 to \$15.....	15,952	(4)	2,663	3,136	19.7	74.8	
\$15 to \$20.....	9,856	(4)	1,546	2,337	14.7	89.5	
\$20 to \$50.....	9,006	(4)	1,016	1,566	9.9	99.4	} 10.5
\$50 to \$100.....	655	(4)	18	78	0.5	99.9	
\$100 and over.....	160	(4)	2	18	0.1	100.0	
Total.....	80,781	<sup>5</sup> 9,497	9,851	15,882	100.0	100.0	100.0

<sup>1</sup> Granting a refund of 1974 income tax liability, increasing the standard deduction, and granting a tax credit on wage and salary and self-employment income.

<sup>2</sup> Does not include returns representing beneficiaries of the earned income credit who are nonfilers under the 1970 filing requirements.

<sup>3</sup> Does not include an additional \$275,000,000 to cover the earned income credit on wage and salary and self-employment income of earners who are nonfilers under 1970 filing requirements.

<sup>4</sup> Less than 500 returns.

<sup>5</sup> The number made nontaxable is shown to be the same in this table and in Table 4 because the additional returns made nontaxable by the refund of 1974 taxes are not available in the magnitudes required to represent additional but not interacting nontaxable returns. For the number of returns made nontaxable by the refund of 1974 taxes when considered independently see Table 2(a).

Note: Details may not add to totals because of rounding.

# 1. Effect of Individual Income Tax Provisions of the Bill (Titles I and II)—Continued

## (b) Reduction of Tax Burden <sup>1</sup> for Typical Taxpayers at Various AGI Levels

[Assuming deductible personal expenses of 17 percent of income]

Adjusted gross income	Tax liability								
	Single person			Married couple with no dependents			Married couple with 1 dependent		
	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
\$3,000-----	\$138	-\$201	\$339	\$28	-\$178	\$206	0	-\$150	\$150
\$5,000-----	491	177	314	322	-60	382	\$208	-165	373
\$6,000-----	681	467	214	484	190	294	362	77	285
\$8,000-----	1,087	865	222	837	520	317	694	392	302
\$10,000-----	1,482	1,286	196	1,152	885	267	1,010	757	253
\$12,500-----	1,996	1,796	200	1,573	1,333	240	1,408	1,192	216
\$15,000-----	2,549	2,349	200	2,029	1,829	200	1,864	1,678	186
\$17,500-----	3,145	2,945	200	2,516	2,316	200	2,329	2,129	200
\$20,000-----	3,784	3,584	200	3,035	2,835	200	2,848	2,648	200
\$25,000-----	5,230	5,080	150	4,170	4,020	150	3,960	3,810	150
\$30,000-----	6,850	6,750	100	5,468	5,368	100	5,228	5,128	100
\$35,000-----	8,625	8,525	100	6,938	6,838	100	6,668	6,568	100
\$40,000-----	10,515	10,415	100	8,543	8,443	100	8,251	8,151	100

Adjusted gross income	Tax Liability					
	Married couple with 2 dependents			Married couple with 4 dependents		
	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
\$3,000-----	0	-\$150	\$150	0	-\$150	\$150
\$5,000-----	\$98	-198	296	0	-100	100
\$6,000-----	245	-30	275	\$28	-28	56
\$8,000-----	559	270	289	312	40	272
\$10,000-----	867	615	252	586	350	236
\$12,500-----	1,261	1,064	197	976	805	171
\$15,000-----	1,699	1,529	170	1,371	1,234	137
\$17,500-----	2,156	1,956	200	1,826	1,643	183
\$20,000-----	2,660	2,460	200	2,285	2,085	200
\$25,000-----	3,750	3,600	150	3,330	3,180	150
\$30,000-----	4,988	4,888	100	4,508	4,408	100
\$35,000-----	6,398	6,298	100	5,858	5,758	100
\$40,000-----	7,958	7,858	100	7,373	7,273	100

<sup>1</sup> Computed without reference to the tax tables for returns with adjusted gross income under \$10,000.

## 2. Effect of Refund of 1974 Income Tax<sup>1</sup>

### (a) Distribution of Tax Reduction by AGI Class

[1974 income levels]

Adjusted gross income class (thousands)	Number of returns affected (thousands)		Amount (millions)	Decrease in tax liability		
	Total number with tax decrease	Number made nontaxable		Percentage distribution of total decrease		
				By income class	Cumulative	By segment
0 to \$3.....	4,057	3,097	\$230	2.8	2.8	} 35.7
\$3 to \$5.....	7,579	1,280	685	8.4	11.2	
\$5 to \$7.....	8,273	339	795	9.8	21.0	
\$7 to \$10.....	11,428	186	1,197	14.7	35.7	} 48.9
\$10 to \$15.....	15,952	59	2,178	26.8	62.5	
\$15 to \$20.....	9,856	16	1,796	22.1	84.6	
\$20 to \$50.....	9,006	3	1,162	14.3	98.9	} 15.3
\$50 to \$100.....	655	( <sup>2</sup> )	65	0.8	99.7	
\$100 and over.....	160	( <sup>2</sup> )	16	0.2	99.9	
<b>Total.....</b>	<b>66,966</b>	<b>4,980</b>	<b>8,125</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Granting a 100-percent refund of 1974 income tax liability up to \$100 without a phaseout and a 10-percent refund of tax above \$1,000 with a maximum refund of \$200 with the refund phased out between \$20,000 and \$30,000 of adjusted gross income but not below \$100.

<sup>2</sup> Less than 500 returns.

Note: Details may not add to totals because of rounding.

## 2. Effect of Refund of 1974 Income Tax—Continued

### (b) Reduction of Tax Burden<sup>1</sup> for Typical Taxpayers at Various AGI Levels

[Assuming deductible personal expenses of 17 percent of income]

Adjusted gross income	Tax liability								
	Single person			Married couple with no dependents			Married couple with 1 dependent		
	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
\$3,000	\$138	\$38	\$100	\$28	0	\$28	0	0	0
\$5,000	491	391	100	322	\$222	100	\$208	\$108	\$100
\$6,000	681	581	100	484	384	100	362	262	100
\$8,000	1,087	978	109	837	737	100	694	594	100
\$10,000	1,482	1,334	148	1,152	1,037	115	1,010	909	101
\$12,500	1,996	1,797	200	1,573	1,415	157	1,408	1,267	141
\$15,000	2,549	2,349	200	2,029	1,829	200	1,864	1,678	186
\$17,500	3,145	2,945	200	2,516	2,316	200	2,329	2,129	200
\$20,000	3,784	3,584	200	3,035	2,835	200	2,848	2,648	200
\$25,000	5,230	5,030	150	4,170	4,020	150	3,960	3,810	150
\$30,000	6,850	6,750	100	5,468	5,368	100	5,228	5,128	100
\$35,000	8,625	8,525	100	6,938	6,838	100	6,668	6,568	100
\$40,000	10,515	10,415	100	8,543	8,443	100	8,251	8,151	100

Adjusted gross income	Tax liability					
	Married couple with 2 dependents			Married couple with 4 dependents		
	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
\$3,000	0	0	0	0	0	0
\$5,000	\$98	0	\$98	0	0	0
\$6,000	245	\$145	100	\$28	0	\$28
\$8,000	559	459	100	312	\$212	100
\$10,000	867	767	100	586	486	100
\$12,500	1,261	1,135	126	976	876	100
\$15,000	1,699	1,529	170	1,371	1,233	137
\$17,500	2,156	1,956	200	1,826	1,643	183
\$20,000	2,660	2,460	200	2,285	2,085	200
\$25,000	3,750	3,600	150	3,330	3,180	150
\$30,000	4,988	4,888	100	4,508	4,408	100
\$35,000	6,398	6,298	100	5,858	5,758	100
\$40,000	7,958	7,858	100	7,373	7,273	100

<sup>1</sup> Computed without reference to the tax tables for returns with adjusted gross income under \$10,000.

### 3. Effect of Increases in the Standard Deduction (Including the Low Income Allowance) and the Refundable Earned Income Credit <sup>1</sup>

#### (a) Distribution of Tax Reduction by AGI Class

[1974 income levels]

Adjusted gross income class (thousands)	Number of returns affected (thousands)			Amount <sup>3</sup> (millions)	Decrease in tax liability		
	Total number with tax decrease <sup>2</sup>	Number made non-taxable	Number shifting to the standard deduction		Percentage distribution of total decrease		
					By income class	Cumulative	By segment
0 to \$3.....	16,543	4,000	99	\$1,435	18.5	18.5	75.3
\$3 to \$5.....	8,638	4,710	546	1,969	25.4	43.9	
\$5 to \$7.....	8,158	697	1,287	1,139	14.7	58.6	
\$7 to \$10.....	9,194	88	2,674	1,297	16.7	75.3	
\$10 to \$15.....	9,821	( <sup>4</sup> )	2,663	958	12.4	87.7	19.4
\$15 to \$20.....	4,053	( <sup>4</sup> )	1,546	541	7.0	94.7	
\$20 to \$50.....	1,998	( <sup>4</sup> )	1,016	404	5.2	99.9	5.4
\$50 to \$100.....	38	( <sup>4</sup> )	18	13	0.2	100.0	
\$100 and over.....	4	( <sup>4</sup> )	2	2	( <sup>4</sup> )	100.0	
Total.....	58,447	9,497	9,851	7,757	100.0	100.0	100.0

<sup>1</sup> Increasing the minimum standard deduction to \$1,900 for single person returns and \$2,500 for joint returns, the percentage standard deduction to 16 percent, and the maximum standard deduction to \$2,500 for single person returns and \$3,000 for joint returns and granting a refundable tax credit of 5 percent of wage and salary and self-employment income with a maximum credit of \$200 and a phaseout of the credit between \$4,000 and \$6,000 of adjusted gross income.

<sup>2</sup> Does not include returns representing beneficiaries of the earned income credit who are nonfilers under the 1970 filing requirements.

<sup>3</sup> Does not include an additional \$275,000,000 to cover the credit on wage and salary and self-employment income of earners who are nonfilers under 1970 filing requirements.

<sup>4</sup> Less than 500 returns or 0.05 percent.

Note: Details may not add to totals because of rounding.

### 3. Effect of Increases in the Standard Deduction (Including the Low Income Allowance) and the Refundable Earned Income Credit—Continued

#### (b) Reduction of Tax Burden<sup>1</sup> for Typical Taxpayers at Various AGI Levels

[Assuming deductible personal expenses of 17 percent of income]

		Tax liability								
		Single person			Married couple with no dependents			Married couple with 1 dependent		
Adjusted gross income		Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
		\$3,000		\$138	-\$101	\$239	\$28	-\$150	\$178	0
\$5,000		491	277	214	322	40	282	\$208	-65	273
\$6,000		681	567	114	484	290	194	362	178	185
\$8,000		1,087	974	113	837	620	217	694	493	202
\$10,000		1,482	1,434	48	1,152	1,000	152	1,010	858	152
\$12,500		1,996	1,996	0	1,573	1,490	83	1,408	1,333	75
\$15,000		2,549	2,549	0	2,029	2,029	0	1,864	1,864	0
\$17,500		3,145	3,145	0	2,516	2,516	0	2,329	2,329	0
\$20,000		3,784	3,784	0	3,035	3,035	0	2,848	2,848	0
\$25,000		5,230	5,230	0	4,170	4,170	0	3,960	3,960	0
\$30,000		6,850	6,850	0	5,468	5,468	0	5,228	5,228	0
\$35,000		8,625	8,625	0	6,938	6,938	0	6,668	6,668	0
\$40,000		10,515	10,515	0	8,543	8,543	0	8,251	8,251	0

		Tax liability					
		Married couple with 2 dependents			Married couple with 4 dependents		
Adjusted gross income		Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
		\$3,000		0	-\$150	\$150	0
\$5,000		\$98	-100	198	0	-100	100
\$6,000		245	70	175	\$28	0	28
\$8,000		559	370	189	312	140	172
\$10,000		867	715	152	586	450	136
\$12,500		1,261	1,190	71	976	905	71
\$15,000		1,699	1,699	0	1,371	1,371	0
\$17,500		2,156	2,156	0	1,826	1,826	0
\$20,000		2,660	2,660	0	2,285	2,285	0
\$25,000		3,750	3,750	0	3,330	3,330	0
\$30,000		4,988	4,988	0	4,508	4,508	0
\$35,000		6,398	6,398	0	5,858	5,858	0
\$40,000		7,958	7,958	0	7,373	7,373	0

<sup>1</sup> Computed without reference to the tax tables for returns with adjusted gross income under \$10,000.

## 4. Effect of Increases in the Standard Deduction (Including the Low Income Allowance) <sup>1</sup>

### (a) Distribution of Tax Reduction by AGI Class

[1974 income levels]

Adjusted gross income class (thousands)	Number of returns affected (thousands)			Decrease in tax liability			
	Total number with tax decrease	Number made non-taxable	Number shifting to the standard deduction	Amount (millions)	Percentage distribution of total decrease		
					By income class	Cumulative	By segment
0 to \$3.....	4,039	2,837	99	\$221	4.4	4.4	} 62.2
\$3 to \$5.....	7,347	1,278	546	707	13.9	18.3	
\$5 to \$7.....	7,671	445	1,287	931	18.3	36.6	
\$7 to \$10.....	9,194	88	2,674	1,297	25.6	62.2	
\$10 to \$15.....	9,821	(2)	2,663	958	18.9	81.1	} 29.6
\$15 to \$20.....	4,053	(2)	1,546	541	10.7	91.8	
\$20 to \$50.....	1,998	(2)	1,016	404	8.0	99.8	
\$50 to \$100.....	38	(2)	18	13	0.3	100.0	} 8.3
\$100 and over.....	4	(2)	2	2	(2)	100.0	
Total.....	44,164	4,649	9,851	5,074	100.0	100.0	100.0

<sup>1</sup> Increasing the minimum standard deduction to \$1,900 for single person returns and \$2,500 for joint returns; the percentage standard deduction to 16 percent; and the maximum standard deduction to \$2,500 for single person returns and \$3,000 for joint returns.

<sup>2</sup> Less than 500 returns or 0.05 percent.

Note: Details may not add to totals because of rounding.

## 4. Effect of Increases in the Standard Deduction (Including the Low Income Allowance)—Continued

### (b) Reduction of Tax Burden<sup>1</sup> for Typical Taxpayers at Various AGI Levels

[Assuming deductible personal expenses of 17 percent of income]

Adjusted gross income	Tax liability								
	Single person			Married couple with no dependents			Married couple with 1 dependent		
	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
\$3,000-----	\$138	\$49	\$89	\$28	0	\$28	0	0	0
\$5,000-----	491	377	114	322	\$140	182	\$208	\$35	\$173
\$6,000-----	681	567	114	484	290	194	362	178	185
\$8,000-----	1,087	974	113	837	620	217	694	493	202
\$10,000-----	1,482	1,434	48	1,152	1,000	152	1,010	858	152
\$12,500-----	1,996	1,996	0	1,573	1,490	83	1,408	1,333	75
\$15,000-----	2,549	2,549	0	2,029	2,029	0	1,864	1,864	0
\$17,500-----	3,145	3,145	0	2,516	2,516	0	2,329	2,329	0
\$20,000-----	3,784	3,784	0	3,035	3,035	0	2,848	2,848	0
\$25,000-----	5,230	5,230	0	4,170	4,170	0	3,960	3,960	0
\$30,000-----	6,850	6,850	0	5,468	5,468	0	5,228	5,228	0
\$35,000-----	8,625	8,625	0	6,938	6,938	0	6,668	6,668	0
\$40,000-----	10,515	10,515	0	8,543	8,543	0	8,251	8,251	0

Adjusted gross income	Tax liability					
	Married couple with 2 dependents			Married couple with 4 dependents		
	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
\$3,000-----	0	0	0	0	0	0
\$5,000-----	\$98	0	\$98	0	0	0
\$6,000-----	245	\$70	175	\$28	0	\$28
\$8,000-----	559	370	189	312	\$140	172
\$10,000-----	867	715	152	586	450	136
\$12,500-----	1,261	1,190	71	976	905	71
\$15,000-----	1,699	1,699	0	1,371	1,371	0
\$17,500-----	2,156	2,156	0	1,826	1,826	0
\$20,000-----	2,660	2,660	0	2,285	2,285	0
\$25,000-----	3,750	3,750	0	3,330	3,330	0
\$30,000-----	4,988	4,988	0	4,508	4,508	0
\$35,000-----	6,398	6,398	0	5,858	5,858	0
\$40,000-----	7,958	7,958	0	7,373	7,373	0

<sup>1</sup> Computed without reference to the tax tables for returns with adjusted gross income under \$10,000.

## 5. Effect of the Refundable Earned Income Credit <sup>1</sup>

### (a) Distribution of Tax Reduction by AGI Class

[1974 income levels]

Adjusted gross income class (thousands)	Number of returns affected (thousands)		Amount <sup>3</sup> (millions)	Decrease in tax liability		
	Total number with tax decrease <sup>2</sup>	Number made nontaxable		Percentage distribution of total decrease		
				By income class	Cumulative	By segment
0 to \$3.....	16,355	3,719	\$1,213	45.2	45.2	} 100.0
\$3 to \$5.....	8,162	1,695	1,261	47.0	92.2	
\$5 to \$6.....	4,132	111	208	7.8	100.0	
\$6 to \$10.....						
\$10 to \$15.....						
\$15 to \$20.....						
\$20 to \$50.....						
\$50 to \$100.....						
\$100 and over.....						
Total.....	28,649	5,525	2,683	100.0	100.0	100.0

<sup>1</sup> Granting a refundable tax credit of 5 percent of wage and salary and self-employment income with a maximum credit of \$200 and a phaseout of the credit between \$4,000 and \$6,000 of adjusted gross income.

<sup>2</sup> Does not include returns representing beneficiaries who are nonfilers under the 1970 filing requirements.

<sup>3</sup> Does not include an additional \$275,000,000 to cover the credit on wage and salary and self-employment income of earners who are nonfilers under the 1970 filing requirements.

Note: Details may not add to totals because of rounding.

## 5. Effect of the Refundable Earned Income Credit—Continued

### (b) Reduction of Tax Burden<sup>1</sup> for Typical Taxpayers at Various AGI Levels

[Assuming deductible personal expenses of 17 percent of income]

Adjusted gross income	Tax liability								
	Single person			Married couple with no dependents			Married couple with 1 dependent		
	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
\$3,000	\$138	—\$13	\$150	\$28	—\$122	\$150	0	—\$150	\$150
\$5,000	491	391	100	322	222	100	\$208	108	100
\$6,000	681	681	0	484	484	0	362	362	0
\$8,000	1,087	1,087	0	837	837	0	694	694	0
\$10,000	1,482	1,482	0	1,152	1,152	0	1,010	1,010	0
\$12,500	1,996	1,996	0	1,573	1,573	0	1,408	1,408	0
\$15,000	2,549	2,549	0	2,029	2,029	0	1,864	1,864	0
\$17,500	3,145	3,145	0	2,516	2,516	0	2,329	2,329	0
\$20,000	3,784	3,784	0	3,035	3,035	0	2,848	2,848	0
\$25,000	5,230	5,230	0	4,170	4,170	0	3,960	3,960	0
\$30,000	6,850	6,850	0	5,468	5,468	0	5,228	5,228	0
\$35,000	8,625	8,625	0	6,938	6,938	0	6,668	6,668	0
\$40,000	10,515	10,515	0	8,543	8,543	0	8,251	8,251	0

Adjusted gross income	Married couple with 2 dependents			Married couple with 4 dependents		
	Under present law	Under H.R. 2166	Reduction	Under present law	Under H.R. 2166	Reduction
\$3,000	0	—\$150	\$150	0	\$150	\$150
\$5,000	\$98	—2	100	0	—100	100
\$6,000	245	245	0	\$28	28	0
\$8,000	559	559	0	312	312	0
\$10,000	867	867	0	586	586	0
\$12,500	1,261	1,261	0	976	976	0
\$15,000	1,699	1,699	0	1,371	1,371	0
\$17,500	2,156	2,156	0	1,826	1,826	0
\$20,000	2,660	2,660	0	2,285	2,285	0
\$25,000	3,750	3,750	0	3,330	3,330	0
\$30,000	4,988	4,988	0	4,508	4,508	0
\$35,000	6,398	6,398	0	5,858	5,858	0
\$40,000	7,958	7,958	0	7,373	7,373	0

<sup>1</sup> Computed without reference to the tax tables for returns with adjusted gross income under \$10,000.

## 6. Effect of the Administration Proposal: A Refund of 1974 Income Tax <sup>1</sup>

### (a) Distribution of Tax Reduction by AGI Class

[1974 income levels]

Adjusted gross income class	Number of returns with tax decrease (in thou- sands)	Decrease in tax liability			
		Amount (in millions)	Percentage distribution of total decrease		
			By income class	Cumulative	By segment
0 to \$3,000 .....	4,057	\$30	0.2	0.2	} 15.0
\$3,000 to \$5,000 .....	7,579	213	1.7	1.9	
\$5,000 to \$7,000 .....	8,273	491	4.0	5.9	
\$7,000 to \$10,000 .....	11,428	1,110	9.1	15.0	} 41.5
\$10,000 to \$15,000 .....	15,952	2,549	20.9	35.9	
\$15,000 to \$20,000 .....	9,856	2,509	20.6	56.5	
\$20,000 to \$50,000 .....	9,006	4,498	36.9	93.4	} 43.5
\$50,000 to \$100,000 .....	655	647	5.3	98.7	
\$100,000 and over .....	160	157	1.3	100.0	
<b>Total .....</b>	<b>66,966</b>	<b>12,205</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Granting a 12 percent refund of 1974 income tax liability with a maximum refund of \$1,000.

Note: Details may not add to totals because of rounding.

## 6. Effect of the Administration Proposal: A Refund of 1974 Income Tax—Continued

### (b) Reduction of Tax Burden<sup>1</sup> for Typical Taxpayers at Various AGI Levels

[Assuming deductible personal expenses of 17 percent of income]

Adjusted gross income	Tax liability								
	Single person			Married couple with no dependents			Married couple with 1 dependent		
	Under present law	Under the proposal	Reduc- tion	Under present law	Under the proposal	Reduc- tion	Under present law	Under the proposal	Reduc- tion
\$3,000.....	\$138	\$121	\$16	\$28	\$25	\$3	0	0	0
\$5,000.....	491	432	59	322	283	39	\$208	\$183	\$25
\$6,000.....	681	599	82	484	426	58	362	319	43
\$8,000.....	1,087	956	130	837	736	100	694	611	83
\$10,000.....	1,482	1,304	178	1,152	1,014	138	1,010	888	121
\$12,500.....	1,996	1,757	240	1,573	1,384	189	1,408	1,239	169
\$15,000.....	2,549	2,243	306	2,029	1,786	243	1,864	1,640	224
\$17,500.....	3,145	2,767	377	2,516	2,214	302	2,329	2,049	279
\$20,000.....	3,784	3,329	454	3,035	2,671	364	2,848	2,506	342
\$25,000.....	5,230	4,602	628	4,170	3,670	500	3,960	3,485	475
\$30,000.....	6,850	6,028	822	5,468	4,812	656	5,228	4,601	627
\$35,000.....	8,625	7,625	1,000	6,938	6,105	833	6,668	5,868	800
\$40,000.....	10,515	9,515	1,000	8,543	7,543	1,000	8,251	7,260	990

Adjusted gross income	Tax liability					
	Married couple with 2 dependents			Married couple with 4 dependents		
	Under present law	Under the proposal	Reduction	Under present law	Under the proposal	Reduction
\$3,000.....	0	0	0	0	0	0
\$5,000.....	\$98	\$86	\$12	0	0	0
\$6,000.....	245	216	29	\$28	\$25	\$3
\$8,000.....	559	492	67	312	275	37
\$10,000.....	867	763	104	586	516	70
\$12,500.....	1,261	1,110	151	976	859	117
\$15,000.....	1,699	1,495	204	1,371	1,206	164
\$17,500.....	2,156	1,897	259	1,826	1,606	219
\$20,000.....	2,660	2,341	319	2,285	2,011	274
\$25,000.....	3,750	3,300	450	3,330	2,930	400
\$30,000.....	4,988	4,389	599	4,508	3,967	541
\$35,000.....	6,398	5,630	768	5,858	5,155	703
\$40,000.....	7,958	7,003	955	7,373	6,488	885

<sup>1</sup> Computed without reference to the tax tables for returns with adjusted gross income under \$10,000.

## 7. Effect of Republican Ways and Means Committee Members' Alternative

### (a) Distribution of Tax Reduction by AGI Class

[1974 income levels]

Adjusted gross income class	Number of returns with tax decrease (in thousands)	Decrease in tax liability			
		Amount (in millions)	Percentage distribution of total decrease		
			By income class	Cumulative	By segment
0 to \$3,000.....	4,057	\$44	0.4	0.4	} 20.9
\$3,000 to \$5,000.....	7,579	308	2.5	2.9	
\$5,000 to \$7,000.....	8,273	694	5.7	8.6	
\$7,000 to \$10,000.....	11,428	1,504	12.3	20.9	} 50.6
\$10,000 to \$15,000.....	15,952	3,270	26.8	47.7	
\$15,000 to \$20,000.....	9,856	2,901	23.8	71.5	
\$20,000 to \$50,000.....	9,006	3,310	27.1	98.6	} 28.5
\$50,000 to \$100,000.....	655	133	1.1	99.9	
\$100,000 and over.....	160	32	.3	100.0	
Total.....	66,966	12,196	100.0	100.0	100.0

Note: Details may not add to totals because of rounding.

## 7. Effect of Republican Ways and Means Committee Members' Alternative

### (b) Reduction of Tax Burden for Typical Taxpayers at Various AGI Levels

[Assuming deductible personal expenses of 17 percent of income]

Adjusted gross income	Tax liability								
	Single person			Married couple with no dependents			Married couple with 1 dependent		
	Under present law	Under the proposal	Reduction	Under present law	Under the proposal	Reduction	Under present law	Under the proposal	Reduction
\$3,000	\$138	\$113	\$25	\$28	\$23	\$5	0	0	0
\$5,000	491	402	88	322	264	58	\$208	\$170	\$37
\$6,000	681	563	117	484	397	87	362	297	65
\$8,000	1,087	910	177	837	696	140	694	575	119
\$10,000	1,482	1,250	232	1,152	966	186	1,010	843	166
\$12,500	1,996	1,707	290	1,573	1,330	243	1,408	1,185	222
\$15,000	2,549	2,206	343	2,029	1,736	293	1,864	1,589	275
\$17,500	3,145	2,761	384	2,516	2,175	341	2,329	2,006	323
\$20,000	3,784	3,370	414	3,035	2,658	377	2,848	2,483	364
\$25,000	5,230	4,810	420	4,170	3,747	423	3,960	3,541	419
\$30,000	6,850	6,522	329	5,468	5,052	416	5,228	4,808	420
\$35,000	8,625	8,425	200	6,938	6,617	321	6,668	6,323	345
\$40,000	10,515	10,315	200	8,543	8,343	200	8,251	8,051	200

Adjusted gross income	Tax liability					
	Married couple with 2 dependents			Married couple with 4 dependents		
	Under present law	Under the proposal	Reduction	Under present law	Under the proposal	Reduction
\$3,000	0	0	0	0	0	0
\$5,000	\$98	\$80	\$18	0	0	0
\$6,000	245	201	44	\$28	\$23	\$5
\$8,000	559	460	99	312	256	56
\$10,000	867	722	145	586	483	103
\$12,500	1,261	1,060	202	976	815	161
\$15,000	1,699	1,442	257	1,371	1,154	217
\$17,500	2,156	1,850	306	1,826	1,555	271
\$20,000	2,660	2,309	351	2,285	1,967	319
\$25,000	3,750	3,338	413	3,330	2,935	395
\$30,000	4,988	4,563	425	4,508	4,078	430
\$35,000	6,398	6,032	366	5,858	5,461	397
\$40,000	7,958	7,753	205	7,373	7,095	278

Note: Computed without reference to the tax tables for returns with adjusted gross income under \$10,000.