BUSINESS TAX CUT ORDERED BY NIXON

$2.6-Billion Drop for 1971 Called Spur to Economy —Suit Challenges Move

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WASHINGTON, Jan. 11—President Nixon ordered into effect today at $2.6-billion reduction in the taxes that will be paid by businesses this year.

The reduction in business taxes, which came in the form of a liberalization of the rules for depreciation of business equipment, will "help create jobs for the unemployed . . . promote economic growth . . . [and] increase the competitiveness of United States goods abroad," Mr. Nixon said.

In later years, the reduction in business taxes would be even greater, according to the President's statement, "rising to a peak of about $4-billion in 1976." But he observed that individuals, too, have had their taxes reduced lately, by a

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total of $7-billion annually, as a result of reductions that were voted in the Tax Reform Act of 1969, largely over the objections of the Administration.

The liberalized rules, among other things, completely eliminate a previous requirement that businesses actually replace their old equipment on a time schedule roughly conforming to what they had claimed for tax purposes, or else suffer a tax penalty. Elimination of this requirement, known as the "reserve ratio test," had long been sought by most businessmen.

The new depreciation rules put into effect today basically shorten by 20 per cent the periods of time over which businesses may write off the cost of their equipment. Different industries and different classes of equipment are written off over varying periods of time.

Lawyers File Suit

A suit seeking to prohibit the Treasury from putting the liberalized depreciation rules into effect was filed in the United States District Dourt for the District of Columbia by two lawyers from the Public Interest Research Group, a law firm founded and financed by Ralph Nader.

The lawyers, Thomas H. Stanton and Samuel A. Simon, charged that it was illegal for the Treasury to change the rules governing depreciation without advance notice to the public and public hearings.

Judge Aubrey E. Robinson gave the plaintiffs until Jan. 21 to file briefs and set the same date for a hearing on the suit before Judge John Helm Pratt. The suit had been based on accounts in newspapers stating that announcement of the depreciation changes was imminent.

Those accounts had not mentioned the possibility that the reserve ratio test might be completely abandoned and Mr. Stanton said, after reading the Treasury's announcement, that he was considering amending his complaint to include a substantive objection in addition to the procedural one he has already made.

Excessively Generous

The substantive objection would be that the liberalized rules, without the check provided by the reserve ratio test, were so excessively generous that they were not legal under the basic law covering depreciation, which requires that depreciation deductions be "reasonable."

The Treasury said that it had put the liberalized rules into efffect under the legal standard requiring "reasonable" deductions and that no action by Congress was necessary. Secretary David M. Kennedy said that the chairman of the House Ways and Means Committee, Wilbur D. Mills of Arkansas, a Democrat, had agreed that the change could be put into effect without legislation. Mr. Kennedy conferred with Mr. Mills in Arkansas on Friday.

In his statement, which was issued at the Western White House in San Clemente, Calif., Mr. Nixon said that the depreciation changes would stimulate new business invesment, thus creating additional jobs, so that the revenue losses from the rule changes would be partly offset.

At a joint news conference here with Secretary Kennedy, Paul McCracken, chairman of the President's Council of Economic Advisers, said that the additional investment in new equipment might amount to as much as $1-billion, with most of the increase coming toward the latter part of the year. That would put business investment for 1971 at a total of $82.7-billion, a rise of 2½ per cent from the 1970 level, instead of the very low level of 1½ per cent that had been forsesen in Government surveys.

The depreciation liberalization was criticized by, among others, Lane Kurkland, the secretary-treasurer of the American Federation of Labor and Congress of Industrial Organizations, who said that, "in this time of recession, inflation and 6 per cent unemployment, it is incredible that the President can find no better action than to extend a tax windfall of several billion dollars to the nation's corporations."

A number of technical changes were made in the permissible methods of figuring depreciation, all effective retroactively to the first of this year.

Basically, the period of time over which equipment is depreciated could be anywhere from 20 per cent shorter to 20 per cent longer than the time periods set forth the last time the Treasury liberalized depreciation, in 1962. The new method is called an "asset depreciation range system."

Effects of Move Weighed

Businessmen and economists were hesitant yesterday to comment on the liberalization of depreciation regulations, preferring to wait and study the details of the changes announced by President Nixon.

Albert T. Sommers, director of economic research for the Conference Board, called it a "moderate" move but a "significant step in the right direction." In his view it will be reflected in better capital growth in the second half of this year and provide additional assurance of even more growth in this sector in 1972.

He added that there was a need, in view of the mounting interest in Federal-state revenue-sharing plans, for "more aggregate tax receipts" that suggested in the future a need to consider a higher degree of engagement in excise, sales and/or value-added taxes.

Walter Hoadley, chief economist of the Bank of America in San Francisco, said it was an "important move" but stressed that depreciation should be considered as an expense. "Profit margins are the biggest problem for business right now," he added, "and depreciation revisions are not going to help profits."

In New York, W. P. Gullander, president of the National Association of Manufacturers, said: "The business community has long sought depreciation policies more in line with those enjoyed by foreign competitors and this action by the President is an important partial move in this direction. The President's Task Force on Business Taxation has recommended a more far-reaching reform of depreciation policies which we hope will be implemented by Congressional action at an early date."