NIXON PREPARES A CUT OF BILLIONS IN BUSINESS TAXES

He Will Relax Depreciation Rule Without Waiting for Any Action by Congress

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The Aim of Move Is to Spur Investment and Revenue Downturn in Economy

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WASHINGTON, Jan. 10 — The Nixon Administration, in the hope of reversing the current business downturn, is planning an immediate reduction of several billion dollars in the taxes paid by business—a reduction that it will put into effect without waiting for Congress to act.

The tax cut for business will come in the form of liberalization of the rules by which businesses write off the costs of their new machinery and equipment.

Announcement of the liberalized rules covering these depreciation write-offs will be made tomorrow by President Nixon from the California White House.

There will be at least two major elements in the depreciation liberalization.

¶The period of time over which businesses will be permitted to write off the cost of their machinery and equipment — that is, to deduct the cost from income before calculating their taxes—will be shortened by 20 per cent.

¶The depreciation allowance for equipment installed during any given year will be more generous. Businesses can now claim a half year's write-off for machinery that they have used for any fraction of a year. Under the new rule, they will be able to get a half year's depreciation for any use at all and a full year's depreciation for anything more than sixx months of use.

1962 Action Recalled

The liberalized depreciation rules will be put into effect without asking for Congressional approval under existing law, which merely requires that allowances for depreciation be "reasonable."

The Democrats, in 1962, also put a major liberalization of depreciation into effect without asking Congressional approval.

There may be some criticism from Democrats now, however, on the ground that the 20 per cent reduction in the established time periods for depreciation is not "reasonable" when compared with the period of time that business keep their equipment in use.

In an attempt to forestall such criticism, Secretary ofthe Treasury David M. Kennedy flew to Arkansas on Friday to inform the chairman of the House Ways and Means Committee, Wilbur D. Mills, of the impending action.

Faster depreciation write-offs have long been advocated by most businessmen and business-oriented economists, who believe that they provide a significant incentive for businesses to increase their investments in new machinery and equipment.

The incentive exists, it is believed, for two reasons. First, because larger depreciation write-offs mean lower taxes and, thus, make more cash available for investment. Second, because the faster write-offs have the effect of increas-

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President Plans a Cut in Billions in Tax on Businesses

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ing the net return on investment in equipment.

Stimulating business investment is a very attractive idea to the Nixon Administration because additional spending for business equipment, if it materializes, could help to lift the entire economy out of the present recession, with its widespread and still-rising unemployment.

Without the liberalized depreciation rules, business investment had been expected to become very sluggish this year, rising by only 1.4 per cent, the smallest gain for any year since 1961.

Information on the exact amount by which the depreciation liberalization would reduce business taxes awaits disclosure of the full details of the plan tomorrow.

According to estimates that the Treasury supplied last summer to Senator Jacob K. Javits, Republican of New York, the 20 per cent reduction in depreciable lives would save businesses $753-million in the first year it was in effect, $2.02-billion in the second year, $2.65-billion in the third, $2.97-billion in the fourth and $3.57-billion in the fifth.

The letter to Mr. Javits did not deal with the possibility of permitting six months' depreciation on all equipment in use for less than six months and a year's depreciation on all in use for more than six months.

Estimates that were given to the Senator on a more generous treatment of first-year depreciation indicated that the tax savings to business from the plant that was decided on would run about $1.8-billion in the first year, dropping to around $1-billion in the fifth.

Thus, the total tax savings to business from the depreciation liberalization may be about $2.5-billion in the first year, ranging upward to $4.5-billion or more in the fifth.

The tax savings to business are, of course, revenue losses to the Government. But President Nixon has already announced that he believes it is proper economic policy for the Government to run a substantial budget deficit at this time.

The 20 per cent reduction in the time period over which equipment may be depreciated is only half as large a reduction as was proposed earlier this year by President Nixon's panel on business taxation, which was headed by his former law partner, John H. Alexander of Mudge, Rose, Guthrie & Alexander in New York.

The smaller speed-up was decided on, officials said, because Treasury lawyers feared that the full 40 per cent reduction would not produce "reasonable" depreciation write-offs, in the sense that the term is used in the present law.

The 20 per cent reduction was decided on as the maximum that could be put into effect without asking Congress for legislation.

Avoiding the need for legislation was considered important by the Administration, both because of the uncertainty that Congress would pass what the Administration wanted and because, even if it did, the action would require several months, at the least.