

[COMMITTEE PRINT]

**SUMMARY OF H.R. 3477
(THE TAX REDUCTION AND SIMPLIFICATION ACT
OF 1977), AS PROPOSED BY THE ADMINISTRATION
AND AS REPORTED BY THE HOUSE COMMITTEE ON
WAYS AND MEANS**

and

**SUMMARY OF TAX REDUCTIONS IN
1975 AND 1976**

PREPARED FOR THE USE OF THE
COMMITTEE ON FINANCE
BY THE STAFF OF THE
JOINT COMMITTEE ON TAXATION



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I. INTRODUCTION

This pamphlet summarizes the action taken by the House Committee on Ways and Means with respect to the tax provisions and special payment provisions of the Administration's economic stimulus program. (As introduced, H.R. 3477 contained the Administration's proposals.) The bill, H.R. 3477, was ordered favorably reported by the Committee on Ways and Means, as amended, by a roll call vote of 26-8 on February 17, 1977. The bill and the Committee report (House Rept. No. 95-27, Part I) were filed on February 24, 1977. The bill was then sequentially referred to the House Committee on Appropriations for consideration, and was reported out on March 1, 1977 without amendment or recommendation (Report No. 95-27, Part II). The House is expected to take up the bill on March 8, 1977.

H.R. 3477 contains three titles: (1) refunds of 1976 income taxes and payments to certain beneficiaries of income maintenance programs; (2) individual tax reductions and revision of the standard deduction and tax tables; and (3) business tax reductions. (Titles II and III include one-year extensions—through 1978—of individual and corporate tax cuts enacted in 1975 and 1976 and scheduled to expire at the end of 1977.)

In title I, the Ways and Means bill modifies the Administration's proposed \$50 per person tax refund by phasing out the refund for those with adjusted gross incomes (AGI) between \$25,000 and \$30,000 (and at AGI of half these amounts for married persons filing separate returns). Thus, a taxpayer with AGI of \$30,000 or more would receive no tax refund. The Administration also proposed a \$50 payment to each social security, SSI, and railroad retirement beneficiary. The bill includes this proposal and adds payments to recipients of AFDC, black lung benefits, and Veterans Administration pensions and compensation. In addition, the bill precludes double payments of the tax refund and the payment to the above-mentioned beneficiaries (other than AFDC recipients), and beneficiaries of more than one of the income maintenance programs are to be entitled to only one \$50 payment.

In title II, the Ways and Means bill includes the Administration's proposals for increasing the standard deduction, converting it into a floor under itemized deductions and revising the tax tables, rate schedules, and the definition of taxable income. With respect to the standard deduction change, the bill sets what is now the standard deduction at \$2,400 for single persons and \$3,000 for married couples filing joint returns (as compared to the Administration's revised proposal of \$2,200 and \$3,000 for single and joint returns, respectively). These amounts will be built into rate schedules and tax tables as a "zero rate bracket," so that the initial 14-percent bracket will begin at \$2,401 for single returns and \$3,001 for joint returns. There will also be floors under itemized deductions, so that taxpayers may deduct only those amounts in excess of the "zero bracket amount." The reduction in withholding rates due to the standard deduction changes is to go

into effect on May 1, 1977. The bill also includes the Administration's recommended one-year extension of the general tax credit (that is, the greater of \$35 per person or 2 percent of the first \$9,000 of taxable income) and the earned income credit. These credits would otherwise expire at the end of 1977.

In title III, the Ways and Means bill substitutes a new jobs tax credit for businesses for the Administration's proposal to allow businesses to elect through 1980 either an increase in the investment credit from 10 percent to 12 percent or a credit of 4 percent of their social security tax (or a 2-percent credit of social security taxes for self-employed). The bill generally provides a credit to employers for 1977 and 1978 equal to 40 percent of the first \$4,200 of wages paid to additional new employees. The credit is computed by taking 40 percent of wages now subject to the Federal Unemployment Tax Act (FUTA)—a maximum of \$4,200 per employee—over the previous year's FUTA wages increased by 3 percent to account for normal employment growth. The maximum credit allowed for any employer is \$40,000 per year. The bill also provides an additional credit of 10 percent of the first \$4,200 of wages paid to additional new employees who are handicapped, computed in essentially the same manner as the 40-percent credit. This additional credit is computed without regard to the \$40,000 ceiling. Finally, the bill includes the Administration's recommended one-year extension (through 1978) of the current \$50,000 surtax exemption and corporate tax rate schedule—20 percent of the first \$25,000 of taxable income, 22 percent of the next \$25,000 of taxable income, and 48 percent of taxable income in excess of \$50,000.

This document also includes (in part III) tables of the budget effects of the bill for fiscal years 1977 and 1978. Table 1 (on page 10) sets forth the budget impact of the bill as reported to the House, and table 2 (on page 11) shows the budget impact of the Administration's proposals. Further, this pamphlet includes (in part IV) a comparison of the amounts allowed under the Third Concurrent Budget Resolution for fiscal year 1977 (S. Con. Res. 10; adopted on March 3, 1977) for tax reductions and certain payments with those included in H.R. 3477.

In addition, this pamphlet includes (in part V) a brief summary of the tax reduction provisions enacted in 1975 and 1976, and shows the budget impact of these provisions on fiscal years 1975-1977.

II. SUMMARY OF PROVISIONS OF H.R. 3477, AS INTRODUCED AND AS REPORTED TO THE HOUSE

A. \$50 Refund of 1976 Individual Income Taxes and Related Payments

Administration proposal

The Administration proposed a one-time refund of 1976 individual incomes taxes which in most cases would equal \$50 for each taxpayer and dependent. For example, a family of four would generally receive \$200. In two cases, the refund could exceed 1976 income tax liability; in all other cases, the refund would be limited to the amount of 1976 income tax (as was the case for the 1975 refund).

One category of people who could receive a refund in excess of tax liability are taxpayers who claim the earned income credit. (Enacted in the Tax Reduction Act of 1975, the earned income credit equals 10 percent of the initial \$4,000 of earned income and is phased out as earned income or AGI rises from \$4,000 to \$8,000. It is available only to a taxpayer who maintains a household for a minor or student child or for an adult disabled dependent child. It is a "refundable" credit; that is, it can exceed tax liability.)

The Administration proposed a second category of people for whom the refund could exceed tax liability to prevent a "notch"¹ in the refundable feature of the proposal. In general, this second category consists of people who would have been eligible for the earned income credit were it not for the income phaseout of that credit. Specifically, these are people with some earned income and a dependent child. There would still be a small number of cases in which the "notch" remains, but it is difficult administratively to eliminate the notch entirely and still provide the full \$50 refund to recipients of the earned income credit.

In addition, the proposal included authorization of payments to the governments of the Virgin Islands, Guam and American Samoa to compensate for the reduction in their tax revenues which results automatically from the refund provision and certain other parts of the bill because they use a "mirror image" of the U.S. tax laws for their own income tax purposes.

The Administration proposal also contained a disregard provision which provides that the amount of the refund will not be treated as income or resources for purposes of any Federal or federally financed income maintenance program.

¹ If the refund were allowed to exceed tax liability only for recipients of the earned income credit, there would be a "notch" at the income level at which the earned income credit phases out. For example, a 6-person family with AGI of \$7,999 would be entitled to a 10 cent earned income credit under present law, which would make it eligible for the \$300 refund under the Administration proposal. (A 6-person family does not pay tax on the first \$8,067 of income under existing law because of the personal exemption, the minimum standard deduction and the general tax credit.) However, if the refund could exceed tax liability only for recipients of the earned income credit, a one-dollar increase in income to \$8,000 would eliminate the family's earned income credit and thereby reduce its refund from \$300 to zero.

The refund proposed by the Administration would involve a revenue loss of \$9.6 billion, all in fiscal year 1977. Of this, \$1.3 billion would represent payments in excess of income tax liability.

Related payments.—The Administration also proposed a \$50 payment to social security, SSI, and railroad retirement beneficiaries identical to the payment enacted in the Tax Reduction Act of 1975. This would require payments of \$1.8 billion, all in fiscal year 1977.

Ways and Means Committee bill

The Ways and Means bill includes a refund of 1976 individual income taxes generally similar to that proposed by the Administration. The refund will be \$50 per taxpayer and dependent, but will be phased out as adjusted gross income (AGI) rises from \$25,000 to \$30,000.² Thus, a family of four would receive a \$200 refund if its AGI were \$25,000, a \$100 refund at AGI of \$27,000 and no refund if its AGI were \$30,000 or more.

The bill makes a significant modification in the Administration's proposed \$50 payment to beneficiaries of social security, SSI, and railroad retirement programs. The bill denies this payment to persons who receive the \$50 per capita tax refund. Thus, a person who is, for example, a beneficiary of social security is not to receive the \$50 social security payment if his per capita tax refund is \$50; however, he is to receive the full \$50 social security payment if he paid no taxes and is not eligible for a tax refund. The payment to a social security beneficiary is to be scaled down proportionately to the extent his tax refund is between \$0 and \$50.

The bill also adds new categories of people who are to be eligible for the \$50 payment if they do not receive a payment under one of the other programs or a \$50 per capita tax refund. These additional groups include recipients of Veterans Administration pensions or compensation, black lung benefits, and State supplements to SSI. There also is to be a \$50 payment to each recipient of aid to families with dependent children (AFDC) who does not receive a payment under one of the other programs. However, any AFDC recipient eligible for a tax refund would be entitled to the AFDC payment as well, due to the administrative problems in eliminating such double payments.

Budget effect.—The tax refund under Ways and Means bill is estimated to be approximately \$8.6 billion (\$1.3 billion of which represents payments in excess of income tax liability), and the related payments are estimated to be approximately \$1.5 billion, all in fiscal year 1977.

B. Revision of Standard Deduction and Tax Tables

Administration proposal

Standard deduction increase.—Under present law, the standard deduction is 16 percent of adjusted gross income, but not less than a minimum standard deduction of \$1,700 for single persons and \$2,100 for joint returns, nor more than a maximum of \$2,400 or \$2,800 for single and joint returns, respectively. These levels were made permanent by the Tax Reform Act of 1976.

² The phaseout is between \$12,500 and \$15,000 of AGI for married couples who file separate returns.

The Administration initially proposed a flat "standard deduction" of \$2,400 for single persons and \$2,800 for married couples (the maximum standard deductions under present law). These amounts would increase the "marriage penalty" (in this case, the exchange of two single minimum standard deductions for one married standard deduction when two single persons marry) from \$1,300 under present law to \$2,000. To alleviate this problem, the Administration recommended a flat standard deduction of \$2,200 for single persons (\$200 less than the current maximum standard deduction for single persons) and \$3,000 for joint returns (\$200 more than its original proposal). Using these flat dollar amounts for the standard deduction would reduce taxes in the lower and middle income brackets.

Tax forms and tax tables.—Under present law, there are two ways in which a taxpayer determines the amount of tax owed. A taxpayer either determines his tax from the tax bracket rate schedule or the taxpayer uses tax tables to look up the dollar amount of tax.

Under the Administration proposal, the "standard deduction" would be built into revised tax tables and rate schedules. In addition, the proposal would allow itemizers (up to a certain income level and number of exemptions) to use the tax tables.

Under the proposed flat standard deduction, taxpayers could itemize if their deductions exceeded the amount of the standard deduction floors. However, since the tax tables for itemizers would incorporate these standard deduction "floors," itemizers would deduct only the amounts in excess of the floors to determine the income which they would take to the tax table to find the amount of their tax.

Under the proposal, the \$750 personal exemption and the general tax credit also would be built into the tax tables. (The general tax credit is the greater of the \$35 per capita or 2 percent of the initial \$9,000 of taxable income.) This would allow a taxpayer whose income and number of exemptions are covered by the tax tables to determine tax liability from the tax tables without making separate calculations for exemptions or the general tax credit.

In order to permit the general tax credit to be built into the tax tables according to number of exemptions claimed, the Administration proposed extending the \$35 per capita element of the general tax credit to the extra exemptions for age and blindness.

The higher standard deduction amount would be reflected in reduced withholding beginning May 1, 1977.

Conversion of standard deduction into "zero rate bracket" and "floor" under itemized deductions.—The Administration's proposal included a major revision of the concepts of the standard deduction, itemized deductions, and taxable income. These proposed changes generally would not affect tax liability but would represent a change in the way some of these concepts are defined in the tax law and presented in the tax forms. Under the proposal, there would no longer be a "standard deduction" as such, as there would be a "zero rate bracket" in the tax tables and rate schedules equal to what is now the standard deduction (\$2,200 for single returns and \$3,000 for joint returns under the Administration's proposal). Thus, for a joint return, the 14-percent bracket would start at a redefined "taxable income" of \$3,001, rather than at taxable income of \$1 as under existing law. In effect, this would build the standard deduction amount into the rate schedules, as well as into the tax tables. However, because the standard deduc-

tion would be built into the rate schedules and tax tables as a zero rate bracket, it would be necessary for itemizers to subtract the amount of the "standard deduction" from their itemized deductions and deduct only those amounts in excess of this floor. Also, for individuals (but not for corporations) "taxable income" would be redefined to equal the amount of taxable income under present law plus the amount of the zero rate bracket (that is, the amount which is substituted for the standard deduction).

Ways and Means Committee Bill

The Ways and Means bill includes the Administration's standard deduction and tax table proposals with two changes. First, the bill adopts the Administration's revised increase in the standard deduction (which becomes a zero rate bracket and a floor under itemized deductions) to \$3,000 for married couples filing joint returns, but increases the Administration's \$2,200 level for single returns to \$2,400 (the original Administration proposal).

In addition, the bill includes all of the Administration's simplification changes with respect to the revised tax tables and the conversion of the standard deduction into a zero rate bracket and a floor under itemized deductions. However, the bill modifies slightly the general tax credit for married couples filing separate returns.

Because of the optional feature of the general tax credit (2 percent of taxable income, with a maximum of \$90 for separate returns, or the \$35 per capita tax credit), the tax tables require two columns—one for each type of credit—in the case of married couples filing separate returns. This is necessary because both spouses are required to elect the same alternative. Because of the concern that having two columns in the tables and requiring a consistent election is confusing and difficult for married taxpayers who file separate returns (usually married couples living apart), the bill limits the general tax credit to the \$35 per capita credit for married couples filing separate returns.

Budget effect.—The tax reduction from these changes is estimated to be approximately \$5 billion on an annual basis and will reduce receipts by \$1.8 billion in fiscal year 1977, by \$6.7 billion in fiscal year 1978, and by \$5.2 billion in fiscal year 1979.

C. Tax Reduction for Business

Administration proposal

The Administration proposed a program of alternative business tax reductions. Each firm or self-employed person would choose between an additional 2 percentage points of investment tax credit (an increase from the present 10 percent credit to 12 percent, plus the additional investment credit for ESOPs) 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 who would elect it, the payroll credit would be equal to 4 percent of the employer's share of payroll taxes (currently 5.85 percent of taxable payroll). 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 not be available to nonprofit organizations and State and local governments.

The effective date for both the additional investment tax credit and the payroll tax credit proposals would be January 1, 1977. (The alternative selected by each taxpayer would be binding for all years 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 \$2.4 billion in fiscal year 1978.

Ways and Means Committee Bill

The Ways and Means bill substitutes a new jobs tax credit for the Administration's elective business tax credit proposal. Under the bill, an employer is to receive a credit equal to 40 percent of the first \$4,200 (a maximum credit of \$1,680) of wages paid to each additional employee. The credit is to be equal to 40 percent of the difference between 1977 wages up to \$4,200 per employee and 103 percent of 1976 wages up to \$4,200 per employee. (The three-percent increase in the base is intended to reflect anticipated normal growth in employment.) In addition, to prevent an employer from merely substituting part-time or part-year new employees for old employees and to ensure that employment of any firm actually increases, the credit cannot exceed 40 percent of the difference between total 1977 wages and 103 percent of total 1976 wages. The new jobs credit also is to be available for the same adjusted increase in employment in 1978 over 1977 levels. The new jobs credit expires after 1978.

In order to direct the primary benefit of the credit to smaller businesses, the maximum credit allowed to an employer is to be \$40,000 per year. Also, the bill provides for an additional 10-percent credit for the first \$4,200 of wages paid for additional handicapped employees. This additional credit is not subject to the \$40,000 limit.

Employers, other than farm and railroad employers, are to use their 1976 and 1977 returns under the Federal Unemployment Tax Act (FUTA) as the basis for the first year's credit. When the FUTA base itself increases to \$6,000 in 1978, employers are to use their FUTA records, adjusted to a \$4,200 wage limit. Farm employers, who are not covered by FUTA until 1978, are to use their FICA (social security tax) records throughout the credit period, taking into account the \$4,200 limit for each employee. Railroad Unemployment Insurance Act (RUIA) returns are to provide the basis for the credit for railroad employers.³ The credit is not available to State and local governments, tax-exempt organizations, or self-employed individuals.

The credit is to be allowed up to 100 percent of income tax liability, with a 3-year carryback and a 7-year carryforward of unused credits. Special rules are to be applied to prevent abuse in cases of separate businesses under common ownership, sales and purchases of businesses, changes in business form, and dismissals for the purpose of securing or increasing the credit.

Budget effect.—The revenue loss associated with the new jobs credit is estimated to be approximately \$0.7 billion in fiscal year 1977, \$2.4 billion in fiscal year 1978, and \$1.7 billion in fiscal year 1979.⁴

³ A simple mathematical computation is used to equate the \$4,800 RUIA base with the FUTA base. Other railroad records are to be used to compute the total pay limit.

⁴ This estimate is based on the staff's best estimate of future employment growth. The revenue effect is, of course, sensitive to changes in employment. For example, employment growth of an additional 500,000 employees (above that assumed for the revenue estimate) earning at least \$4,200 could add up to \$840 million to the revenue cost.

D. Extension of 1977 Individual and Corporate Tax Cuts to 1978
1. Extension of Individual Tax Reductions

Administration proposal

The Tax Reform Act of 1976 extended through 1977 the temporary individual tax reductions originally enacted in the Tax Reduction Act of 1975 and subsequently enlarged and extended through 1976. These are the general tax credit and the earned income credit. (The increases in the standard deduction enacted in 1975 and 1976 were made permanent by the Tax Reform Act of 1976.) The Administration proposed extending these tax cuts through 1978.

General tax credit.—The general tax credit equals the greater of \$35 per taxpayer and dependent or 2 percent of the initial \$9,000 of taxable income. Extending the credit through 1978 would reduce budget receipts by \$6.8 billion in fiscal year 1978 and \$3.9 billion in fiscal year 1979. The Administration proposed extending the \$35 credit to the additional exemptions for age and blindness, which is included in the revenue estimates.

Earned income credit.—The earned income credit equals 10 percent of the initial \$4,000 of earned income. It is phased out as adjusted gross income or earned income rises from \$4,000 to \$8,000, and is available only to people who maintain a household for a minor or student child or for a disabled adult dependent child. The credit may exceed tax liability; that is, it is a refundable credit, in contrast to the general tax credit, which is limited to tax liability. Extending the earned income credit through 1978 would have no impact on fiscal year 1978 receipts but would reduce receipts in fiscal year 1979 by \$1.3 billion.

Ways and Means Committee Bill

The Ways and Means bill extends the general tax credit and the earned income credit through 1978. It also extends the \$35 credit to the extra exemptions for the aged and blind, and eliminates the 2-percent alternative credit for married persons who file separate returns (i.e., requires those persons to use the \$35 per capita credit only).

In addition, the bill modifies the earned income credit by clarifying eligibility of AFDC recipients for the credit.

Under present law, the earned income credit is available only to persons who "maintain a household" for a child or an adult disabled dependent child; and the tax regulations define "maintaining a household" as furnishing more than one-half the cost of that household. For this purpose, AFDC payments with respect to any child are considered support provided by someone other than the parent under present law. Therefore, recipients of AFDC for whom AFDC receipts with respect to their children constitutes more than one-half their income are not considered to be maintaining a household for their children and are not presently entitled to the earned income credit. The bill modifies the earned income credit to make it available to AFDC parents who would otherwise qualify for the credit.

2. Extension of Corporate Tax Reductions

Administration proposal

The Tax Reduction Act of 1975 increased the corporate surtax exemption from \$25,000 to \$50,000 and reduced the tax rate on the first

\$25,000 of corporate taxable income from 22 percent to 20 percent. Thus, the corporate tax rate is 20 percent on the first \$25,000 of taxable income, 22 percent on the next \$25,000, and 48 percent on taxable income in excess of \$50,000. These tax cuts were extended through 1977 in the Tax Reform Act of 1976. The Administration proposed extending them through 1978.

The reduction in budget receipts is estimated to be \$1.0 billion in fiscal year 1978 and \$1.3 billion in fiscal year 1979.

Ways and Means Committee bill

The Ways and Means bill extends the current \$50,000 surtax exemption and corporate rate reductions through 1978.

**III. BUDGET EFFECTS OF H.R. 3477 FOR FISCAL YEARS
1977 AND 1978**

This part presents the budget effects of the Ways and Means bill, H.R. 3477, for fiscal years 1977 and 1978. Table 1 shows the budget effect of the bill as reported to the House. Table 2 gives the budget impact of the Administration's proposal (H.R. 3477, as introduced) and the specific modifications made by the Ways and Means Committee.

**Table 1.—Budget Effects of Ways and Means Bill for Fiscal
Years 1977 and 1978**

[In billions of dollars]

	Fiscal year—	
	1977	1978
<i>Budget Effect of Ways and Means Bill</i>		
1. Refund of 1976 individual income taxes and related payments:		
Refunds of tax.....	-7.3	
Refunds in excess of tax liability.....	-1.3	
Payments to beneficiaries of various programs.....	-1.5	(1)
Payments to American Samoa, Guam, and Virgin Islands.....		(1)
Subtotal—refunds and related payments.....	-10.1	(1)
2. Increase in standard deduction.....	-1.8	-6.7
3. Extension of \$35 credit to aged and blind.....		-0.1
4. General tax credit for separate returns.....		(1)
5. New jobs tax credit.....	-0.7	-2.4
Subtotal—economic stimulus package.....	-12.7	-9.1
6. Extension of 1977 tax cuts through 1978:		
Individual tax cuts ²		-6.8
Corporate tax reductions.....		-1.0
Subtotal—tax cut extension.....		-7.8
Grand total—House bill.....	-12.7	-17.0

¹ Less than \$50 million.

² General tax credit; the extension of the earned income credit has no budgetary impact until fiscal year 1979.

³ No budgetary impact until fiscal year 1979.

⁴ Recipients of "black lung" benefits, State supplemented SSI benefits, and veterans compensation and pension benefits.

NOTE.—Details may not add to totals because of rounding.

Table 2.—Budget Effects of Administration Proposal and Changes

[In billions of dollars]

	Fiscal year—	
	1977	1978
Administration Proposal		
1. Refund of 1976 individual income taxes and related payments:		
Refunds of tax.....	-8.3	-----
Refunds in excess of tax liability.....	-1.3	-----
Payments to social security, SSI, and railroad retirement beneficiaries.....	-1.8	-----
Subtotal—refund and related payments.....	-11.4	-----
2. Increase in standard deduction.....	-1.5	-5.6
3. Extension of \$35 credit to aged and blind.....		-0.1
4. Business tax credits—offset against tax liability.....	-0.9	-2.3
Refunds in excess of tax liability.....		-0.2
Subtotal—economic stimulus package....	-13.8	-8.1
5. Extension of 1975-76 tax cuts:		
General tax credit.....		-6.8
Earned income credit ³		-----
Corporate tax reductions.....		-1.0
Subtotal—tax cut extension.....		-7.8
Total—Administration proposal.....	-13.8	-15.9
Ways and Means Committee Changes		
1. Refund of 1976 individual income taxes and related payments:		
Phaseout of refund.....	+1.0	-----
Elimination of double payments.....	+0.9	-----
Payments to AFDC recipients.....	-0.6	-----
Payments to other program beneficiaries ⁴	-0.1	-----
Subtotal—change in refund and related payments.....	+1.3	-----
2. Standard deduction—increase for single returns.....	-0.3	-1.1
3. General tax credit for separate returns.....		(¹)
4. Business tax credit—substitution of new jobs tax credit.....	+0.1	(¹)
Total—change from Administration proposal.....	+1.1	-1.1

NOTE: See footnotes on p. 10.

**IV. THIRD CONCURRENT BUDGET RESOLUTION FOR
FISCAL YEAR 1977 AND H.R. 3477**

The Third Concurrent Budget Resolution (S. Con. Res. 10) for the fiscal year 1977 was adopted by the House and Senate on March 3, 1977. This budget resolution provides adjustments to the Second Concurrent Budget Resolution to allow changes in revenue and expenditure levels for fiscal year 1977, as contemplated in H.R. 3477 and other economic stimulus legislation. The following table compares the amounts allowed for tax reductions and certain outlays in the third budget resolution and the amounts included in H.R. 3477.

Table 3.—Comparison of Tax Reductions and Certain Outlay Provisions in the Third Budget Resolution and H.R. 3477 for Fiscal Year 1977

[In billions of dollars]

Item	Third Budget Reso- lution	H.R. 3477
Tax reductions:		
Individual tax refunds.....	(1)	7.3
Increase in standard deduction.....	(1)	1.8
New jobs tax credit.....	(1)	0.7
Subtotal, tax reductions.....	² 10.6	9.9
Outlays for certain payments:		
Special payments.....	1.8	1.5
Tax refunds in excess of income tax liability..	1.4	1.3
Subtotal, outlays.....	3.2	2.8
Total, tax reductions, refunds, and special payments.....	13.8	12.7

¹ Included in the total amount (see footnote 2).

² Consists of the estimated amounts for individual tax refunds, standard deduction increase, and business tax reductions. This total is the same as the Administration's proposal.

NOTE.—Details may not add to totals because of rounding.

V. 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 bind-

ing 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 billion 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) an increase in the income levels for the child care 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, the earned income credit and the corporate rate changes through 1977. The 10-percent investment credit was extended through 1980. Also, the Act extended and expanded the employee stock ownership plan provision (through 1980).

D. Budget Impact of 1975 and 1976 Tax Reductions

Table 4 summarizes the budget effects of the three Acts (described above.)

TABLE 4.—BUDGET EFFECTS OF 1975-76 TAX REDUCTIONS

[In billions of dollars]

	Fiscal year—		Transition quarter	Fiscal 1977
	1975	1976		
Tax Reduction Act of 1975				
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	(?)	-0.4
Subtotal, individual	¹ -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	¹ -10.5	-10.7	-0.2	+0.5

**TABLE 4.—BUDGET EFFECTS OF 1975-76 TAX
REDUCTIONS—Continued**

[In billions of dollars]

	Fiscal year—		Tran- sition quar- ter	Fiscal 1977
	1975	1976		
Revenue Adjustment Act of 1975				
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	
Tax Reform Act of 1976				
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			-2.5³	-17.3
Grand Total, 1975 and 1976 Acts ¹	-10.5	-16.8	-3.5	-18.3

¹ 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).

² Less than \$50 million.

³ 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.