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Tax Reform

June 14, 1971

MEMORANDUM FOR JOHN EHRLICHMAN
 KEN COLE

FROM LEW ENGMAN

SUBJECT Tax Reform

Peter Flanigan and I met with Assistant Secretary Cohen Friday. Cohen is preparing a draft paper by June 18 which will set forth the tax policy alternatives now available. He indicated that Secretary Connally has told him to make the memo "brief." A final options paper from Treasury should then be available by June 30.

The draft memo presumably will explore:

1. Possible ways of raising an additional \$10 billion of revenues, including a value added tax.
2. Equitable changes in the tax structure:
 - a. Simplification
(Cohen is talking about personal income tax rates ranging from 12-35% instead of the present 14-70%; no personal deductions except for interest up to the amount of investment income; no different treatment of capital gains).
 - b. Incentives to the states for personal tax relief.
 - c. Tax relief for education expenses
(This would run counter to simplification in (a) above. Treasury is generally opposed to tax credits or deductions here).
 - d. Some form of integration of corporate and personal taxes for shareholders.

Treasury is likely to question the advisability of major tax reform proposals in 1972, in large part because of anticipated political difficulties. Under Secretary Walker in a November, 1970 memo to Flanigan supported VAT, but advised against pushing for it in this Congress, principally because the one time price increase would occur in 1972, and the unlikelihood the Democratic leadership would permit major tax proposals to pass unless they thought passage would help elect a Democrat as President in 1972.