

Text of Statement by Nixon on Changes in Depreciation Provisions

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LAGUNA BEACH, Calif., Jan. 11—The following is the text of President Nixon's statement on depreciation reform:

Today I have approved three important changes in the administration of the depreciation provisions of the tax laws which will:

1. Help create jobs for the unemployed as well as young people joining the labor force.

2. Promote the economic growth which is essential if this nation is to meet its domestic and international responsibilities.

3. Increase the competitiveness of United States goods abroad, thus strengthening our balance of payments, and

4. Reduce significantly the complexity and uncertainty of the application of an important section of the Internal Revenue Code.

Results of Changes

Briefly summarized, these highly technical changes will:

1. Authorize the Internal Revenue Service to accept depreciation based on lives for business equipment ac-

quired after 1970 that are not more than 20 per cent shorter nor 20 per cent longer than the present "guideline lives" fixed by Treasury in July, 1962.

2. Terminate the complex "reserve ratio test" for determining limits on depreciation allowances.

3. Provide an alternative to the present "convention" which permits deduction of half the annual depreciation in the year in which equipment is placed in service. Under the modified "convention," a full year's depreciation for assets acquired after 1970 will be accepted for assets placed in service in the first half of a year; one-half year's for those in the second half of a year.

\$2.6-Billion This Year

These actions will reduce business tax payments by \$2.6-billion in this calendar year, rising to a peak of about \$4-billion in 1976, and thereafter gradually declining. In evaluating the impact of these tax actions on economic activity, it should be remembered that, as of Jan. 1, 1971, almost \$7-billion in individual income tax

cuts had already occurred as a result of the Tax Reform Act of 1969.

I want to emphasize that these short-run revenue reductions announced today are not so large as to prevent us from maintaining balance, now and in fiscal year 1972, between budget spending and the revenues that would be generated in a full-employment economy. Most importantly, they can be expected to have a substantial "feed-back" effect.

Past experience demonstrates that depreciation liberalization will stimulate the pace of spending on new plant and equipment, which has been leveling off, and thus create jobs. As a result, Federal tax collections in the long run will increase. The estimates of revenue loss may, therefore, be regarded as maximum estimates.

Sound depreciation reform to create jobs and growth has a long history of bipartisan support. In 1961, the first year of the Kennedy Administration, Under Secretary of the Treasury Henry H. Fowler supported the impending program for major depreciation reform as

a stimulant to economic recovery (unemployment was then about 6½ per cent of the labor force) as a means of increasing competitiveness of United States goods in world markets and as a major force for long-run economic growth.

Several months later, in announcing broad revisions in depreciation guidelines, Secretary of the Treasury Douglas Dillon pointed to the job-creating impact of rising investment. In this respect, economists have long recognized that, in a highly industrialized society such as ours, each productive worker has to be equipped, in effect, with tools and machinery costing many thousands of dollars.

Backed by Task Force

Depreciation reform is especially desirable today when we are requiring the diversion of significant amounts of business capital into the financing of pollution-control facilities and away from those investments which would ordinarily go to increasing material productivity.

The specific administrative changes which I have ap-

proved are consistent with the recommendations of the President's Task Force on Business Taxation. I appointed this task force in September, 1969, and asked the members to "concentrate on the role of business taxes in promoting growth, full employment, and a strong progressive economy." The task force included leading businessmen, lawyers and accountants, economists, a former United States Senator and two former Secretaries of the Treasury.

A liberalization of depreciation allowances is essentially a change in the timing of a tax liability. The policy permits business firms to reduce tax payments now, when additional purchasing power is needed, and to make up these payments in later years.

Clearly, therefore, these steps toward meaningful depreciation reform are important for the present—in light of current economic conditions—and for the future—to maintain the growth which has made this nation the strongest and most productive the world has ever known.