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JOINT COMMITTEE ON  
INTERNAL REVENUE TAXATION

SUMMARY OF ADMINISTRATION'S  
ECONOMIC STIMULUS PROGRAM  
and  
SUMMARY OF TAX REDUCTIONS IN  
1975 AND 1976

PREPARED FOR THE USE OF THE  
COMMITTEE ON WAYS AND MEANS  
BY THE STAFF OF THE  
JOINT COMMITTEE ON TAXATION



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## CONTENTS

	Page
I. Introduction .....	1
II. Summary of Administration's Economic Stimulus Program.....	3
A. Tax Provisions.....	3
B. Expenditure Proposals.....	4
C. Budget Impact of Administration's Program.....	5
III. Summary of Tax Reductions Enacted in 1975 and 1976.....	7
A. Tax Reduction Act of 1975.....	7
B. Revenue Adjustment Act of 1975.....	8
C. Tax Reform Act of 1976.....	9
D. Budget Impact of 1975 and 1976 Tax Reductions.....	9



## I. INTRODUCTION

The material in this pamphlet is a brief summary of the provisions of the Administration's economic stimulus program for fiscal years 1977 and 1978. The Administration's program is discussed under two headings: (1) tax proposals and (2) expenditure proposals.

In addition, this pamphlet gives a brief summary of the tax reduction provisions enacted in 1975 and 1976, and shows the revenue impact of these provisions on fiscal years 1975-1977.



## II. SUMMARY OF ADMINISTRATION'S ECONOMIC STIMULUS PROGRAM

### A. Tax Provisions

#### *one-time refunds and payments*

1. *Refund of 1976 taxes to individuals.*—The Administration is proposing a general \$50 per person refund of 1976 tax liabilities. For each taxpayer, spouse, child or other dependent, there would be a refund of \$50. (For example, a family of four would receive a refund of \$200.) The refund may exceed income tax liability for recipients of the earned income credit (described below in the summary of 1975 and 1976 tax reductions) and certain other people who would have been eligible for that credit were it not for the income phaseout. In other cases, the refund would be restricted to 1976 income tax liability. The revenue loss would be \$9.6 billion for fiscal year 1977.

2. *Payment to Social Security, SSI, and Railroad Retirement beneficiaries.*—In addition, the Administration is proposing a \$50 per person payment to Social Security, Supplemental Security Income (SSI), and Railroad Retirement beneficiaries. This is identical to the provision in the Tax Reduction Act of 1975. The increase in outlays would be \$1.8 billion for fiscal 1977.

#### *Revision of standard deduction and tax tables*

The Administration is proposing a flat standard deduction of \$2,400 for single persons and \$2,800 for married couples. Currently, the standard deduction for single persons is 16 percent of adjusted gross income, but not less than a minimum standard deduction of \$1,700 or more than a maximum standard deduction of \$2,400. The standard deduction for married couples is currently 16 percent of adjusted gross income, but not less than a minimum of \$2,100 or more than a maximum of \$2,800. Under the proposal, the standard deduction is to be built into the tax tables. In addition, the proposal would allow itemizers (up to a certain income level) to utilize the "optional" tax tables. In addition, using these flat dollar amounts for the standard deduction would reduce taxes in the lower and middle income brackets (up to \$15,000 for single persons and \$17,500 for married couples).

Under the proposed flat standard deduction, taxpayers would itemize if their deductions exceeded the \$2,400 floor in the case of single taxpayers and the \$2,800 floor in the case of married taxpayers filing joint returns. The tax tables for itemizers would incorporate these floors. Itemizers would deduct only to amounts in excess of the floors to determine the income which they would look up on the "optional" tax table to find the amount of their tax.

In addition, the \$750 personal exemption would, under the proposal, be built into the tax tables, as well as the general tax credit (which would be either \$35 per capita or 2 percent of the initial \$9,000 of taxable



income, whichever is greater). The new tables would have different columns for different numbers of exemptions.

The Administration proposal also would extend the \$35 part of the general tax credit to exemptions for age and blindness, as well as dependency exemptions.

These changes would reduce tax liability at an annual rate of \$4 billion. The revenue loss would be \$1.5 billion in fiscal year 1977 and \$5.5 billion in fiscal year 1978.

#### ***Tax reduction for business***

The Administration is proposing a program of alternative business tax reductions. Each firm or self-employed person would be able to choose between an additional 2 percentage points of investment tax credit an increase in the present 10 percent credit to 12 percent, plus the additional investment credit for (ESOP's) or a refundable income tax credit based on a fraction of Social Security payroll taxes. (A refundable tax credit is one that may exceed tax liability.) For each employer, the payroll credit would be equal to 4 percent of the employer's share of payroll taxes (currently 5.85 percent of taxable payrolls). For the self-employed, the payroll credit would be equal to 2 percent of the self-employed payroll tax (currently 7.9 percent). The credit for payroll taxes would be available to nonprofit institutions and State and local governments.

The effective date for both the additional investment tax credit and the payroll tax credit would be January 1, 1977. The additional investment tax credit alternative would be available through 1980, but the credit for Social Security taxes would be permanent. (The alternative selected by each taxpayer would be binding for each year through 1980.)

The reduction in business tax liability would be at an annual rate of \$2.6 billion. The reduction in budget receipts would be \$0.9 billion in fiscal year 1977 and \$2.7 billion in fiscal year 1978.

#### ***Revenue effect of tax and social security payment proposals***

The Administration estimates that the \$50 per person tax refund would reduce receipts by \$9.6 billion in fiscal year 1977, and that the \$50 payment to Social Security, SSI, and Railroad Retirement beneficiaries would increase outlays by \$1.8 billion in fiscal year 1977. The revision of the standard deduction would reduce receipts by \$1.5 billion in fiscal year 1977 and \$5.5 billion in fiscal year 1978. The business tax credit program would reduce receipts by \$0.9 billion in fiscal year 1977 and \$2.7 billion in fiscal year 1978.

The overall tax cut would be \$12 billion in fiscal year 1977 and \$8.2 billion in fiscal year 1978. The permanent tax reductions—the increased standard deduction and the payroll credit—would amount to an annual rate of approximately \$6 billion.

### **B. Expenditure Proposals**

In addition to the individual and business tax proposals, the Administration is proposing increases in several expenditure programs (in addition to the one-time payment to Social Security recipients discussed above).



***Countercyclical revenue sharing***

The Administration proposes to add \$0.5 billion to countercyclical revenue sharing in fiscal year 1977 and \$0.6 billion in fiscal year 1978. Countercyclical payments are currently triggered in the aggregate when the national unemployment rate exceeds 6 percent; localities receive payments if their unemployment rate is then in excess of 4.5 percent. This program, which is designed to compensate State and local governments for shortfalls in revenues due to slow or declining economic growth, provides quarterly payments of \$125 million plus \$62.5 million per half-percentage point of unemployment in excess of 6.0 percent. The program has a current authorization of \$1.250 billion and is scheduled to expire at the end of fiscal year 1977.

The Administration recommends extension of the program through 1980, an increase in the aggregate authorization to \$2.250 billion, and quarterly payments on the basis of tenths of percentage points of excess unemployment rather than the current half percentage points. The increment would be \$30 million per tenth of a percentage point rather than the current \$62.5 million per half percentage point.

***Public works, jobs, and related programs***

Additional public works, public service employment, and expanded job training programs are also proposed. It is estimated that these programs would involve \$1.2 billion of increased outlays in fiscal year 1977 and \$7.0 billion in fiscal year 1978.

***Total increased outlays***

Under the Administration's program, outlays would increase by an estimated \$3.5 billion in fiscal 1977 and \$7.6 billion in fiscal 1978.

**C. Budget Impact of Administration's Program**

Table 1 gives the budget impact of the Administration's economic stimulus program (described above).



TABLE 1.—ESTIMATED BUDGET COSTS OF THE ADMINISTRATION'S TAX AND SPENDING PROPOSALS

(In billions of dollars)

	Fiscal year	
	1977	1978
Refund and social security payment program:		
Fifty dollar per capita tax refunds:		
Reduction of income tax.....	8.2	----
Refunds in excess of income tax liability.....	1.4	----
Total .....	9.6	----
Fifty dollar payment to social security, SSI, and railroad retirement beneficiaries.....	1.8	----
Total refund program.....	11.4	----
Revision of standard deduction and tax tables:		
Replace the current law standard deduction with a flat deduction of \$2,400 for single returns and \$2,800 for joint returns <sup>1</sup> .....	1.5	5.5
Business tax reduction program:		
Optional increase in the investment tax credit from 10 percent to 12 percent or an income tax credit equal to 4 percent of employers' social security tax payments.....	0.9	2.7
Other expenditure programs:		
Increased countercyclical revenue sharing.....	0.5	0.6
Increased public service employment.....	0.7	3.4
Increased public works.....	0.2	2.0
Expanded youth and other job programs.....	0.3	1.6
Total other expenditure programs.....	1.7	7.6
Total Administration proposals.....	15.5	15.7

<sup>1</sup> Includes extension of the \$35 general tax credit to exemptions for age and blindness.

Note: Details may not add to totals due to rounding.

Source: Office of the Secretary of the Treasury.



### III. SUMMARY OF TAX REDUCTIONS ENACTED IN 1975 AND 1976

#### A. Tax Reduction Act of 1975

##### *One-time refunds and payments*

1. *Refund of 1974 taxes to individuals.*—The 1975 Act contained a refund of 1974 income taxes to individuals. The refund equaled 10 percent of 1974 tax liability, with a maximum refund of \$200 per return and a minimum refund of \$100. (The refund, however, could not exceed actual income tax liability.) The refund was phased down from \$200 to \$100 as adjusted gross income (AGI) rose from \$20,000 to \$30,000. (For example, if an individual had AGI of \$25,000 the maximum refund was \$150.) The aggregate amount of the refund was \$8.4 billion, and the Treasury paid this amount in one installment beginning in May 1975. (The bill was enacted on March 29, 1975.)

2. *Payment to social security beneficiaries.*—The Act also provided a one-time payment of \$50 for each beneficiary of Social Security, SSI, or Railroad Retirement programs. The cost was \$1.7 billion.

##### *Individual income tax reduction for 1975*

1. *Increase in standard deduction.*—Prior to 1975, the standard deduction equaled 15 percent of adjusted gross income up to a maximum of \$2,000, and there was a minimum standard deduction (or low-income allowance) of \$1,300. The Act raised the minimum standard deduction from \$1,300 to \$1,600 for single people and to \$1,900 for married couples. It raised the percentage standard deduction from 15 percent to 16 percent. Also, it raised the maximum standard deduction from \$2,000 to \$2,300 for single people and to \$2,600 for married couples. These standard deduction changes were only for 1975. The revenue loss was \$2.5 billion.

2. *General tax credit.*—The Act provided an income tax credit of \$30 for each taxpayer and dependent. This credit was only for 1975. The cost was \$5.3 billion.

3. *Earned income credit.*—The Act included an income tax credit equal to 10 percent of the initial \$4,000 of earned income. This earned income credit was limited to families with dependent children and was phased out as adjusted gross income rose from \$4,000 to \$8,000. (For example, if an individual had earned income of \$6,000, the credit amounted to \$200.) The credit was refundable; that is, it could exceed an individual's income tax liability. This credit was also only for 1975. The revenue cost was \$1.3 billion.

4. *Tax credit for home purchase.*—There was a 5-percent credit for the purchase of a new principal residence, with a maximum credit of 2,000. The credit was limited to the inventory of unsold new homes as of March 1975, and was available for homes purchased under a binding contract entered into before 1976. The cost was \$650 million.

5. *Changes in withholding rates.*—The increases in the standard deduction and the general tax credit, which amounted to almost \$8 bil-



lion for calendar 1975, were reflected in lower withheld income taxes over the last eight months of 1975 (that is, at a rate of \$1 billion per month).

**Business tax reductions**

1. *Investment tax credit.*—The Act increased the rate of the investment credit from 7 percent to 10 percent (from 4 percent for public utilities) for 1975 and 1976. It provided an additional one percentage point of credit if that amount were placed in an employee stock ownership plan. The limit on the amount of used property eligible for the credit was raised from \$50,000 to \$100,000. Also, there was a permanent change in the credit permitting businesses to claim the credit as progress payments are made, rather than when equipment is placed in service, in the case of equipment with long lead times. (The progress payment change is being phased in between 1975 and 1979.) The overall cost of these changes for 1975 was \$3.3 billion.

2. *Corporate tax rates.*—Under prior law, the initial \$25,000 of corporate taxable income was taxed at a 22-percent rate, while income in excess of that amount (the surtax exemption) was taxed at a 48-percent rate. The Act increased the surtax exemption to \$50,000 for 1975 and reduced the tax rate on the initial \$25,000 of corporate income from 22 percent to 20 percent. Thus, the new corporate rate structure was 20 percent on the first \$25,000 of corporate taxable income, 22 percent on the next \$25,000, and 48 percent on taxable income above \$50,000. These changes were only for 1975. The revenue cost was \$1.5 billion.

**Other provisions**

The Act contained several other provisions. These included (1) repeal of percentage depletion for major oil and gas companies and limitations on percentage depletion for smaller oil and gas companies; (2) changes in the taxation of foreign source income of oil and gas companies and other multinational corporations; (3) increase in the income levels for the childcare deduction; (4) an increase in the minimum accumulated earnings credit for corporations from \$100,000 to \$150,000; (5) a tax credit for employment of welfare recipients; (6) a lengthening of the period for reinvestment of proceeds from sale of a residence (in determining whether the gain on the sale is deferred or taxed); and (7) extension of emergency unemployment compensation.

**B. Revenue Adjustment Act of 1975**

This Act extended many of the tax cuts from the Tax Reduction Act through the first six months of 1976. The earned income credit and the corporate rate changes were extended without modification. However, in order to permit extension of the lower withholding rates (\$1 billion per month), it was necessary to enlarge the tax cuts to an annual rate of approximately \$12 billion, rather than the almost \$8 billion reduction in the Tax Reduction Act. Thus the Revenue Adjustment Act provided a larger increase in the standard deduction and a larger general tax credit than the Tax Reduction Act.

The minimum standard deduction was increased to \$1,700 for single people and \$2,100 for married couples. The percentage standard deduction was increased to 16 percent (as in the Tax Reduction Act).



The maximum standard deduction was increased to \$2,400 for single people and \$2,800 for joint returns. The cost of these standard deduction changes was \$4.1 billion at annual rates.

The general tax credit was increased from \$30 per person to either \$35 per taxpayer and dependent or 2 percent of the initial \$9,000 of taxable income, whichever is greater. The cost was \$9.6 billion at annual rates.

#### C. Tax Reform Act of 1976

The Tax Reform Act of 1976 made permanent the increases in the standard deduction from the Revenue Adjustment Act. It extended the general tax credit and corporate rate changes through 1977. The 10-percent investment credit was extended through 1980. Also, the Act extended and expanded the employee stock ownership provision (through 1980).

#### D. Revenue Impact of 1975 and 1976 Tax Reductions

Table 2 summarizes the revenue effects of the three Acts (described above).

TABLE 2.—REVENUE EFFECTS OF 1975-1976  
TAX REDUCTIONS

(In billions of dollars)

	Fiscal year		Transi-	Fiscal
	1975	1976	tion	1977
		quarter		
<b>Tax Reduction Act of 1975</b>				
Individual:				
Refund of 1974 income taxes	-8.2	-0.2	—	—
Increase in standard deduction	-0.5	-2.0	—	—
General tax credit	-1.0	-4.3	—	—
Earned income credit	—	-1.2	-0.1	—
Home purchase credit	—	-0.6	—	-0.1
Other	—	-0.4	( <sup>2</sup> )	-0.4
Subtotal, individual	<sup>1</sup> -9.7	-8.7	-0.1	-0.5
Corporation:				
Investment credit	-0.8	-2.8	-0.5	-1.8
Corporate rate reductions	-0.4	-1.1	—	—
Percentage depletion	+0.5	+1.7	+0.3	+2.2
Other	—	+0.2	—	+0.6
Subtotal, corporation	-0.8	-2.0	-0.2	+1.0
Total	<sup>1</sup> -10.5	-10.7	-0.2	+0.5



TABLE 2.—REVENUE EFFECTS OF 1975-1976  
TAX REDUCTIONS—Continued

(In billions of dollars)

	Fiscal year		Transi-	Fiscal
	1975	1976	tion	1977
		quarter	quarter	
<b>Revenue Adjustment Act of 1975</b>				
Individual:				
Increase in standard deduction..	—	-1.5	-0.2	-0.1
General tax credit.....	—	-4.1	-0.6	-0.3
Earned income credit.....	—	—	—	-0.7
Subtotal, individual.....	—	-5.5	-0.8	-1.1
Corporate rate reductions.....	—	-0.6	—	-0.4
Total.....	—	-6.1	-0.8	-1.5
<b>Tax Reform Act of 1976</b>				
Individual:				
Increase in standard deduction..	—	—	-0.8	-4.1
General tax credit.....	—	—	-1.7	-9.5
Earned income credit.....	—	—	—	-0.7
Subtotal, individual.....	—	—	-2.5	-14.4
Corporation:				
Investment credit.....	—	—	—	-1.3
Corporate rate reduction.....	—	—	—	-1.7
Subtotal, corporation.....	—	—	—	-3.0
Total.....	—	—	-2.5 <sup>3</sup>	-17.3
Grand Total.....	<sup>1</sup> -10.5	-16.8	-3.5	-18.3

<sup>1</sup> In addition, the Tax Reduction Act of 1975 included a one-time payment of \$50 to each social security, SSI or railroad retirement beneficiary (at a cost of \$1.7 billion) and a temporary extension of emergency unemployment compensation payments (at a cost of \$200 million).

<sup>2</sup> Less than \$50 million.

<sup>3</sup> The Tax Reform Act of 1976 also included revenue increases from tax reform of \$1.6 billion in fiscal year 1977.

NOTE: Details may not add to totals due to rounding.



