Woman C.P.A.

Volume 37 | Issue 3 Article 10

7-1975

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After weeks of deliberation in both the Senate and House of Representatives, a Congressional Conference Committee, in a compromise measure, drafted an historic $24.8 billion tax bill bearing tax cuts and rebates. The basic provisions of the new bill, signed into law by President Ford on March 29, are listed and summarized below. If the reader requires a detailed analysis of the Act, a recognized tax reference service or a competent tax advisor should be consulted.

I. INDIVIDUAL

A. Income Tax Cuts and Rebates:

1) Generally, taxpayers will receive a 10% rebate of their 1974 income taxes, subject to certain minimum and maximum limits. The minimum rebate amount would be the lesser of $100 or the taxpayer's 1974 tax liability. The maximum would be $200 (including married couples), but this amount would be reduced by $1 for every $100 of adjusted gross income between $20,000 and $30,000. For example, an average couple with two children will receive rebates as illustrated below, depending on their income level.

Adjusted Gross Income	Average Tax Rebate
$10,000	$100
15,000	170
20,000	200
25,000	150
30,000 and above	100

In the case of married persons filing separate returns, the rebate limits would be cut in half for each spouse. This provision applies only to taxpayers' 1974 tax liability. According to IRS sources, the first rebate checks will be mailed in May with the bulk of them mailed by late June.

2) A one-time tax credit of $30 for the taxpayer, his/her spouse, and each dependent will be subtracted directly from the 1975 tax liability.

3) A 10% rebatable tax credit will be given on earned income in 1975 up to $4,000 a year for families with children. The credit is phased out at a rate of 10% for adjusted gross income above $4,000, so that it is completely eliminated at $8,000.

4) The current $1,300 low-income allowance or minimum standard deduction for those persons not itemizing their deductions is increased to $1,600 ($1,900 for married couples filing joint returns) with a maximum percentage standard deduction of $2,300 for single persons and $2,600 for married couples. The 15% standard deduction is increased to 16%, which, together with the increase in the low-income allowance, will result in lower withholdings beginning May 1. The increases in the low-income allowance and standard deduction apply to 1975 only.

5) Child care deductions remain as an itemized deduction instead of a business expense which would be available to persons not itemizing. The maximum deduction remains unchanged at $4,800 for work-related child care expenses; however, the limitations have been liberalized. According to the new legislation, expenses can be deducted up to the maximum for a family earning $35,000 or less (up from $18,000). The limit is phased down so that taxpayers with ad-

justed gross income over $44,600 (up from $27,600) will not benefit from the deduction. This provision is effective for taxable years beginning after March 29, 1975.

B. Social Security:

Every recipient of Social Security, supplemental security income, and railroad retirement benefits will receive a $50 payment on a one time basis.

C. Housing:

After much debate, the conferees adopted a Senate provision to allow a 5% tax credit, up to $2,000, on the purchase price of a new home (including mobile homes) bought between March 12 and December 31, 1975. The house, however, must have been built or under construction as of March 25, 1975. Taxpayers claiming the credit must attach to their returns a certification by the seller that the purchase price paid by the buyer is the lowest price at which the new residence was ever offered for sale.

Also, the length of time in which proceeds from the sale of a taxpayer's residence must be reinvested to defer recognition of gain on the sale has been lengthened to 18 months (from 12) and to 24 months (from 18) for taxpayers constructing a new residence.

II. BUSINESS

A. Business Taxes — General:

1) The investment tax credit for business equipment purchased between 1/22/75 and 12/31/76 is increased to 10% up from 7% (4% for utilities). The ceiling for used equipment eligible for the credit is doubled from $50,000 to $100,000. Corporations have the option of taking an 11% investment tax credit instead of 10%, as long as the tax benefit from the extra percentage point is contributed to an employee stock ownership plan in the form of the corporation's common stock or securities convertible into common stock. Cash may also be used.

2) The corporate tax burden is reduced for calendar year 1975 only, by increasing the corporate surtax exemption from $25,000 to $50,000 and reducing the rates on the first $25,000 from 22% to 20%. The next $25,000 would be taxed at 22% instead of 48% with the excess over $50,000 taxed at 48%. For example, a corporation would pay reduced taxes, as illustrated below depending on its level of taxable income.

Taxable income	Old tax rates	New tax rates	Tax savings
$10,000	$ 2,200	$ 2,000	$ 200
20,000	4,400	4,000	400
30,000	7,900	6,100	1,800
40,000	12,700	8,300	4,400
50,000	17,500	10,500	7,000
75,000	29,500	22,500	7,000

Fiscal year corporations will follow a pro ration formula to apply these provisions to their two taxable years having months within calendar 1975. In addition to this measure, designed to help small businesses, the basic exemption from accumulated earnings tax is increased from $100,000 to $150,000.

3) Companies are eligible for the work incentive (WIN) credit of 20% of an employee's salary, who is a welfare recipient, after only one month of employment, reduced from one year, subject to certain other special rules.

B. Oil and Gas Depletion:

The 22% percentage depletion allowance is eliminated for the major oil companies, but is retained in limited form for certain small producers. The 22% allowance for the first 2,000 barrels per day (BPD) of oil or 12 million cubic feet per day of gas is available for the small producers. This deduction, however, will decrease in each future year beginning in 1976 by 200 BPD for oil and 1.2 million cubic feet of gas per day.

The phase-down will end in 1980, when the 22% depletion allowance will be permitted on the first 1,000 BPD of oil and 6 million cubic feet of gas produced daily. The 22% rate will then gradually be decreased until it reaches 15% in 1984, a level at which it is to remain indefinitely.

C. Foreign Source Income:

The new tax law places more stringent taxing requirements on multinational companies regarding "tax-haven" income (i.e. holding company earnings, reinsurance of credit life insurance, and income earned in one foreign country where the title is passed in another). Also, the Act eliminates the minimum distribution exception for taxation of subpart F income with the effect being to tax currently all income considered to be tax haven income under the subpart F rules. Previously, tax-haven income wasn't taxed unless it exceeded 30% of a company's foreign gross income. This limit has been reduced to 10%. Furthermore, the new law eliminates the exclusion of dividends, interest and capital gains from foreign base company income if received from, and reinvested in, less-developed countries. Finally, the law stipulates that shipping and aircraft income will be taxed by the U.S. as earned unless reinvested in shipping operations. These provisions will be effective for taxable years beginning after December 31, 1975.

D. Foreign Source Income for Oil and Gas:

Petroleum companies whose tax years end after December 31, 1974, will have to compute their foreign tax credit on an overall basis, in lieu of the alternative per-country basis. Also the company cannot take a tax credit in a country in which it has no economic interest in an oil field. The credit, however, would be allowed for companies providing lifting or other service operations.

For foreign tax credit purposes, foreign income taxes paid with respect to foreign oil and gas extraction income are limited to a percentage of such income. The percentage is based on the U.S. corporate tax rate and will be 52.8% in 1975, 50.4% in 1976 and 50% in 1977.

An investment tax credit will no longer be allowed for the purchase of drilling rigs designed for use outside of North America.

III. SUMMARY

The new tax legislation represents a concerted effort on behalf of the Congress to soften the current effects of the recession by boosting the buying power of nearly every American. This discussion, in addition to aiding you in your interpretation of this new tax law, hopefully will assist you in your tax planning for the future.