

TAX ADJUSTMENT ACT OF 1966

1728-1

HEARINGS BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 12752

AN ACT TO PROVIDE FOR GRADUATED WITHHOLDING OF INCOME TAX FROM WAGES, TO REQUIRE DECLARATIONS OF ESTIMATED TAX WITH RESPECT TO SELF-EMPLOYMENT INCOME, TO ACCELERATE CURRENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS, TO POSTPONE CERTAIN EXCISE TAX RATE REDUCTIONS, AND FOR OTHER PURPOSES.

FEBRUARY 25, 28, AND MARCH 1, 1966

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TAX ADJUSTMENT ACT OF 1966

FRIDAY, FEBRUARY 25, 1966

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to the call of the chairman, at 9 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Smathers, Anderson, Douglas, Gore, Talmadge, McCarthy, Metcalf, Hartke, Williams, Bennett, and Dirksen.

Senator Long. The hearing will come to order.

This hearing has been called for the purpose of receiving testimony on the recommendations of the President for raising revenues to help defray the rising costs of the Vietnam conflict.

Public notice of the hearing was made on February 17, and persons desiring to testify were urged to submit their requests by the close of business Wednesday, February 23. Only one request was received.

The President's program, together with certain refinements made by the Committee on Ways and Means of the House of Representatives, and by the House itself, is reflected in H.R. 12752, which passed the House Wednesday.

Without objection, a copy of the bill before us, together with a summary of its provisions prepared by the staff of the joint committee, and the committee announcement, will be made a part of the record at this point.

(The documents referred to follow:)

80TH CONGRESS
2D Session

H. R. 12752

IN THE SENATE OF THE UNITED STATES

FEBRUARY 24, 1966

Read twice and referred to the Committee on Finance

AN ACT

To provide for graduated withholding of income tax from wages, to require declarations of estimated tax with respect to self-employment income, to accelerate current payments of estimated income tax by corporations, to postpone certain excise tax rate reductions, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE, ETC.**

4 (a) **SHORT TITLE.**—This Act may be cited as the “Tax
5 Adjustment Act of 1966”.

2

1 (b) AMENDMENT OF 1954 CODE.—Except as otherwise
2 expressly provided, whenever in this Act an amendment or
3 repeal is expressed in terms of an amendment to, or repeal
4 of, a section or other provision, the reference shall be con-
5 sidered to be made to a section or other provision of the
6 Internal Revenue Code of 1954.

7 **TITLE I—ADJUSTMENT OF CERTAIN COLLECTION**
8 **PROCEDURES**

9 **SECTION 101. INCOME TAX COLLECTED AT SOURCE.**

10 (a) PERCENTAGE METHOD OF WITHHOLDING.—Sub-
11 section (a) of section 3402 (relating to requirement of
12 withholding) is amended to read as follows:

13 “(a) REQUIREMENT OF WITHHOLDING.—Every em-
14 ployer making payment of wages shall deduct and withhold
15 upon such wages (except as otherwise provided in this sec-
16 tion) a tax determined in accordance with the following
17 tables. For purposes of applying such tables, the term ‘the
18 amount of wages’ means the amount by which the wages
19 exceed the number of withholding exemptions claimed, multi-

3

- 1 plied by the amount of one such exemption as shown in the
2 table in subsection (b) (1) :

“Table 1—If the payroll period with respect to an employee is
WEEKLY

- 3 “(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$4.....	0.
Over \$4 but not over \$13.....	14% of excess over \$4.
Over \$13 but not over \$23.....	\$1.26 plus 15% of excess over \$13.
Over \$23 but not over \$85.....	\$2.70 plus 17% of excess over \$23.
Over \$85 but not over \$169.....	\$13.30 plus 20% of excess over \$85.
Over \$169 but not over \$212.....	\$30.10 plus 25% of excess over \$169.
Over \$212.....	\$40.85 plus 30% of excess over \$212.

- 4 “(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$4.....	0.
Over \$4 but not over \$23.....	14% of excess over \$4.
Over \$23 but not over \$85.....	\$2.66 plus 15% of excess over \$23.
Over \$85 but not over \$169.....	\$11.96 plus 17% of excess over \$85.
Over \$169 but not over \$340.....	\$26.24 plus 20% of excess over \$169.
Over \$340 but not over \$423.....	\$60.44 plus 25% of excess over \$340.
Over \$423.....	\$81.19 plus 30% of excess over \$423.

“Table 2—If the payroll period with respect to an employee is
BIWEEKLY

- 5 “(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$8.....	0.
\$8 but not over \$27.....	14% of excess over \$8.
Over \$27 but not over \$46.....	\$2.66 plus 15% of excess over \$27.
Over \$46 but not over \$169.....	\$5.51 plus 17% of excess over \$46.
Over \$169 but not over \$338.....	\$26.42 plus 20% of excess over \$169.
Over \$338 but not over \$423.....	\$60.22 plus 25% of excess over \$338.
Over \$423.....	\$81.47 plus 30% of excess over \$423.

4

1 “(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$8.....	0.
Over \$8 but not over \$46.....	14% of excess over \$8.
Over \$46 but not over \$169.....	\$5.32 plus 15% of excess over \$46.
Over \$169 but not over \$338.....	\$23.77 plus 17% of excess over \$169.
Over \$338 but not over \$681.....	\$52.50 plus 20% of excess over \$338.
Over \$681 but not over \$846.....	\$121.10 plus 25% of excess over \$681.
Over \$846.....	\$162.35 plus 30% of excess over \$846.

“Table 3—If the payroll period with respect to an employee is SEMIMONTHLY

2 “(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$8.....	0.
Over \$8 but not over \$29.....	14% of excess over \$8.
Over \$29 but not over \$50.....	\$2.04 plus 15% of excess over \$29.
Over \$50 but not over \$183.....	\$6.09 plus 17% of excess over \$50.
Over \$183 but not over \$367.....	\$28.70 plus 20% of excess over \$183.
Over \$367 but not over \$458.....	\$65.50 plus 25% of excess over \$367.
Over \$458.....	\$88.25 plus 30% of excess over \$458.

3 “(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$8.....	0.
Over \$8 but not over \$50.....	14% of excess over \$8.
Over \$50 but not over \$183.....	\$5.88 plus 15% of excess over \$50.
Over \$183 but not over \$367.....	\$25.83 plus 17% of excess over \$183.
Over \$367 but not over \$738.....	\$57.11 plus 20% of excess over \$367.
Over \$738 but not over \$917.....	\$131.31 plus 25% of excess over \$738.
Over \$917.....	\$176.06 plus 30% of excess over \$917.

5

"Table 4—If the payroll period with respect to an employee is MONTHLY

1 " (a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$17-----	0.
Over \$17 but not over \$58-----	14% of excess over \$17.
Over \$58 but not over \$100-----	\$5.74 plus 15% of excess over \$58.
Over \$100 but not over \$367-----	\$12.04 plus 17% of excess over \$100.
Over \$367 but not over \$733-----	\$57.43 plus 20% of excess over \$367.
Over \$733 but not over \$917-----	\$130.63 plus 25% of excess over \$733.
Over \$917-----	\$176.63 plus 30% of excess over \$917.

2 " (b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$17-----	0.
Over \$17 but not over \$100-----	14% of excess over \$17.
Over \$100 but not over \$367-----	\$11.62 plus 15% of excess over \$100.
Over \$367 but not over \$733-----	\$51.67 plus 17% of excess over \$367.
Over \$733 but not over \$1,475-----	\$113.89 plus 20% of excess over \$733.
Over \$1,475 but not over \$1,833---	\$262.29 plus 25% of excess over \$1,475.
Over \$1,833-----	\$351.79 plus 30% of excess over \$1,833.

"Table 5—If the payroll period with respect to an employee is QUARTERLY

3 " (a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$50-----	0.
Over \$50 but not over \$175-----	14% of excess over \$50.
Over \$175 but not over \$300-----	\$17.50 plus 15% of excess over \$175.
Over \$300 but not over \$1,100-----	\$36.25 plus 17% of excess over \$300.
Over \$1,100 but not over \$2,200---	\$172.25 plus 20% of excess over \$1,100.
Over \$2,200 but not over \$2,750---	\$392.25 plus 25% of excess over \$2,200.
Over \$2,750-----	\$529.75 plus 30% of excess over \$2,750.

6

1 “(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$50-----	0.
Over \$50 but not over \$300-----	14% of excess over \$50.
Over \$300 but not over \$1,100-----	\$85.00 plus 15% of excess over \$300.
Over \$1,100 but not over \$2,200-----	\$155 plus 17% of excess over \$1,100.
Over \$2,200 but not over \$4,425-----	\$342 plus 20% of excess over \$2,200.
Over \$4,425 but not over \$5,500-----	\$787 plus 25% of excess over \$4,425.
Over \$5,500-----	\$1,055.75 plus 30% of excess over \$5,500.

“Table 6—If the payroll period with respect to an employee is
SEMIANNUAL

2 “(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$100-----	0.
Over \$100 but not over \$350-----	14% of excess over \$100.
Over \$350 but not over \$600-----	\$35.00 plus 15% of excess over \$350.
Over \$600 but not over \$2,200-----	\$72.50 plus 17% of excess over \$600.
Over \$2,200 but not over \$4,400---	\$344.50 plus 20% of excess over \$2,200.
Over \$4,400 but not over \$5,500---	\$784.50 plus 25% of excess over \$4,400.
Over \$5,500-----	\$1,059.50 plus 30% of excess over \$5,500.

3 “(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$100-----	0.
Over \$100 but not over \$600-----	14% of excess over \$100.
Over \$600 but not over \$2,200-----	\$70 plus 15% of excess over \$600.
Over \$2,200 but not over \$4,400-----	\$310 plus 17% of excess over \$2,200.
Over \$4,400 but not over \$8,850-----	\$684 plus 20% of excess over \$4,400.
Over \$8,850 but not over \$11,000---	\$1,574 plus 25% of excess over \$8,850.
Over \$11,000-----	\$2,111.50 plus 30% of excess over \$11,000.

7

"Table 7—If the payroll period with respect to an employee is ANNUAL

1 **"(a) Single Person—Including Head of Household:**

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$200.....	0.
Over \$200 but not over \$700.....	14% of excess over \$200.
Over \$700 but not over \$1,200.....	\$70 plus 15% of excess over \$700.
Over \$1,200 but not over \$4,400.....	\$145 plus 17% of excess over \$1,200.
Over \$4,400 but not over \$8,800.....	\$680 plus 20% of excess over \$4,400.
Over \$8,800 but not over \$11,000....	\$1,569 plus 25% of excess over \$8,800.
Over \$11,000.....	\$2,110 plus 30% of excess over \$11,000.

2 **"(b) Married Person:**

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over \$200.....	0.
Over \$200 but not over \$1,200.....	14% of excess over \$200.
Over \$1,200 but not over \$4,400....	\$140 plus 15% of excess over \$1,200.
Over \$4,400 but not over \$8,800..	\$620 plus 17% of excess over \$4,400.
Over \$8,800 but not over \$17,700..	\$1,368 plus 20% of excess over \$8,800.
Over \$17,700 but not over \$22,000..	\$3,148 plus 25% of excess over \$17,700.
Over \$22,000.....	\$4,223 plus 30% of excess over \$22,000.

"Table 8—If the payroll period with respect to an employee is a DAILY payroll period or a miscellaneous payroll period

3 **"(a) Single Person—Including Head of Household:**

If the amount of wages divided by the number of days in the payroll period is:	The amount of income tax to be withheld shall be:
Not over \$0.50.....	0.
Over \$0.50 but not over \$1.90.....	14% of excess over \$0.50.
Over \$1.90 but not over \$3.30.....	\$0.20 plus 15% of excess over \$1.90.
Over \$3.30 but not over \$12.10....	\$0.41 plus 17% of excess over \$3.30.
Over \$12.10 but not over \$24.10..	\$1.91 plus 20% of excess over \$12.10.
Over \$24.10 but not over \$30.10..	\$4.31 plus 25% of excess over \$24.10.
Over \$30.10.....	\$5.81 plus 30% of excess over \$30.10.

8

1 “(b) Married Person:

If the amount of wages divided by the number of days in the payroll period is: The amount of income tax to be withheld shall be:

Not over \$0.50.....	0.
Over \$0.50 but not over \$3.30.....	14% of excess over \$0.50.
Over \$3.30 but not over \$12.10.....	\$0.39 plus 15% of excess over \$3.30.
Over \$12.10 but not over \$24.10....	\$1.71 plus 17% of excess over \$12.10.
Over \$24.10 but not over \$48.50....	\$3.75 plus 20% of excess over \$24.10.
Over \$48.50 but not over \$60.30....	\$8.03 plus 25% of excess over \$48.50.
Over 60.30.....	\$11.58 plus 30% of excess over \$60.30.”

2 (b) AMOUNT OF WITHHOLDING EXEMPTION.—Para-
 3 graph (1) of section 3402 (b) (relating to percentage
 4 method withholding table) is amended by striking out the
 5 table set forth therein and inserting the following table in
 6 lieu thereof:

“Percentage Method Withholding Table

Payroll period	Amount of one withholding exemption:
Weekly	\$13.50.
Biweekly.....	26.90.
Semimonthly	29.20.
Monthly	58.30.
Quarterly	175.00.
Semiannual	350.00.
Annual	700.00.
Daily or miscellaneous (per day of such period).	1.90.”

7 (c) WAGE BRACKET WITHHOLDING.—Paragraph (1)
 8 of section 3402 (c) (relating to wage bracket withholding)

- 1 is amended by striking out the tables set forth therein and
 2 inserting the following tables in lieu thereof:

"If the payroll period with respect to an employee is weekly and he is not married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0	\$4	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$4	\$5	.10	0	0	0	0	0	0	0	0	0	0
\$5	\$6	.20	0	0	0	0	0	0	0	0	0	0
\$6	\$7	.40	0	0	0	0	0	0	0	0	0	0
\$7	\$8	.50	0	0	0	0	0	0	0	0	0	0
\$8	\$9	.70	0	0	0	0	0	0	0	0	0	0
\$9	\$10	.80	0	0	0	0	0	0	0	0	0	0
\$10	\$11	.90	0	0	0	0	0	0	0	0	0	0
\$11	\$12	1.10	0	0	0	0	0	0	0	0	0	0
\$12	\$13	1.20	0	0	0	0	0	0	0	0	0	0
\$13	\$14	1.40	0	0	0	0	0	0	0	0	0	0
\$14	\$15	1.50	0	0	0	0	0	0	0	0	0	0
\$15	\$16	1.70	0	0	0	0	0	0	0	0	0	0
\$16	\$17	1.80	0	0	0	0	0	0	0	0	0	0
\$17	\$18	2.00	0	0	0	0	0	0	0	0	0	0
\$18	\$19	2.10	.20	0	0	0	0	0	0	0	0	0
\$19	\$20	2.30	.30	0	0	0	0	0	0	0	0	0
\$20	\$21	2.40	.40	0	0	0	0	0	0	0	0	0
\$21	\$22	2.50	.50	0	0	0	0	0	0	0	0	0
\$22	\$23	2.70	.70	0	0	0	0	0	0	0	0	0
\$23	\$24	2.90	.90	0	0	0	0	0	0	0	0	0
\$24	\$25	3.00	1.00	0	0	0	0	0	0	0	0	0
\$25	\$26	3.20	1.10	0	0	0	0	0	0	0	0	0
\$26	\$27	3.40	1.30	0	0	0	0	0	0	0	0	0
\$27	\$28	3.50	1.40	0	0	0	0	0	0	0	0	0
\$28	\$29	3.70	1.60	0	0	0	0	0	0	0	0	0
\$29	\$30	3.90	1.70	0	0	0	0	0	0	0	0	0
\$30	\$31	4.10	1.90	0	0	0	0	0	0	0	0	0
\$31	\$32	4.20	2.00	.10	0	0	0	0	0	0	0	0
\$32	\$33	4.40	2.20	.20	0	0	0	0	0	0	0	0
\$33	\$34	4.60	2.30	.40	0	0	0	0	0	0	0	0
\$34	\$35	4.70	2.50	.50	0	0	0	0	0	0	0	0
\$35	\$36	4.90	2.60	.70	0	0	0	0	0	0	0	0
\$36	\$37	5.10	2.80	.80	0	0	0	0	0	0	0	0
\$37	\$38	5.20	3.00	.90	0	0	0	0	0	0	0	0
\$38	\$39	5.40	3.10	1.10	0	0	0	0	0	0	0	0
\$39	\$40	5.60	3.30	1.20	0	0	0	0	0	0	0	0
\$40	\$41	5.80	3.50	1.40	0	0	0	0	0	0	0	0
\$41	\$42	5.90	3.60	1.50	0	0	0	0	0	0	0	0
\$42	\$43	6.10	3.80	1.70	0	0	0	0	0	0	0	0
\$43	\$44	6.30	4.00	1.80	0	0	0	0	0	0	0	0
\$44	\$45	6.40	4.10	2.00	0	0	0	0	0	0	0	0
\$45	\$46	6.60	4.30	2.10	.20	0	0	0	0	0	0	0
\$46	\$47	6.80	4.50	2.30	.30	0	0	0	0	0	0	0
\$47	\$48	6.90	4.70	2.40	.50	0	0	0	0	0	0	0
\$48	\$49	7.10	4.80	2.60	.60	0	0	0	0	0	0	0
\$49	\$50	7.30	5.00	2.70	.70	0	0	0	0	0	0	0
\$50	\$51	7.50	5.20	2.90	.90	0	0	0	0	0	0	0
\$51	\$52	7.60	5.30	3.00	1.00	0	0	0	0	0	0	0
\$52	\$53	7.80	5.50	3.20	1.20	0	0	0	0	0	0	0
\$53	\$54	8.00	5.70	3.40	1.30	0	0	0	0	0	0	0
\$54	\$55	8.10	5.80	3.60	1.40	0	0	0	0	0	0	0
\$55	\$56	8.30	6.00	3.70	1.60	0	0	0	0	0	0	0
\$56	\$57	8.50	6.20	3.90	1.70	0	0	0	0	0	0	0
\$57	\$58	8.60	6.40	4.10	1.90	0	0	0	0	0	0	0
\$58	\$59	8.80	6.50	4.20	2.00	.10	0	0	0	0	0	0
\$59	\$60	9.00	6.70	4.40	2.20	.30	0	0	0	0	0	0
\$60	\$62	9.20	6.90	4.70	2.40	.50	0	0	0	0	0	0
\$62	\$64	9.60	7.30	5.00	2.70	.70	0	0	0	0	0	0
\$64	\$66	9.90	7.60	5.30	3.10	1.00	0	0	0	0	0	0
\$66	\$68	10.30	8.00	5.70	3.40	1.30	0	0	0	0	0	0
\$68	\$70	10.50	8.30	6.00	3.70	1.60	0	0	0	0	0	0
\$70	\$72	10.90	8.60	6.40	4.10	1.90	0	0	0	0	0	0
\$72	\$74	11.30	9.00	6.70	4.40	2.20	.80	0	0	0	0	0
\$74	\$76	11.60	9.30	7.00	4.80	2.50	.50	0	0	0	0	0
\$76	\$78	12.00	9.70	7.40	5.10	2.80	.80	0	0	0	0	0
\$78	\$80	12.30	10.00	7.70	5.40	3.10	1.10	0	0	0	0	0
\$80	\$82	12.60	10.30	8.10	5.80	3.50	1.40	0	0	0	0	0
\$82	\$84	13.00	10.70	8.40	6.10	3.80	1.70	0	0	0	0	0
\$84	\$86	13.30	11.00	8.70	6.50	4.20	2.00	0	0	0	0	0
\$86	\$88	13.70	11.40	9.10	6.80	4.50	2.30	.30	0	0	0	0
\$88	\$90	14.10	11.70	9.40	7.10	4.80	2.60	.60	0	0	0	0
\$90	\$92	14.50	12.00	9.80	7.50	5.20	2.90	.90	0	0	0	0
\$92	\$94	14.90	12.40	10.10	7.90	5.50	3.20	1.20	0	0	0	0
\$94	\$96	15.30	12.70	10.40	8.20	5.80	3.50	1.50	0	0	0	0
\$96	\$98	15.70	13.10	10.80	8.50	6.20	3.80	1.80	0	0	0	0

"If the payroll period with respect to an employee is weekly and he is not married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$08.....	\$100....	\$16.10	\$13.40	\$11.10	\$8.80	\$6.50	\$4.30	\$2.10	\$.10	\$0	\$0	\$0
\$100.....	\$106....	16.80	14.10	11.70	9.40	7.10	4.80	2.60	.60	0	0	0
\$106.....	\$112....	17.80	15.10	12.60	10.30	8.00	5.70	3.40	1.30	0	0	0
\$112.....	\$118....	18.80	16.10	13.40	11.10	8.80	6.50	4.30	2.10	.10	0	0
\$118.....	\$124....	19.80	17.10	14.40	12.00	9.70	7.40	5.10	2.80	.90	0	0
\$124.....	\$130....	20.80	18.10	15.40	12.80	10.50	8.20	6.00	3.70	1.50	0	0
\$130.....	\$136....	21.80	19.10	16.40	13.80	11.40	9.10	6.80	4.60	2.30	.40	0
\$136.....	\$142....	22.80	20.10	17.40	14.80	12.20	9.90	7.70	5.40	3.10	1.10	0
\$142.....	\$148....	23.80	21.10	18.40	15.80	13.10	10.80	8.60	6.20	3.90	1.90	0
\$148.....	\$154....	24.80	22.10	19.40	16.80	14.10	11.60	9.40	7.10	4.80	2.50	.80
\$154.....	\$160....	25.80	23.10	20.40	17.80	15.10	12.50	10.20	7.90	5.60	3.30	1.30
\$160.....	\$166....	27.30	24.60	21.90	19.30	16.60	13.90	11.50	9.20	6.90	4.60	2.40
\$166.....	\$172....	29.30	26.60	23.90	21.30	18.60	15.90	13.20	10.90	8.60	6.30	4.00
\$172.....	\$178....	31.00	28.60	25.90	23.30	20.60	17.90	15.20	12.60	10.30	8.00	5.70
\$178.....	\$184....	34.10	30.80	27.90	25.30	22.60	19.90	17.20	14.50	12.00	9.70	7.40
\$184.....	\$190....	38.60	33.30	29.90	27.30	24.60	21.90	19.20	16.50	13.80	11.40	9.10
\$190.....	\$200....	39.10	33.80	32.40	29.30	26.60	23.90	21.20	18.50	15.80	13.10	10.80
\$200.....	\$210....	41.80	35.30	34.90	31.50	28.60	25.90	23.20	20.50	17.80	15.10	12.50
\$210.....	\$220....	44.80	40.80	37.40	34.00	31.70	27.90	25.20	22.60	19.80	17.10	14.40
\$220.....	\$240....	47.80	43.80	39.90	36.50	33.20	29.90	27.20	24.50	21.80	19.10	16.40
\$240.....	\$260....	50.80	46.80	42.70	39.00	35.70	32.30	29.20	26.50	23.80	21.10	18.40
\$260.....	\$280....	53.80	49.80	45.70	41.70	38.20	34.80	31.40	28.50	25.80	23.10	20.40
\$280.....	\$300....	56.80	52.80	48.70	44.70	40.70	37.30	33.90	30.60	27.80	25.10	22.40
\$300.....	\$320....	59.80	55.80	51.70	47.70	43.60	39.80	36.40	33.10	29.80	27.10	24.40
\$320.....	\$340....	62.80	58.80	54.70	50.70	46.60	42.60	38.90	35.60	32.20	29.10	26.40
\$340.....	\$360....	65.80	61.80	57.70	53.70	49.60	45.60	41.00	38.10	34.70	31.80	28.40
\$360.....	\$380....	68.80	64.80	60.70	56.70	52.60	48.60	44.50	40.90	37.20	33.80	30.50
\$380.....	\$400....	71.80	67.80	63.70	59.70	55.60	51.60	47.60	43.60	39.70	35.80	32.50
\$400.....	\$420....	74.80	70.80	66.70	62.70	58.60	54.60	50.60	46.50	43.50	38.80	35.50
\$420.....	\$440....	77.80	73.80	69.70	65.70	61.60	57.60	53.60	49.50	46.50	41.40	38.50
\$440.....	\$460....	80.80	76.80	72.70	68.70	64.60	60.60	56.60	52.50	49.50	44.40	40.50
\$460.....	\$480....	83.80	79.80	75.70	71.70	67.60	63.60	59.60	55.50	51.50	47.40	43.50
80 percent of the excess over \$360 plus—												
\$360 and over....		85.80	81.30	77.30	73.30	69.10	65.10	61.10	57.00	53.00	49.90	44.90

12

"If the payroll period with respect to an employee is weekly and he is married--

Table with columns: 'And the wages are-' (At least, But less than) and 'And the number of withholding exemptions claimed is-' (0 to 10 or more). The table shows 'The amount of income tax to be withheld shall be-' in dollars and cents. A section for '90 percent of the excess over \$470 plus-' is also included.

"If the payroll period with respect to an employee is biweekly and he is not married—"

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$0.....	\$0.....	\$0.....	\$0.....	\$0.....	\$0.....	\$0.....	\$0.....	\$0.....	\$0.....	\$0.....	\$0.....
\$0.....	\$10.....	.20	0	0	0	0	0	0	0	0	0	0
\$10.....	\$12.....	.50	0	0	0	0	0	0	0	0	0	0
\$12.....	\$14.....	.70	0	0	0	0	0	0	0	0	0	0
\$14.....	\$16.....	1.00	0	0	0	0	0	0	0	0	0	0
\$16.....	\$18.....	1.30	0	0	0	0	0	0	0	0	0	0
\$18.....	\$20.....	1.50	0	0	0	0	0	0	0	0	0	0
\$20.....	\$22.....	1.90	0	0	0	0	0	0	0	0	0	0
\$22.....	\$24.....	2.10	0	0	0	0	0	0	0	0	0	0
\$24.....	\$26.....	2.40	0	0	0	0	0	0	0	0	0	0
\$26.....	\$28.....	2.70	0	0	0	0	0	0	0	0	0	0
\$28.....	\$30.....	3.00	0	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	3.30	0	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	3.60	0	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	3.90	.10	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	4.20	.20	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	4.50	.50	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	4.80	.90	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	5.10	1.20	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	5.40	1.50	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	5.70	1.70	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	6.10	2.00	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	6.40	2.30	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	6.70	2.60	0	0	0	0	0	0	0	0	0
\$54.....	\$56.....	7.10	2.90	0	0	0	0	0	0	0	0	0
\$56.....	\$58.....	7.40	3.20	0	0	0	0	0	0	0	0	0
\$58.....	\$60.....	7.80	3.50	0	0	0	0	0	0	0	0	0
\$60.....	\$62.....	8.10	3.80	0	0	0	0	0	0	0	0	0
\$62.....	\$64.....	8.40	4.10	.20	0	0	0	0	0	0	0	0
\$64.....	\$66.....	8.70	4.40	.50	0	0	0	0	0	0	0	0
\$66.....	\$68.....	9.10	4.70	.80	0	0	0	0	0	0	0	0
\$68.....	\$70.....	9.50	5.00	1.00	0	0	0	0	0	0	0	0
\$70.....	\$72.....	9.80	5.30	1.30	0	0	0	0	0	0	0	0
\$72.....	\$74.....	10.10	5.60	1.60	0	0	0	0	0	0	0	0
\$74.....	\$76.....	10.50	5.90	1.90	0	0	0	0	0	0	0	0
\$76.....	\$78.....	10.80	6.20	2.20	0	0	0	0	0	0	0	0
\$78.....	\$80.....	11.20	6.50	2.40	0	0	0	0	0	0	0	0
\$80.....	\$82.....	11.50	6.80	2.70	0	0	0	0	0	0	0	0
\$82.....	\$84.....	11.80	7.20	3.00	0	0	0	0	0	0	0	0
\$84.....	\$86.....	12.20	7.50	3.30	0	0	0	0	0	0	0	0
\$86.....	\$88.....	12.50	7.90	3.60	0	0	0	0	0	0	0	0
\$88.....	\$90.....	12.90	8.20	3.90	.10	0	0	0	0	0	0	0
\$90.....	\$92.....	13.20	8.50	4.20	.40	0	0	0	0	0	0	0
\$92.....	\$94.....	13.50	8.80	4.50	.60	0	0	0	0	0	0	0
\$94.....	\$96.....	13.90	9.20	4.80	.90	0	0	0	0	0	0	0
\$96.....	\$98.....	14.20	9.50	5.10	1.20	0	0	0	0	0	0	0
\$98.....	\$100.....	14.60	10.00	5.40	1.50	0	0	0	0	0	0	0
\$100.....	\$102.....	14.90	10.30	5.70	1.80	0	0	0	0	0	0	0
\$102.....	\$104.....	15.20	10.70	6.10	2.00	0	0	0	0	0	0	0
\$104.....	\$106.....	15.60	11.20	6.40	2.30	0	0	0	0	0	0	0
\$106.....	\$108.....	15.90	11.50	6.80	2.60	0	0	0	0	0	0	0
\$108.....	\$110.....	16.30	11.70	7.10	2.90	0	0	0	0	0	0	0
\$110.....	\$112.....	16.60	12.00	7.40	3.20	0	0	0	0	0	0	0
\$112.....	\$114.....	16.90	12.40	7.80	3.50	0	0	0	0	0	0	0
\$114.....	\$116.....	17.30	12.70	8.10	3.80	0	0	0	0	0	0	0
\$116.....	\$118.....	17.60	13.00	8.50	4.10	.30	0	0	0	0	0	0
\$118.....	\$120.....	18.00	13.40	8.80	4.40	.60	0	0	0	0	0	0
\$120.....	\$122.....	18.40	13.80	9.13	4.80	.90	0	0	0	0	0	0
\$122.....	\$124.....	18.70	14.00	9.40	5.10	1.20	0	0	0	0	0	0
\$124.....	\$126.....	19.10	14.50	9.80	5.40	1.50	0	0	0	0	0	0
\$126.....	\$128.....	19.50	15.00	10.20	5.70	1.80	0	0	0	0	0	0
\$128.....	\$130.....	20.00	15.50	11.40	6.30	2.20	0	0	0	0	0	0
\$130.....	\$132.....	21.20	16.00	12.00	7.00	2.60	0	0	0	0	0	0
\$132.....	\$134.....	21.90	17.80	12.70	8.10	3.20	0	0	0	0	0	0
\$134.....	\$136.....	22.50	18.00	13.40	8.80	3.60	.50	0	0	0	0	0
\$136.....	\$138.....	23.10	18.70	14.10	9.50	4.00	1.10	0	0	0	0	0
\$138.....	\$140.....	23.80	19.30	14.80	10.20	4.50	1.60	0	0	0	0	0
\$140.....	\$142.....	24.60	20.00	15.40	10.90	5.00	2.20	0	0	0	0	0
\$142.....	\$144.....	25.40	20.70	16.10	11.80	7.00	2.80	0	0	0	0	0
\$144.....	\$146.....	26.30	21.40	16.80	12.20	7.50	3.40	0	0	0	0	0
\$146.....	\$148.....	27.20	22.10	17.40	13.00	8.50	4.00	0	0	0	0	0
\$148.....	\$150.....	28.10	22.70	18.20	13.80	9.50	4.60	.10	0	0	0	0
\$150.....	\$152.....	29.00	23.40	18.80	14.30	9.70	5.20	1.20	0	0	0	0
\$152.....	\$154.....	29.10	24.10	19.50	14.90	10.40	5.80	1.50	0	0	0	0
\$154.....	\$156.....	29.30	24.80	20.20	15.50	11.50	6.50	1.80	0	0	0	0
\$156.....	\$158.....	29.70	25.30	21.00	16.30	11.70	7.10	2.20	0	0	0	0
\$158.....	\$160.....	31.60	26.10	21.60	17.00	12.40	7.80	2.60	0	0	0	0
\$160.....	\$162.....	32.30	26.90	22.30	17.70	13.10	8.50	3.00	0	0	0	0
\$162.....	\$164.....	33.10	27.70	23.00	18.40	13.80	9.20	3.40	.30	0	0	0
\$164.....	\$166.....	33.90	28.50	23.70	19.10	14.50	9.90	3.80	1.20	0	0	0
\$166.....	\$168.....	34.70	29.30	24.50	19.80	15.20	10.60	4.20	2.10	0	0	0
\$168.....	\$170.....	35.50	30.10	25.30	20.50	16.00	11.30	4.60	2.80	0	0	0
\$170.....	\$172.....	36.30	30.90	26.10	21.20	16.80	12.00	5.00	3.50	.30	0	0
\$172.....	\$174.....	37.10	31.70	26.90	21.90	17.60	12.80	5.40	4.20	1.10	0	0
\$174.....	\$176.....	37.90	32.50	27.70	22.60	18.40	13.60	5.80	4.90	1.90	0	0
\$176.....	\$178.....	38.70	33.30	28.50	23.30	19.20	14.40	6.20	5.60	2.70	0	0
\$178.....	\$180.....	39.50	34.10	29.30	24.00	20.00	15.20	6.60	6.30	3.50	.30	0
\$180.....	\$182.....	40.30	34.90	30.10	24.70	20.80	16.00	7.00	7.00	4.30	1.10	0
\$182.....	\$184.....	41.10	35.70	30.90	25.40	21.60	16.80	7.40	7.70	5.10	1.90	0
\$184.....	\$186.....	41.90	36.50	31.70	26.10	22.40	17.60	7.80	8.40	5.90	2.70	0
\$186.....	\$188.....	42.70	37.30	32.50	26.80	23.20	18.40	8.20	9.10	6.70	3.50	0
\$188.....	\$190.....	43.50	38.10	33.30	27.50	24.00	19.20	8.60	9.80	7.50	4.30	0
\$190.....	\$192.....	44.30	38.90	34.10	28.20	24.80	20.00	9.00	10.50	8.30	5.10	0
\$192.....	\$194.....	45.10	39.70	34.90	28.90	25.60	20.80	9.40	11.20	9.10	5.90	0
\$194.....	\$196.....	45.90	40.50	35.70	29.60	26.40	21.60	9.80	11.90	9.90	6.70	0
\$196.....	\$198.....	46.70	41.30	36.50	30.30	27.20	22.40	10.20	12.60	10.70	7.50	0
\$198.....	\$200.....	47.50	42.10	37.30	31.00	28.00	23.20	10.60	13.30	11.50	8.30	0

"If the payroll period with respect to an employee is biweekly and he is not married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$280.....	\$300....	\$49.70	\$44.80	\$38.90	\$33.60	\$28.10	\$23.80	\$18.70	\$14.10	\$9.80	\$5.10	\$1.10
\$290.....	\$320....	51.70	46.80	40.90	35.50	30.10	25.00	20.40	15.80	11.90	6.70	2.50
\$300.....	\$340....	54.70	49.80	43.90	38.50	33.10	27.70	23.00	18.40	13.80	9.20	4.80
\$320.....	\$360....	58.70	53.80	47.90	42.50	37.10	31.70	26.40	21.80	17.20	12.60	8.10
\$340.....	\$380....	63.20	57.90	51.90	46.50	41.10	35.70	30.80	25.20	20.60	16.00	11.50
\$360.....	\$400....	68.20	61.50	55.90	50.50	45.10	39.70	34.80	29.00	24.00	19.40	14.90
\$380.....	\$420....	73.20	66.50	60.90	55.50	49.10	43.70	38.80	33.00	27.80	22.80	18.30
\$400.....	\$440....	78.20	71.50	64.90	58.50	53.10	47.70	42.90	37.00	31.60	26.20	21.70
\$420.....	\$460....	83.60	76.80	69.90	63.00	57.10	51.70	46.90	41.00	35.60	30.20	25.10
\$440.....	\$480....	89.60	81.80	74.80	68.00	61.80	55.70	50.80	44.80	39.60	34.20	28.80
\$460.....	\$500....	95.60	87.80	79.80	73.00	66.80	60.70	54.80	48.80	43.60	38.20	32.80
\$480.....	\$520....	101.60	93.80	85.40	78.00	71.80	64.60	58.80	53.00	47.60	42.20	36.80
\$500.....	\$540....	107.60	99.60	91.40	83.80	76.80	69.60	62.80	57.00	51.60	46.20	40.80
\$520.....	\$560....	113.60	105.60	97.40	89.80	81.80	74.40	67.80	61.10	55.60	50.20	44.80
\$540.....	\$580....	119.60	111.60	103.40	95.80	87.80	79.60	73.00	66.10	60.60	54.20	48.80
\$560.....	\$600....	125.60	117.60	109.40	101.80	93.80	85.20	77.80	71.10	64.40	58.20	52.80
\$580.....	\$620....	131.60	123.60	115.40	107.80	99.80	91.20	83.10	76.10	69.40	62.70	56.80
\$600.....	\$640....	137.60	129.60	121.40	113.80	105.80	97.20	89.10	81.10	74.40	67.70	60.90
\$620.....	\$660....	143.60	135.60	127.40	119.80	111.80	103.20	95.10	87.00	79.40	72.70	65.90
\$640.....	\$680....	149.60	141.60	133.40	125.80	117.80	109.20	101.10	93.00	85.00	77.70	70.90
\$660.....	\$700....	155.60	147.60	139.40	131.80	123.80	115.20	107.10	99.00	91.00	82.90	75.90
\$680.....	\$720....	161.60	153.60	145.40	137.80	129.80	121.20	113.10	105.00	97.00	88.90	80.90
\$700.....	\$720....	167.60	159.60	151.40	143.80	135.80	127.20	119.10	111.00	103.00	94.90	86.90
80 percent of the excess over \$720 plus—												
\$720 and over...		170.80	162.80	154.40	146.80	138.80	130.20	122.10	114.00	106.00	97.90	89.80

"If the payroll period with respect to an employee is biweekly and he is married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withhold shall be—												
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$8	\$10	.20	0	0	0	0	0	0	0	0	0	0
\$10	\$12	.60	0	0	0	0	0	0	0	0	0	0
\$12	\$14	.70	0	0	0	0	0	0	0	0	0	0
\$14	\$16	1.00	0	0	0	0	0	0	0	0	0	0
\$16	\$18	1.30	0	0	0	0	0	0	0	0	0	0
\$18	\$20	1.60	0	0	0	0	0	0	0	0	0	0
\$20	\$22	1.90	0	0	0	0	0	0	0	0	0	0
\$22	\$24	2.10	0	0	0	0	0	0	0	0	0	0
\$24	\$26	2.40	0	0	0	0	0	0	0	0	0	0
\$26	\$28	2.70	0	0	0	0	0	0	0	0	0	0
\$28	\$30	3.00	0	0	0	0	0	0	0	0	0	0
\$30	\$32	3.30	0	0	0	0	0	0	0	0	0	0
\$32	\$34	3.60	0	0	0	0	0	0	0	0	0	0
\$34	\$36	3.90	.10	0	0	0	0	0	0	0	0	0
\$36	\$38	4.10	.80	0	0	0	0	0	0	0	0	0
\$38	\$40	4.40	.90	0	0	0	0	0	0	0	0	0
\$40	\$42	4.70	.90	0	0	0	0	0	0	0	0	0
\$42	\$44	4.90	1.20	0	0	0	0	0	0	0	0	0
\$44	\$46	5.20	1.40	0	0	0	0	0	0	0	0	0
\$46	\$48	5.50	1.70	0	0	0	0	0	0	0	0	0
\$48	\$50	5.80	2.00	0	0	0	0	0	0	0	0	0
\$50	\$52	6.10	2.30	0	0	0	0	0	0	0	0	0
\$52	\$54	6.40	2.50	0	0	0	0	0	0	0	0	0
\$54	\$56	6.70	2.90	0	0	0	0	0	0	0	0	0
\$56	\$58	7.00	3.10	0	0	0	0	0	0	0	0	0
\$58	\$60	7.30	3.40	0	0	0	0	0	0	0	0	0
\$60	\$62	7.60	3.70	0	0	0	0	0	0	0	0	0
\$62	\$64	7.90	4.00	.20	0	0	0	0	0	0	0	0
\$64	\$66	8.20	4.30	.50	0	0	0	0	0	0	0	0
\$66	\$68	8.50	4.60	.80	0	0	0	0	0	0	0	0
\$68	\$70	8.80	4.90	1.00	0	0	0	0	0	0	0	0
\$70	\$72	9.10	5.10	1.30	0	0	0	0	0	0	0	0
\$72	\$74	9.40	5.40	1.50	0	0	0	0	0	0	0	0
\$74	\$76	9.70	5.70	1.90	0	0	0	0	0	0	0	0
\$76	\$78	10.00	6.00	2.20	0	0	0	0	0	0	0	0
\$78	\$80	10.30	6.30	2.40	0	0	0	0	0	0	0	0
\$80	\$82	10.60	6.60	2.70	0	0	0	0	0	0	0	0
\$82	\$84	10.90	6.90	3.00	0	0	0	0	0	0	0	0
\$84	\$86	11.20	7.20	3.30	0	0	0	0	0	0	0	0
\$86	\$88	11.70	7.50	3.60	0	0	0	0	0	0	0	0
\$88	\$90	11.90	7.80	3.90	.10	0	0	0	0	0	0	0
\$90	\$92	12.10	8.10	4.10	.40	0	0	0	0	0	0	0
\$92	\$94	12.40	8.40	4.40	.80	0	0	0	0	0	0	0
\$94	\$96	12.70	8.70	4.70	.90	0	0	0	0	0	0	0
\$96	\$98	13.00	9.00	5.00	1.20	0	0	0	0	0	0	0
\$98	\$100	13.30	9.30	5.20	1.60	0	0	0	0	0	0	0
\$100	\$102	13.60	9.60	5.50	1.80	0	0	0	0	0	0	0
\$102	\$104	13.90	9.90	5.80	2.00	0	0	0	0	0	0	0
\$104	\$106	14.20	10.20	6.10	2.30	0	0	0	0	0	0	0
\$106	\$108	14.50	10.50	6.40	2.60	0	0	0	0	0	0	0
\$108	\$110	14.80	10.80	6.70	2.90	0	0	0	0	0	0	0
\$110	\$112	15.10	11.10	7.00	3.20	0	0	0	0	0	0	0
\$112	\$114	15.40	11.40	7.30	3.40	0	0	0	0	0	0	0
\$114	\$116	15.70	11.70	7.60	3.70	0	0	0	0	0	0	0
\$116	\$118	16.00	12.00	7.90	4.00	.20	0	0	0	0	0	0
\$118	\$120	16.30	12.30	8.20	4.30	.50	0	0	0	0	0	0
\$120	\$122	16.60	12.70	8.70	4.70	.90	0	0	0	0	0	0
\$122	\$124	17.40	13.30	9.30	5.30	1.50	0	0	0	0	0	0
\$124	\$126	18.00	13.90	9.90	5.80	2.00	0	0	0	0	0	0
\$126	\$128	18.60	14.50	10.50	6.40	2.60	0	0	0	0	0	0
\$128	\$130	19.20	15.10	11.10	7.00	3.20	0	0	0	0	0	0
\$130	\$132	19.80	15.70	11.70	7.60	3.70	0	0	0	0	0	0
\$132	\$134	20.40	16.30	12.30	8.20	4.30	.80	0	0	0	0	0
\$134	\$136	21.00	16.90	12.90	8.80	4.80	1.10	0	0	0	0	0
\$136	\$138	21.60	17.50	13.50	9.40	5.40	1.60	0	0	0	0	0
\$138	\$140	22.20	18.10	14.10	10.00	6.00	2.20	0	0	0	0	0
\$140	\$142	22.80	18.70	14.70	10.60	2.80	0	0	0	0	0	0
\$142	\$144	23.40	19.30	15.30	11.20	7.20	3.30	0	0	0	0	0
\$144	\$146	24.00	19.90	15.90	11.80	7.80	3.90	.10	0	0	0	0
\$146	\$148	24.70	20.50	16.50	12.40	8.40	4.40	.70	0	0	0	0
\$148	\$150	25.30	21.10	17.10	13.00	9.00	5.00	1.20	0	0	0	0
\$150	\$152	26.00	21.70	17.70	13.60	9.60	5.60	1.80	0	0	0	0
\$152	\$154	26.70	22.30	18.30	14.20	10.20	6.20	2.30	0	0	0	0
\$154	\$156	27.40	22.90	18.90	14.80	10.80	6.80	2.90	0	0	0	0
\$156	\$158	28.10	23.50	19.50	15.40	11.40	7.40	3.50	0	0	0	0
\$158	\$160	28.70	24.10	20.10	16.00	12.00	8.00	4.00	.80	0	0	0
\$160	\$162	29.40	24.70	20.70	16.60	12.60	8.60	4.60	1.30	0	0	0
\$162	\$164	30.10	25.30	21.30	17.20	13.20	9.20	5.20	1.90	0	0	0
\$164	\$166	30.80	25.90	21.90	17.80	13.80	9.80	5.80	2.50	0	0	0
\$166	\$168	31.50	26.50	22.50	18.40	14.40	10.40	6.40	3.10	0	0	0
\$168	\$170	32.20	27.10	23.10	19.00	15.00	11.00	7.00	3.70	.80	0	0
\$170	\$172	32.90	27.70	23.70	19.60	15.60	11.60	7.60	4.30	1.70	0	0
\$172	\$174	33.60	28.30	24.30	20.20	16.20	12.20	8.20	4.90	2.30	0	0
\$174	\$176	34.30	28.90	24.90	20.80	16.80	12.80	8.80	5.50	3.10	0	0
\$176	\$178	35.00	29.50	25.50	21.40	17.40	13.40	9.40	6.10	3.90	0	0
\$178	\$180	35.70	30.10	26.10	22.00	18.00	14.00	10.00	6.70	4.70	0	0
\$180	\$182	36.40	30.70	26.70	22.60	18.60	14.60	10.60	7.30	5.50	0	0
\$182	\$184	37.10	31.30	27.30	23.20	19.20	15.20	11.20	7.90	6.30	0	0
\$184	\$186	37.80	31.90	27.90	23.80	19.80	15.80	11.80	8.50	7.10	0	0
\$186	\$188	38.50	32.50	28.50	24.40	20.40	16.40	12.40	9.10	7.90	0	0
\$188	\$190	39.20	33.10	29.10	25.00	21.00	17.00	13.00	9.70	8.70	0	0
\$190	\$192	39.90	33.70	29.70	25.60	21.60	17.60	13.60	10.30	9.50	0	0
\$192	\$194	40.60	34.30	30.30	26.20	22.20	18.20	14.20	10.90	10.30	0	0
\$194	\$196	41.30	34.90	30.90	26.80	22.80	18.80	14.80	11.50	11.10	0	0
\$196	\$198	42.00	35.50	31.50	27.40	23.40	19.40	15.40	12.10	11.90	0	0
\$198	\$200	42.70	36.10	32.10	28.00	24.00	20.00	16.00	12.70	12.70	0	0

16

"If the payroll period with respect to an employee is biweekly and he is married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
\$200...	\$270...	\$40.10	\$55.60	\$31.00	\$26.40	\$22.10	\$18.00	\$14.00	\$9.90	\$5.90	\$2.10	\$0
\$270...	\$320...	41.80	37.80	32.70	28.10	23.60	19.60	15.80	11.40	7.40	3.50	0
\$320...	\$380...	43.80	39.00	34.40	29.80	25.20	21.00	17.00	12.90	8.90	4.90	1.10
\$380...	\$450...	45.20	40.70	36.10	31.60	26.90	22.60	18.50	14.40	10.40	6.40	2.50
\$450...	\$520...	47.80	43.20	38.60	34.00	29.60	24.90	20.70	16.70	12.70	8.70	4.60
\$520...	\$600...	51.20	46.60	42.00	37.40	32.90	28.30	23.70	19.70	15.70	11.60	7.60
\$600...	\$680...	54.90	50.00	45.40	40.80	36.30	31.70	27.10	22.70	18.70	14.60	10.60
\$680...	\$770...	58.90	53.60	48.80	44.20	39.70	35.10	30.60	26.90	21.70	17.60	13.60
\$770...	\$870...	62.90	57.50	52.20	47.60	43.10	38.50	33.90	29.80	24.80	20.60	16.60
\$870...	\$980...	66.90	61.50	56.20	51.00	46.50	41.90	37.80	32.70	28.90	23.60	19.60
\$980...	\$1,100...	70.90	65.50	60.20	54.80	49.90	45.30	40.70	36.10	31.60	27.00	22.60
\$1,100...	\$1,250...	74.90	69.50	64.20	58.80	53.40	48.70	44.10	39.50	35.00	30.40	25.80
\$1,250...	\$1,400...	78.90	73.50	68.20	62.80	57.40	52.10	47.50	42.90	38.40	33.80	29.20
\$1,400...	\$1,550...	82.90	77.50	72.20	66.80	61.40	56.00	51.30	46.70	41.90	37.20	32.60
\$1,550...	\$1,700...	86.90	81.50	76.20	70.80	65.40	60.00	54.90	49.70	44.90	40.40	36.00
\$1,700...	\$1,850...	90.90	85.50	80.20	74.80	69.40	64.00	58.60	53.20	48.40	44.00	39.40
\$1,850...	\$2,000...	94.90	89.50	84.20	78.80	73.40	68.00	62.60	57.20	52.00	47.40	42.80
\$2,000...	\$2,200...	98.90	93.50	88.20	82.80	77.40	72.00	66.60	61.20	55.80	50.80	46.20
\$2,200...	\$2,400...	102.90	97.50	92.20	86.80	81.40	76.00	70.50	65.20	59.80	54.50	49.60
\$2,400...	\$2,600...	106.90	101.50	96.20	90.80	85.40	80.00	74.50	69.20	63.80	58.50	53.10
\$2,600...	\$2,800...	110.90	105.50	100.20	94.80	89.40	84.00	78.50	73.20	67.80	62.50	57.10
\$2,800...	\$3,000...	114.90	109.50	104.20	98.80	93.40	88.00	82.60	77.20	71.80	66.50	61.10
\$3,000...	\$3,200...	118.90	113.50	108.20	102.80	97.40	92.00	86.60	81.20	75.80	70.50	65.10
\$3,200...	\$3,400...	123.40	117.50	112.20	106.80	101.40	96.00	90.50	85.20	79.80	74.50	69.10
\$3,400...	\$3,600...	128.40	121.70	116.20	110.80	105.40	100.00	94.50	89.20	83.80	78.50	73.10
\$3,600...	\$3,800...	133.40	126.70	120.20	114.80	109.40	104.00	98.50	93.20	87.80	82.50	77.10
\$3,800...	\$4,000...	138.40	131.70	124.90	118.80	113.40	108.00	102.60	97.20	91.80	86.50	81.10
\$4,000...	\$4,200...	143.40	136.70	129.90	123.20	117.40	112.00	106.60	101.20	95.80	90.50	85.10
\$4,200...	\$4,400...	148.40	141.70	134.90	128.20	122.50	116.00	110.50	105.20	99.80	94.50	89.10
\$4,400...	\$4,600...	153.40	146.70	139.90	133.20	126.50	120.00	114.50	109.20	103.80	98.50	93.10
\$4,600...	\$4,800...	158.40	151.70	144.90	138.20	131.50	124.70	118.00	112.20	106.80	101.50	97.10
\$4,800...	\$5,000...	163.40	156.70	149.90	143.20	136.50	129.70	123.00	117.20	111.80	106.50	101.10
\$5,000...	\$5,200...	169.50	161.70	154.90	148.20	141.50	134.70	128.00	122.00	116.50	111.00	105.10
\$5,200...	\$5,400...	175.50	167.50	159.90	153.20	146.50	139.70	133.00	127.00	121.50	115.50	109.10
\$5,400...	\$5,600...	181.50	173.50	165.40	158.20	151.50	144.70	138.00	131.30	124.50	118.50	113.10
\$5,600...	\$5,800...	187.50	179.50	171.40	163.30	156.50	149.70	143.00	136.30	129.50	123.50	117.10
\$5,800...	\$6,000...	193.50	185.50	177.40	169.30	161.50	154.70	148.00	141.30	134.50	128.50	121.10
\$6,000...	\$6,200...	199.50	191.50	183.40	175.30	167.50	159.70	153.00	146.30	139.50	133.50	126.10
\$6,200...	\$6,400...	205.50	197.50	189.40	181.30	173.50	165.70	159.00	151.30	144.50	138.50	131.10
\$6,400...	\$6,600...	211.50	203.50	195.40	187.30	179.50	171.70	163.10	156.30	149.50	143.50	136.10
\$6,600...	\$6,800...	217.50	209.50	201.40	193.30	185.50	177.70	169.10	161.30	154.50	148.50	141.10
\$6,800...	\$7,000...	223.50	215.50	207.40	199.30	191.50	183.20	175.10	167.00	159.50	153.50	146.10
\$7,000...	\$7,200...	229.50	221.50	213.40	205.30	197.50	189.20	181.10	173.00	165.00	159.00	151.10
\$7,200...	\$7,400...	235.50	227.50	219.40	211.30	203.50	195.20	187.10	179.00	171.00	163.00	155.10
\$7,400...	\$7,600...	241.50	233.50	225.40	217.30	209.50	201.20	193.10	185.00	177.00	169.00	161.10
\$7,600...	\$1,140...	247.50	239.50	231.40	223.30	215.50	207.20	199.10	191.00	183.00	174.90	166.90
30 percent of the excess over \$1,140 plus—												
\$1,140 and over...	250.00	242.50	234.40	226.80	218.80	210.20	202.10	194.00	186.00	177.90	169.80	

"If the payroll period with respect to an employee is semimonthly and he is not married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$0.....	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$1.....	\$1.....	.10	0	0	0	0	0	0	0	0	0	0
\$2.....	\$2.....	.40	0	0	0	0	0	0	0	0	0	0
\$3.....	\$3.....	.70	0	0	0	0	0	0	0	0	0	0
\$4.....	\$4.....	.90	0	0	0	0	0	0	0	0	0	0
\$5.....	\$5.....	1.20	0	0	0	0	0	0	0	0	0	0
\$6.....	\$6.....	1.30	0	0	0	0	0	0	0	0	0	0
\$7.....	\$7.....	1.50	0	0	0	0	0	0	0	0	0	0
\$8.....	\$8.....	2.10	0	0	0	0	0	0	0	0	0	0
\$9.....	\$9.....	2.20	0	0	0	0	0	0	0	0	0	0
\$10.....	\$10.....	2.60	0	0	0	0	0	0	0	0	0	0
\$11.....	\$11.....	2.90	0	0	0	0	0	0	0	0	0	0
\$12.....	\$12.....	2.90	0	0	0	0	0	0	0	0	0	0
\$13.....	\$13.....	3.20	0	0	0	0	0	0	0	0	0	0
\$14.....	\$14.....	3.50	0	0	0	0	0	0	0	0	0	0
\$15.....	\$15.....	4.10	0	0	0	0	0	0	0	0	0	0
\$16.....	\$16.....	4.40	0	0	0	0	0	0	0	0	0	0
\$17.....	\$17.....	4.70	.30	0	0	0	0	0	0	0	0	0
\$18.....	\$18.....	5.00	.60	0	0	0	0	0	0	0	0	0
\$19.....	\$19.....	5.30	1.10	0	0	0	0	0	0	0	0	0
\$20.....	\$20.....	5.60	1.30	0	0	0	0	0	0	0	0	0
\$21.....	\$21.....	5.90	1.60	0	0	0	0	0	0	0	0	0
\$22.....	\$22.....	6.20	1.90	0	0	0	0	0	0	0	0	0
\$23.....	\$23.....	6.50	2.20	0	0	0	0	0	0	0	0	0
\$24.....	\$24.....	6.80	2.50	0	0	0	0	0	0	0	0	0
\$25.....	\$25.....	7.20	2.70	0	0	0	0	0	0	0	0	0
\$26.....	\$26.....	7.50	2.90	0	0	0	0	0	0	0	0	0
\$27.....	\$27.....	7.80	2.80	0	0	0	0	0	0	0	0	0
\$28.....	\$28.....	8.20	2.90	0	0	0	0	0	0	0	0	0
\$29.....	\$29.....	8.50	2.90	0	0	0	0	0	0	0	0	0
\$30.....	\$30.....	8.80	3.00	0	0	0	0	0	0	0	0	0
\$31.....	\$31.....	9.20	3.10	.30	0	0	0	0	0	0	0	0
\$32.....	\$32.....	9.50	3.20	.60	0	0	0	0	0	0	0	0
\$33.....	\$33.....	9.80	3.10	.90	0	0	0	0	0	0	0	0
\$34.....	\$34.....	10.20	3.20	1.20	0	0	0	0	0	0	0	0
\$35.....	\$35.....	10.50	3.40	1.50	0	0	0	0	0	0	0	0
\$36.....	\$36.....	10.80	3.70	1.40	0	0	0	0	0	0	0	0
\$37.....	\$37.....	11.00	4.00	1.70	0	0	0	0	0	0	0	0
\$38.....	\$38.....	11.30	4.40	2.00	0	0	0	0	0	0	0	0
\$39.....	\$39.....	11.70	4.70	2.30	0	0	0	0	0	0	0	0
\$40.....	\$40.....	12.00	7.00	2.90	0	0	0	0	0	0	0	0
\$41.....	\$41.....	12.30	7.40	2.90	0	0	0	0	0	0	0	0
\$42.....	\$42.....	12.70	7.70	2.10	0	0	0	0	0	0	0	0
\$43.....	\$43.....	13.00	8.10	2.40	0	0	0	0	0	0	0	0
\$44.....	\$44.....	13.40	8.40	2.70	0	0	0	0	0	0	0	0
\$45.....	\$45.....	13.70	8.70	4.00	0	0	0	0	0	0	0	0
\$46.....	\$46.....	14.00	9.10	4.30	.20	0	0	0	0	0	0	0
\$47.....	\$47.....	14.40	9.40	4.60	.40	0	0	0	0	0	0	0
\$48.....	\$48.....	14.70	9.80	4.90	.70	0	0	0	0	0	0	0
\$49.....	\$49.....	15.10	10.10	5.20	1.00	0	0	0	0	0	0	0
\$50.....	\$50.....	15.40	10.40	5.50	1.30	0	0	0	0	0	0	0
\$51.....	\$51.....	15.70	10.80	5.80	1.60	0	0	0	0	0	0	0
\$52.....	\$52.....	16.10	11.10	6.20	1.90	0	0	0	0	0	0	0
\$53.....	\$53.....	16.40	11.50	6.50	2.10	0	0	0	0	0	0	0
\$54.....	\$54.....	16.80	11.80	6.80	2.40	0	0	0	0	0	0	0
\$55.....	\$55.....	17.10	12.10	7.20	2.70	0	0	0	0	0	0	0
\$56.....	\$56.....	17.40	12.50	7.50	3.00	0	0	0	0	0	0	0
\$57.....	\$57.....	17.80	12.80	7.90	3.20	0	0	0	0	0	0	0
\$58.....	\$58.....	18.20	13.20	8.40	3.70	0	0	0	0	0	0	0
\$59.....	\$59.....	19.00	14.00	9.00	4.30	.10	0	0	0	0	0	0
\$60.....	\$60.....	19.50	14.70	9.70	4.90	.70	0	0	0	0	0	0
\$61.....	\$61.....	20.30	15.40	10.40	5.50	1.30	0	0	0	0	0	0
\$62.....	\$62.....	21.00	16.00	11.10	6.10	1.90	0	0	0	0	0	0
\$63.....	\$63.....	21.70	16.70	11.80	6.90	2.40	0	0	0	0	0	0
\$64.....	\$64.....	22.40	17.40	12.40	7.50	2.90	0	0	0	0	0	0
\$65.....	\$65.....	23.30	18.10	13.10	8.20	3.50	0	0	0	0	0	0
\$66.....	\$66.....	23.70	18.80	13.80	8.80	4.10	0	0	0	0	0	0
\$67.....	\$67.....	24.40	19.40	14.50	9.40	4.70	.50	0	0	0	0	0
\$68.....	\$68.....	25.10	20.10	15.20	10.20	5.30	1.10	0	0	0	0	0
\$69.....	\$69.....	25.80	20.80	15.80	10.90	5.90	1.70	0	0	0	0	0
\$70.....	\$70.....	26.40	21.60	16.50	11.50	6.60	2.20	0	0	0	0	0
\$71.....	\$71.....	27.10	22.20	17.20	12.30	7.30	2.80	0	0	0	0	0
\$72.....	\$72.....	27.80	22.80	17.90	12.90	8.00	3.40	0	0	0	0	0
\$73.....	\$73.....	28.50	23.50	18.60	13.60	8.60	4.00	0	0	0	0	0
\$74.....	\$74.....	29.20	24.20	19.20	14.30	9.30	4.60	.40	0	0	0	0
\$75.....	\$75.....	30.00	24.90	19.90	15.00	10.00	5.20	.80	0	0	0	0
\$76.....	\$76.....	30.80	25.60	20.60	15.60	10.70	5.80	1.50	0	0	0	0
\$77.....	\$77.....	31.60	26.20	21.30	16.30	11.40	6.40	2.10	0	0	0	0
\$78.....	\$78.....	32.00	27.40	22.50	17.50	12.60	7.60	3.00	0	0	0	0
\$79.....	\$79.....	33.00	28.20	23.50	18.50	13.60	8.30	4.50	1.40	0	0	0
\$80.....	\$80.....	34.00	29.00	24.50	19.50	14.60	9.00	5.00	1.80	0	0	0
\$81.....	\$81.....	35.00	29.80	25.50	20.50	15.60	9.70	5.50	2.20	0	0	0
\$82.....	\$82.....	36.00	30.00	27.00	22.00	17.00	12.00	7.00	3.20	0	0	0
\$83.....	\$83.....	37.00	30.20	27.60	22.50	17.50	12.50	7.50	3.70	.50	0	0
\$84.....	\$84.....	41.00	35.20	29.40	24.30	19.40	14.40	9.40	4.70	1.50	0	0
\$85.....	\$85.....	45.00	37.30	31.40	26.00	21.10	16.10	11.10	6.20	1.90	0	0

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"If the payroll period with respect to an employee is semimonthly and he is not married—

And the wages are—		And the number of withholding exemptions claimed to—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$250.....	\$370....	\$48.00	\$59.20	\$68.40	\$77.70	\$82.80	\$17.80	\$12.90	\$7.90	\$3.30	\$0	\$0
\$270.....	\$390....	47.00	41.20	35.40	29.50	24.60	19.50	14.50	9.50	4.30	.60	0
\$290.....	\$410....	46.00	42.20	37.60	31.50	26.20	21.20	16.20	11.20	6.20	2.00	0
\$310.....	\$430....	51.00	45.20	39.60	33.80	27.90	22.90	17.90	12.90	8.00	3.40	0
\$330.....	\$450....	54.00	48.20	42.40	36.80	30.70	25.80	20.80	15.80	10.90	5.70	1.40
\$350.....	\$470....	58.00	52.20	46.40	40.80	34.70	28.90	23.90	18.90	14.00	9.00	4.30
\$360.....	\$480....	62.00	56.20	50.40	44.80	38.70	32.90	27.90	22.90	17.40	12.40	7.80
\$380.....	\$500....	66.20	60.20	54.40	48.80	42.70	36.90	31.90	26.90	20.80	15.80	10.80
\$390.....	\$600....	71.20	64.20	58.40	52.80	46.70	40.90	35.90	29.20	24.20	19.20	14.20
\$400.....	\$620....	76.30	68.90	62.40	56.80	50.70	44.90	39.90	33.90	27.60	22.60	17.70
\$420.....	\$640....	81.20	73.90	66.40	60.80	54.70	48.90	43.90	37.20	31.60	26.60	21.10
\$440.....	\$660....	86.30	78.90	71.40	64.80	58.70	52.90	47.90	41.20	35.60	29.60	24.50
\$460.....	\$680....	91.80	83.90	76.40	68.80	62.70	56.90	51.90	45.20	39.60	33.60	27.90
\$480.....	\$700....	97.80	89.00	81.80	74.80	67.00	60.90	55.90	49.20	43.60	37.60	31.70
\$500.....	\$720....	103.80	94.00	86.80	79.80	72.00	64.90	59.00	53.20	47.60	41.60	35.70
\$520.....	\$740....	109.80	101.00	92.80	84.80	77.00	69.80	63.00	57.20	51.60	45.60	39.70
\$540.....	\$760....	115.80	107.00	98.80	90.80	83.00	74.80	67.00	61.20	55.60	49.60	43.70
\$560.....	\$780....	121.80	113.00	104.80	96.80	87.00	78.80	72.00	65.20	59.60	53.60	47.70
\$580.....	\$800....	127.80	119.00	110.80	101.80	92.00	84.80	77.00	70.20	63.60	57.60	51.70
\$600.....	\$820....	133.80	125.00	116.80	107.80	98.00	90.00	82.00	74.20	67.60	61.60	55.70
\$620.....	\$840....	139.80	131.00	122.80	113.80	104.00	96.00	87.00	78.20	72.00	65.60	59.70
\$640.....	\$860....	145.80	137.00	128.80	119.80	110.00	102.00	94.00	86.20	77.00	70.60	63.70
\$660.....	\$880....	151.80	143.00	134.80	125.80	116.00	108.00	98.20	90.20	82.00	74.60	67.70
\$680.....	\$700....	157.80	149.00	140.80	131.80	122.00	114.00	104.00	94.60	87.00	80.60	73.70
\$700.....	\$720....	163.80	155.00	146.80	137.80	128.00	120.00	111.00	103.00	94.80	84.60	77.70
\$720.....	\$740....	169.80	161.00	152.80	143.80	134.00	126.00	117.00	108.00	98.00	91.00	83.70
\$740.....	\$760....	175.80	167.00	158.80	149.80	140.00	132.00	123.00	114.00	104.00	97.00	89.70
80 percent of the excess over \$760 plus—												
\$760 and over....		178.80	170.00	161.80	152.80	143.80	135.00	126.80	117.80	108.80	100.00	91.80

"If the payroll period with respect to an employee is semimonthly and he is married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
\$0.....	\$5.....	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$5.....	\$10.....	.10	0	0	0	0	0	0	0	0	0	0
\$10.....	\$12.....	.40	0	0	0	0	0	0	0	0	0	0
\$12.....	\$14.....	.70	0	0	0	0	0	0	0	0	0	0
\$14.....	\$16.....	.90	0	0	0	0	0	0	0	0	0	0
\$16.....	\$18.....	1.20	0	0	0	0	0	0	0	0	0	0
\$18.....	\$20.....	1.50	0	0	0	0	0	0	0	0	0	0
\$20.....	\$22.....	1.80	0	0	0	0	0	0	0	0	0	0
\$22.....	\$24.....	2.10	0	0	0	0	0	0	0	0	0	0
\$24.....	\$26.....	2.30	0	0	0	0	0	0	0	0	0	0 or more
\$26.....	\$28.....	2.60	0	0	0	0	0	0	0	0	0	0
\$28.....	\$30.....	2.90	0	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	3.20	0	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	3.50	0	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	3.70	0	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	4.00	0	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	4.30	.20	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	4.50	.50	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	4.90	.80	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	5.10	1.10	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	5.40	1.30	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	5.70	1.60	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	6.00	1.90	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	6.30	2.20	0	0	0	0	0	0	0	0	0
\$54.....	\$56.....	6.60	2.50	0	0	0	0	0	0	0	0	0
\$56.....	\$58.....	6.90	2.70	0	0	0	0	0	0	0	0	0
\$58.....	\$60.....	7.20	3.00	0	0	0	0	0	0	0	0	0
\$60.....	\$62.....	7.50	3.30	0	0	0	0	0	0	0	0	0
\$62.....	\$64.....	7.80	3.60	0	0	0	0	0	0	0	0	0
\$64.....	\$66.....	8.10	3.90	0	0	0	0	0	0	0	0	0
\$66.....	\$68.....	8.40	4.10	0	0	0	0	0	0	0	0	0
\$68.....	\$70.....	8.70	4.40	.30	0	0	0	0	0	0	0	0
\$70.....	\$72.....	9.00	4.70	.60	0	0	0	0	0	0	0	0
\$72.....	\$74.....	9.30	5.00	.90	0	0	0	0	0	0	0	0
\$74.....	\$76.....	9.60	5.30	1.20	0	0	0	0	0	0	0	0
\$76.....	\$78.....	9.90	5.60	1.40	0	0	0	0	0	0	0	0
\$78.....	\$80.....	10.20	5.80	1.70	0	0	0	0	0	0	0	0
\$80.....	\$82.....	10.50	6.10	2.00	0	0	0	0	0	0	0	0
\$82.....	\$84.....	10.80	6.40	2.30	0	0	0	0	0	0	0	0
\$84.....	\$86.....	11.10	6.70	2.60	0	0	0	0	0	0	0	0
\$86.....	\$88.....	11.40	7.00	2.80	0	0	0	0	0	0	0	0
\$88.....	\$90.....	11.70	7.30	3.10	0	0	0	0	0	0	0	0
\$90.....	\$92.....	12.00	7.60	3.40	0	0	0	0	0	0	0	0
\$92.....	\$94.....	12.30	7.90	3.70	0	0	0	0	0	0	0	0
\$94.....	\$96.....	12.60	8.20	4.00	0	0	0	0	0	0	0	0
\$96.....	\$98.....	12.90	8.50	4.20	.20	0	0	0	0	0	0	0
\$98.....	\$100.....	13.20	8.80	4.50	.40	0	0	0	0	0	0	0
\$100.....	\$102.....	13.50	9.10	4.80	.70	0	0	0	0	0	0	0
\$102.....	\$104.....	13.80	9.40	5.10	1.00	0	0	0	0	0	0	0
\$104.....	\$106.....	14.10	9.70	5.40	1.30	0	0	0	0	0	0	0
\$106.....	\$108.....	14.40	10.00	5.60	1.60	0	0	0	0	0	0	0
\$108.....	\$110.....	14.70	10.30	5.90	1.80	0	0	0	0	0	0	0
\$110.....	\$112.....	15.00	10.60	6.20	2.10	0	0	0	0	0	0	0
\$112.....	\$114.....	15.30	10.90	6.50	2.40	0	0	0	0	0	0	0
\$114.....	\$116.....	15.60	11.20	6.80	2.70	0	0	0	0	0	0	0
\$116.....	\$118.....	15.90	11.50	7.10	3.00	0	0	0	0	0	0	0
\$118.....	\$120.....	16.20	11.80	7.40	3.20	0	0	0	0	0	0	0
\$120.....	\$122.....	16.60	12.20	7.90	3.70	0	0	0	0	0	0	0
\$122.....	\$124.....	17.20	12.90	8.50	4.20	.10	0	0	0	0	0	0
\$124.....	\$126.....	17.80	13.50	9.10	4.80	.70	0	0	0	0	0	0
\$126.....	\$128.....	18.40	14.10	9.70	5.30	1.30	0	0	0	0	0	0
\$128.....	\$130.....	19.00	14.70	10.30	5.90	1.80	0	0	0	0	0	0
\$130.....	\$132.....	19.60	15.30	10.90	6.50	2.40	0	0	0	0	0	0
\$132.....	\$134.....	20.20	15.90	11.50	7.10	2.90	0	0	0	0	0	0
\$134.....	\$136.....	20.80	16.50	12.10	7.70	3.50	0	0	0	0	0	0
\$136.....	\$138.....	21.40	17.10	12.70	8.30	4.10	0	0	0	0	0	0
\$138.....	\$140.....	22.00	17.70	13.30	8.90	4.70	.50	0	0	0	0	0
\$140.....	\$142.....	22.60	18.30	13.90	9.50	5.20	1.10	0	0	0	0	0

"If the payroll period with respect to an employee is semimonthly and he is married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$164	\$168	\$23.20	\$18.90	\$14.50	\$10.10	\$5.70	\$1.70	\$0	\$0	\$0	\$0	\$0
\$168	\$172	23.80	19.50	15.10	10.70	6.30	2.20	0	0	0	0	0
\$172	\$176	24.40	20.10	15.70	11.30	6.90	2.80	0	0	0	0	0
\$176	\$180	25.00	20.70	16.30	11.90	7.50	3.30	0	0	0	0	0
\$180	\$184	25.60	21.30	16.90	12.50	8.10	3.90	0	0	0	0	0
\$184	\$188	26.20	21.90	17.50	13.10	8.70	4.50	.40	0	0	0	0
\$188	\$192	27.00	22.50	18.10	13.70	9.30	5.00	.90	0	0	0	0
\$192	\$196	27.60	23.10	18.70	14.30	9.90	5.60	1.50	0	0	0	0
\$196	\$200	28.80	23.70	19.30	14.90	10.50	6.20	2.10	0	0	0	0
\$200	\$204	29.60	24.30	19.90	15.50	11.10	7.20	3.00	0	0	0	0
\$204	\$220	31.20	26.50	21.80	17.50	13.10	8.70	4.40	0.40	0	0	0
\$220	\$230	32.90	28.00	23.30	19.00	14.60	10.20	5.80	1.80	0	0	0
\$230	\$240	34.60	29.70	24.80	20.50	16.10	11.70	7.30	3.30	0	0	0
\$240	\$250	36.30	31.40	26.40	22.00	17.60	13.20	8.80	4.80	.60	0	0
\$250	\$260	38.00	33.10	28.10	23.50	19.10	14.70	10.30	6.30	1.90	0	0
\$260	\$270	39.70	34.80	29.80	25.00	20.60	16.20	11.80	7.80	3.30	0	0
\$270	\$280	41.40	36.50	31.50	26.50	22.10	17.70	13.30	9.00	4.70	.80	0
\$280	\$290	43.10	38.20	33.20	28.00	23.60	19.20	14.80	10.50	6.10	2.00	0
\$290	\$300	44.80	39.90	34.90	29.50	25.10	20.70	16.30	12.00	7.50	3.40	0
\$300	\$320	47.40	42.40	37.50	32.00	27.60	23.00	18.20	14.20	9.80	6.50	1.40
\$320	\$340	50.80	45.80	40.90	35.90	30.90	26.00	21.60	17.20	12.80	8.50	4.20
\$340	\$360	54.20	49.20	44.30	39.80	34.80	29.40	24.60	20.20	15.80	11.50	7.10
\$360	\$380	57.70	52.60	47.70	42.70	37.70	32.90	27.90	23.20	18.80	14.50	10.10
\$380	\$400	61.70	56.00	51.10	46.10	41.10	36.30	31.20	26.30	21.80	17.50	13.10
\$400	\$420	65.70	59.50	54.50	49.50	44.50	39.60	34.60	29.70	24.80	20.50	16.10
\$420	\$440	69.70	63.00	58.00	52.90	47.90	43.00	38.00	33.10	28.30	23.50	19.10
\$440	\$460	73.70	67.50	62.00	56.80	51.80	46.40	41.40	36.50	31.80	26.50	22.10
\$460	\$480	77.70	71.80	66.00	60.20	54.70	49.80	44.80	39.90	34.90	29.90	25.10
\$480	\$500	81.70	76.00	70.00	64.00	58.00	53.20	48.20	43.30	38.30	33.30	28.40
\$500	\$520	85.70	79.50	74.00	68.20	62.20	56.60	51.60	45.70	41.70	36.70	31.80
\$520	\$540	89.70	83.80	78.20	72.20	66.80	60.50	55.00	50.10	45.10	40.20	35.20
\$540	\$560	93.70	87.80	82.00	76.20	70.80	64.50	58.70	53.50	48.50	43.50	38.60
\$560	\$580	97.70	91.80	86.00	80.20	74.80	68.50	62.70	56.90	51.90	46.90	42.00
\$580	\$600	101.70	95.80	90.00	84.20	78.80	72.50	66.70	60.80	55.80	50.30	45.40
\$600	\$620	105.70	99.80	94.00	88.20	82.80	76.50	70.70	64.80	59.00	53.70	48.80
\$620	\$640	109.70	103.80	98.00	92.20	86.80	80.50	74.70	68.80	63.00	57.20	52.20
\$640	\$660	113.70	107.80	102.00	96.20	90.80	84.50	78.70	72.80	67.00	61.20	55.60
\$660	\$680	117.70	111.80	106.00	100.20	94.80	88.50	82.70	76.90	71.00	65.20	59.30
\$680	\$700	121.70	115.80	110.00	104.20	98.80	92.50	86.70	80.80	75.00	69.20	63.30
\$700	\$720	125.70	119.80	114.00	108.20	102.80	96.50	90.70	84.80	79.00	73.20	67.30
\$720	\$740	129.70	123.80	118.00	112.20	106.80	100.50	94.70	88.80	83.00	77.20	71.80
\$740	\$760	134.00	127.50	122.00	116.20	110.80	104.50	98.70	92.80	87.00	81.20	75.80
\$760	\$780	138.80	132.00	126.00	120.20	114.80	108.50	102.70	96.90	91.00	85.20	79.30
\$780	\$800	144.80	137.00	130.00	124.20	118.80	112.50	106.70	101.80	96.00	90.20	83.80
\$800	\$820	149.80	142.00	134.70	128.20	122.80	116.50	110.70	104.80	99.00	93.20	87.80
\$820	\$840	154.80	147.00	139.70	132.40	126.80	120.50	114.70	108.90	103.00	97.20	91.80
\$840	\$860	159.80	152.00	144.70	137.40	130.80	124.50	118.70	112.80	107.00	101.20	95.80
\$860	\$880	164.80	157.00	149.70	142.40	135.10	128.50	122.70	116.80	111.00	105.20	99.30
\$880	\$900	169.80	162.00	154.70	147.40	140.10	132.50	126.70	120.80	115.00	109.20	103.80
\$900	\$920	174.80	167.00	159.70	152.40	144.10	137.50	130.70	124.80	119.00	113.20	107.80
\$920	\$940	180.00	172.00	164.70	157.40	148.10	142.80	135.60	128.80	123.00	117.20	111.80
\$940	\$960	186.00	177.20	169.70	162.40	153.10	147.80	140.60	133.30	127.00	121.20	115.80
\$960	\$980	192.00	182.40	174.70	167.40	158.10	152.80	145.60	138.30	131.00	125.20	119.80
\$980	\$1,000	198.00	188.20	180.50	172.40	163.10	157.80	150.50	143.30	135.00	129.20	123.80
\$1,000	\$1,020	204.00	194.20	186.50	177.70	170.10	162.80	155.50	148.30	141.00	133.70	127.80
\$1,020	\$1,040	210.00	200.20	192.60	183.70	175.10	167.80	160.50	153.30	146.00	138.70	131.40
\$1,040	\$1,060	216.00	207.20	198.60	189.70	181.00	172.80	165.60	158.30	151.00	143.70	135.40
\$1,060	\$1,080	222.00	213.20	204.50	195.70	187.00	178.20	170.60	163.30	156.00	148.70	141.40
\$1,080	\$1,100	228.00	219.20	210.50	201.70	192.00	184.20	175.60	168.30	161.00	153.70	145.40
\$1,100	\$1,120	234.00	225.20	216.50	207.70	198.00	190.20	181.60	173.30	166.00	158.70	151.40
\$1,120	\$1,140	240.00	231.20	222.50	213.70	205.00	196.20	187.60	178.70	171.00	163.70	155.40
\$1,140	\$1,160	246.00	237.20	228.50	219.70	211.00	202.20	193.60	184.70	176.00	168.70	161.40
\$1,160	\$1,180	252.00	243.20	234.50	225.70	217.00	208.20	199.60	190.70	182.00	173.70	166.40
\$1,180	\$1,200	258.00	249.20	240.50	231.70	223.00	214.20	205.60	196.70	188.00	179.70	171.40
\$1,200	\$1,220	264.00	255.20	246.50	237.70	229.00	220.20	211.50	202.70	194.00	185.20	176.50
30 percent of the excess over \$1,220 plus—												
\$1,220 and over...		267.00	268.20	249.80	240.70	232.00	223.20	214.50	206.70	197.00	188.20	179.50

"If the payroll period with respect to an employee is monthly and he is not married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$10.....	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$10.....	\$20.....	.20	0	0	0	0	0	0	0	0	0	0
\$20.....	\$24.....	.70	0	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	1.30	0	0	0	0	0	0	0	0	0	0
\$25.....	\$32.....	1.90	0	0	0	0	0	0	0	0	0	0
\$32.....	\$36.....	2.40	0	0	0	0	0	0	0	0	0	0
\$36.....	\$40.....	3.00	0	0	0	0	0	0	0	0	0	0
\$40.....	\$44.....	3.60	0	0	0	0	0	0	0	0	0	0
\$44.....	\$48.....	4.10	0	0	0	0	0	0	0	0	0	0
\$48.....	\$52.....	4.70	0	0	0	0	0	0	0	0	0	0
\$52.....	\$56.....	5.20	0	0	0	0	0	0	0	0	0	0
\$56.....	\$60.....	5.80	0	0	0	0	0	0	0	0	0	0
\$60.....	\$64.....	6.40	0	0	0	0	0	0	0	0	0	0
\$64.....	\$68.....	7.00	0	0	0	0	0	0	0	0	0	0
\$68.....	\$72.....	7.60	0	0	0	0	0	0	0	0	0	0
\$72.....	\$76.....	8.20	0	0	0	0	0	0	0	0	0	0
\$76.....	\$80.....	8.80	.60	0	0	0	0	0	0	0	0	0
\$80.....	\$84.....	9.40	1.40	0	0	0	0	0	0	0	0	0
\$84.....	\$88.....	10.00	1.50	0	0	0	0	0	0	0	0	0
\$88.....	\$92.....	10.60	2.10	0	0	0	0	0	0	0	0	0
\$92.....	\$96.....	11.20	2.70	0	0	0	0	0	0	0	0	0
\$96.....	\$100.....	11.80	3.30	0	0	0	0	0	0	0	0	0
\$100.....	\$104.....	12.40	3.80	0	0	0	0	0	0	0	0	0
\$104.....	\$108.....	13.10	4.30	0	0	0	0	0	0	0	0	0
\$108.....	\$112.....	13.80	4.90	0	0	0	0	0	0	0	0	0
\$112.....	\$116.....	14.50	5.50	0	0	0	0	0	0	0	0	0
\$116.....	\$120.....	15.10	6.00	0	0	0	0	0	0	0	0	0
\$120.....	\$124.....	15.80	6.60	0	0	0	0	0	0	0	0	0
\$124.....	\$128.....	16.50	7.20	0	0	0	0	0	0	0	0	0
\$128.....	\$132.....	17.20	7.80	0	0	0	0	0	0	0	0	0
\$132.....	\$136.....	17.90	8.40	.10	0	0	0	0	0	0	0	0
\$136.....	\$140.....	18.50	9.00	.70	0	0	0	0	0	0	0	0
\$140.....	\$144.....	19.20	9.60	1.20	0	0	0	0	0	0	0	0
\$144.....	\$148.....	19.90	10.20	1.80	0	0	0	0	0	0	0	0
\$148.....	\$152.....	20.60	10.80	2.30	0	0	0	0	0	0	0	0
\$152.....	\$156.....	21.30	11.40	2.90	0	0	0	0	0	0	0	0
\$156.....	\$160.....	21.90	12.00	3.50	0	0	0	0	0	0	0	0
\$160.....	\$164.....	22.60	12.70	4.00	0	0	0	0	0	0	0	0
\$164.....	\$168.....	23.30	13.40	4.60	0	0	0	0	0	0	0	0
\$168.....	\$172.....	24.00	14.10	5.10	0	0	0	0	0	0	0	0
\$172.....	\$176.....	24.70	14.70	5.70	0	0	0	0	0	0	0	0
\$176.....	\$180.....	25.30	15.40	6.30	0	0	0	0	0	0	0	0
\$180.....	\$184.....	26.00	16.10	6.90	0	0	0	0	0	0	0	0
\$184.....	\$188.....	26.70	16.80	7.50	0	0	0	0	0	0	0	0
\$188.....	\$192.....	27.40	17.50	8.10	0	0	0	0	0	0	0	0
\$192.....	\$196.....	28.10	18.10	8.70	.30	0	0	0	0	0	0	0
\$196.....	\$200.....	28.70	18.80	9.30	.90	0	0	0	0	0	0	0
\$200.....	\$204.....	29.40	19.50	9.90	1.40	0	0	0	0	0	0	0
\$204.....	\$208.....	30.10	20.20	10.50	2.00	0	0	0	0	0	0	0
\$208.....	\$212.....	30.80	20.90	11.10	2.60	0	0	0	0	0	0	0
\$212.....	\$216.....	31.50	21.50	11.70	3.10	0	0	0	0	0	0	0
\$216.....	\$220.....	32.10	22.20	12.30	3.70	0	0	0	0	0	0	0
\$220.....	\$224.....	32.80	22.90	13.00	4.20	0	0	0	0	0	0	0
\$224.....	\$228.....	33.50	23.60	13.70	4.80	0	0	0	0	0	0	0
\$228.....	\$232.....	34.20	24.30	14.40	5.40	0	0	0	0	0	0	0
\$232.....	\$236.....	34.90	24.90	15.00	6.00	0	0	0	0	0	0	0
\$236.....	\$240.....	35.50	25.60	15.70	6.50	0	0	0	0	0	0	0
\$240.....	\$244.....	36.00	26.00	16.70	7.40	0	0	0	0	0	0	0
\$244.....	\$248.....	37.90	28.00	18.10	8.60	.80	0	0	0	0	0	0
\$248.....	\$252.....	39.30	29.40	19.50	9.80	1.40	0	0	0	0	0	0

“If the payroll period with respect to an employee is monthly and he is not married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
\$264...	\$272...	\$40.00	\$30.70	\$20.60	\$11.00	\$2.50	\$0	\$0	\$0	\$0	\$0	\$0
\$272...	\$280...	42.00	32.10	22.20	12.30	3.60	0	0	0	0	0	0
\$280...	\$288...	43.40	33.40	23.60	13.60	4.80	0	0	0	0	0	0
\$288...	\$296...	44.70	34.80	24.90	14.90	5.90	0	0	0	0	0	0
\$296...	\$304...	46.10	36.20	26.30	16.20	7.10	0	0	0	0	0	0
\$304...	\$312...	47.40	37.50	27.60	17.70	8.30	0	0	0	0	0	0
\$312...	\$320...	48.80	38.90	29.00	19.10	9.50	1.10	0	0	0	0	0
\$320...	\$328...	50.20	40.30	30.30	20.40	10.70	2.20	0	0	0	0	0
\$328...	\$336...	51.50	41.70	31.70	21.90	11.90	3.30	0	0	0	0	0
\$336...	\$344...	52.90	43.00	33.10	23.10	13.20	4.40	0	0	0	0	0
\$344...	\$352...	54.20	44.30	34.40	24.60	14.60	5.60	0	0	0	0	0
\$352...	\$360...	55.60	45.70	35.80	25.90	15.90	6.70	0	0	0	0	0
\$360...	\$368...	57.00	47.00	37.10	27.20	17.20	7.90	0	0	0	0	0
\$368...	\$376...	58.50	48.40	38.50	28.60	18.70	9.10	0	0	0	0	0
\$376...	\$384...	60.10	49.80	39.90	29.90	20.00	10.30	1.90	0	0	0	0
\$384...	\$392...	61.70	51.10	41.20	31.20	21.40	11.60	3.00	0	0	0	0
\$392...	\$400...	63.30	52.60	42.60	32.70	22.70	12.90	4.10	0	0	0	0
\$400...	\$408...	65.00	54.00	44.00	34.00	24.10	14.20	5.10	0	0	0	0
\$408...	\$416...	70.10	58.40	48.40	38.40	28.50	18.60	9.10	0	0	0	0
\$416...	\$424...	74.10	62.40	51.80	41.80	31.90	22.00	12.10	3.00	0	0	0
\$424...	\$432...	78.10	66.40	55.20	45.20	35.30	25.40	15.50	6.30	0	0	0
\$432...	\$440...	82.10	70.40	58.60	48.60	38.70	28.80	18.90	9.30	0	0	0
\$440...	\$448...	86.10	74.40	62.00	52.00	42.10	32.20	22.30	12.40	3.70	0	0
\$448...	\$456...	90.10	78.40	65.40	55.40	45.50	35.60	25.70	15.80	6.60	0	0
\$456...	\$464...	94.10	82.40	70.80	59.10	48.90	39.00	29.10	19.20	9.80	1.20	0
\$464...	\$472...	98.10	86.40	74.80	63.10	52.30	42.40	32.50	22.60	12.70	4.00	0
\$472...	\$480...	102.10	90.40	78.80	67.10	55.70	45.80	35.90	26.00	16.10	6.80	0
\$480...	\$488...	106.10	94.40	84.30	73.10	61.40	50.90	41.00	31.10	21.20	11.90	2.80
\$488...	\$496...	110.10	104.40	92.80	81.10	66.40	57.80	47.80	37.00	28.00	18.00	8.60
\$496...	\$504...	124.10	112.40	100.80	89.10	77.40	65.80	54.60	44.70	34.80	24.80	14.90
\$504...	\$512...	132.40	120.40	108.80	97.10	85.40	73.80	62.10	51.60	41.60	31.60	21.70
\$512...	\$520...	142.40	128.40	116.80	105.10	93.40	81.80	70.10	58.40	48.40	38.40	28.50
\$520...	\$528...	152.40	137.80	124.80	113.10	101.40	88.80	78.10	66.40	56.20	45.20	35.30
\$528...	\$536...	162.40	147.80	133.80	121.10	109.40	97.80	86.10	74.40	63.80	52.00	42.10
\$536...	\$544...	172.40	157.80	143.80	129.10	117.40	106.80	94.10	82.40	70.80	59.10	48.90
\$544...	\$552...	183.00	167.80	153.80	138.70	125.40	113.80	102.10	90.40	78.80	67.10	55.70
\$552...	\$560...	196.00	178.10	163.80	148.70	134.10	121.80	110.10	98.40	86.80	75.10	63.40
\$560...	\$1,000...	207.90	183.10	173.30	158.70	144.10	129.80	118.10	106.40	94.80	83.10	71.40
\$1,000...	\$1,050...	210.60	202.10	184.60	168.70	154.10	139.00	128.10	114.40	102.80	91.10	79.40
\$1,050...	\$1,100...	251.60	214.10	196.60	179.10	164.10	149.60	134.90	122.40	110.80	99.10	87.40
\$1,100...	\$1,150...	248.60	226.10	208.60	191.10	174.10	159.60	144.90	130.40	113.80	107.10	95.40
\$1,150...	\$1,200...	255.60	238.10	220.60	203.10	185.60	169.60	154.90	140.80	126.80	116.30	103.40
\$1,200...	\$1,250...	267.60	250.10	232.60	215.10	197.60	180.60	164.90	150.80	135.80	122.10	111.40
\$1,250...	\$1,300...	279.60	262.10	244.60	227.10	209.60	192.10	174.90	160.80	145.80	131.20	119.40
\$1,300...	\$1,350...	291.60	274.10	256.60	239.10	221.60	204.10	186.90	170.80	155.80	141.20	127.40
\$1,350...	\$1,400...	303.60	286.10	268.60	251.10	233.60	216.10	198.90	181.10	165.80	151.20	135.40
\$1,400...	\$1,450...	315.60	298.10	280.60	263.10	245.60	228.10	210.90	193.10	175.80	161.20	143.40
\$1,450...	\$1,500...	327.60	310.10	292.60	275.10	257.60	240.10	222.90	205.10	187.80	171.20	151.40
\$1,500...	\$1,550...	339.60	322.10	304.60	287.10	269.60	252.10	234.90	217.10	199.80	182.10	159.40
\$1,550...	\$1,600...	351.60	334.10	316.60	299.10	281.60	264.10	246.90	229.10	211.80	194.10	176.40

30 percent of the excess over \$1,600 plus—											
\$1,600 and over...	\$37.60	\$40.10	\$23.60	\$36.10	\$57.60	\$70.10	\$83.60	\$33.10	\$17.60	\$20.10	\$83.60

"If the payroll period with respect to an employee is monthly and he is married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0	\$16	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$16	\$20	.20	0	0	0	0	0	0	0	0	0	0
\$20	\$24	.70	0	0	0	0	0	0	0	0	0	0
\$24	\$28	1.30	0	0	0	0	0	0	0	0	0	0
\$28	\$32	1.90	0	0	0	0	0	0	0	0	0	0
\$32	\$36	2.40	0	0	0	0	0	0	0	0	0	0
\$36	\$40	3.00	0	0	0	0	0	0	0	0	0	0
\$40	\$44	3.50	0	0	0	0	0	0	0	0	0	0
\$44	\$48	4.10	0	0	0	0	0	0	0	0	0	0
\$48	\$52	4.70	0	0	0	0	0	0	0	0	0	0
\$52	\$56	5.20	0	0	0	0	0	0	0	0	0	0
\$56	\$60	5.80	0	0	0	0	0	0	0	0	0	0
\$60	\$64	6.30	0	0	0	0	0	0	0	0	0	0
\$64	\$68	6.90	0	0	0	0	0	0	0	0	0	0
\$68	\$72	7.50	0	0	0	0	0	0	0	0	0	0
\$72	\$76	8.00	0	0	0	0	0	0	0	0	0	0
\$76	\$80	8.60	.40	0	0	0	0	0	0	0	0	0
\$80	\$84	9.10	1.00	0	0	0	0	0	0	0	0	0
\$84	\$88	9.70	1.50	0	0	0	0	0	0	0	0	0
\$88	\$92	10.30	2.10	0	0	0	0	0	0	0	0	0
\$92	\$96	10.80	2.70	0	0	0	0	0	0	0	0	0
\$96	\$100	11.40	3.20	0	0	0	0	0	0	0	0	0
\$100	\$104	12.00	3.80	0	0	0	0	0	0	0	0	0
\$104	\$108	12.60	4.30	0	0	0	0	0	0	0	0	0
\$108	\$112	13.20	4.90	0	0	0	0	0	0	0	0	0
\$112	\$116	13.80	5.50	0	0	0	0	0	0	0	0	0
\$116	\$120	14.40	6.00	0	0	0	0	0	0	0	0	0
\$120	\$124	15.00	6.60	0	0	0	0	0	0	0	0	0
\$124	\$128	15.60	7.10	0	0	0	0	0	0	0	0	0
\$128	\$132	16.20	7.70	0	0	0	0	0	0	0	0	0
\$132	\$136	16.80	8.30	.10	0	0	0	0	0	0	0	0
\$136	\$140	17.40	8.80	.70	0	0	C	0	0	0	0	0
\$140	\$144	18.00	9.40	1.20	0	0	0	0	0	0	0	0
\$144	\$148	18.60	9.90	1.80	0	0	0	0	0	0	0	0
\$148	\$152	19.20	10.50	2.30	0	0	0	0	0	0	0	0
\$152	\$156	19.80	11.10	2.90	0	0	0	0	0	0	0	0
\$156	\$160	20.40	11.60	3.50	0	0	0	0	0	0	0	0
\$160	\$164	21.00	12.20	4.00	0	0	0	0	0	0	0	0
\$164	\$168	21.60	12.80	4.60	0	0	0	0	0	0	0	0
\$168	\$172	22.20	13.40	5.10	0	0	0	0	0	0	0	0
\$172	\$176	22.80	14.00	5.70	0	0	0	0	0	0	0	0
\$176	\$180	23.40	14.60	6.30	0	0	0	0	0	0	0	0
\$180	\$184	24.00	15.20	6.80	0	0	0	0	0	0	0	0
\$184	\$188	24.60	15.80	7.40	0	0	0	0	0	0	0	0
\$188	\$192	25.20	16.40	7.90	0	0	0	0	0	0	0	0
\$192	\$196	25.80	17.00	8.50	.30	0	0	0	0	0	0	0
\$196	\$200	26.40	17.60	9.10	.90	0	0	0	0	0	0	0
\$200	\$204	27.00	18.20	9.60	1.40	0	0	0	0	0	0	0
\$204	\$208	27.60	18.80	10.20	2.00	0	0	0	0	0	0	0
\$208	\$212	28.20	19.40	10.70	2.60	0	0	0	0	0	0	0
\$212	\$216	28.80	20.00	11.30	3.10	0	0	0	0	0	0	0
\$216	\$220	29.40	20.60	11.90	3.70	0	0	0	0	0	0	0
\$220	\$224	30.00	21.20	12.50	4.20	0	0	0	0	0	0	0
\$224	\$228	30.60	21.80	13.10	4.80	0	0	0	0	0	0	0
\$228	\$232	31.20	22.40	13.70	5.40	0	0	0	0	0	0	0
\$232	\$236	31.80	23.00	14.30	6.00	0	0	0	0	0	0	0
\$236	\$240	32.40	23.60	14.90	6.60	0	0	0	0	0	0	0
\$240	\$248	33.20	24.80	15.80	7.30	0	0	0	0	0	0	0
\$248	\$256	34.80	25.70	17.00	8.40	.30	0	0	0	0	0	0
\$256	\$264	35.70	28.90	18.20	9.60	1.40	0	0	0	0	0	0
\$264	\$272	36.90	28.10	19.40	10.70	2.50	0	0	0	0	0	0
\$272	\$280	38.10	29.30	20.60	11.80	3.60	0	0	0	0	0	0
\$280	\$288	39.30	30.50	21.80	13.00	4.80	0	0	0	0	0	0
\$288	\$296	40.60	31.70	23.00	14.20	5.90	0	0	0	0	0	0
\$296	\$304	41.70	32.90	24.20	15.40	7.00	0	0	0	0	0	0
\$304	\$312	42.90	34.10	25.40	16.60	8.10	0	0	0	0	0	0
\$312	\$320	44.10	35.30	26.60	17.80	9.20	1.10	0	0	0	0	0
\$320	\$328	45.30	36.50	27.80	19.00	10.40	2.20	0	0	0	0	0

"If the payroll period with respect to an employee is monthly and he is married—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$328.....	\$336.....	\$46.80	\$37.70	\$29.00	\$20.20	\$11.60	\$3.30	\$0	\$0	\$0	\$0	\$0
\$336.....	\$344.....	47.70	38.90	30.20	21.40	12.70	4.40	0	0	0	0	0
\$344.....	\$352.....	48.90	40.10	31.40	22.60	13.90	5.60	0	0	0	0	0
\$352.....	\$360.....	50.10	41.80	32.60	23.80	15.10	6.70	0	0	0	0	0
\$360.....	\$368.....	51.30	42.60	33.80	25.00	16.30	7.80	0	0	0	0	0
\$368.....	\$376.....	52.60	43.70	35.00	26.20	17.50	8.90	0	0	0	0	0
\$376.....	\$384.....	53.90	44.90	36.20	27.40	18.70	10.00	0	0	0	0	0
\$384.....	\$392.....	55.30	46.30	37.40	28.60	19.90	11.20	3.00	0	0	0	0
\$392.....	\$400.....	56.70	47.80	38.60	29.80	21.10	12.30	4.10	0	0	0	0
\$400.....	\$420.....	59.00	49.40	40.70	31.90	23.20	14.40	6.10	0	0	0	0
\$420.....	\$440.....	62.40	52.60	43.70	34.90	26.20	17.40	8.90	0	0	0	0
\$440.....	\$460.....	66.80	56.90	46.70	37.90	29.20	20.40	11.70	3.70	0	0	0
\$460.....	\$480.....	69.20	60.30	49.70	40.90	32.20	23.40	14.70	6.30	0	0	0
\$480.....	\$500.....	72.60	62.70	52.80	43.90	35.20	26.40	17.70	9.10	0	0	0
\$500.....	\$520.....	76.00	66.10	56.20	46.90	38.20	29.40	20.70	11.90	3.90	0	0
\$520.....	\$540.....	79.40	69.60	59.60	49.90	41.20	32.40	23.70	14.90	6.60	0	0
\$540.....	\$560.....	82.80	73.00	63.00	52.90	44.20	35.40	26.90	17.90	9.40	1.20	0
\$560.....	\$580.....	86.20	76.30	66.40	55.90	47.20	38.40	29.70	20.90	12.20	4.00	0
\$580.....	\$600.....	89.60	79.70	69.80	58.90	50.20	41.40	32.70	23.90	15.20	6.80	0
\$600.....	\$640.....	94.70	84.80	74.90	65.00	55.10	45.90	37.20	28.40	19.70	11.00	2.80
\$640.....	\$680.....	101.60	91.60	81.70	71.80	61.90	52.00	43.50	34.40	25.70	16.90	5.40
\$680.....	\$720.....	106.30	96.40	86.50	76.70	66.80	57.00	46.80	37.40	28.90	19.20	8.20
\$720.....	\$760.....	115.30	105.20	95.30	85.40	75.60	65.60	55.60	46.40	37.70	28.90	20.20
\$760.....	\$800.....	123.30	112.00	102.10	92.20	82.80	72.40	62.40	52.60	43.70	34.90	26.20
\$800.....	\$840.....	131.30	119.70	109.90	99.00	89.10	79.20	69.20	59.80	49.70	40.90	32.20
\$840.....	\$880.....	139.30	127.70	117.60	106.80	96.90	86.00	76.00	66.10	56.20	48.90	38.20
\$880.....	\$920.....	147.30	135.70	125.40	114.60	104.70	93.80	83.80	72.90	63.00	53.10	44.20
\$920.....	\$960.....	155.30	143.70	133.20	122.30	109.60	99.60	89.60	79.70	69.60	59.90	50.20
\$960.....	\$1,000.....	163.30	151.70	141.00	130.20	116.70	106.40	96.40	86.60	76.60	66.70	56.80
\$1,000.....	\$1,040.....	171.30	159.70	148.00	138.30	124.70	113.20	103.20	92.30	83.40	73.60	63.60
\$1,040.....	\$1,080.....	179.30	167.70	155.90	146.30	132.70	121.00	110.10	100.10	90.20	80.70	70.40
\$1,080.....	\$1,120.....	187.30	175.70	163.80	154.30	140.70	128.00	117.80	108.90	97.00	87.10	77.20
\$1,120.....	\$1,160.....	195.30	183.70	171.70	162.30	148.70	135.00	125.80	115.70	103.80	93.90	84.00
\$1,160.....	\$1,200.....	203.30	191.70	179.60	170.30	156.70	143.00	133.30	121.70	110.00	100.70	90.80
\$1,200.....	\$1,240.....	211.30	199.70	187.60	178.30	164.70	151.00	141.80	129.70	118.00	107.50	97.60
\$1,240.....	\$1,280.....	219.30	207.70	195.60	186.30	172.70	159.00	149.90	137.70	126.00	114.30	104.40
\$1,280.....	\$1,320.....	227.30	215.70	203.60	194.30	180.70	166.00	157.80	145.70	134.00	122.30	111.20
\$1,320.....	\$1,360.....	235.30	223.70	211.60	202.30	188.70	173.00	165.90	153.70	142.00	130.30	118.20
\$1,360.....	\$1,400.....	243.30	231.70	219.60	210.30	196.70	181.00	173.90	161.70	150.00	138.30	126.70
\$1,400.....	\$1,440.....	251.30	239.70	227.60	218.30	204.70	189.00	181.90	169.70	158.00	146.30	134.70
\$1,440.....	\$1,480.....	259.30	247.70	235.60	226.30	212.70	201.00	189.90	177.70	166.00	154.30	142.70
\$1,480.....	\$1,520.....	268.30	255.70	243.60	234.30	220.70	209.00	197.80	185.70	174.00	162.30	150.70
\$1,520.....	\$1,560.....	278.30	264.70	252.60	242.30	228.70	217.00	205.90	193.70	182.00	170.30	158.70
\$1,560.....	\$1,600.....	288.30	274.70	260.60	250.30	236.70	225.00	213.90	201.70	190.00	178.30	166.70
\$1,600.....	\$1,640.....	298.30	284.70	269.60	258.30	244.70	233.00	221.90	209.70	198.00	186.30	174.70
\$1,640.....	\$1,680.....	308.30	294.70	278.60	266.30	252.70	241.00	229.90	217.70	206.00	194.30	182.70
\$1,680.....	\$1,720.....	318.30	304.70	286.60	274.30	260.70	249.00	237.80	225.70	214.00	202.30	190.70
\$1,720.....	\$1,760.....	328.30	314.70	294.60	282.30	270.70	257.00	245.90	233.70	222.00	210.30	198.70
\$1,760.....	\$1,800.....	338.30	324.70	302.60	290.30	280.70	265.00	253.90	241.70	230.00	218.30	206.70
\$1,800.....	\$1,840.....	348.30	334.70	310.60	298.30	290.70	273.00	261.90	249.70	238.00	226.30	214.70
\$1,840.....	\$1,880.....	358.30	344.70	318.60	306.30	300.70	281.00	270.00	257.70	246.00	234.30	222.70
\$1,880.....	\$1,920.....	371.90	358.40	338.40	324.80	310.80	295.70	281.10	268.60	254.00	242.30	230.70
\$1,920.....	\$1,960.....	383.90	369.40	349.40	334.80	320.90	305.70	291.10	278.60	262.00	250.30	238.70
\$1,960.....	\$2,000.....	396.90	377.40	360.90	344.80	330.90	315.70	301.10	288.60	271.00	258.30	246.70
\$2,000.....	\$2,040.....	407.90	390.40	372.90	356.90	340.80	325.70	311.10	298.60	281.00	267.30	254.70
\$2,040.....	\$2,080.....	419.90	402.40	384.90	367.90	350.80	335.70	321.10	308.60	291.00	277.30	262.70
\$2,080.....	\$2,120.....	431.90	414.40	396.90	379.90	361.90	345.70	331.10	318.60	301.00	287.30	272.70
\$2,120.....	\$2,160.....	443.90	426.40	408.90	391.90	373.90	356.40	341.10	328.60	311.00	297.30	282.70
\$2,160.....	\$2,200.....	455.90	438.40	420.90	403.90	385.90	368.40	351.10	338.60	321.00	307.30	292.70
\$2,200.....	\$2,240.....	467.90	450.40	432.90	415.90	397.90	380.40	362.90	348.60	331.00	317.30	302.70
\$2,240.....	\$2,280.....	479.90	462.40	444.90	427.90	408.90	392.40	374.90	357.40	341.00	327.30	312.70
\$2,280.....	\$2,320.....	491.90	474.40	456.90	439.90	421.90	404.40	388.90	369.40	351.00	337.30	322.70
\$2,320.....	\$2,360.....	503.90	486.40	468.90	451.90	433.90	416.40	398.90	381.40	363.00	347.30	332.70
\$2,360.....	\$2,400.....	515.90	498.40	480.90	463.90	445.90	428.40	410.90	393.40	375.00	358.40	342.70
\$2,400.....	\$2,440.....	527.90	510.40	492.90	475.90	457.90	440.40	422.90	405.40	387.00	370.40	352.70
30 percent of the excess over \$2,440 plus—												
\$2,440 and over..		533.00	516.40	498.90	481.40	463.90	446.40	428.90	411.40	393.90	376.40	358.90

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period and he is not married—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such periods—										
\$27.00...	\$28.00...	\$5.15	\$4.65	\$4.20	\$3.85	\$3.45	\$3.05	\$2.70	\$2.30	\$1.90	\$1.60	\$1.25
\$28.00...	\$29.00...	5.40	4.90	4.45	4.05	3.65	3.25	2.90	2.50	2.10	1.75	1.40
\$29.00...	\$30.00...	5.65	5.15	4.70	4.25	3.85	3.45	3.10	2.70	2.30	1.90	1.60
\$30.00...	\$31.00...	5.90	5.40	4.95	4.45	4.05	3.65	3.30	2.90	2.50	2.10	1.75
\$31.00...	\$32.00...	6.20	5.65	5.20	4.70	4.25	3.85	3.50	3.10	2.70	2.30	1.95
\$32.00...	\$33.00...	6.50	5.95	5.45	4.95	4.50	4.05	3.70	3.30	2.90	2.50	2.15
\$33.00...	\$34.00...	6.80	6.25	5.70	5.20	4.75	4.25	3.90	3.50	3.10	2.70	2.35
\$34.00...	\$35.00...	7.10	6.55	5.95	5.45	5.00	4.50	4.10	3.70	3.30	2.90	2.55
\$35.00...	\$36.00...	7.40	6.85	6.25	5.70	5.25	4.75	4.30	3.90	3.50	3.10	2.75
\$36.00...	\$37.00...	7.70	7.15	6.55	6.00	5.50	5.00	4.50	4.10	3.70	3.30	2.95
\$37.00...	\$38.00...	8.00	7.45	6.85	6.30	5.75	5.25	4.75	4.30	3.90	3.50	3.15
\$38.00...	\$39.00...	8.30	7.75	7.15	6.60	6.00	5.50	5.00	4.55	4.10	3.70	3.35
\$39.00...	\$40.00...	8.60	8.05	7.45	6.90	6.30	5.75	5.25	4.80	4.30	3.90	3.55
\$40.00...	\$41.00...	8.90	8.35	7.75	7.20	6.60	6.05	5.50	5.05	4.55	4.10	3.75
\$41.00...	\$42.00...	9.20	8.65	8.05	7.50	6.90	6.35	5.75	5.30	4.80	4.35	3.95
\$42.00...	\$43.00...	9.50	8.95	8.35	7.80	7.20	6.65	6.05	5.55	5.05	4.60	4.15
\$43.00...	\$44.00...	9.80	9.25	8.65	8.10	7.50	6.95	6.35	5.80	5.30	4.85	4.35
\$44.00...	\$45.00...	10.10	9.55	8.95	8.40	7.80	7.25	6.65	6.10	5.55	5.10	4.60
\$45.00...	\$46.00...	10.40	9.85	9.25	8.70	8.10	7.55	6.95	6.40	5.80	5.35	4.85
\$46.00...	\$47.00...	10.70	10.15	9.55	9.00	8.40	7.85	7.25	6.70	6.10	5.60	5.10
\$47.00...	\$48.00...	11.00	10.45	9.85	9.30	8.70	8.15	7.55	7.00	6.40	5.85	5.35
\$48.00...	\$49.00...	11.30	10.75	10.15	9.60	9.00	8.45	7.85	7.30	6.70	6.15	5.60
\$49.00...	\$50.00...	11.60	11.05	10.45	9.90	9.30	8.75	8.15	7.60	7.00	6.45	5.85
		80 percent of the excess over \$50 plus—										
\$50 and over.....		11.75	11.20	10.60	10.05	9.45	8.90	8.30	7.75	7.15	6.60	6.00

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period and he is married--

And the wages divided by the number of days in such period are--		And the number of withholding exemptions claimed is--										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least--	But less than--	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such periods--										
\$0.00	\$0.75	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0.75	\$1.00	.05	0	0	0	0	0	0	0	0	0	0
\$1.00	\$1.25	.10	0	0	0	0	0	0	0	0	0	0
\$1.25	\$1.50	.10	0	0	0	0	0	0	0	0	0	0
\$1.50	\$1.75	.15	0	0	0	0	0	0	0	0	0	0
\$1.75	\$2.00	.20	0	0	0	0	0	0	0	0	0	0
\$2.00	\$2.25	.20	0	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.25	0	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.30	0	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.35	.05	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.35	.10	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.40	.15	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.45	.15	0	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.45	.20	0	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.50	.25	0	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.55	.25	0	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.60	.30	.05	0	0	0	0	0	0	0	0
\$4.75	\$5.00	.60	.35	.05	0	0	0	0	0	0	0	0
\$5.00	\$5.25	.65	.35	.10	0	0	0	0	0	0	0	0
\$5.25	\$5.50	.70	.40	.15	0	0	0	0	0	0	0	0
\$5.50	\$5.75	.75	.45	.15	0	0	0	0	0	0	0	0
\$5.75	\$6.00	.75	.50	.20	0	0	0	0	0	0	0	0
\$6.00	\$6.25	.80	.50	.25	0	0	0	0	0	0	0	0
\$6.25	\$6.50	.85	.55	.30	0	0	0	0	0	0	0	0
\$6.50	\$6.75	.90	.60	.30	.05	0	0	0	0	0	0	0
\$6.75	\$7.00	.90	.65	.35	.10	0	0	0	0	0	0	0
\$7.00	\$7.25	.95	.65	.40	.10	0	0	0	0	0	0	0
\$7.25	\$7.50	1.00	.70	.40	.15	0	0	0	0	0	0	0
\$7.50	\$7.75	1.05	.75	.45	.20	0	0	0	0	0	0	0
\$7.75	\$8.00	1.05	.80	.50	.20	0	0	0	0	0	0	0
\$8.00	\$8.25	1.10	.80	.55	.25	0	0	0	0	0	0	0
\$8.25	\$8.50	1.15	.85	.55	.30	0	0	0	0	0	0	0
\$8.50	\$8.75	1.20	.90	.60	.35	.05	0	0	0	0	0	0
\$8.75	\$9.00	1.20	.95	.65	.35	.10	0	0	0	0	0	0
\$9.00	\$9.25	1.25	.95	.70	.40	.15	0	0	0	0	0	0
\$9.25	\$9.50	1.30	1.00	.70	.45	.15	0	0	0	0	0	0
\$9.50	\$9.75	1.35	1.05	.75	.45	.20	0	0	0	0	0	0
\$9.75	\$10.00	1.35	1.10	.80	.50	.25	0	0	0	0	0	0
\$10.00	\$10.50	1.45	1.15	.85	.55	.30	0	0	0	0	0	0
\$10.50	\$11.00	1.60	1.20	.95	.65	.35	.10	0	0	0	0	0
\$11.00	\$11.50	1.60	1.30	1.00	.70	.45	.15	0	0	0	0	0
\$11.50	\$12.00	1.65	1.35	1.10	.80	.60	.25	0	0	0	0	0
\$12.00	\$12.50	1.75	1.45	1.15	.85	.60	.30	.05	0	0	0	0
\$12.50	\$13.00	1.80	1.50	1.25	.95	.65	.35	.10	0	0	0	0
\$13.00	\$13.50	1.90	1.60	1.30	1.00	.75	.45	.15	0	0	0	0
\$13.50	\$14.00	2.00	1.65	1.40	1.10	.80	.60	.25	0	0	0	0
\$14.00	\$14.50	2.05	1.75	1.45	1.15	.90	.60	.30	.05	0	0	0
\$14.50	\$15.00	2.15	1.85	1.55	1.25	.95	.65	.40	.10	0	0	0
\$15.00	\$15.50	2.25	1.90	1.60	1.30	1.05	.75	.45	.20	0	0	0
\$15.50	\$16.00	2.35	2.00	1.70	1.40	1.10	.80	.65	.25	0	0	0
\$16.00	\$16.50	2.40	2.10	1.75	1.45	1.20	.90	.60	.30	.05	0	0
\$16.50	\$17.00	2.50	2.15	1.85	1.55	1.25	.95	.70	.40	.10	0	0
\$17.00	\$17.50	2.60	2.25	1.95	1.60	1.35	1.05	.75	.45	.20	0	0
\$17.50	\$18.00	2.65	2.35	2.00	1.70	1.40	1.10	.85	.55	.25	0	0
\$18.00	\$18.50	2.75	2.45	2.10	1.75	1.50	1.20	.90	.60	.35	.05	0
\$18.50	\$19.00	2.85	2.50	2.20	1.85	1.65	1.25	1.00	.70	.40	.15	0
\$19.00	\$19.50	2.90	2.60	2.25	1.95	1.65	1.35	1.05	.75	.50	.20	0
\$19.50	\$20.00	3.00	2.70	2.35	2.05	1.70	1.40	1.15	.85	.55	.25	0
\$20.00	\$21.00	3.15	2.80	2.50	2.15	1.85	1.55	1.25	.95	.65	.40	.10
\$21.00	\$22.00	3.30	3.00	2.65	2.35	2.00	1.70	1.40	1.10	.80	.55	.25
\$22.00	\$23.00	3.45	3.15	2.80	2.50	2.15	1.85	1.55	1.25	.95	.70	.40
\$23.00	\$24.00	3.65	3.30	3.00	2.65	2.35	2.00	1.70	1.40	1.10	.85	.55
\$24.00	\$25.00	3.85	3.50	3.15	2.85	2.50	2.20	1.85	1.55	1.25	1.00	.70

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period and he is married--

And the wages divided by the number of days in such period are--		And the number of withholding exemptions claimed is--										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least--	But less than--	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such periods--										
\$25.00	\$26.00	\$4.05	\$3.65	\$3.35	\$3.00	\$2.70	\$2.35	\$2.05	\$1.70	\$1.40	\$1.15	\$0.85
\$26.00	\$27.00	4.25	3.85	3.50	3.20	2.85	2.50	2.20	1.85	1.55	1.30	1.00
\$27.00	\$28.00	4.45	4.05	3.65	3.35	3.00	2.70	2.35	2.05	1.70	1.45	1.15
\$28.00	\$29.00	4.65	4.25	3.85	3.50	3.20	2.85	2.55	2.20	1.90	1.60	1.30
\$29.00	\$30.00	4.85	4.45	4.05	3.70	3.35	3.05	2.70	2.40	2.05	1.75	1.45
\$30.00	\$31.00	5.05	4.65	4.25	3.90	3.55	3.20	2.90	2.55	2.25	1.90	1.60
\$31.00	\$32.00	5.25	4.85	4.45	4.10	3.75	3.35	3.05	2.70	2.40	2.05	1.75
\$32.00	\$33.00	5.45	5.05	4.65	4.30	3.95	3.55	3.20	2.90	2.55	2.25	1.90
\$33.00	\$34.00	5.65	5.25	4.85	4.50	4.15	3.75	3.40	3.05	2.75	2.40	2.10
\$34.00	\$35.00	5.85	5.45	5.05	4.70	4.35	3.95	3.55	3.25	2.90	2.60	2.25
\$35.00	\$36.00	6.05	5.65	5.25	4.90	4.55	4.15	3.75	3.40	3.10	2.75	2.40
\$36.00	\$37.00	6.25	5.85	5.45	5.10	4.75	4.35	3.95	3.55	3.25	2.90	2.60
\$37.00	\$38.00	6.45	6.05	5.65	5.30	4.95	4.55	4.15	3.75	3.45	3.10	2.75
\$38.00	\$39.00	6.65	6.25	5.85	5.50	5.15	4.75	4.35	3.95	3.60	3.25	2.90
\$39.00	\$40.00	6.85	6.45	6.05	5.70	5.35	4.95	4.55	4.15	3.75	3.45	3.10
\$40.00	\$41.00	7.05	6.65	6.25	5.90	5.55	5.15	4.75	4.35	3.95	3.60	3.25
\$41.00	\$42.00	7.25	6.85	6.45	6.10	5.75	5.35	4.95	4.55	4.15	3.75	3.45
\$42.00	\$43.00	7.45	7.05	6.65	6.30	5.95	5.55	5.15	4.75	4.35	3.95	3.60
\$43.00	\$44.00	7.65	7.25	6.85	6.50	6.15	5.75	5.35	4.95	4.55	4.15	3.80
\$44.00	\$45.00	7.85	7.45	7.05	6.70	6.35	5.95	5.55	5.15	4.75	4.35	4.00
\$45.00	\$46.00	8.05	7.65	7.25	6.90	6.55	6.15	5.75	5.35	4.95	4.55	4.20
\$46.00	\$47.00	8.25	7.85	7.45	7.10	6.75	6.35	5.95	5.55	5.15	4.75	4.40
\$47.00	\$48.00	8.45	8.05	7.65	7.30	6.95	6.55	6.15	5.75	5.35	4.95	4.60
\$48.00	\$49.00	8.65	8.25	7.85	7.50	7.15	6.75	6.35	5.95	5.55	5.15	4.80
\$49.00	\$50.00	8.90	8.45	8.05	7.70	7.35	6.95	6.55	6.15	5.75	5.35	5.00
\$50.00	\$51.00	9.15	8.65	8.25	7.90	7.55	7.15	6.75	6.35	5.95	5.55	5.20
\$51.00	\$52.00	9.40	8.90	8.45	8.10	7.75	7.35	6.95	6.55	6.15	5.75	5.40
\$52.00	\$53.00	9.65	9.15	8.65	8.30	7.95	7.55	7.15	6.75	6.35	5.95	5.60
\$53.00	\$54.00	9.90	9.40	8.90	8.55	8.15	7.75	7.35	6.95	6.55	6.15	5.80
\$54.00	\$55.00	10.15	9.65	9.15	8.75	8.35	7.95	7.55	7.15	6.75	6.35	6.00
\$55.00	\$56.00	10.40	9.90	9.40	9.05	8.65	8.15	7.75	7.35	6.95	6.55	6.20
\$56.00	\$57.00	10.65	10.15	9.65	9.25	8.75	8.35	7.95	7.55	7.15	6.75	6.40
\$57.00	\$58.00	10.90	10.40	9.90	9.45	8.95	8.55	8.15	7.75	7.35	6.95	6.60
\$58.00	\$59.00	11.15	10.65	10.15	9.70	9.20	8.75	8.30	7.95	7.55	7.15	6.80
\$59.00	\$60.00	11.40	10.90	10.40	9.95	9.45	9.00	8.55	8.15	7.75	7.35	7.00
\$60.00	\$61.00	11.65	11.15	10.65	10.20	9.70	9.25	8.75	8.35	7.95	7.55	7.20
\$61.00	\$62.00	11.95	11.40	10.90	10.45	9.95	9.50	9.00	8.55	8.15	7.75	7.40
\$62.00	\$63.00	12.25	11.65	11.15	10.70	10.20	9.75	9.25	8.75	8.35	7.95	7.60
\$63.00	\$64.00	12.55	11.95	11.40	10.95	10.45	10.00	9.50	9.00	8.55	8.15	7.80
\$64.00	\$65.00	12.85	12.25	11.70	11.20	10.70	10.25	9.75	9.25	8.80	8.35	8.00
\$65.00	\$66.00	13.15	12.55	12.00	11.45	10.95	10.50	10.00	9.50	9.05	8.55	8.20
\$66.00	\$67.00	13.45	12.85	12.30	11.70	11.20	10.75	10.25	9.75	9.30	8.80	8.40
\$67.00	\$68.00	13.75	13.15	12.60	12.00	11.45	11.00	10.50	10.00	9.55	9.05	8.60
\$68.00	\$69.00	14.05	13.45	12.90	12.30	11.75	11.25	10.75	10.25	9.80	9.30	8.85
\$69.00	\$70.00	14.35	13.75	13.20	12.60	12.05	11.50	11.00	10.50	10.05	9.55	9.10
\$70.00	\$71.00	14.65	14.05	13.50	12.90	12.35	11.75	11.25	10.75	10.30	9.80	9.35
\$71.00	\$72.00	14.95	14.35	13.80	13.20	12.65	12.05	11.50	11.00	10.55	10.05	9.60
\$72.00	\$73.00	15.25	14.65	14.10	13.50	12.95	12.35	11.80	11.25	10.80	10.30	9.85
\$73.00	\$74.00	15.55	14.95	14.40	13.80	13.25	12.65	12.10	11.50	11.05	10.55	10.10
\$74.00	\$75.00	15.85	15.25	14.70	14.10	13.55	12.95	12.40	11.80	11.30	10.85	10.35
\$75.00	\$76.00	16.15	15.55	15.00	14.40	13.85	13.25	12.70	12.10	11.55	11.05	10.60
\$76.00	\$77.00	16.45	15.85	15.30	14.70	14.15	13.55	13.00	12.40	11.85	11.30	10.85
\$77.00	\$78.00	16.75	16.15	15.60	15.00	14.45	13.85	13.30	12.70	12.15	11.65	11.10
\$78.00	\$79.00	17.05	16.45	15.90	15.30	14.75	14.15	13.60	13.00	12.45	11.85	11.35
\$79.00	\$80.00	17.35	16.75	16.20	15.60	15.05	14.45	13.90	13.30	12.75	12.15	11.60
		30 percent of the excess over \$80 plus--										
\$80 and over		17.60	16.90	16.35	15.75	15.20	14.60	14.05	13.45	12.90	12.30	11.75"

29

1 (d) DISCLOSURE OF MARITAL STATUS; DETERMINA-
2 TION OF MARITAL STATUS; TREATMENT OF SURVIVING
3 SPOUSE.—Section 3402 (relating to income tax collected at
4 source) is amended by adding at the end thereof the follow-
5 ing new subsection:

6 “(1) DETERMINATION AND DISCLOSURE OF MARITAL
7 STATUS.—

8 “(1) DETERMINATION OF STATUS BY EM-
9 PLOYER.—For purposes of applying the tables in sub-
10 sections (a) and (c) to a payment of wages, the em-
11 ployer shall treat the employee as a single person unless
12 there is in effect with respect to such payment of wages
13 a withholding exemption certificate furnished to the em-
14 ployer by the employee after the date of the enactment
15 of this subsection indicating that the employee is
16 married.

17 “(2) DISCLOSURE OF STATUS BY EMPLOYEE.—An
18 employee shall be entitled to furnish the employer with
19 a withholding exemption certificate indicating he is mar-
20 ried only if, on the day of such furnishing, he is married
21 (determined with the application of the rules in para-

80

1 graph (3)). An employee whose marital status
2 changes from married to single shall, at such time as the
3 Secretary or his delegate may by regulations prescribe,
4 furnish the employer with a new withholding exemption
5 certificate.

6 “(3) DETERMINATION OF MARITAL STATUS.—For
7 purposes of paragraph (2), an employee shall on any
8 day be considered—

9 “(A) as not married, if (i) he is legally
10 separated from his spouse under a decree of divorce
11 or separate maintenance, or (ii) either he or his
12 spouse is, or on any preceding day within the
13 calendar year was, a nonresident alien; or

14 “(B) as married, if (i) his spouse (other than
15 a spouse referred to in subparagraph (A)) died
16 within the portion of his taxable year which pre-
17 cedes such day, or (ii) his spouse died during one
18 of the two taxable years immediately preceding
19 the current taxable year and, on the basis of facts
20 existing at the beginning of such day, the employee
21 reasonably expects, at the close of his taxable year,
22 to be a surviving spouse (as defined in section 2
23 (b)).”

24 (e) WITHHOLDING ALLOWANCES FOR ITEMIZED DE-
25 Ductions.—

§1

1 (1) ALLOWANCE.—Section 3402 (f) (1) (relating
2 to withholding exemptions) is amended—

3 (A) by striking out “and” at the end of
4 subparagraph (D),

5 (B) by striking out the period at the end of
6 subparagraph (E) and inserting in lieu thereof
7 “; and”, and

8 (C) by adding at the end thereof the follow-
9 ing new subparagraph:

10 “(F) any allowance to which he is entitled
11 under subsection (m), but only if his spouse does
12 not have in effect a withholding exemption certifi-
13 cate claiming such allowance.”

14 (2) WITHHOLDING ALLOWANCES BASED ON ITEM-
15 IZED DEDUCTIONS.—Section 3402 (relating to income
16 tax collected at source) is amended by adding at the
17 end thereof the following new subsection:

18 “(m) WITHHOLDING ALLOWANCES BASED ON ITEM-
19 IZED DEDUCTIONS.—

20 “(1) GENERAL RULE.—An employee shall be en-
21 titled to withholding allowances under this subsection
22 with respect to a payment of wages in a number equal
23 to the number determined by dividing by \$700 the
24 excess of —

32

1 “(A) his estimated itemized deductions, over

2 “(B) an amount equal to the sum of 12 per-

3 cent of the first \$7,500 of his estimated wages and

4 17 percent of the remainder of his estimated wages.

5 If the number determined under the preceding sentence is

6 not a whole number, the fraction shall be disregarded; ex-

7 cept that, if the number determined is one-half or more but

8 less than one, it shall be increased to one.

9 “(2) DEFINITIONS.—For purposes of this sub-

10 section—

11 “(A) ESTIMATED ITEMIZED DEDUCTIONS.—

12 The term ‘estimated itemized deductions’ means the

13 aggregate amount which he reasonably expects will

14 be allowable as deductions under chapter 1 (other

15 than the deductions referred to in sections 141 and

16 151 and other than the deductions required to be

17 taken into account in determining adjusted gross

18 income under section 62) for the estimation year.

19 In no case shall such aggregate amount be greater

20 than the amount of such deductions shown on his

21 return of tax under subtitle A for the taxable year

22 preceding the estimation year.

23 “(B) ESTIMATED WAGES.—The term ‘esti-

24 mated wages’ means the aggregate amount which he

25 reasonably expects will constitute wages for the

26 estimation year. In no case shall such aggregate

33

1 amount be less than the amount of wages shown
2 on his return for the taxable year preceding the
3 estimation year.

4 “(C) ESTIMATION YEAR.—In the case of an
5 employee who files his return on the basis of a
6 calendar year, the term ‘estimation year’ means—

7 “(i) with respect to payments of wages
8 after April 30 and on or before December 31
9 of any calendar year, such calendar year, and

10 “(ii) with respect to payments of wages
11 on or after January 1 and before May 1 of any
12 calendar year, the preceding calendar year (or,
13 if the employee has filed a return for the pre-
14 ceding calendar year, and if he has in effect
15 a withholding allowance under this subsection
16 based on using the current calendar year as
17 the estimation year, such current calendar
18 year).

19 In the case of an employee who files his return on
20 a basis other than the calendar year, his estimation
21 year, and the amounts deducted and withheld to be
22 governed by such estimation year, shall be deter-
23 mined under regulations prescribed by the Secretary
24 or his delegate.

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1 “(3) SPECIAL RULES.—

2 “(A) MARRIED INDIVIDUALS.—The number of
3 withholding allowances to which a husband and
4 wife are entitled under this subsection shall be de-
5 termined on the basis of their combined wages and
6 deductions. This subparagraph shall not apply to a
7 husband and wife who filed separate returns for the
8 taxable year preceding the estimation year and who
9 reasonably expect to file separate returns for the
10 estimation year.

11 “(B) ONLY ONE CERTIFICATE TO BE IN
12 EFFECT.—In the case of any employee, withhold-
13 ing allowances under this subsection may not be
14 claimed with more than one employer at any one
15 time.

16 “(C) TERMINATION OF EFFECTIVENESS.—In
17 the case of an employee who files his return on the
18 basis of a calendar year, that portion of a withhold-
19 ing exemption certificate which relates to allow-
20 ances under this subsection shall not be effective
21 with respect to payments of wages after the first
22 April 30 following the close of the estimation year
23 on which it is based.

24 “(D) LIMITATION.—The Secretary or his
25 delegate may by regulations provide that one or

35

1 more of the withholding allowances to which an
2 employee would, but for this subparagraph, be en-
3 titled under this subsection shall be denied because
4 such employee's estimated wages are above the
5 level at which the amounts deducted and withheld
6 under this chapter are generally sufficient to offset
7 the liability for tax under chapter 1 with respect
8 to the wages from which such amounts are deducted
9 and withheld.

10 (E) AUTHORITY TO PRESCRIBE TABLES.—

11 The Secretary or his delegate may prescribe tables
12 pursuant to which employees shall determine the
13 number of allowances to which they are entitled
14 under this subsection. Such tables may be based
15 on reasonable wage and itemized deduction brackets.

16 (F) TREATMENT OF ALLOWANCES.—For
17 purposes of this title, any withholding allowance
18 under this subsection shall be treated as if it were
19 denominated a withholding exemption.”

20 (3) STATUS DETERMINATION DATE.—The last sen-
21 tence of section 3402 (f) (3) (B) is amended to read as
22 follows: “For purposes of this subparagraph, the term
23 ‘status determination date’ means January 1, May 1,
24 July 1, and October 1 of each year.”

25 (4) CIVIL PENALTY.—

36

1 (A) Subchapter B of chapter 68 (relating to
2 assessable penalties) is amended by adding at the
3 end thereof the following new section:

4 **"SEC. 6682. FALSE INFORMATION WITH RESPECT TO**
5 **WITHHOLDING ALLOWANCES BASED ON**
6 **ITEMIZED DEDUCTIONS.**

7 "(a) CIVIL PENALTY.—In addition to any criminal
8 penalty provided by law, if any individual in claiming a
9 withholding allowance under section 3402 (f) (1) (F) states
10 (1) that the wages (within the meaning of chapter 24)
11 shown on his return for any taxable year were less than
12 such wages actually shown, or (2) that the itemized deduc-
13 tions referred to in section 3402 (m) on the return for any
14 taxable year were greater than such deductions actually
15 shown, he shall pay a penalty of \$50 for each such state-
16 ment, unless (1) such statement did not result in a decrease
17 in the amounts deducted and withheld under chapter 24, or
18 (2) the taxes imposed with respect to the individual under
19 subtitle A for the succeeding taxable year do not exceed
20 the sum of (A) the credits against such taxes allowed by
21 part IV of subchapter A of chapter 1, and (B) the pay-
22 ments of estimated tax which are considered payments on
23 account of such taxes.

24 "(b) DEFICIENCY PROCEDURES NOT TO APPLY.—
25 Subchapter B of chapter 63 (relating to deficiency pro-

37.

1 cedures for income, estate, and gift taxes) shall not apply
2 in respect of the assessment or collection of any penalty
3 imposed by subsection (a).”

4 (B) The table of sections of such subchapter
5 B is amended by adding at the end thereof the
6 following:

“Sec. 6682. False information with respect to withholding
allowances based on itemized deductions.”

7 (5) CRIMINAL PENALTY.—Section 7205 (relating
8 to fraudulent withholding exemption certificate or fail-
9 ure to supply information) is amended—

10 (A) by striking out “section 3402 (f)” and
11 inserting in lieu thereof “section 3402”, and

12 (B) by striking out “any penalty otherwise
13 provided” and inserting in lieu thereof “any other
14 penalty provided by law (except the penalty pro-
15 vided by section 6682)”.

16 (6) EFFECTIVE DATE.—The amendments made by
17 paragraphs (1) and (2) of this subsection shall apply
18 only with respect to remuneration paid after Decem-
19 ber 31, 1966, but only with respect to withholding
20 exemptions based on estimation years beginning after
21 such date.

22 (f) TRANSITIONAL DETERMINATION STATUS DATE.—
23 Notwithstanding section 3402 (f) (3) (B) of the Internal

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1 Revenue Code of 1954, a withholding exemption certificate
2 furnished the employer after the date of the enactment of
3 this Act and before May 1, 1966, shall take effect with
4 respect to the first payment of wages made on or after
5 May 1, 1966, or the 10th day after the date on which such
6 certificate is furnished to the employer, whichever is later,
7 and at the election of the employer such certificate may
8 be made effective with respect to any payment of wages
9 made on or after the date on which such certificate is
10 furnished.

11 (g) EFFECTIVE DATE.—The amendments made by
12 this section (other than subsection (e)) shall apply only
13 with respect to remuneration paid after April 30, 1966.

14 **SEC. 102. ESTIMATED TAX IN CASE OF INDIVIDUALS.**

15 (a) INCLUSION OF SELF-EMPLOYMENT TAX IN ESTI-
16 MATED TAX.—Section 6015(c) (relating to definition of
17 estimated tax in the case of an individual) is amended to
18 read as follows:

19 “(c) ESTIMATED TAX.—For purposes of this title, in
20 the case of an individual, the term ‘estimated tax’ means—

21 “(1) the amount which the individual estimates as
22 the amount of the income tax imposed by chapter 1
23 for the taxable year, plus

24 “(2) the amount which the individual estimates

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1 as the amount of the self-employment tax imposed by
2 chapter 2 for the taxable year, minus

3 “(3) the amount which the individual estimates
4 as the sum of any credits against tax provided by
5 part IV of subchapter A of chapter 1.”

6 (b) ADDITION TO TAX FOR UNDERPAYMENT OF
7 ESTIMATED TAX.—

8 (1) Section 6654 (a) (relating to addition to the
9 tax for underpayment of estimated tax by an individual)
10 is amended by inserting after “chapter 1” the following:
11 “and the tax under chapter 2”.

12 (2) Section 6654 (d) is amended to read as
13 follows:

14 “(d) EXCEPTION.—Notwithstanding the provisions of
15 the preceding subsections, the addition to the tax with re-
16 spect to any underpayment of any installment shall not be
17 imposed if the total amount of all payments of estimated tax
18 made on or before the last date prescribed for the payment
19 of such installment equals or exceeds the amount which
20 would have been required to be paid on or before such date
21 if the estimated tax were whichever of the following is the
22 least—

23 “(1) The tax shown on the return of the individual
24 for the preceding taxable year, if a return showing a

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1 liability for tax was filed by the individual for the pre-
2 ceding taxable year and such preceding year was a
3 taxable year of 12 months.

4 “(2) An amount equal to 70 percent (66 $\frac{2}{3}$ percent
5 in the case of individuals referred to in section 6073 (b),
6 relating to income from farming or fishing) of the tax
7 for the taxable year computed by placing on an annual-
8 ized basis the taxable income for the months in the
9 taxable year ending before the month in which the
10 installment is required to be paid and by taking into
11 account the adjusted self-employment income (if the
12 net earnings from self-employment (as defined in sec-
13 tion 1402 (a)) for the taxable year equal or exceed
14 \$400). For purposes of this paragraph—

15 “(A) The taxable income shall be placed on
16 an annualized basis by—

17 “(i) multiplying by 12 (or, in the case
18 of a taxable year of less than 12 months, the
19 number of months in the taxable year) the tax-
20 able income (computed without deduction of
21 personal exemptions) for the months in the tax-
22 able year ending before the month in which the
23 installment is required to be paid,

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1 “(ii) dividing the resulting amount by the
2 number of months in the taxable year ending
3 before the month in which such installment date
4 falls, and

5 “(iii) deducting from such amount the de-
6 ductions for personal exemptions allowable for
7 the taxable year (such personal exemptions
8 being determined as of the last date prescribed
9 for payment of the installment).

10 “(B) The term ‘adjusted self-employment in-
11 come’ means—

12 “(i) the net earnings from self-employ-
13 ment (as defined in section 1402 (a)) for the
14 months in the taxable year ending before the
15 month in which the installment is required to
16 be paid, but not more than

17 “(ii) the excess of \$6,600 over the amount
18 determined by placing the wages (within the
19 meaning of section 1402 (b)) for the months in
20 the taxable year ending before the month in
21 which the installment is required to be paid on
22 an annualized basis in a manner consistent with
23 clauses (i) and (ii) of subparagraph (A).

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1 “(3) An amount equal to 90 percent of the tax
2 computed, at the rates applicable to the taxable year,
3 on the basis of the actual taxable income and the actual
4 self-employment income for the months in the taxable
5 year ending before the month in which the installment
6 is required to be paid as if such months constituted the
7 taxable year.

8 “(4) An amount equal to the tax computed, at the
9 rates applicable to the taxable year, on the basis of the
10 taxpayer's status with respect to personal exemptions
11 under section 151 for the taxable year, but otherwise on
12 the basis of the facts shown on his return for, and the
13 law applicable to, the preceding taxable year.”

14 (3) Section 6654 (f) (relating to definition of tax
15 for purposes of subsections (b) and (d) of section 6654)
16 is amended to read as follows:

17 “(f) **TAX COMPUTED AFTER APPLICATION OF**
18 **CREDITS AGAINST TAX.**—For purposes of subsections (b)
19 and (d), the term ‘tax’ means—

20 “(1) the tax imposed by this chapter 1, plus

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1 “(2) the tax imposed by chapter 2, minus

2 “(3) the credits against tax allowed by part IV
3 of subchapter A of chapter 1, other than the credit
4 against tax provided by section 31 (relating to tax
5 withheld on wages).”

6 (4) Section 7701 (a) (relating to definitions) is
7 amended by adding at the end thereof the following
8 new paragraph:

9 “(34) ESTIMATED INCOME TAX.—The term ‘esti-
10 mated income tax’ means—

11 “(A) in the case of an individual, the esti-
12 mated tax as defined in section 6015 (c), or

13 “(B) in the case of a corporation, the esti-
14 mated tax as defined in section 6016 (b).”

15 (5) Section 1403 (b) (cross references) is
16 amended by adding at the end thereof the following new
17 paragraph:

 “(3) For provisions relating to declarations of esti-
mated tax on self-employment income, see section 6015.”

18 (c) MINISTERS, MEMBERS OF RELIGIOUS ORDERS, AND
19 CHRISTIAN SCIENCE PRACTITIONERS.—Section 1402 (e)

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1 (3) (relating to effective date of waiver certificates) is
2 amended by adding at the end thereof the following new
3 subparagraph:

4 “(E) For purposes of sections 6015 and 6654,
5 a waiver certificate described in paragraph (1)
6 shall be treated as taking effect on the first day of
7 the first taxable year beginning after the date on
8 which such certificate is filed.”

9 (d) **EFFECTIVE DATE.**—The amendments made by sub-
10 sections (a), (b), and (c) shall apply with respect to tax-
11 able years beginning after December 31, 1966.

12 **SEC. 103. UNDERPAYMENT OF INSTALLMENTS OF ESTI-**
13 **MATED INCOME TAX IN CASE OF INDIVID-**
14 **UALS.**

15 (a) **IN GENERAL.**—Section 6654 (b) (relating to
16 amount of underpayment), and section 6654 (d) (relating
17 to exception) as amended by section 102 (b) (2) of this
18 Act, are amended by striking out “70 percent” each place
19 it appears and inserting in lieu thereof “80 percent”.

20 (b) **EFFECTIVE DATE.**—The amendments made by

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1 subsection (a) shall apply with respect to taxable years
2 beginning after December 31, 1966.

3 **SEC. 104. INSTALLMENT PAYMENTS OF ESTIMATED IN-**
4 **COME TAX BY CORPORATIONS.**

5 (a) **IN GENERAL.**—Subsection (a) of section 6154
6 (relating to installment payments of estimated income tax
7 by corporations) is amended to read as follows:

8 “(a) **AMOUNT AND TIME FOR PAYMENT OF EACH**
9 **INSTALLMENT.**—The amount of estimated tax (as defined
10 in section 6016(b)) with respect to which a declaration
11 is required under section 6016 shall be paid as follows:

12 “(1) **TAXABLE YEARS BEGINNING IN 1966.**—
13 With respect to taxable years beginning after Decem-
14 ber 31, 1965, and before January 1, 1967, such esti-
15 mated tax shall be paid in installments in accordance
16 with the following table:

“If the declaration is timely filed on or before the 15th day of the—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	8th month	12th month
4th month of the taxable year.....	12	12	28	28
6th month of the taxable year (but after the 15th day of the 4th month).....		16	29	29
9th month of the taxable year (but after the 15th day of the 6th month).....			37	37
12th month of the taxable year (but after the 15th day of the 9th month).....				74

17 “(2) **TAXABLE YEARS BEGINNING AFTER 1966.**—
18 With respect to taxable years beginning after December

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1 31, 1966, such estimated tax shall be paid in install-
 2 ments in accordance with the following table:

"If the declaration is timely filed on or before the 15th day of the—"	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
4th month of the taxable year	25	25	25	25
6th month of the taxable year (but after the 15th day of the 4th month).....		33½	33½	33½
9th month of the taxable year (but after the 15th day of the 6th month).....			50	50
12th month of the taxable year (but after the 15th day of the 9th month).....				100

3 “(3) **TIMELY FILING.**—A declaration is timely
 4 filed for the purposes of paragraphs (1) and (2) if it is
 5 not required by section 6074 (a) to be filed on a date
 6 (determined without regard to any extension of time
 7 for filing the declaration under section 6081) before
 8 the date it is actually filed.

9 “(4) **LATE FILING.**—If the declaration is filed after
 10 the time prescribed in section 6074 (a) (determined
 11 without regard to any extension of time for filing the
 12 declaration under section 6081), there shall be paid at
 13 the time of such filing all installments of estimated tax
 14 which would have been payable on or before such time
 15 if the declaration had been filed within the time pre-
 16 scribed in section 6074 (a), and the remaining install-
 17 ments shall be paid at the times at which, and in the
 18 amounts in which, they would have been payable if the
 19 declaration had been so filed.”

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1 (b) **EFFECTIVE DATE.**—The amendment made by sub-
2 section (a) shall apply with respect to taxable years begin-
3 ning after December 31, 1965.

4 **TITLE II—POSTPONEMENT OF CERTAIN EXCISE**
5 **TAX RATE REDUCTIONS**

6 **SEC. 201. PASSENGER AUTOMOBILES.**

7 (a) **POSTPONEMENT OF RATE REDUCTIONS.**—Sub-
8 paragraph (A) of section 4061 (a) (2) (relating to im-
9 position of tax) is amended to read as follows:

10 “(A) Articles enumerated in subparagraph (B)
11 are taxable at whichever of the following rates is
12 applicable:

13 “7 percent for the period beginning with the day
14 after the date of the enactment of the Tax
15 Adjustment Act of 1966 through March 31,
16 1968.

17 “2 percent for the period April 1, 1968, through
18 December 31, 1968.

19 “1 percent for the period after December 31, 1968.”

20 (b) **FLOOR STOCKS TAX.**—Section 4226 (relating to
21 floor stocks taxes) is amended—

22 (1) By adding at the end of subsection (a) the
23 following new paragraph:

24 “(8) **1966 TAX ON AUTOMOBILES.**—On any arti-

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1 cle subject to tax under section 4061 (a) (2) which on
2 the day after the date of the enactment of the Tax
3 Adjustment Act of 1966 is held by a dealer and has not
4 been used and is intended for sale, there is imposed a
5 floor stocks tax at the rate of 1 percent of the price for
6 which the article was sold by the manufacturer, pro-
7 ducer, or importer. Under regulations prescribed by the
8 Secretary or his delegate, the tax imposed under this
9 paragraph shall be paid by such dealer and shall be col-
10 lected from him by the manufacturer, producer, or im-
11 porter.”

12 (2) By amending subsection (d)—

13 (A) by striking out “and except” and insert-
14 ing in lieu thereof “except”, and

15 (B) by striking out “delegate.” and inserting
16 in lieu thereof “delegate, and except that the tax
17 imposed by paragraph (8) shall be paid at such
18 time after 60 days after the date of enactment of
19 the Tax Adjustment Act of 1966 as may be pre-
20 scribed by the Secretary or his delegate.”

21 (c) CONFIRMING AMENDMENTS.—

22 (1) Section 6412 (a) (1) (relating to floor stocks
23 refunds on passenger automobiles, etc.) is amended by
24 striking out “January 1, 1966, 1967, 1968, or 1969,”

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1 and inserting in lieu thereof "January 1, 1966, April 1,
2 1968, or January 1, 1969,".

3 (2) Section 209 (c) (1) (G) of the Highway
4 Revenue Act of 1956 (relating to general provisions
5 for transfers to the Highway Trust Fund) is amended
6 by striking out "section 4226 (a)" and inserting in lieu
7 thereof "section 4226 (a) (other than paragraph (8)
8 thereof)".

9 (d) EFFECTIVE DATE.—The amendment made by sub-
10 section (a) shall apply with respect to articles sold after
11 the date of the enactment of this Act.

12 **SEC. 202. COMMUNICATION SERVICES.**

13 (a) POSTPONEMENT OF RATE REDUCTIONS.—Section
14 4251 (relating to tax on communications) is amended—

15 (1) By striking out subsection (a) (2) and in-
16 serting in lieu thereof:

17 " (2) The rate of tax referred to in paragraph (1)
18 is as follows:

"Amounts paid pursuant to bills first rendered—	Percent—
"Before April 1, 1968.....	10
"After March 31, 1968, and before January 1, 1969.....	1"

19 (2) By striking out subsection (c) and inserting
20 in lieu thereof:

21 " (c) SPECIAL RULE.—For purposes of subsection (a),
22 in the case of communications services rendered before Feb-

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1 ruary 1, 1968, for which a bill has not been rendered before
2 April 1, 1968, a bill shall be treated as having been first
3 rendered on March 31, 1968. For purposes of subsections
4 (a) and (b), in the case of communications services ren-
5 dered after January 31, 1968, and before November 1,
6 1968, for which a bill has not been rendered before Jan-
7 uary 1, 1969, a bill shall be treated as having been first
8 rendered on December 31, 1968."

9 (b) **NONPROFIT HOSPITALS.**—Section 4253 (relating
10 to exemptions from tax on communications) is amended by
11 adding at the end thereof the following new subsection:

12 "(h) **NONPROFIT HOSPITALS.**—No tax shall be im-
13 posed under section 4251 on any amount paid by a non-
14 profit hospital for services furnished to such organization.
15 For purposes of this subsection, the term 'nonprofit hospital'
16 means a hospital referred to in section 503 (b) (5) which is
17 exempt from income tax under section 501 (a)."

18 (c) **EFFECTIVE DATE.**—The amendments made by sub-
19 sections (a) and (b) shall apply to amounts paid pursuant
20 to bills first rendered on or after the first day of the first
21 month which begins more than 15 days after the date on
22 which this Act is enacted for services rendered on or after
23 such first day. In the case of amounts paid pursuant to bills
24 rendered on or after such first day for services which were

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1 rendered before such first day and for which no previous bill
2 was rendered, such amendments shall apply except with re-
3 spect to such services as were rendered more than 2 months
4 before such first day. In the case of services rendered more
5 than 2 months before such first day, the provisions of sub-
6 chapter B of chapter 33 of the Code in effect at the time such
7 services were rendered, subject to the provision of section
8 701 (b) (2) of the Excise Tax Reduction Act of 1965, shall
9 apply to the amounts paid for such services.

Passed the House of Representatives February 23, 1966.

Attest:

RALPH R. ROBERTS,

Clerk.

89th Congress }
2d Session }

COMMITTEE PRINT

SUMMARY OF H.R. 12752
TAX ADJUSTMENT BILL OF 1966

AS PASSED THE
HOUSE OF REPRESENTATIVES

PREPARED FOR THE USE OF THE
COMMITTEE ON FINANCE
U.S. SENATE

BY THE STAFF OF THE
JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION



February 24, 1966

SUMMARY OF H.R. 12752

I. SUMMARY

The provisions of the bill are based upon recommendations made by the President. They are grouped under two headings: (1) Procedures which affect tax collections but leave tax liabilities unchanged; and (2) A 2-year moratorium on rate reductions scheduled under existing law for the excise taxes on passenger automobiles and telephone service.

(1) *Graduated withholding.*—H.R. 12752 replaces the present single 14 percent withholding tax rate with a series of six graduated rates ranging from 14 to 30 percent which apply to the first \$12,000 of taxable income for single taxpayers and the first \$24,000 of taxable income for married persons. The 30-percent tax rate also will apply to all higher levels of taxable income. The system takes account of the minimum standard deduction or deductions of 10 percent of wages, the taxpayer's marital status and the statutory tax rates. A provision is included in the bill to reduce overwithholding by permitting taxpayers, whose itemized deductions (as a percentage of their wages) are in excess of certain limits, to claim withholding allowances.

(2) *Quarterly payments of estimated self-employment tax.*—Self-employed persons are to be required to file declarations with respect to the total of their estimated income tax and self-employment tax and to make quarterly payments based on this declaration.

(3) *Underpayment of estimated tax by individuals.*—A penalty generally is to be incurred by a taxpayer when the total of the amounts withheld from his wages and the amounts paid through quarterly payments of estimated tax are less than 80 percent of the tax shown on his return, an increase from the present 70 percent.

(4) *Acceleration of corporation income tax payments.*—The schedule bringing corporation payments of estimated income tax liabilities above \$100,000 to a current basis is to be accelerated so that the current payments basis will be reached in 1967 instead of 1970 as scheduled under present law.

(5) *Excise tax on passenger automobiles.*—The excise tax rate on passenger automobiles is to revert to 7 percent (the rate before January 1, 1966), from 6 percent, and there will be a moratorium on further tax rate reductions scheduled under present law through March 31, 1968. A tax of 1 percent will be imposed on dealer stocks of automobiles held on the day following the date of enactment.

(6) *Excise tax on telephone service.*—The excise tax rate on general and toll telephone and teletypewriter exchange services is to revert to 10 percent (the rate before January 1, 1966), from 3 percent. It is to be in effect through March 31, 1968, when the moratorium on rate reductions scheduled under present law ends. Nonprofit hospitals are to be exempt from the tax on telephone services.

The President's recommendations differ from the provisions of H.R. 12752 in three respects:

- (a) The withholding allowances which reduce overwithholding were not included;
- (b) An increase in the 70-percent requirement for quarterly estimated tax payments was not included;
- (c) The schedule of excise tax rate reductions which went into effect on January 1, 1966, would be deferred until January 1, 1968, when the phasing of reductions would begin again and follow at the prescribed intervals.

II. REVENUE EFFECTS

As indicated in table 1, H.R. 12752 is expected to increase fiscal year 1966 administrative budget receipts by \$1,155 million and fiscal year 1967 receipts by \$4,765 million. This latter figure is slightly below that recommended by the President. In addition, consolidated cash budget receipts will be further increased by \$200 million in the fiscal year 1967. This increase differs from the recommendation of the President only in that the \$200 million under his recommendation was spread over the fiscal years 1966 and 1967.

TABLE 1.—Estimated revenue increase under H.R. 12752 for the fiscal years 1966 and 1967

[Includes effect of Ways and Means Committee floor amendment]

[In millions of dollars]

	Fiscal year 1966	Fiscal year 1967
Excises:		
Communications.....		785
Automobiles.....	60	420
Total excises.....	60	1,205
Corporate speedup.....	1,000	3,200
Graduated withholding.....	95	210
Increase in declaration requirement under individual income tax from 70 to 80 percent.....		180
Total, administrative budget.....	1,155	4,765
Self-employment tax, social security, quarterly payments (goes into a trust fund).....		270
Total, cash budget.....	1,155	4,965

The largest single source of additional revenue will come from advancing the payment dates of the corporate tax. This is expected to increase revenues in the fiscal year 1966 by \$1 billion and revenues in fiscal year 1967 by \$3.2 billion. The excise tax reduction moratorium on automobiles and communications represents the second major revenue source under the bill. It is estimated that this will raise revenues by \$60 million in the fiscal year 1966 and by \$1,205 million in the fiscal year 1967. Graduated withholding and the increase in the declaration requirement under the individual income tax from 70 to 80 percent of actual tax liability are expected to increase revenues by \$95 million in the fiscal year 1966 and by \$360 million in the fiscal year 1967.

Table 2 shows the revenue impact of the graduated withholding system and the declaration requirement change. Only the graduated

withholding system has an impact in the fiscal year 1966. In the fiscal year 1967 a graduated withholding system with no allowances for excess itemized deductions would increase revenues by \$400 million. The provisions for withholding allowances and the 80 percent declaration requirement provide a net reduction of \$40 million and with graduated withholding give rise to an estimated revenue gain of \$360 million for the fiscal year 1967, or slightly less than that recommended by the President.

TABLE 2.—Revenue effect of provisions of H.R. 12752 relating to graduated withholding and declarations of estimated tax

[Includes effect of Ways and Means Committee floor amendment]
[In millions of dollars]

Provisions	Effective date	Full year effect	Change in receipts	
			Fiscal year 1966	Fiscal year 1967
6-rate graduated withholding.....	May 1, 1966	+1,240	+95	+400
Extra withholding allowance for excess deductions ¹	Jan. 1, 1967	-1,175	-----	-190
Increase requirement for estimated tax from 70 to 80 percent.....	Jan. 1, 1967	+300	-----	+150
Total for individuals.....	-----	+365	+95	+360

¹ Assumes $\frac{3}{4}$ utilization by eligible taxpayers.

Table 3 presents a comparison of administrative budget expenditures and receipts, with and without the revenue effects of H.R. 12752, for fiscal years 1966 and 1967. It also shows the effects of this bill upon the estimated budgetary deficits.

TABLE 3.—Comparison of administrative budget receipts and expenditures with and without H.R. 12752, fiscal years 1966 and 1967

[Includes effect of Ways and Means Committee floor amendment]
[In billions of dollars]

	Fiscal year 1966	Fiscal year 1967	Change fiscal year 1967 over fiscal year 1966
Expenditures.....	106.4	112.8	+6.4
Receipts without bill.....	98.8	106.2	+7.3
Deficit without bill.....	7.6	6.7	-0.9
Increase in receipts under bill.....	+1.2	+4.8	+3.7
Total receipts (including those under this bill).....	100.0	111.0	+11.0
Deficit after taking account of revenues under this bill..	6.4	1.8	-4.6

NOTE.—Figures are based on President's budget message, and therefore totals include estimated effects of proposed legislation other than H.R. 12752. Figures are rounded and will not necessarily add to totals.

III. GENERAL EXPLANATION

1. Graduated withholding (Sec. 101 of the bill and sec. 3402 of the code)

Present law.—Under present law, employers withhold Federal income tax from wages and salaries at the rate of 14 percent after recognizing the withholding exemptions claimed by an employee for himself, his wife, and any dependents. The 14-percent rate is equivalent to the average of the four tax rates which apply to the initial

\$2,000 of taxable income (\$4,000 for married couples), reduced to reflect the 10-percent standard deduction. To further reflect the standard deduction, the value of exemptions is increased from \$600 to \$667 for withholding purposes. Employees claim withholding exemptions by filing withholding exemption certificates with their employers. These certificates remain in force until superseded by the submission of later ones.

Table 4 compares the effects on withholding of the present single rate system, the 6-rate graduated withholding system recommended by the President and the President's graduated system including the addition of withholding allowances.

TABLE 4.—Effect of graduated withholding provisions of H.R. 12752¹

[Includes effect of Ways and Means Committee floor amendment]

	Present 14 percent with- holding	Change resulting from—			Gradu- ated with- holding
		6-rate system	Extra allowance provision ²	Com- bined total	
All returns:					
A. Number of returns (millions):					
1. Overwithholding.....	39.8	-6.3	-1.2	-7.5	32.3
2. Underwithholding.....	12.5	-3.5	+1.0	-2.5	10.0
3. Breakeven ³	10.8	+9.8	+0.2	+10.0	20.8
4. Total.....	63.1				63.1
B. Amount (millions of dollars):					
1. Overwithholding.....	6,130	+50	-1,035	-985	5,145
2. Underwithholding.....	2,700	-1,190	+140	-1,050	1,650
3. Total withholding.....	36,440	+1,240	-1,175	+65	36,505
Under \$5,000 adjusted gross income:					
A. Number of returns (millions):					
1. Overwithholding.....	20.0	-7.0	-0.2	-7.2	12.8
2. Underwithholding.....	3.0	(⁴)	+0.2	+0.2	3.2
3. Breakeven ³	8.4	+7.0	(⁴)	+7.0	15.4
4. Total.....	31.4				31.4
B. Amount (millions of dollars):					
1. Overwithholding.....	2,130	-500	-165	-665	1,465
2. Underwithholding.....	340	(⁴)	+15	+15	355
3. Total withholding.....	5,720	-500	-180	-680	5,040
\$5,000 to \$10,000 adjusted gross income:					
A. Number of returns (millions):					
1. Overwithholding.....	15.0	-1.4	-0.7	-2.1	12.9
2. Underwithholding.....	5.7	-1.2	+0.5	-0.7	5.0
3. Breakeven ³	2.0	+2.6	+0.2	+2.8	4.8
4. Total.....	22.7				22.7
B. Amount (millions of dollars):					
1. Overwithholding.....	3,000	-20	-535	-555	2,445
2. Underwithholding.....	760	-250	+55	-195	565
3. Total withholding.....	17,140	+230	-590	-360	16,780
\$10,000 and over adjusted gross income:					
A. Number of returns (millions):					
1. Overwithholding.....	4.8	+2.1	-0.3	+1.8	6.6
2. Underwithholding.....	3.8	-2.3	+0.3	-2.0	1.8
3. Breakeven ³	0.4	+0.2	(⁴)	+0.2	0.6
4. Total.....	9.0				9.0
B. Amount (millions of dollars):					
1. Overwithholding.....	1,000	+570	-335	+235	1,235
2. Underwithholding.....	1,600	-940	+70	-870	730
3. Total withholding.....	13,580	+1,510	-405	+1,105	14,685

¹ Based on taxable and nontaxable returns with no declaration payments.

² Assumes $\frac{3}{4}$ utilization by eligible persons.

³ Breakeven defined as within \$10 of the tax liability.

⁴ Negligible.

NOTE.—Based on calendar year 1966 levels of income. The terms "overwithholding" and "underwithholding" in this table mean the difference between actual tax liabilities (based on all types of income, deductions, etc.) and the amount of tax withheld from wages and salaries.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

Explanation of graduated withholding generally.—The bill substitutes six graduated rates for the present withholding rate and incorporates features designed to reflect the minimum standard deduction. Moreover, it permits employees who would otherwise be overwithheld to make adjustments if their itemized deductions exceed specified amounts.

The graduated rates, which range from 14 percent to 30 percent, are included in two separate rate schedules, one for single persons and heads of households, and the other, with wider brackets to take account of statutory income splitting, for married persons and surviving spouses.

The minimum standard deduction is taken into account by raising the value of the exemption to \$700 for withholding purposes and by establishing an initial band of wage income after exemptions, equal to \$200 on an annual basis, from which no tax will be withheld. This is consistent with the provisions regarding the minimum standard deduction. The rate schedule also reflects an allowance for deductions of approximately 10 percent of wage and salary income at wage levels where the minimum standard deduction is not used.

The withholding rate schedules for single persons and married persons as applied to an annual basis are as follows:

SINGLE PERSON

If the amount of wages reduced by \$700 times the number of exemptions is:

The amount of income tax to be withheld is:

Not over \$200.....	0.
Over \$200 but not over \$700.....	14% of wages in excess of \$200.
Over \$700 but not over \$1,200.....	\$70 plus 15% of wages in excess of \$700.
Over \$1,200 but not over \$4,400....	\$145 plus 17% of wages in excess of \$1,200.
Over \$4,400 but not over \$8,800....	\$689 plus 20% of wages in excess of \$4,400.
Over \$8,800 but not over \$11,000...	\$1,569 plus 25% of wages in excess of \$8,800.
Over \$11,000.....	\$2,119 plus 30% of wages in excess of \$11,000.

MARRIED PERSON

If the amount of wages reduced by \$700 times the number of exemptions is:

The amount of income tax to be withheld is:

Not over \$200.....	0.
Over \$200 but not over \$1,200.....	14% of wages in excess of \$200.
Over \$1,200 but not over \$4,400....	\$140 plus 15% of wages in excess of \$1,200.
Over \$4,400 but not over \$8,800....	\$620 plus 17% of wages in excess of \$4,400.
Over \$8,800 but not over \$17,700...	\$1,368 plus 20% of wages in excess of \$8,800.
Over \$17,700 but not over \$22,000...	\$3,148 plus 25% of wages in excess of \$17,700.
Over \$22,000.....	\$4,223 plus 30% of wages in excess of \$22,000.

As under present law, employers will be permitted to compute withholding by means of either wage-bracket tables or by means of a percentage method. Wage-bracket tables for the various payroll periods now recognized, as set forth in the bill, will be distributed by the Internal Revenue Service. Instructions for applying the percentage method will also be supplied.

Employers are required to compute withholding on the basis of the rates applicable to single persons if an employee fails to submit a new withholding exemption certificate.

Explanation of withholding allowances for persons with substantial itemized deductions.—Taxpayers with relatively large itemized deductions may claim withholding allowances in addition to the regular withholding exemptions. Each allowance will have the same effect on withholding from wages and salaries as a claimed exemption; that is, it will exempt \$700 from withholding on an annual basis.

Taxpayers will be required to estimate their wage and salary income and the amount of their itemized deductions. The amount of estimated wage and salary income for this purpose, however, may not be less than the amount shown on the return for the previous year, while the estimated amount of itemized deductions may not exceed the amount of such deductions claimed on the tax return filed for the previous year.

For those with estimated wage or salary incomes of \$7,500 or less, the number of withholding allowances will be based on the excess of estimated itemized deductions over 12 percent of estimated wage and salary income. For those with higher estimated wages, the allowances will be based on the excess over the sum of \$900 (12 percent of \$7,500) and 17 percent of estimated wage and salary income above \$7,500. Withholding allowances may be claimed one for each full \$700 of such excess, except that one allowance may be claimed when the excess is greater than \$350 but less than \$700.

Claims for withholding allowances will be filed by employees with their employers on withholding exemption certificates or similar forms. The employer will then withhold tax on the basis of the total of the claimed exemptions and withholding allowances. Withholding allowances must be claimed anew each year. For calendar year taxpayers, claims for withholding allowances will remain in effect until May 1 of the following year when a new claim must be filed. The fact that withholding allowances must be disregarded on expired claims will not affect the number of exemptions for dependents, etc., to be taken into account.

The Secretary of the Treasury or his delegate is authorized to design and promulgate for the guidance of employers and their employees ready reference tables which will simplify the determination of the number of withholding allowances to which an employee is entitled.

The bill also provides for imposition of a civil penalty of \$50 when a taxpayer lists wage and salary income of less than the amount received in the previous year or if he lists itemized deductions in excess of the amount claimed in the previous year. The civil penalty does not apply, however, if the misstatement does not result in reduced withholding or the tax liability does not exceed the amount withheld plus the payments of estimated tax.

Effective date.—Withholding under the new graduated rates is to apply to remuneration paid after April 30, 1966. The special relief procedures for persons with substantial itemized deductions will apply in years beginning after December 31, 1966.

Revenue effect.—It is estimated that the proposals relating to graduated withholding will increase the amount of tax withheld by \$1,240 million at annual rates during the calendar year 1966. When the procedures for claiming withholding allowances become effective, this amount will be reduced to \$65 million, if two-thirds of those eligible avail themselves of the procedure. Graduated withholding will increase administrative budget receipts by \$95 million in the fiscal year 1966 and by \$210 million in the fiscal year 1967.

Effect of graduated withholding at different income levels.—Table 5 compares the average amount of overwithholding and underwithholding under present law and under the graduated withholding system for all returns, for those with adjusted gross income under \$5,000, for those with income between \$5,000 and \$10,000, and for

those with such income over \$10,000. As is indicated in this table, H.R. 12752 makes a substantial reduction in underwithholding, decreasing this in the average case from \$151 to \$81. In addition, the bill, although primarily concerned with underwithholding, also substantially decreases overwithholding as well. This is attributable both to the provision for the minimum standard deduction in the lower brackets and also to the provision for a withholding allowance for those with substantial overwithholding.

Tables 6-A through 6-G show the tax liability for single persons, married couples with no dependents, and married couples with two dependents for several income levels. This tax liability is shown for varying assumed levels of standard (or minimum standard) or itemized deductions. The assumptions cover a 10-percent deduction, a 15-percent deduction, a 20-percent deduction, a 22½-percent deduction, a 25-percent deduction, a 27½-percent deduction, and a 30-percent deduction. With the tax liability in each of these cases, there is shown the amount withheld at the 14-percent flat rate of existing law and also under the graduated withholding provided by this bill. The special withholding allowance provided by the bill for substantial itemized deductions begins to decrease overwithholding above the 15-percent level.¹ Thus the impact of this allowance is shown only on tables 6-C through 6-G.

TABLE 5.—Comparison of average amounts of underwithholding and overwithholding under present law and under H.R. 12752

[Includes effect of Ways and Means Committee floor amendment]

	Present 14 percent withholding			Graduated withholding including withholding allowances		
	Returns ¹	Amount	Average	Returns ¹	Amount	Average
All returns:	<i>Millions</i>	<i>Millions</i>		<i>Millions</i>	<i>Millions</i>	
Overwithholding.....	45.2	\$6,130	\$136	42.7	\$5,145	\$120
Underwithholding.....	17.9	2,700	151	20.4	1,650	81
Under \$5,000 adjusted gross income:						
Overwithholding.....	24.2	2,130	88	20.5	1,465	71
Underwithholding.....	7.2	340	47	10.9	355	33
\$5,000 to \$10,000 adjusted gross income:						
Overwithholding.....	16.0	3,000	188	15.3	2,445	160
Underwithholding.....	6.7	760	113	7.4	565	76
\$10,000 and over adjusted gross income:						
Overwithholding.....	5.0	1,000	200	6.9	1,235	179
Underwithholding.....	4.0	1,600	400	2.1	730	348

¹ Returns from the \$10 tolerance breakeven class have been assigned equally to overwithholding and underwithholding.

¹ Although itemized deductions are taken into account on the first \$7,500 of income where they exceed 12 percent, this nevertheless does not result in the availability of a special withholding allowance below the 15-percent level because this allowance is available only when there is a full \$700 above the 12 percent (over \$350 for a single additional allowance).

TABLE 6-A.—Underwithholding and overwithholding under present law and under H.R. 12752 for selected taxpayers with deductions the greater of the minimum standard or 10 percent of wage income

Wage income	Tax liability	Amount of withholding		Overwithholding (+) or underwithholding (-)	
		Present 14 percent	Under H. R. 12752	Present 14 percent	Under H. R. 12752
SINGLE INDIVIDUAL					
\$1,000.....	\$16	\$47	\$14	+\$31	-\$2
\$2,000.....	163	187	162	+24	-1
\$3,000.....	329	327	332	-2	+3
\$5,000.....	671	607	672	-64	+1
\$7,500.....	1,168	957	1,169	-211	+1
\$10,000.....	1,742	1,307	1,694	-435	-48
\$12,500.....	2,398	1,657	2,359	-741	-39
\$15,000.....	3,154	2,007	3,109	-1,147	-45
\$20,000.....	4,918	2,707	4,609	-2,211	-309
\$25,000.....	6,682	3,407	6,109	-3,575	-873
\$35,000.....	11,627	4,807	9,109	-6,820	-2,518
MARRIED COUPLE, NO DEPENDENTS					
\$2,000.....	\$58	\$93	\$56	+\$35	-\$2
\$3,000.....	204	233	200	+29	-4
\$5,000.....	501	513	500	+12	-1
\$7,500.....	914	863	909	-51	-5
\$10,000.....	1,342	1,213	1,334	-129	-8
\$12,500.....	1,831	1,563	1,828	-268	-3
\$15,000.....	2,335	1,913	2,328	-422	-7
\$20,000.....	3,484	2,613	3,373	-871	-111
\$25,000.....	4,796	3,313	4,703	-1,483	-93
\$35,000.....	7,997	4,713	7,703	-3,284	-294
MARRIED COUPLE, 2 DEPENDENTS					
\$3,000.....	\$4	\$46	0	+\$42	-\$4
\$5,000.....	290	326	\$290	+36	0
\$7,500.....	686	676	671	-10	+5
\$10,000.....	1,114	1,020	1,096	-88	-18
\$12,500.....	1,567	1,376	1,548	-191	-19
\$15,000.....	2,032	1,726	2,048	-336	-14
\$20,000.....	3,160	2,426	3,048	-734	-112
\$25,000.....	4,412	3,126	4,283	-1,286	-364
\$35,000.....	7,529	4,526	7,283	-3,003	-246

TABLE 6-B.—Underwithholding and overwithholding under present law and under H.R. 12752 for selected taxpayers with deductions the greater of the minimum standard or 15 percent of wage income

Wage income	Tax liability	Amount of withholding		Overwithholding (+) or underwithholding (-)	
		Present 14 percent	Under H. R. 12752	Present 14 percent	Under H. R. 12752
SINGLE INDIVIDUAL					
\$1,000	\$16	\$47	\$14	+\$31	-\$2
\$2,000	161	187	162	+26	+1
\$3,000	302	327	332	+25	+30
\$5,000	624	607	672	-17	-48
\$7,500	1,080	1,057	1,169	-123	-89
\$10,000	1,605	1,307	1,694	-298	-89
\$12,500	2,198	1,657	2,359	-541	+161
\$15,000	2,894	2,007	3,109	-877	+225
\$20,000	4,498	2,707	4,609	-1,791	+111
\$25,000	6,382	3,407	6,109	-2,975	-273
\$35,000	10,700	4,807	9,109	-5,893	-1,691
MARRIED COUPLE, NO DEPENDENTS					
\$2,000	\$58	\$93	\$56	+\$35	-\$2
\$3,000	192	233	200	+41	+8
\$5,000	458	513	500	+55	+42
\$7,500	843	863	909	+20	+66
\$10,000	1,247	1,213	1,334	-34	-87
\$12,500	1,694	1,563	1,828	-131	+134
\$15,000	2,181	1,913	2,328	-248	+167
\$20,000	3,210	2,613	3,373	-597	+163
\$25,000	4,396	3,313	4,703	-1,083	+307
\$35,000	7,314	4,713	7,703	-2,601	+389
MARRIED COUPLE, 2 DEPENDENTS					
\$3,000	\$4	\$46	0	+\$42	-\$4
\$5,000	268	326	\$290	+58	+22
\$7,500	616	676	671	+60	+55
\$10,000	1,019	1,028	1,096	+7	+77
\$12,500	1,430	1,376	1,548	-64	+118
\$15,000	1,897	1,726	2,048	-171	+151
\$20,000	2,910	2,426	3,048	-484	+138
\$25,000	4,058	3,126	4,283	-932	+225
\$35,000	6,866	4,526	7,283	-2,340	+417

TABLE 6-C.—Underwithholding and overwithholding under present law, under H.R. 12752 as reported by the Ways and Means Committee, and under the Ways and Means Committee floor amendment; selected taxpayers with deductions the greater of the minimum standard deduction or 20 percent of wage income

Wage income	Tax liability	Amount of withholding			Overwithholding (+) or underwithholding (-)		
		Present 14 percent	Under H. R. 12752		Present 14 percent	Under H. R. 12752	
			Before floor amendment ¹	After floor amendment ²		Before floor amendment ¹	After floor amendment ²
SINGLE INDIVIDUAL							
\$1,000.....	\$16	\$47	\$14	\$14	+\$31	-\$2	-\$2
\$2,000.....	145	187	162	162	+42	+17	+17
\$3,000.....	276	327	332	332	+51	+56	+56
\$5,000.....	576	607	672	553	+31	+96	-23
\$7,500.....	998	957	1,169	1,029	-41	+171	+31
\$10,000.....	1,480	1,307	1,694	1,529	-173	+214	+49
\$12,500.....	2,022	1,657	2,149	2,149	-365	+127	+127
\$15,000.....	2,638	2,007	2,899	2,899	-631	+261	+261
\$20,000.....	4,096	2,707	4,399	4,399	-1,399	+303	+303
\$25,000.....	5,800	3,407	5,899	5,899	-2,393	+99	+99
\$35,000.....	9,772	4,807	9,109	9,109	-4,965	+663	+663
MARRIED COUPLE, NO DEPENDENTS							
\$2,000.....	\$56	\$93	\$56	\$56	+\$37	0	0
\$3,000.....	170	233	200	200	+63	+\$30	+\$30
\$5,000.....	418	513	500	395	+95	+82	-23
\$7,500.....	772	863	909	790	+91	+137	+18
\$10,000.....	1,152	1,213	1,334	1,215	+61	+182	+63
\$12,500.....	1,556	1,563	1,688	1,688	+7	+132	+132
\$15,000.....	1,996	1,913	2,188	2,188	-83	+192	+192
\$20,000.....	2,960	2,613	3,198	3,198	-347	+238	+238
\$25,000.....	4,044	3,313	4,493	4,493	-731	+449	+449
\$35,000.....	6,668	4,713	7,283	7,283	-1,955	+615	+615
MARRIED COUPLE, 2 DEPENDENTS							
\$3,000.....	0	\$46	0	0	+\$46	0	0
\$5,000.....	\$230	326	\$290	\$185	+96	+\$60	+\$60
\$7,500.....	552	676	671	560	+124	+119	+8
\$10,000.....	924	1,026	1,096	977	+102	+172	+53
\$12,500.....	1,304	1,376	1,408	1,408	+72	+104	+104
\$15,000.....	1,732	1,726	1,908	1,908	-6	+176	+176
\$20,000.....	2,660	2,426	2,908	2,908	-234	+248	+248
\$25,000.....	3,708	3,126	4,098	4,098	-582	+390	+390
\$35,000.....	6,236	4,526	6,863	6,863	-1,710	+627	+627

¹ With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor exceed \$350 rather than \$700.

³ Allowance does not increase underwithholding because of limitation provided by the bill.

TABLE 6-D.—Underwithholding and overwithholding under present law, under H.R. 12752 as reported by the Ways and Means Committee, and under the Ways and Means Committee floor amendment; selected taxpayers with deductions the greater of the minimum standard deduction or 22½ percent of wage income

Wage income	Tax liability	Amount of withholding			Overwithholding (+) or underwithholding (-)		
		Present 14 percent	Under H. R. 12752		Present 14 percent	Under H. R. 12752	
			Before floor amendment ¹	After floor amendment ²		Before floor amendment ¹	After floor amendment ²
SINGLE INDIVIDUAL							
\$1,000	\$16	\$47	\$14	\$14	+\$31	-\$2	-\$22
\$2,000	138	187	162	162	+49	+24	+24
\$3,000	263	327	332	332	+64	+69	+69
\$5,000	552	607	672	553	+55	+120	+1
\$7,500	967	967	1,029	1,029	0	+72	+72
\$10,000	1,418	1,307	1,529	1,529	-111	+111	+111
\$12,500	1,935	1,657	2,149	2,149	-278	+214	+214
\$15,000	2,518	2,007	2,899	2,899	-511	+381	+381
\$20,000	3,901	2,707	4,189	4,189	-1,194	+288	+288
\$25,000	5,519	3,407	5,689	5,689	-2,112	+170	+170
\$35,000	9,308	4,807	9,109	9,109	-4,501	+199	+199
MARRIED COUPLE, NO DEPENDENTS							
\$2,000	\$49	\$93	\$56	\$56	+\$44	+\$7	+\$7
\$3,000	169	233	200	200	+74	+41	+41
\$5,000	393	513	500	395	+115	+102	-3
\$7,500	736	863	790	790	+127	+54	+54
\$10,000	1,104	1,213	1,215	1,215	+109	+111	+111
\$12,500	1,487	1,663	1,688	1,688	+76	+201	+201
\$15,000	1,914	1,913	2,188	2,188	-1	+274	+274
\$20,000	2,835	2,613	3,048	3,048	-222	+213	+213
\$25,000	3,899	3,313	4,283	4,283	-556	+414	+414
\$35,000	6,353	4,713	7,073	7,073	-1,640	+720	+720
MARRIED COUPLE, 2 DEPENDENTS							
\$3,000	0	\$46	0	0	+\$46	0	0
\$5,000	\$211	328	\$290	\$185	+115	+\$79	-\$26
\$7,500	520	676	560	500	+156	+40	+40
\$10,000	876	1,026	977	977	+150	+101	+101
\$12,500	1,245	1,376	1,408	1,408	+131	+163	+163
\$15,000	1,650	1,726	1,908	1,908	+76	+258	+258
\$20,000	2,636	2,426	2,768	2,768	-109	+233	+233
\$25,000	3,533	3,126	3,923	3,923	-407	+390	+390
\$35,000	6,921	4,526	6,653	6,653	-1,395	+732	+732

¹ With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor exceed \$350 rather than \$700.

³ Allowance does not increase underwithholding because of limitation provided by the bill.

TABLE 6-E.—Underwithholding and overwithholding under present law, under H.R. 12752 as reported by the Ways and Means Committee, and under the Ways and Means Committee floor amendment; selected taxpayers with deductions the greater of the minimum standard deduction or 25 percent of wage income

Wage income	Tax liability	Amount of withholding			Overwithholding (+) or underwithholding (-)		
		Present 14 percent	Under H. R. 12752		Present 14 percent	Under H. R. 12752	
			Before floor amendment ¹	After floor amendment ²		Before floor amendment ¹	After floor amendment ²
SINGLE INDIVIDUAL							
\$1,000.....	\$16	\$47	\$14	\$14	+\$31	-\$2	-\$2
\$2,000.....	130	187	162	162	+57	+32	+32
\$3,000.....	250	327	332	213	+77	+82	-87
\$5,000.....	528	607	672	553	+79	+144	+26
\$7,500.....	916	957	1,029	1,029	+41	+113	+113
\$10,000.....	1,355	1,307	1,529	1,529	-48	+174	+174
\$12,500.....	1,847	1,657	2,140	2,149	-190	+302	+302
\$15,000.....	2,398	2,007	2,689	2,689	-391	+291	+291
\$20,000.....	3,706	2,707	4,189	4,189	-999	+483	+483
\$25,000.....	5,238	3,407	5,479	5,479	-1,831	+241	+241
\$35,000.....	8,855	4,807	8,899	8,899	-4,048	+44	+44
MARRIED COUPLE, NO DEPENDENTS							
\$2,000.....	\$42	\$93	\$56	\$56	+\$51	+\$14	+\$14
\$3,000.....	148	233	200	98	+85	+52	-50
\$5,000.....	378	513	500	395	+135	+122	+17
\$7,500.....	701	863	790	790	+162	+89	+89
\$10,000.....	1,057	1,213	1,215	1,215	+156	+158	+158
\$12,500.....	1,418	1,563	1,688	1,688	+145	+270	+270
\$15,000.....	1,831	1,913	2,048	2,048	+82	+217	+217
\$20,000.....	2,710	2,613	3,048	3,098	-97	+338	+338
\$25,000.....	3,694	3,313	4,098	4,098	-381	+404	+404
\$35,000.....	6,038	4,713	6,863	6,863	-1,825	+825	+825
MARRIED COUPLE, 2 DEPENDENTS							
\$3,000.....	0	\$46	0	0	-\$46	0	0
\$5,000.....	\$192	326	\$290	\$185	+134	+\$98	-\$7
\$7,500.....	488	676	560	560	+188	+72	+72
\$10,000.....	829	1,026	977	977	+197	+148	+148
\$12,500.....	1,185	1,373	1,408	1,408	+191	+223	+223
\$15,000.....	1,567	1,728	1,768	1,768	+159	+201	+201
\$20,000.....	2,410	2,426	2,768	2,768	+16	+358	+358
\$25,000.....	3,358	3,126	3,748	3,748	-232	+390	+390
\$35,000.....	6,612	4,526	6,443	6,443	-1,066	+631	+631

¹ With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor exceed \$350 rather than \$700.

³ Allowance does not result in underwithholding because of limitation provided by the bill.

TABLE 6-F.—Underwithholding and overwithholding under present law, under H.R. 12752 as reported by the Ways and Means Committee, and under the Ways and Means Committee floor amendment; selected taxpayers with deductions the greater of the minimum standard deduction or 27½ percent of wage income

Wage income	Tax liability	Amount of withholding			Overwithholding (+) or underwithholding (-)		
		Present 14 percent	Under H. R. 12752		Present 14 percent	Under H. R. 12752	
			Before floor amendment ¹	After floor amendment ²		Before floor amendment ¹	After floor amendment ²
SINGLE INDIVIDUAL							
\$1,000.....	\$16	\$47	\$14	\$14	+\$31	-\$2	-\$2
\$2,000.....	122	187	162	162	+65	+40	+40
\$3,000.....	238	327	332	313	+89	+94	-25
\$5,000.....	505	607	553	553	+102	+48	+48
\$7,500.....	874	957	1,029	1,029	+83	+155	+155
\$10,000.....	1,292	1,307	1,389	1,389	+15	+97	+97
\$12,500.....	1,760	1,657	1,969	1,969	-103	+209	+209
\$15,000.....	2,278	2,007	2,689	2,689	-271	+411	+411
\$20,000.....	3,514	2,707	3,979	3,979	-807	+465	+465
\$25,000.....	4,970	3,407	5,269	5,269	-1,563	+299	+299
\$35,000.....	8,418	4,807	8,479	8,479	-3,611	+61	+61
MARRIED COUPLE, NO DEPENDENTS							
\$2,000.....	\$35	\$93	\$56	\$56	+\$58	+\$21	+\$21
\$3,000.....	136	236	200	98	+97	+64	-28
\$5,000.....	358	513	395	395	+155	+37	+37
\$7,500.....	605	863	790	790	+198	+125	+125
\$10,000.....	1,010	1,213	1,096	1,096	+203	+86	+86
\$12,500.....	1,354	1,563	1,548	1,548	+209	+194	+194
\$15,000.....	1,748	1,913	2,048	2,048	+165	+300	+300
\$20,000.....	2,585	2,613	2,908	2,908	+28	+323	+323
\$25,000.....	3,519	3,313	3,923	3,923	-206	+404	+404
\$35,000.....	5,723	4,713	6,653	6,653	-1,010	+930	+930
MARRIED COUPLE, 2 DEPENDENTS							
\$3,000.....	0	\$46	0	0	+\$46	0	0
\$5,000.....	\$174	326	\$185	\$185	+152	+\$11	+\$11
\$7,500.....	456	676	560	560	+220	+104	+104
\$10,000.....	782	1,023	858	858	+244	+76	+76
\$12,500.....	1,126	1,376	1,283	1,283	+250	+157	+157
\$15,000.....	1,484	1,726	1,768	1,768	+242	+284	+284
\$20,000.....	2,285	2,426	2,628	2,628	+141	+343	+343
\$25,000.....	3,191	3,126	3,573	3,573	-65	+382	+382
\$35,000.....	5,332	4,526	6,233	6,233	-806	+901	+901

¹ With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor exceed \$350 rather than \$700.

³ Allowance does not result in underwithholding because of limitation provided by the bill.

TABLE 6-G.—Underwithholding and overwithholding under present law, under H.R. 12752 as reported by the Ways and Means Committee, and under the Ways and Means Committee floor amendment; selected taxpayers with deductions the greater of the minimum standard deduction or 30 percent of wage income

Wage income	Tax liability	Amount of withholding			Overwithholding (+) or underwithholding (-)		
		Present 14 percent	Under H.R. 12752		Present 14 percent	Under H.R. 12752	
			Before floor amendment ¹	After floor amendment ²		Before floor amendment ¹	After floor amendment ²
SINGLE INDIVIDUAL							
\$1,000.....	\$14	\$47	\$14	\$14	+\$38	0	0
\$2,000.....	115	187	162	56	+72	+\$47	-69
\$3,000.....	225	327	332	213	+102	+107	-12
\$5,000.....	481	607	653	553	+126	+72	+72
\$7,500.....	833	957	1,029	1,029	+124	+196	+196
\$10,000.....	1,230	1,307	1,389	1,389	+77	+159	+159
\$12,500.....	1,672	1,657	1,969	1,969	-15	+297	+297
\$15,000.....	2,162	2,007	2,479	2,479	-155	+317	+317
\$20,000.....	3,334	2,707	3,769	3,769	-627	+435	+435
\$25,000.....	4,708	3,407	5,059	5,059	-1,301	+351	+351
\$35,000.....	7,980	4,807	8,059	8,059	-3,173	+79	+79
MARRIED COUPLE, NO DEPENDENTS							
\$2,000.....	\$23	\$93	\$56	0	+\$65	+\$28	-\$28
\$3,000.....	126	233	200	\$98	+107	+74	-28
\$5,000.....	338	513	395	395	+176	+57	+57
\$7,500.....	630	863	790	790	+233	+160	+160
\$10,000.....	962	1,213	1,096	1,096	+251	+134	+134
\$12,500.....	1,294	1,563	1,548	1,548	+269	+254	+254
\$15,000.....	1,663	1,913	1,908	1,908	+247	+242	+242
\$20,000.....	2,460	2,613	2,768	2,768	+153	+308	+308
\$25,000.....	3,344	3,313	3,748	3,748	-31	+404	+404
\$35,000.....	5,436	4,713	6,233	6,233	-723	+797	+797
MARRIED COUPLE, 2 DEPENDENTS							
\$3,000.....	0	\$46	0	0	+\$46	0	0
\$5,000.....	\$155	326	\$185	\$185	+171	+\$30	+\$30
\$7,500.....	426	676	560	560	+250	+134	+134
\$10,000.....	734	1,026	858	858	+292	+124	+124
\$12,500.....	1,066	1,376	1,283	1,283	+310	+217	+217
\$15,000.....	1,402	1,726	1,628	1,628	+324	+226	+226
\$20,000.....	2,172	2,426	2,488	2,488	+254	+316	+316
\$25,000.....	3,035	3,126	3,398	3,398	+91	+363	+363
\$35,000.....	5,052	4,526	5,813	5,813	-526	+761	+761

¹ With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 12 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages exceeds estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor exceed \$350 rather than \$700.

³ Allowance does not result in underwithholding because of limitation provided by the bill.

2. *Payments of estimated social security and hospital insurance taxes by self-employed persons (sec. 102 of the bill and sec. 6015 of the code)*

Present law.—Under existing law, self-employed persons are required to pay their social security tax and their tax for the hospital insurance program when they file their final income tax return for a given year. However, they may voluntarily pay this tax quarterly with their estimated income tax payments.

The tax, now based on the initial \$6,600 of net earnings from self-employment, is imposed on self-employed individuals who have net earnings from self-employment which total \$400 or more. When an individual also has covered wage income, this is subtracted from the \$6,600 maximum earnings base, and the self-employment tax is computed on the lesser of this amount or net earnings from self-employment. A taxpayer who has \$400 of net self-employment income must file a final return and pay self-employment tax even if he is not required to file an income tax return.

Explanation of provisions.—Under the bill, a self-employed person will be required to file a declaration of estimated tax whenever the combined total of his estimated income tax liability and his estimated social security and hospital insurance tax liability exceeds \$40. Payments of estimated tax will be made as at present with the exception that the amount paid will include both the estimated income tax and the estimated self-employment tax. That is, calendar-year taxpayers will have to file the declaration by April 15 and quarterly payments will be required on April 15, June 15, and September 15 of the current year and on January 15 of the succeeding year.

Tables 7 and 8 show the maximum dollar amount of self-employment tax and tax liability since 1951.

TABLE 7.—*Maximum dollar amount of self-employment tax for individuals, 1951 to 1987*

Year	Maximum net earnings base ¹	Tax rate	Maximum tax per person
		<i>Percent</i>	
1951-53.....	\$3,600	2.25	\$81.00
1954.....	3,600	3.0	108.00
1955-56.....	4,200	3.0	126.00
1957-58.....	4,200	3.375	141.75
1959.....	4,800	3.75	180.00
1960-61.....	4,800	4.5	216.00
1962.....	4,800	4.7	225.60
1963-65.....	4,800	5.4	259.20
1966.....	6,600	² 6.15	405.90
1967-68.....	6,600	6.40	422.40
1969-72.....	6,600	7.10	468.60
1973-75.....	6,600	7.55	498.30
1976-79.....	6,600	7.60	501.60
1980-86.....	6,600	7.70	508.20
1987+.....	6,600	7.80	514.80

¹ The minimum net earnings subject to the self-employment rate has been \$400 since 1951.

² Includes OASDI (social security) tax rates and HI (hospital insurance) tax rate of 1966 and all following years.

TABLE 8.—*Self-employment tax liability, 1951 to 1966*

Year	Self-employment tax		
	Number of income tax returns reporting self-employment tax	Amount of self-employment tax	Average tax per return ¹
	<i>Millions</i>	<i>Millions</i>	
1951.....	4.1	\$211.3	\$51.90
1952.....	4.1	217.5	53.60
1953.....	4.2	226.6	53.70
1954.....	4.2	301.5	71.60
1955.....	6.6	463.2	69.70
1956.....	7.4	533.1	72.50
1957.....	7.0	531.2	83.10
1958.....	7.0	589.2	84.00
1959.....	7.0	701.5	99.70
1960.....	6.9	833.5	121.00
1961.....	6.7	840.1	124.50
1962.....	6.7	887.2	132.90
1963.....	6.5	1,032.2	154.60
1964 (preliminary).....	6.3	1,000.0	160.00
1965 (estimate) ²	6.2	1,050.0	169.00
1966 (estimate) ²	6.3	1,500.0	238.00

¹ Average computed from unrounded figures.

² Includes doctors of medicine newly covered by the Social Security Amendments Act of 1965.

Persons who derive at least two-thirds of their total estimated gross income from farming and fishing activities will not be required to make quarterly payments of estimated self-employment tax. This treatment conforms to the present provisions for the payment of estimated income tax for farmers and fishermen. Such persons will have until January 15 of the year following the taxable year to file a declaration of estimated tax, and need not file a declaration at all if they choose to file their final tax return by February 15.

A penalty will be imposed for underpayment of estimated tax when a quarterly payment falls below 80 percent of the combined income and self-employment tax liability estimated at that time. The penalty is computed separately with respect to each quarterly installment. However, no penalty is imposed, even if the 80-percent rule is not met, when the estimated tax payment conforms to the exceptions currently applicable to quarterly estimated income tax payments (sec. 6654(d)).

Effective date.—This provision is effective for taxable years beginning after December 31, 1966.

Revenue effect.—This provision is expected to increase fiscal year 1967 trust fund revenues, which are not reflected in the administrative budget, by \$200 million. It will have no effect on revenues in the fiscal year 1966.

3. Underpayment of installments of estimated income tax by individuals (sec. 103 of the bill and sec. 6654 of the code)

Present law.—Under existing law the penalty for underpayment of estimated tax is restricted to the difference between the amount of tax paid through withholding, quarterly installments of estimated tax, or both, and 70 percent of the final liability for the taxable year. This penalty is computed on a quarterly basis. It is a charge equal to 6 percent per year on the amount of underpayment and is not a deductible expense for tax purposes.

Explanation of provisions.—H.R. 12752 increases the proportion of the final liability which is to be paid currently from 70 to 80 percent. This amendment restores the pre-1954 requirement.

The bill also modifies to 80 percent the one alternative exception to the penalty which contains a percentage test. This is the income test that calls for annualizing the taxable income received in the months prior to the month when a particular installment is due.

Effective date.—This provision will apply with respect to taxable years which begin after December 31, 1966.

Revenue effect.—It is estimated that the larger estimated tax payments required under this rule will result in a temporary increase in tax collections that will add \$150 million to revenues in fiscal year 1967.

4. Acceleration of payment of estimated tax by corporations (sec. 104 of the bill and sec. 6154 of the Code)

Present law.—Corporations with an estimated tax liability in excess of \$100,000 presently are required to make partial payments during the current tax year of their estimated tax in excess of \$100,000. Under the provisions of the Revenue Act of 1964, calendar year corporations make payments on estimated tax liability on April 15, June 15, September 15, and December 15.

Under the present schedule, these corporations file an initial declaration and pay 9 percent of their estimated 1966 tax liability in excess of \$100,000 on April 15 and on June 15 of this year. They pay installments of 25 percent each on September 15 and December 15 and the remaining 32 percent of the tax liability is paid in equal installments on March 15 and June 15, 1967.

In 1967, the April and June estimated taxpayments are each scheduled to be 14 percent of the estimated tax liability above \$100,000. The payment schedule under present law for a calendar-year corporation is summarized in table 9.

TABLE 9.—Payment schedule for calendar-year corporations under present law showing percentage of estimated tax to be paid ¹

Calendar year	Current taxable year				Following year	
	Apr. 15	June 15	Sept. 15	Dec. 15	Mar. 15	June 15
1966.....	9	9	25	25	16	16
1967.....	14	14	25	25	11	11
1968.....	19	19	25	25	6	6
1969.....	22	22	25	25	3	3
1970.....	25	25	25	25	-----	-----
1971 and subsequent years.....	25	25	25	25	-----	-----

¹ Tax in excess of \$100,000.

Explanation of provisions.—H.R. 12752 accelerates the transition to full current payment of corporate tax liabilities in excess of \$100,000 which will be completed in 1967, instead of 1970 as provided under existing law.

Corporate tax liabilities remain unchanged by the provisions of this bill.

Under the bill, 12 percent, rather than 9 percent, of the tax in excess of \$100,000 is to be payable by a calendar-year corporation in April and June 1966, and in 1967 and thereafter 25 percent will be

payable on each of these two dates. Table 10 shows the schedule of payment dates provided under the bill for a calendar-year corporation for 1966 and subsequent years.

TABLE 10.—*Payment schedule for calendar-year corporations under bill showing percentage of estimated tax to be paid*¹

Calendar year	Current taxable year				Following year	
	Apr. 15	June 15	Sept. 15	Dec. 15	Mar. 15	June 15
1966.....	12	12	25	25	13	13
1967.....	25	25	25	25	-----	-----
1968 and subsequent years.....	25	25	25	25	-----	-----

¹ Tax in excess of \$100,000.

Corporations affected by this provision will not be put on a fully current basis with respect to their total tax payments, since only the estimated taxes in excess of \$100,000 are affected. In addition, the various provisions in existing law that limit the imposition of penalties when estimated payments fall short of actual liabilities are not changed.

Accelerating the corporate tax payments schedule to complete the transition to the current payments basis in 1967 will produce larger payments in 1966 and 1967 than would be made under present law. It also means that the tax payments in 1968, 1969, and 1970 will be lower than those scheduled under present law.

Effective date.—The revised schedule for corporation tax payments will apply to taxable years beginning after December 31, 1965.

Revenue effect.—Administrative budget receipts will be increased by \$1 billion in fiscal year 1966 and by \$3.2 billion in 1967 as a result of enactment of this provision.

5. *The excise tax on passenger automobiles (sec. 201 of the bill and sec. 4061 of the code)*

Present law.—Prior to the passage of the Excise Tax Reduction Act of 1965, a tax of 10 percent was imposed on the manufacturer's price for passenger automobiles. Under that act, the rate was reduced to 7 percent for the period June 22, 1965, to December 31, 1965. On January 1, 1966, the tax rate was reduced to 6 percent, and it is scheduled to fall to 4 percent on January 1, 1967, and to 2 percent on January 1, 1968. On January 1, 1969, the tax is to be reduced to a permanent level of 1 percent. Refunds will be paid to dealers with respect to automobiles held in inventory on any date on which the tax rate is reduced.

Explanation of provisions.—The bill restores the excise tax rate on passenger automobiles to the 7-percent rate applicable last December. The restoration of the 7-percent rate is for a 2-year period beginning the day after the date of enactment and ending on March 31, 1968. The excise tax rate on automobiles then will become 2 percent, as scheduled under present law for 1968 and 1 percent on January 1, 1969.

A tax of 1 percent of the manufacturer's (or importer's) price is imposed upon all new automobiles held in stock by dealers or distributors on the day when the 7-percent-tax rate becomes effective. The tax is

to be paid by the dealer and is to be collected from the dealer by the manufacturer (or importer). The Secretary of the Treasury will prescribe regulations which will instruct the dealer to prepare for the manufacturer (or importer) a list of the cars in his inventory on the day when the 7-percent tax becomes effective together with any other information needed by the manufacturer (or importer) to determine the sales price. The manufacturer (or importer) then will prepare a bill for the dealer on which he itemizes the floor stock tax upon each of these automobiles. The dealer then is to pay this tax to the manufacturer (or importer) who transmits it to the Government. In addition, the manufacturer (or importer) is to provide the dealer with information the dealer can use to show the customer a close approximation of the floor stock tax on each car. This is to be made available on, or shortly after, the date the floor stock tax applies. The floor stock tax of 1 percent will be paid on a date not earlier than 60 days after the date of enactment as indicated in regulations prescribed by the Secretary or his delegate.

Effective date.—The tax rate will be restored to 7 percent effective with respect to sales by manufacturers, producers, and importers beginning with the day after the date of enactment. The floor stocks tax is to be effective on the same day.

Revenue effect.—This provision will increase revenues by \$60 million in the fiscal year 1966 and by \$420 million in the fiscal year 1967.

6. *The excise tax on telephone service (sec. 202 of the bill and sec. 4251 of the code)*

Present law.—Under the law in effect prior to January 1, 1966, a 10-percent tax was levied on amounts paid for general and toll telephone and teletypewriter exchange service. This rate was lowered to 3 percent effective as of January 1, 1966, under the provisions of the Excise Tax Reduction Act of 1965. As presently scheduled, the tax rate will fall to 2 percent on January 1, 1967, to 1 percent on January 1, 1968, and will be repealed on January 1, 1969.

Explanation of provision.—The bill restores the 10-percent excise tax rate on telephone service, including teletypewriter service, and postpones further reduction in the tax rate until April 1, 1968. On that date, the tax rate is to fall to the 1-percent rate scheduled under present law to be effective in 1968. Then (as under present law) the tax is repealed on January 1, 1969.

Exemptions for hospitals.—The bill provides an exemption from the excise tax for telephone services furnished to nonprofit hospitals exempt from income tax. This is to accord such hospitals the same treatment accorded Government hospitals under present law.

Effective date.—The 10-percent rate on telephone and teletypewriter service is to become effective with respect to bills rendered on or after the first day of the first month which begins more than 15 days after the effective date of this legislation. The exemption for nonprofit hospitals is to go into effect at the same time.

Revenue effect.—This provision will increase revenues by \$785 million in the fiscal year 1967.

Table 11 presents a comparison of the effective dates for scheduled reductions in the excise tax rates applicable to automobiles and telephone and teletypewriter services under present law and H.R. 12752.

TABLE 11.—Effective dates for scheduled excise tax reductions, under present law and H.R. 12752

[In percent]

Excise tax and date	Excise tax rate under—	
	Present law	H. R. 12752
Automobiles:		
June 22, 1965.....	17	-----
Jan. 1, 1966.....	16	-----
Day after enactment of H. R. 12752.....	6	7
Jan. 1, 1967.....	4	7
Jan. 1, 1968.....	2	7
Apr. 1, 1968.....	2	12
Jan. 1, 1969.....	1	11
Communications:		
Jan. 1, 1966.....	3	-----
1st month beginning more than 15 days after enactment of H. R. 12752.....	3	10
Jan. 1, 1967.....	2	10
Jan. 1, 1968.....	1	10
Apr. 1, 1968.....	1	1
Jan. 1, 1969.....	Repeal	Repeal

¹ Appropriate floor stocks tax refunds for dealers' inventories.

² Floor stocks tax of 1 percent applied to dealers' inventories.

Table 12 lists the effective dates for each provision of H.R. 12752.

TABLE 12.—Effective dates for each provision of H.R. 12752

Provision	Effective date
Graduated withholding schedules.....	Remuneration paid after Apr. 30, 1966.
Withholding allowances.....	Taxable years beginning after Dec. 31, 1966.
Quarterly payments of self-employed social security and hospital insurance taxes.	Do.
Underpayment on estimated individual income and self-employment taxes.	Do.
Accelerated payment of estimated corporation income tax.	Taxable years beginning after Dec. 31, 1965.
Excise tax and floor stocks tax on passenger automobiles.	The day after date of enactment.
Excise tax on telephone and teletypewriter services..	Bills rendered on 1st day of the month beginning more than 15 days after enactment.

CHAIRMAN RUSSELL B. LONG (DEMOCRAT, OF LOUISIANA), COMMITTEE ON FINANCE,
ANNOUNCES HEARINGS ON THE PRESIDENT'S 1966 TAX PROPOSALS

[For the press for immediate release Feb. 17, 1966]

Russell B. Long, chairman of the Committee on Finance, announced today that the committee would begin hearings on Friday, February 25, 1966, with respect to H.R. 12752, the Tax Adjustment Act of 1966. The Secretary of the Treasury, Hon. Henry H. Fowler, is to be the first witness.

Persons desiring to be heard on the proposals contained in H.R. 12752 should submit requests to Tom Vail, chief counsel, Committee on Finance, not later than Wednesday, February 23, 1966. In order to facilitate committee consideration of this important legislation, those with similar interests are urged to designate a single spokesman to present their testimony.

Witnesses who are scheduled to appear are further urged to make their statements as brief as possible to conserve the time of the committee. In order to further conserve the time of the committee, the committee will be pleased to receive from any interested person a written statement for inclusion in the printed record of the hearings in lieu of a personal appearance. These statements will be given the same full consideration as though they had been delivered orally.

All statements should include a summary sheet and subject headings.

The chairman further announced that the committee would proceed to executive consideration of the President's tax proposals promptly upon completion of the hearings.

Senator LONG. Our first witness this morning is the Secretary of the Treasury, the Honorable Henry H. Fowler.

Mr. Secretary, we are happy to welcome you to the committee.

I might point out, Mr. Secretary, that this hearing is beginning an hour earlier than our usual meeting time because I was fearful an objection might be made later in the day to the committee meeting while the Senate is in session. I will invite you to read your prepared statement and I hope we can withhold questions until after your statement has been presented.

I would suggest that we proceed this morning with the rule that we have been using on the Foreign Relations Committee that each Senator, on the first round, limit his interrogation to 10 minutes. Thereafter, I would place no limit on the amount of time each Senator might need for his questions.

You may proceed, Mr. Secretary.

**STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE
TREASURY; ACCOMPANIED BY STANLEY S. SURREY, ASSISTANT
SECRETARY FOR TAX POLICY**

Secretary FOWLER. Thank you, Mr. Chairman.

I have with me today Assistant Secretary Stanley S. Surrey, the Assistant Secretary of the Treasury for Tax Policy. He will assist me in dealing with questions of the committee on technical aspects of the bill before you.

Senator LONG. Mr. Secretary, would you like to summarize this statement or do you want to present the whole statement?

Secretary FOWLER. Mr. Chairman, I would like to read the early part of the statement completely, and then more or less summarize the technical provisions—unless the committee wishes to have the entire statement read.

Senator WILLIAMS. We have not had a chance to see your statement before.

Secretary FOWLER. Perhaps I should read it in full.

Senator WILLIAMS. That would be better.

Senator LONG. Mr. Secretary, I certainly don't want to proceed too expeditiously, although I do believe in proceeding expeditiously. Might I ask what pages you had in mind reading?

Secretary FOWLER. Through page 7.

Senator LONG. Fine. At that point, you can decide whether you want to summarize the remainder or read every word of it.

Secretary FOWLER. Thank you, Mr. Chairman.

I thank the committee for the promptness of this hearing on the tax changes embodied in H.R. 12752, which has been passed by the House of Representatives. This bill essentially embodies the President's tax program. We urge that it be approved as quickly as possible.

There are times when rapid action on tax legislation is needed. This is particularly true in the present case. Each passing day makes it harder for us to reduce the deficit in fiscal year 1966, and much delay could lower our ability to reduce the deficit in fiscal year 1967.

Briefly, H.R. 12752 involves (a) temporary restoration of the rates of excise tax on automobiles and telephones that were in effect at the end of 1965 and (b) the adoption of certain collection procedures which will put income and self-employment tax payments closer to a pay-as-you-go system, thereby increasing current revenues without changing income tax rates and without changing anyone's final tax liabilities.

The main budgetary fact behind this program is that increased special costs associated with Vietnam will add \$4.7 billion in fiscal year 1966 expenditures over the amount originally estimated in the budget for that year presented in January 1965 and an additional \$5.8 billion, for a total of \$10.5 billion in fiscal year 1967.

The increased cost of Vietnam with its economic and psychological uncertainties came at a time when the success of a balanced and expansionary mix of fiscal and monetary policies, combined with wise practices in a dynamic private sector, had brought the Nation close to the achievement of many of its most important economic goals—a healthy rate of growth (the highest of any of the larger industrialized nations) in a full employment economy with a balanced budget, accompanied by price stability unparalleled in the industrialized world, and an equilibrium in our balance of payments.

Past tax reduction actions of the Congress, recommended or approved by this committee—the investment credit in the Revenue Act of 1962, the tax reduction program in the Revenue Act of 1964, the Excise Tax Reduction Act of 1965, and the administrative depreciation reforms of 1962 and 1965—made a signal contribution to this achievement.

Despite tax reductions that have cut the burden of taxes by some \$20 billion at this year's income levels, revenues under present law will be \$21 billion higher in fiscal year 1966 than they were in fiscal year 1961. This contrasts with a growth in receipts of only \$10 billion in the 5 years preceding 1961, a period in which there was no significant tax reduction.

Our fiscal policy has been successful. Had our defense commitments remained unchanged, the rise in receipts without the current tax bill

would have produced a budget surplus in fiscal year 1967 with room for increases in Federal civilian expenditures or further tax reductions or debt retirement.

In this situation we face the current problem of meeting the added costs of our southeast Asia operations. We are better prepared to meet these costs because of the 25-percent increase in real GNP in the last 5 years. We must recognize, however, that new problems call for new solutions.

The immediate response of this administration to the problem presented by the increased Vietnam expenditures in a nation nearing full employment was a maximum of economy in the preparation of budget expenditure proposals, consistent with recognition of clear international and domestic needs. Elimination of unnecessary activities and the reduction in the cost of continuing activities were pursued ruthlessly.

There was still a dilemma which President Johnson clearly described in a letter of January 19 addressed to Chairmen Long and Mills as coming down to three choices:

A deficit in excess of \$6.5 billion, which would require the Government to borrow the additional money.

An increase in corporate and personal income tax rates, or other new taxes.

Temporary restoration of certain excise taxes, and adoption of graduated withholding of individual income taxes and current payment of corporate income taxes—to put the American people on a pay-as-you-go basis without increasing the total tax bill due.

Senator WILLIAMS. Mr. Secretary, are you speaking of the 1967 budget?

Secretary FOWLER. Yes.

Senator WILLIAMS. Thank you.

Secretary FOWLER. In the President's words, "First, we could raise revenue or borrow it. I chose to raise the money." This decision recognizes that our fiscal policy over the last 5 years has substantially reduced the level of unused plant capacity and unused worker skills. With the Vietnam commitment superimposed on the robust private demands, a moderate and balanced shift away from the stimulative policy of the last 5 years is called for.

In the light of the uncertainty about the duration of the increased expenditures for Vietnam, a solution which involves predominantly temporary and passing changes largely in the timing of taxpayments without increasing income tax fiscal liabilities is a first preference to increasing personal and corporate income tax liabilities. This makes the last of the presidentially stated alternatives clearly preferable.

On the need for this bill, let me reemphasize first my point that for the most part the provisions of H.R. 12752 represent structural improvements in the tax law and the increased receipts are primarily associated with the transition. This means that it involves less of a burden than one would normally associate with an increase of revenues of \$4 billion in 1 fiscal year. Nevertheless, could even this be avoided by expenditure cuts?

First as to timing—here, Senator Williams, I refer to fiscal 1966—the bill in part is intended to deal with the budget problem in fiscal year 1966. These expenditures are based on programs that have been voted

and are in operation. They cannot be cut back materially. We need the bill to reduce the deficit in fiscal year 1966 by \$1.2 billion.

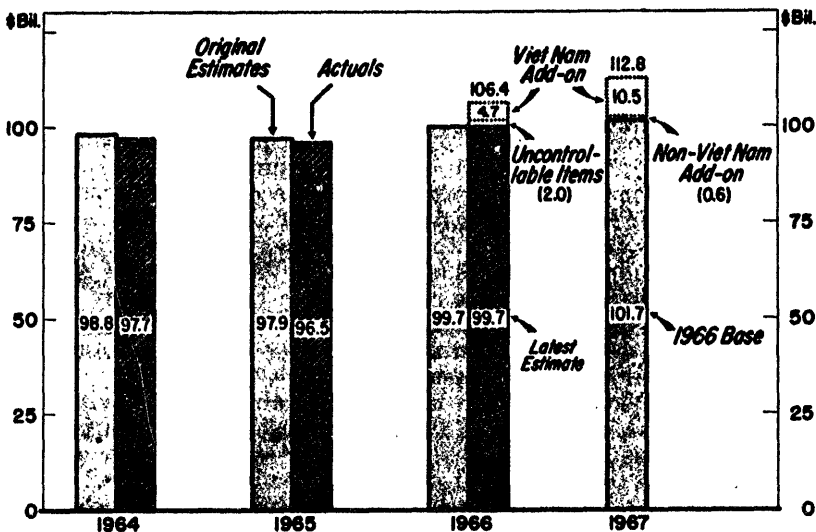
In assessing expenditure reduction possibilities for fiscal year 1967 as a substitute for this bill, it should be noted that the 1967 budget provides for an increase of only \$600 million over the expenditure levels in the non-Vietnam sector of the 1966 budget. Moreover, this minor increase in expenditures, apart from the requirements of Vietnam, comes after several years in which expenditure totals in the administrative budget have been held down.

This requires a summary examination of the record on expenditure control under President Johnson which is set forth on chart 1 attached to my statement.

(The chart and explanation follow:)

Chart 1

EXPENDITURES 1964-1967



Office of the Secretary of the Treasury

D-1040-1

EXPLANATION OF CHART 1

The increase of \$0.6 billion in budget expenditures, outside of special Vietnam costs, between 1966 and 1967, reflects many increases and decreases. For example, the 1967 budget provides for \$5.3 billion of expenditure increases. These increases include (1) \$3.2 billion for Great Society programs, primarily in education, health, and the war on poverty; (2) \$0.8 billion for higher interest costs and \$0.4 billion for the added costs over 1966 of the military and civilian employee pay raises enacted last October; and (3) \$1 billion for other unavoidable workload and contractual commitments, such as expenditures for construction projects started in earlier years.

Against these increases there are reduction of \$4.7 billion included in the 1967 budget. These consist partly of (1) \$1.6 billion in defense activities excluding the added Vietnam costs and (2) \$1.5 billion in savings through pruning lower priority programs, management improvements, and the nonrecurrence of certain

costs. The remaining \$1.6 billion reduction stems from increased sales of mortgages and other financial assets or conversion of direct Federal loans to guaranteed private loans—the substitution of private for public credit.

Former Budget Director Maurice Stans has estimated that nondefense expenditures can be expected to rise by \$2 to \$2½ billion each year due to the growing workloads which accompany increasing population and incomes. A net increase of only \$0.6 billion in fiscal 1967, therefore indicates extraordinary stringency.

Secretary FOWLER. 1. The President cut the original estimated expenditure level of \$98.8 billion for fiscal year 1964 by \$1.1 billion to an actual \$97.7 billion.

2. He cut the original estimated expenditure level of \$97.9 billion for fiscal year 1965—ending last June 30—by \$1.4 billion to an actual \$96.5 billion.

3. The expenditure target for fiscal year 1966 was fixed last January at \$99.7 billion. But accelerated military activity in Vietnam required extra expenditures of some \$4.7 billion. In addition, uncontrollable or legislated expenditures required another unavoidable increase amounting to a net figure of some \$2 billion. These expenditures included \$740 million of military and civilian pay increases voted by Congress in excess of Presidential recommendations, an additional \$288 million increase in veterans' pensions, a \$500 million increase in interest charges on the debt and two further increases of \$500 million each as a result of payments required by law under the space program and \$462 million under the commodity credit program. All of these increases more than wiped out economies realized since the original budget estimate for fiscal year 1966.

What all this adds up to is the striking fact that, had it not been for these unavoidable increases as a result of Vietnam and these other uncontrollable increases I have cited, the President in nearly 3 years in office would have held expenditures in the administrative budget to a total increase of less than \$1 billion over the amount estimated for the fiscal year in which he assumed office.

We can gain some idea of what a remarkable achievement this is when you compare it with the average increase of \$3 billion per year over the previous 10 years.

The program that we are urging meets the immediate and clearly foreseen needs, but this does not foreclose future dealing with longer run problems or new developments. The President in his letter stated further:

If our needs in Vietnam require additional revenues, I will not hesitate to request them. On the other hand, if our efforts for a peaceful resolution of the Vietnam situation are successful—and those efforts will continue day and night—then your Government's need for revenues will be sharply reduced, thus permitting downward tax revisions as we had following Korea.

In his budget message, he clearly committed himself to recommend additional measures in either of two contingencies. He said:

If, on the other hand, events in southeast Asia so develop that additional funds are required, I will not hesitate to request the necessary sums. And should that contingency arise, or should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability.

Insofar as inflationary pressures are concerned, the President stated his position concerning these tax proposals as recently as January 27 in his economic message saying:

To insure against the risk of inflationary pressures, I have asked Americans to pay their taxes on a more nearly current basis, and to postpone a scheduled tax cut. If it should turn out that additional insurance is needed, then I am convinced that we should levy higher taxes rather than accept inflation—which is the most unjust and capricious form of taxation.

Taxation is an effective and flexible instrument of economic policy. It can be adapted to the needs of the present circumstances without changing basic policies already incorporated in our tax law.

The tax changes in H.R. 12752 will:

Balance the cash budget.

Reduce the deficit in the administrative budget to the lowest level in 7 years.

Help maintain economic growth and reduce the risks of inflation.

The specific sources of increased budget receipts under H.R. 12752 for fiscal year 1966 and 1967 are shown in the following table:

(The table referred to follows:)

Estimated revenue increase under H.R. 12752 for the fiscal years 1966 and 1967

(In millions of dollars)

	Fiscal year 1966	Fiscal year 1967
Excises:		
Communications.....		785
Automobiles.....	60	420
Total excises.....	60	1,205
Corporate speedup.....	1,000	3,200
Graduating withholding.....	95	1210
Increase in declaration requirement under individual income tax from 70 to 80 percent.....		150
Total, administrative budget.....	1,155	4,765
Self-employment social security tax, quarterly payments (goes into a trust fund).....		200
Total, cash budget.....	1,155	4,965

¹ Prior to the House floor amendment, the gain in fiscal year 1967 from graduated withholding was \$275,000,000; the total administrative budget was \$4,830,000,000; and the total cash budget was \$5,030,000,000. The floor amendment reduced each figure by \$65,000,000.

Secretary FOWLER. I will not recite all the figures, except to indicate that, in total, there will be an addition of \$1,155 million to both the administrative and cash budgeting receipts in fiscal year 1966.

Senator LONG. Would you pause there just a moment, Mr. Secretary, while the committee digests that chart?

Some of us want to study that a little bit.

I think Senator Williams was perhaps right, Mr. Secretary, your statement is so thought provoking, I think it might be well for you to go ahead and read the remainder of it.

Secretary FOWLER. Thank you, Mr. Chairman.

To complete my comment on the table, the proposals would add, as you see in the last column, \$4,765 million to administrative budget receipts in fiscal 1967. In addition, the bill would add an additional \$200 million to cash budget receipts in fiscal 1967, for total cash budget receipts of \$4,965 million.

Now, I would like to turn to the individual items contained in the bill before you, H.R. 12752.

EXCISE TAXES

H.R. 12752 would restore promptly the 7-percent rate of the manufacturers excise tax on automobiles, which was reduced to 6 percent on January 1, 1966, and the 10-percent tax rate on local and long-distance telephone and teletypewriter service, which fell to 3 percent the same date. The automobile tax would be restored on the day after enactment, and the telephone tax would be restored for bills rendered on and after the first day of the first month beginning more than 15 days after the legislation is enacted. Those pre-January 1 rates would remain in effect until April 1, 1968, when they would revert to the level that would prevail at that time under present law, that is, 2 percent on the automobile tax and 1 percent on the telephone tax.

The question arises naturally, why are the rates restored on these two excises only? Why not restore some of the taxes that were repealed last June or last December?

Part of the answer to this question is that in the Excise Tax Reduction Act of 1965 it was recognized that these two taxes involved such large amounts of revenue that their ultimate reduction had to be scheduled gradually in the light of economic and budget conditions. Another way of saying the same thing is to point out that a large number of excise taxes would have to be restored to match the revenue involved in the continuation of the automobile and telephone excises.

Another reason for this particular excise tax program is that the restoring of taxes that have been completely repealed in contrast to continuing taxes still being levied would impose substantial compliance and administrative burdens. The whole series of accounting and reporting procedures associated with payment of the taxes which disappeared when the taxes were repealed would have to be reconstituted. With regard to the automobile and telephone taxes, however, only a change in rate is involved—not a restoration of an entire tax. No additional accounting and reporting are involved, and there is no reintroduction of the compliance and administrative difficulties involved in the various smaller taxes. Nor is there a reintroduction of all the competitive and other distortions that were involved in the various selective excise taxes that were repealed in 1965.

In fiscal year 1967, the increase in revenues would be \$420 million from the automobile tax and \$785 million from the telephone tax, a total of \$1.2 billion.

A floor stocks tax of 1 percent would be imposed on all new automobiles held in stock by dealers or distributors on the day the 7-percent rate becomes effective. Under the bill, this tax is to be paid by the dealer, but it is to be collected by the manufacturer and paid over by it to the Treasury. This procedure, which parallels that for the floor stocks refunds under this tax, was chosen in the House bill to assure that the dealers will have the correct information as to the tax base for the cars affected.

If the legislation is enacted by March 15, 1966, excise tax revenue in fiscal year 1966 would be increased by \$60 million, all of which would come from the automobile tax. There are, as you realize, lags between the time the taxes are collected and when they are paid into the Treasury.

The increase in cash payments by consumers reflecting these tax changes in calendar year 1966 would be \$200 million from the automobile tax and \$570 million from the telephone tax.

The bill differs somewhat from the administration recommendations as to the period after 1967. We had proposed that the whole schedule of automatic reductions of the automobile and telephone taxes beginning with the January 1, 1966, reductions be moved later by 2 years so that the reductions previously scheduled for January 1, 1966, through January 1, 1969, would take place instead from January 1, 1968, to January 1, 1971.

Under H.R. 12752, the restored rates would be carried to April 1, 1968, and then the rates would revert to the level that they would have been on that date under present law, that is, 2 percent on the automobile tax and 1 percent on the telephone tax. The final reduction of these taxes to 1 percent and zero, respectively, would take place on January 1, 1969. H.R. 12752 would provide as much revenue from the excise provisions as the administration proposal in fiscal years 1966 and 1967, just slightly more in fiscal year 1968, and less in fiscal years 1969 and 1970. We have no objection to the method of treatment in H.R. 12752 for these excise tax rates on automobiles and telephones after the temporary postponement period is ended.

GRADUATED WITHHOLDING

A most important part of the administration program as well as H.R. 12752 is the provision for graduated withholding.

In evaluating these withholding changes, it is important to note that a very substantial proportion of our citizens regard a pay-as-you-go tax system as a convenience, not as a penalty. Further, I believe, since the withholding system cannot be perfect, most taxpayers prefer some overwithholding with a refund on April 15 to underwithholding, which means a final tax bill due in April.

Many wage and salary earners, for example, voluntarily understate the number of exemptions to which they are entitled for withholding purposes in order to have their withholding more closely approximate their tax liability or even to result in overwithholding. A withholding system should not, of course, seek to create unnecessary overwithholding. But as a practical matter, taxpayers with the same amount of wages will very often differ in other respects. A withholding rate that would cause overwithholding for one taxpayer would therefore underwithhold on the other. Thus a taxpayer might have income from nonwage sources that is not subject to withholding; or have actual deductions that are more or less than the assumption used in the withholding system; or the taxpayer may not be employed continuously during the year. All of these factors—and others—affect the amount of his final tax liability and thus the relationship between the amounts withheld and that liability.

Under the present law, a flat 14 percent of an employee's earnings is withheld for income tax purposes, while final tax liability is computed under a series of graduated rates. Consequently, many taxpayers are faced with large, and frequently unanticipated, unpaid tax liabilities at the end of the year. The burden to taxpayers of these year-end

payments, as well as the collection problems imposed on the Internal Revenue Service, warrants a system of withholding from wages on a graduated basis that will more effectively synchronize withholding with actual tax liability.

Moreover, the present withholding system takes into account the 10-percent standard deduction, but not the minimum standard deduction added by the Revenue Act of 1964. This omission results in overwithholding for many low-income employees. Additional overwithholding occurs under the present system for single employees with taxable incomes of less than \$2,000 and married employees with taxable incomes of less than \$4,000. This results from the use of a flat withholding rate which is an average of the rates for the first four income tax brackets, adjusted for the 10-percent standard deduction.

The basic graduated withholding system in H.R. 12752 is designed to minimize these problems.

(1) First, in place of the present flat 14-percent withholding rate, the proposed system would provide for withholding at six graduated rates ranging from 14 percent to 30 percent. This would closely relate the amount of withheld tax with the actual tax due for single people with taxable income up to \$12,000 and for married couples with taxable income up to \$24,000, whose deductions are approximately 10 percent of income. For people above this income level with deductions of approximately 10 percent of income, withheld and actual taxes would be more closely related than under the present system.

(2) Second, the minimum standard deduction would be reflected in the new withholding system through an increase to \$700 in the value of the personal exemptions for withholding purposes, and through a zero withholding rate on \$200 of wages on an annual basis. This change would appreciably reduce overwithholding for those employees who use the minimum standard deduction. The use of the minimum standard deduction in combination with graduated rates would also eliminate the overwithholding that presently exists in the first four income tax brackets.

The six-rate graduated system, proposed in the administration program and adopted in H.R. 12752, is designed to produce the correct amount of withholding for an individual whose deductions were either the standard deduction, including the minimum standard deduction, or 10 percent of his wage income, whichever was the larger, who had no nonwage income, and who worked a full year. If a taxpayer has no nonwage income, and has itemized deductions in excess of the standard deduction or 10 percent of his wage income, it is quite likely that there would be some overwithholding under the administration proposal.

While modest overwithholding is not a significant hardship for the wage or salary earner, there could be cases of large overwithholding both under present law and under the basic graduated withholding system. The basic graduated system by itself would in many cases tend to aggravate the situations of large overwithholding. For this reason, a provision was added to the bill in the Ways and Means Committee that would make it possible for individuals, who would expect to be overwithheld due to high itemized deductions, to avoid or minimize large overwithholding by claiming additional withholding allow-

ances. The withholding system heretofore has permitted each taxpayer to declare to his employer the number of income tax exemptions to which he is entitled, for himself and his dependents. These are taken into account in the graduated withholding formula and in the withholding tables, through permitting the taxpayer to earn free of withholding \$700 (on an annual basis) for each exemption to which he is entitled. H.R. 12752 would simply expand this technique to deal with employees with high itemized deductions by affording additional withholding allowances (in \$700 multiples) because of those deductions.

Specifically, H.R. 12752 permits the taxpayer to state his estimated deductions for the current year. These cannot exceed his actual itemized deductions for the previous year. He can also put down his estimated salary or wages for the current year, which cannot be less than his salary or wages for the previous year. These ceiling and floor limitations are necessary to prevent serious abuse of the new allowance. H.R. 12752 then allows the taxpayer to compute his excess deductions, that is, his deductions in excess of a base line which is made up of 12 percent of the first \$7,500 of his salary or wages and 17 percent of the balance. The taxpayer is given an additional withholding allowance for each full \$700 by which the excess deductions exceed the base line. Under an amendment added on the House floor, the taxpayer would be allowed the first additional withholding allowance if his excess deductions were equal to at least \$350.

As respects the operation of this additional allowance system, the employer would treat these claims for additional withholding allowances in exactly the same way as a claim for additional exemptions, so basically the procedure will not complicate the withholding system for employers. So far as employees are concerned, the provision for extra withholding allowances does involve some complication. It is, of course, optional with the employee whether or not he wants to claim an additional allowance. But an option itself is a complexity since a taxpayer may feel he ought to find out what it is before he decides whether or not to use it. Because of this complexity, it is the course of wisdom to use this technique initially to deal only with the relatively large overwithholding situations. This is the reason for the particular decision in H.R. 12752 to measure excess deductions over a base line which is higher than the 10 percent of deductions built into the withholding system. We believe that the basic technique of additional allowances which the Ways and Means Committee adopted is appropriate to moderate overwithholding where it may be too large. However, there are problems associated with the variation in that technique introduced by a committee floor amendment which we will be glad to discuss in your technical sessions. That variation involves added complexity, and also produces underwithholding in some situations.

The additional allowance system would be applicable for the first time in 1967. Taxpayers would file claims for additional withholding allowances with their employers on the basis of their estimates for 1967 and their actual tax returns for 1966. The new withholding allowances would go into effect in the spring of 1967. Thereafter the taxpayer would continue to use the additional withholding al-

lowance until May 1, 1968, although it could be terminated at his option earlier. The taxpayer could file another claim for additional withholding allowances on the basis of his 1967 return, which would take effect May 1, 1968.

This timing is necessary in order to develop the required forms and to provide the necessary information program, so that people will know how to operate the system. Also important is the fact that graduated withholding would start only in May of this year and hence overall overwithholding will not be as significant in 1966 as it would be if the six graduated rates were in effect for a full year. The additional allowance provision will thus not affect the expected increase of \$90 million in budget receipts from the introduction of graduated withholding as proposed in the administration program for fiscal year 1966. It would also have no impact on the calendar year 1966 effect of graduated withholding. Thus it will not reduce the short-term economic impact of the adoption of graduated withholding.

Under the House bill the net increase in budget receipts in the fiscal year 1967 from the adoption of graduated withholding is estimated to be \$210 million. Due to the additional withholding allowance under H.R. 12752, there would be a decline in budget receipts in the fiscal year 1968 estimated at \$290 million.

To describe the economic impact of the whole withholding provision, it is useful to use calendar year totals. In round numbers, the graduated withholding provision in the six-rate system would have involved an increase in withholding on a full-year basis of \$1.2 billion. Because of the date of introduction, the increase in withholding receipts will be only \$0.8 billion in 1966 (although it will be at an annual rate of \$1.2 billion).

In calendar year 1967, the increase in withholding receipts from the six-rate system will be offset by two things: (1) the smaller yearend payments on 1966 returns filed in the spring of 1967 as people take credit for the prior year additional withholding and (2) the beginning of the additional allowance system by May.

INDIVIDUAL ESTIMATED TAX

H.R. 12752 adds a provision, which originated in the Ways and Means Committee, which would modify the monetary penalty provision with respect to payments of individual estimated tax on declarations. Under present law, a taxpayer who is required to file a declaration of estimated tax is subject to a monetary penalty of 6 percent per annum for underpayment of estimated tax unless his estimated tax meets one of five alternative tests. Three of the tests remain unchanged. These are that the estimated tax must be at least as high as the tax paid last year or at least as high as the tax that would be paid on the basis of last year's income and this year's tax rates or at least 90 percent of the tax liability based on the actual taxable income to date. If the taxpayer does not meet these tests with his estimated tax, he may under present law still avoid the penalty if his estimate is at least 70 percent of his final tax liability or 70 percent of the tax liability that would emerge if he annualized the income that he has

earned to date. Annualizing means multiplying the income of the first quarter by 4, or multiplying the income of the first half year by 2, or multiplying the income of the first three-quarters by $1\frac{3}{4}$.

Under H.R. 12752, the 70-percent provision, which relates to the actual tax liability or the annualized tax liability, is changed to 80 percent. The requirement was originally set in 1943 at 80 percent and was reduced to 70 percent in 1954. At a time when we are, by graduated withholding, making most wage earners more current with respect to their payment of tax liability, it is reasonable to ask that people with nonwage income also pay an estimated tax which is closer to their final tax liability.

The 80-percent requirement on estimates of individual tax would come into effect with respect to estimates filed in the calendar year 1967. It is expected that this would increase budgetary receipts in fiscal year 1967 by \$150 million and in fiscal year 1968 by \$150 million.

CORPORATE ACCELERATION OF CURRENT TAXPAYMENTS

The provision for acceleration of corporate taxpayments is the same in H.R. 12752 as it was proposed by the administration. This change would leave the basic tax liability unchanged.

Under present law, by 1970, corporations will pay, with respect to their estimated tax in excess of \$100,000, quarterly payments of 25 percent in April, June, September, and December.

In 1963, these corporations paid during the current year only two quarterly payments, those in September and December. The Revenue Act of 1964 required these corporations to begin to make quarterly payments on a current basis in April and June. These April and June payments were scheduled to increase gradually up to the 25-percent level in 1970. At present they must be 9 percent each in 1966 and 14 percent each in 1967. Under H.R. 12752 these figures would be raised to 12 percent in 1966 and to the permanent level of 25 percent in 1967.

The only change from present law is in the timing of the additional payments. If, in 1971, a corporation reviewed its financial experience, it would find that its payments of taxes in that year were exactly the same as they would have been if the current proposal for speeding up the acceleration had not been adopted. If it added up all of its corporate taxpayments from 1964 through 1970, it would still find that the total of those payments was exactly the same as it would have been under present law.

At a time when we are close to full employment and full utilization of capacity, a sizable Federal budget deficit could have inflationary implications. For this reason, it is desirable to absorb some of the additional liquidity in the economic system that could otherwise be used in bidding up the prices of capital goods. We believe that our proposed speedup of corporate tax payments would remove some of this excess business purchasing power.

In recent years, corporations have reduced their holdings of liquid assets relative to current liabilities. An accelerated payments requirement would make some corporations reexamine their expenditure plans. They might give second thoughts to some marginal investment projects, deferment of which might ease pressures on costs and prices

today and, incidentally, leave more investment possibilities for the future when the expenditures could be more easily accommodated. The tightness in the credit markets that already exists would reinforce the effectiveness on business expenditures of the accelerated payment proposal.

This proposal on corporate taxpayments would increase budget receipts in fiscal year 1966 by \$1 billion and, in fiscal year 1967, by \$3.2 billion. It would increase total taxpayments in calendar year 1966 by \$1.1 billion (including fiscal year corporations).

SELF-EMPLOYMENT TAXES

To round out the program to make taxpaying more current, H.R. 12752 provides that social security taxes of the self-employed be paid on an estimated basis.

The present law requires a self-employed individual to estimate and make quarterly installment payments of his income tax if the estimated tax is at least \$40. There is no logic in applying this requirement only to income taxes and not to self-employment taxes.

Under present law, however, for a self-employed individual, the requirement for current payment bears only on the part of his end-of-the-year tax liabilities represented by the income tax. In some cases this income tax liability may be only a small part of the final total liability for income and self-employment taxes; in others it may be a large part. Since the taxes relate to the same type of income, it would be appropriate for the entire liability to be subject to the same requirement of estimated payment.

The estimated tax system would have the double purpose of making taxpayment more convenient for individuals and providing some equality between people with nonwage income and people with wage income who are subject to withholding. Since employee social security taxes are withheld, it is appropriate to include the self-employment tax in the estimated tax base.

In a tentative General Accounting Office report recently submitted for Treasury Department comments, the GAO recommended an identical proposal. We understand that the GAO will issue a formal report shortly which includes this recommendation.

H.R. 12752 provides that the requirement for current payment of self-employment tax would come into operation in 1967, starting April 15.

Under H.R. 12752, this provision would increase revenue collections in fiscal year 1967 by \$200 million. Under the original proposal, which would have commenced the current payment system on June 15 of this year, this increase would have occurred as follows: \$100 million in fiscal year 1966 and \$100 million in fiscal year 1967.

We will develop a procedure for crediting the estimated quarterly declaration payments of self-employment tax to the social security trust fund as these payments come into the Treasury. For this reason the provision will affect only cash budget receipts and not administrative budget receipts. Under H.R. 12752, these increased payments would be \$300 million in calendar year 1967—\$400 million if the January 15, 1968, payment is included.

CONCLUSION

The particular measures involved in H.R. 12752 are designed to have minimum long-range impact on tax burdens and to achieve desirable structural changes. They are appropriate to the fiscal problem at hand. They deal almost entirely with matters on which there has been study in the past. I am hopeful that they may be acted upon promptly.

Senator LONG. Thank you, Mr. Secretary.

I will ask the staff to keep time on me, as well as on all other Senators.

Senator SMATHERS. What do you mean, "keep"?

Senator LONG. I propose that each Senator be limited to 10 minutes during the first round of questions and, thereafter, I would impose no limit on Senators, feeling that it would probably not be necessary thereafter.

Mr. Secretary, what is the relative weight that you place on these two objectives which are (1) to balance the budget, and (2) to resist inflation?

Do you give them equal importance, or is one more significant than the other?

Secretary FOWLER. The more significant one is that this bill moves the budget toward a balanced condition. We also try, through this particular bill, to pay for the additional costs of the conflict in South Vietnam.

In doing this there is a moderate movement in the direction of moderate restraint from a posture of budgetary stimulation. This is appropriate to the time in which we find ourselves—with unemployment at its lowest level, and the utilization of plant capacity at its highest level, in many years.

Senator LONG. Well, we have about 4 percent unemployed right now. I just wondered if you feel that now is the time in which to begin to step hard on the brakes of economic expansion.

Secretary FOWLER. I certainly do not feel this is the time to step hard on the brakes. I think we should continue to try to achieve a mix of fiscal and monetary policy that will permit, in particular, continued attacks on structural unemployment. In this effort the job creating potential of the private sector that come out of the job training activities of private companies should be correlated with the manpower retraining and job training efforts of the Federal Government.

Senator LONG. Now, you speak of fiscal policy—that is, tax policy—as being a very fine weapon to achieve economic objectives, both in balancing the budget and in resisting inflationary pressures.

Before you were able to bring this message down here, the Federal Reserve moved ahead of you and proceeded to use what they regarded as economic policy to raise interest rates.

Now, what is that going to do to your budget in fiscal 1967—this one-half of 1 percent increase in interest rates they gifted us with?

Secretary FOWLER. The first and most immediate effect will be to increase the cost of carrying the public debt. The increase in the estimate of interest charges contained in the budget message of the

President reflects to some degree increased interest rates that the Government will have to pay for the money it borrows.

Senator LONG. What will that mean in fiscal 1967?

Secretary FOWLER. Actual interest charges in fiscal 1965 were \$11.4 billion. The estimate for fiscal 1966 is \$12.1 billion. The estimate for the fiscal year 1967 is \$12.9 billion.

Senator McCARTHY. Mr. Chairman, may I ask at this point—how much of this is the result of an increase in debt and how much is a consequence of the increase in the interest rates?

Secretary FOWLER. Some minor portion of it is the result of the increase in debt. But the preponderant portion of it is due to the increase in the cost of money.

Senator LONG. About 10 percent of it being an increase in the cost of debt, or 5 percent—would it be nearer 5 than 10?

Secretary FOWLER. I would prefer to give you an exact calculation, Mr. Chairman.

Senator LONG. I wish you would provide it for the record.

(The information follows:)

That part of the interest estimate reflecting interest on the public debt was \$12 billion for 1966 and \$12.750 billion for 1967. Of the \$750 million difference between 1966 and 1967, \$550 million is attributable to higher rates to be paid in 1967 than in 1966 and \$200 million is attributable to more debt in 1967 than in 1966. Not all of the higher costs in 1967 over 1966 due to higher rates are attributable to the December 6 increase in the Federal Reserve rediscount rate; a large share of the increase is due to the general rise in rates before the rediscount rate increase and the necessity of refinancing debt issued at much lower rates. And not all of the increased interest cost for 1967 over 1966 due to more debt is attributable to the 1967 deficit; the larger part of it is due to the 1966 deficit.

Senator LONG. Now, this works out to be a bigger item than those you mentioned. That works out to be about \$1.4 billion of additional expenditure that we are going to have to pay because of what the Federal Reserve Board has been able to do for us.

Secretary FOWLER. Mr. Chairman, I should say that interest rates were going up—

Senator LONG. May I just modify my statement. I said what they have been able to do for us. I mean what they have been able to do to us.

Secretary FOWLER. I would like also to note that interest rates were going up. Some part of the amount we have labeled as additional cost of money is undoubtedly due to the market forces that existed prior to December 6. I have not made a breakdown of the increase in the cost of carrying the debt on the basis of interest rates before and after December 6. The figures I have given you reflect the impact of rate changes over both periods.

Senator LONG. The Federal Reserve Board does not have control over the demand for money, but they do have pretty effective control over the supply of it, do they not?

Secretary FOWLER. That is true.

Senator LONG. Now, from the hearings we had on the fiscal policy back 7 or 8 years ago, I once had the naive impression that when a large corporation paid interest charges that they were taking it on the chin just like a poor man when he buys something on installment. But I have subsequently realized that when these large concerns and most

rich people pay interest, they are soon passing it on to the little fellow on down the line. As a matter of fact, most of my close banker friends have advised me that they are now adjusting their affairs so that when they have to pay more for money, they can pass it on to the little fellow. Isn't that correct—when you impose higher interest rates on the major corporations, their competitor has the same problem, and both of them put that in their cost of business, and add that to the cost of the product that the public buys?

Secretary FOWLER. The cost of money is just like any other cost.

It enters into the cost of the finished product just like many of the other things—like taxes—that we do not normally think of as being additions to material or labor costs.

The low cost of money is like the low cost of any material or facility—and is important to a business.

Senator LONG. Isn't it somewhat like the social security tax? We like to think of an employer as paying social security tax, but that is a cost he bears. His competitor has the same cost. When we raise that tax and they pay it, they simply add it to the cost of the product, and pass it on to the consumer of the product.

Secretary FOWLER. To the extent they can pass it on, that is perfectly true.

Senator LONG. As a practical matter, aren't those who succeed in staying in business passing it on?

Secretary FOWLER. I think that could generally be so.

Senator LONG. Well, now, the point that occurs to me is that against a public and private debt of \$1.4 trillion, an increase in interest rates of one-half of 1 percent when passed on, means about a \$7 billion tax on the rank and file for the benefit of those who are in a position to invest.

Now, as between the two methods, which, in your judgment, would be better—for us to tax it away from people, with a direct tax, or to let the Federal Reserve tax it away for the benefit of those who are benefiting from these high interest rates?

Secretary FOWLER. Well, Mr. Chairman, I think that in dealing with problems of excess demand, both fiscal and monetary policies, have their value. I would not want to be in the position of excluding recourse to either one.

Once you have reached the decision that some restraint is desirable to moderate the rate of expansion, I do not believe you should preclude recourse to either monetary or fiscal policy. Some mix of both of them is probably the desirable thing to do.

Senator LONG. Well, Mr. Secretary, one of the first actions of this committee was to agree that we would go along with an increase in veterans benefits which exceeded the President's recommendation.

Now, if the Congress is going to vote more spending than the administration recommends—and we have already started along that line—would you have any objection if we put more revenue in this bill than you are asking for?

Secretary FOWLER. I would hope that the Congress would exercise a sense of priorities in the appropriation process this year. I hope the ultimate balance will come out pretty close to the totals reflected in the President's budget when a balance is drawn reflecting congressional

action in reducing some proposals of the Executive and in increasing others.

I don't know whether that is a vain hope or not. But if it is a vain hope, and Congress adds very substantially to the expenditure totals that were submitted in the budget, then we will have to look for additional revenue—just as the President indicated in his budget message, and I quote—

If, on the other hand, events in southeast Asia so develop that additional funds are required, I will not hesitate to request the necessary sums. And should that contingency arise, or should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability.

Senator LONG. My time has expired, Mr. Secretary.

Senator SMATHERS.

Senator SMATHERS. Mr. Secretary, first I would like to commend you for the manner in which you have been handling your very difficult job, meeting the challenges as they arise.

It seems to me that you have met each one that has arisen with great fortitude and great dexterity and great accomplishment except one—and it seems to me the last one occurred the other day when you were asked by Carol Channing to do the frug—it seemed to me you should have responded to her more appropriately by saying, "I will accept if you will do the Charleston."

Secretary FOWLER. It was the Charleston. The press modernized my step.

Senator SMATHERS. From the picture, it looked as though one of you was doing one and one the other.

Mr. Secretary, how do you describe at the moment the state of our economy with respect to inflation? Are we in it, are we on the edge of it, are we approaching it, or are we not concerned about it?

Secretary FOWLER. There is, of course, a great difference of opinion about the relationship of the economy to inflation which grows out of a difference in the definition of the term "inflation."

My own view is that the economy is not in a condition that I would define as inflation. However, I can readily see that there would be room for argument with persons who had a different definition of inflation.

I am very much concerned and disturbed—and I think the President is concerned and disturbed, as his economic message and other utterances have reflected—that in the last year there has been a move away from the almost unparalleled record of price stability which characterized the American economy since 1958.

While the recent increases in the wholesale price and the consumer price indexes are not of a magnitude or duration that I would characterize as inflation, they are nonetheless a sufficient departure from the previous pattern to put us all on notice that we should watch them very carefully and try to modify the policy mix to the moderate type of expansion that we have had for the last 5 years.

However, I would not characterize what we have today as inflation.

Senator SMATHERS. Last night's Evening Star had an article by Sylvia Porter with respect to the Consumer Price Index in which she

stated in effect that 2 percent annual rise was totally acceptable and proper in a dynamic economy such as ours, but 3 percent reached the danger line, and 4 percent was totally unacceptable.

Do you have or does the administration have a precise figure which, if reached, would indicate that we are in an inflationary period and that additional action would be taken or should be recommended by you?

Secretary FOWLER. No, Senator; there is no precise figure. I think there are two elements involved. One is the sharpness of the increase in the price level and the other is the duration. For example, you could have a fairly sharp increase for a short time that might be a statistical aberration or the result of some crop failure or something of that sort. Both elements enter in, the sharpness of the rise—and the causes of the rise as they are analyzed—and whether they are temporary or promise to have an effect over a long period of time.

Senator SMATHERS. Do you consider the increase in prime interest rates which Federal Reserve put into effect on December 6—do you consider that as having an inflationary or deflationary effect upon the overall economy?

Secretary FOWLER. It is too early to determine its overall effect since it usually takes about 6 to 9 months for a move like that to really have its full effect.

I would judge its effect, when fully realized, would probably be deflationary.

Senator SMATHERS. You would think it would be deflationary. Certainly that was intended.

Secretary FOWLER. That was the intent and its stated purpose.

Senator SMATHERS. Isn't it a fact that the Consumer Price Index in December rose to 111 percent above the 1957-59 average, up 2 percent from December 1964? That is the biggest calendar rise in 7 years.

Now, hasn't there been a recent sufficiently significant rise in the business inventory accumulations that reasonable men might conclude that we need to take additional steps other than those which have thus far been recommended by the administration in order to combat inflation?

Secretary FOWLER. I do not believe that the rise in inventory has been that disturbing, Senator, although in the fourth quarter last year there was a fairly substantial rise. I have had my staff prepare, and I would like to submit it for the record if you don't mind, an analysis of the relationship of inventory levels today to sales levels.

(The following material was submitted for the record:)

THE FOURTH QUARTER 1965 INVENTORY SITUATION

A sizable increase in business inventories at the close of 1965 has attracted attention to inventory behavior as a potential disturbance to balanced growth in the economy. The book value of business inventories (manufacturing and trade) rose \$2.7 billion in the fourth quarter of 1965, compared with \$2 billion in each of the two preceding quarters. Each 1965 quarter registered a larger rise in total business inventories than in the corresponding 1964 quarter, as shown in table 1. This sharper 1965 growth also has characterized most components of manufacturing and trade inventories—with the major exception of durable goods manufacturing where the special factor of steel liquidation limited the advance.

Despite the heavier accumulation of inventories in the fourth quarter of 1965, however, little evidence exists of any general distortion in the relationship of

stocks to production and sales requirements. The downtrend in the overall business stock-sales ratio in the current expansion extended into the fourth quarter of 1965. As shown in table 2, the business inventory-sales ratio at 1.44 compared with 1.45 a year earlier and 1.50 in December 1963. Both in overall manufacturing and in trade, these ratios at the close of 1965 were equal to or lower than a year earlier.

The major exception to this pattern emerged in durable goods manufacturing where the stock-sales ratio among these industries averaged 1.91 in December 1965, compared with 1.87 a year earlier. The significance of the recent higher ratio is uncertain because it reflected increases in goods-in-process inventories—rather than higher purchased materials or finished goods stocks. This rise in goods-in-process stocks may merely reflect increased work on defense goods involving long leadtimes. Developments in this and other inventory areas obviously must be followed very closely in the period ahead.

TABLE 1.—Changes in business inventories, 1964 and 1965

(Billions of dollars, seasonally adjusted)

	Change during quarter ending—							
	March 1964	June 1964	Sep- tem- ber 1964	Decem- ber 1964	March 1965	June 1965	Sep- tem- ber 1965	Decem- ber 1965
Manufacturing and trade.....	0.9	1.2	1.2	2.0	2.5	2.0	1.9	2.7
Manufacturing, total.....	.2	.1	.6	1.9	.8	.9	1.6	1.6
Durable goods industries.....	.1	.4	.5	1.4	.6	1.0	1.3	.9
Nondurable goods industries.....	.1	-.3	.1	.6	.2	-.1	.3	.7
Retail trade, total.....	.6	.8	.4	-.1	1.1	.8	0	.9
Merchant wholesalers, total.....	.1	.3	.2	.2	.6	.3	.2	.2

TABLE 2.—Manufacturing and trade stock-sales ratios

	December—				
	1961	1962	1963	1964	1965
Manufacturing and trade.....	1.50	1.53	1.50	1.45	1.44
Manufacturing.....	1.69	1.75	1.67	1.60	1.60
Durable goods.....	1.95	2.05	1.95	1.87	1.91
Nondurable goods.....	1.41	1.45	1.37	1.31	1.27
Retail trade.....	1.39	1.38	1.40	1.37	1.35
Wholesale trade.....	1.19	1.19	1.20	1.16	1.16

Source: Office of the Secretary, Office of Financial Analysis, Feb. 28, 1966.

Secretary FOWLER. If you look at it in those terms, taking into account the increased volume of business that is being done as against the levels of inventory, you find that during the past 3 or 4 years, and right up to the present, there has been on a fairly regular relationship. So the larger inventories when related to larger sales do not as yet disturb me.

However, your question is very well taken because any tendency toward rapidly increasing inventories out of relation to the volume of business would be a disturbing sign.

Senator SMATHERS. In this matter of meeting the twin problems of inflation on the one hand and paying for the increased expenditures in

Vietnam on the other, why didn't you consider recommending the elimination of the investment tax credit?

Secretary FOWLER. We did consider the question of the investment tax credit at some length back in December. As a matter of fact, we considered the whole range of tax measures that might have been employed under the circumstances to raise revenue. This question of the investment credit came up in the House Ways and Means Committee hearings and I dealt with it at length there. I will try to deal with it in a summary fashion here.

There were three principal reasons why we rejected suspension or repeal of the investment credit.

First, we feel the investment credit is a sound, long-range measure in that its basic purpose was to produce an incentive to increase productive capacity. An increase of productive capacity, and an increase in supply, is one of the best answers to increased demand or inflationary tendencies.

Secondly, we felt the investment credit will induce more efficient processes resulting in an increase in the rate of productivity. This will not only produce overall efficiency to the system, but it will also enable us to provide regular wage increases that are characteristic of our system without inducing price increases that might undermine our competitive position in dealing with our balance of payments.

For those two long-range reasons, we felt a retention of the investment credit was desirable.

Looking at the investment credit on a short-term basis, we felt that suspension or repeal of it was not particularly useful as a short-term restraint. The credit, as you will remember, becomes available when a project is completed. Therefore, if Congress moved to suspend or eliminate it, in good faith and fairness it would have to make some exception for projects that have been initiated in reliance of the availability of the investment credit.

Therefore, the impact in terms of revenue, assuming provision would be made to exempt those projects already underway, would be very much delayed. Moreover, the impact in terms of current activity would not be nearly as great as one would anticipate and it would probably hit us some time next year or so rather than today.

Senator SMATHERS. Mr. Secretary, my time is up.

Senator LONG. Senator Williams.

Senator WILLIAMS. Mr. Secretary, in reference to your earlier discussion with the Senator from Louisiana about the interest rates, when did Mr. Martin make his decision of raising the prime rate?

Secretary FOWLER. Of course, the prime rate is a private decision by the banks. The rediscount rate, which I think your question refers, was a decision made by the Federal Reserve Board on Friday, December 3.

Senator WILLIAMS. December of last year.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. Do you agree with that decision or do you disagree with it?

Secretary FOWLER. Well, I don't think it is necessary for me to either agree or disagree with it, Senator Williams. We have accepted that as a fact of life. We developed a budgetary program, and we developed the tax program that is in front of you, accepting the in-

crease in the rediscount rate as a part of the general atmosphere. In no sense are we here today to pass further judgment on that particular matter.

I think you are aware that at that time I publicly stated—as I had privately stated to Chairman Martin and had publicly stated, stated in advance of the action, for example in an address I made on November 30—that I thought it was premature and unwise for the Board to act until all the facts concerning the new budget were collected and available so that decisions could then be made as to what would be the most appropriate mix of fiscal and monetary action. With the full facts about the new budget and the military situation, implicit in it, the proper mix of the fiscal and monetary natures could be taken together rather than in isolated form.

Senator WILLIAMS. Those facts are all before you now.

Secretary FOWLER. They are before me now.

Senator WILLIAMS. Now, what is your appraisal of the decision?

Secretary FOWLER. I have not determined what particular choice would have been an appropriate one on December 3 or on January 10. That is something that is behind us. As the President said at the ranch when we met with him on the following Monday: "We are not here to have postmortems"; and I do not wish to indulge in one now.

Senator WILLIAMS. I can appreciate that. But since you do not have any recommendations in the light of all the existing facts we would have to assume that had he waited, he would still have acted on his own initiative.

Now, to what extent do you attribute this \$800 million extra interest charge for the next fiscal year to that decision?

Secretary FOWLER. It's very, very difficult, as I said in answer to Senator Long, to separate the causes. Certainly one cause is the large demand for money and credit.

Senator WILLIAMS. Isn't the latter the big cause?

Secretary FOWLER. That's certainly a big cause.

Senator WILLIAMS. And that is here regardless of any decision that may have been made either by the Treasury or the Federal Reserve Board when you had this demand for money.

Secretary FOWLER. I do have with me, and can supply for the record, tables of short-term, medium-term, and long-term interest rate movements, prior to December 3, and after December 3. I think anyone reading those tables can pretty much make his own judgment as to what extent the action of the Federal Reserve Board is responsible for the increased cost of carrying the debt. It is a very hard thing to say.

(The following material was submitted for the record:)

Market rates on Treasury bills and Treasury coupon issues at constant maturities and rates on new corporate and municipal bonds

[In percent]

Date	Treasury bills				Treasury coupon issues										AA corporates bonds, reoffer- ing rate ²		Municipal bonds, 20-bond index ³	
	3-month bills		6-month bills		1 year		3 years		5 years		10 years		20 years		Yield	Change	Yield	Change
	Yield ¹	Change	Yield	Change	Yield	Change	Yield	Change	Yield	Change	Yield	Change	Yield	Change				
1965—July 30.....	3.81		3.89		4.02		4.14		4.18		4.22		4.22		4.60		3.25	
Aug. 16.....	3.80	-0.01	3.92	+0.03	4.06	+0.04	4.16	+0.05	4.20	+0.02	4.26	+0.04	4.25	+0.03	4.64	+0.04	3.23	-0.02
Aug. 31.....	3.94	+0.10	4.00	+0.08	4.13	+0.07	4.21	+0.05	4.22	+0.02	4.27	+0.01	4.28	+0.03	4.70	+0.06	3.25	+0.02
Sept. 15.....	3.84	-0.02	4.04	+0.04	4.17	+0.04	4.21	0.00	4.24	+0.02	4.28	+0.01	4.30	+0.02	4.71	+0.01	3.36	+0.11
Sept. 30.....	4.02	+0.14	4.19	+0.15	4.36	+0.19	4.39	+0.12	4.33	+0.09	4.35	+0.07	4.34	+0.04	4.71	0.00	3.41	+0.05
Oct. 15.....	4.02	0.00	4.19	0.00	4.28	0.00	4.33	0.00	4.33	0.00	4.34	0.01	4.31	0.03	4.69	0.02	3.38	0.03
Oct. 29.....	4.06	+0.04	4.19	0.00	4.33	+0.05	4.38	+0.05	4.40	+0.07	4.41	+0.07	4.36	+0.05	4.68	0.01	3.40	+0.02
Nov. 15.....	4.06	+0.02	4.25	+0.06	4.36	+0.03	4.45	+0.07	4.47	+0.07	4.45	+0.04	4.40	+0.04	4.73	+0.05	3.45	+0.05
Nov. 30.....	4.13	+0.06	4.26	+0.01	4.40	+0.04	4.49	+0.04	4.47	0.00	4.48	+0.03	4.41	+0.01	4.80	+0.07	3.47	+0.02
Dec. 3.....	4.13	0.01	4.26	0.00	4.42	+0.02	4.54	+0.05	4.59	+0.05	4.52	+0.04	4.44	+0.03	4.85	+0.05	3.50	+0.03
Dec. 15.....	4.40	+0.28	4.57	+0.31	4.73	+0.30	4.84	+0.30	4.77	+0.25	4.67	+0.15	4.53	+0.09	4.92	+0.07	3.55	+0.05
Dec. 31.....	4.49	+0.09	4.67	+0.10	4.86	+0.28	5.00	+0.18	4.88	+0.11	4.65	+0.02	4.52	0.01	4.91	0.01	3.54	0.01
1966—Jan. 17.....	4.63	+0.14	4.75	+0.08	4.90	0.00	4.89	0.11	4.84	0.04	4.61	0.04	4.50	0.02	4.93	+0.02	3.51	0.03
Jan. 31.....	4.63	0.00	4.78	0.02	4.89	0.01	4.88	0.09	4.88	+0.14	4.69	+0.08	4.59	+0.09	4.95	+0.02	3.51	0.00
Feb. 15.....	4.68	+0.05	4.88	+0.15	4.97	+0.08	5.07	+0.09	5.00	+0.02	4.89	+0.20	4.75	+0.16	5.03	+0.08	3.58	+0.07
Feb. 25.....	4.63	-0.06	4.84	-0.04	5.00	+0.03	5.08	+0.01	5.00	0.00	5.01	+0.12	4.78	+0.03	5.15	+0.12	3.76	+0.18

¹ Bank discount rate.

² Treasury estimate of rate each week.

³ Bond buyer.

Senator WILLIAMS. I was not trying to reactivate the argument. I am just seeking information. I notice your comment, first that interest rates are going to raise about \$800 million next year for all concerned, but I also notice that in fiscal 1963 the interest was approximately an \$800 million increase over fiscal 1962. Again in 1964 interest charges increased about \$800 million over fiscal 1963. Fiscal 1965 jumped \$700 million over fiscal 1964.

Now, these were annual increases that took place prior to this December 1965 decision.

If we attribute to Mr. Martin the responsibility for this one—the 1965 increase—who is responsible for the ones in those years?

Secretary FOWLER. Of course, there have been two previous increases in the discount rate in the years you refer to. The rate went up one-half percent in 1963 and it went up another half percent in 1964 at the time of the British crisis.

I think it is fair to say that both of those decisions were decisions which the administration and Secretary Dillon, my predecessor, fully concurred in at the time.

These decisions, together with the market forces during the years indicated, greatly increased the cost to the Government, particularly of Treasury bills and other short-term issues.

For example, in early June 1963 the 3-month bill yielded 2.99 percent. In the week ending November 27, 1965, prior to the recent Federal Reserve move, the yield was 4.11 percent. On February 19 it was 4.66 percent. And while the increase in rates was much more pronounced in the short-term money field, there was also an increase in long-term rates prior to December 6.

However, there has recently been a significant increase in long-term rates from approximately 4.35 percent on November 27 to 4.65 percent now.

It is very hard to relate the exact cause and effect of the three increases in the rediscount rate over the past 3 years.

Senator WILLIAMS. I appreciate that, but as you pointed out, the first two changes were with the full concurrence of the Department.

And I noticed yesterday you sold some 1-year bonds for 4.95.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. That raises the question: Aren't you in effect monetizing the debt by concentrating all of your refinancing charges now in periods of less than 5 years, due to the fact that you have a 4¼-percent legal ceiling? I am asking what your recommendation is in that connection.

Secretary FOWLER. I expect to have specific comments about that at the time it appears before the Congress in connection with the debt limit legislation. But I have made no decision as of now as to what the nature of those requests will be.

Senator WILLIAMS. Will you be asking for a repeal or raising of this 4¼-percent legal ceiling?

Secretary FOWLER. I have not arrived at any decision on that, Senator.

Senator WILLIAMS. As of the moment, is it handicapping you in the refinancing of your debt?

Secretary FOWLER. As of the moment, taking into account the advance refunding of a few weeks ago, we are in relatively good shape

for this fiscal year. We sold, as you know, an issue maturing in 4¾ years. That meant that the debt is roughly at about a 5-year average maturity. We are in no current difficulties that require me to come, as of now, to the Congress for help.

Senator WILLIAMS. During the year 1967, or the fiscal year, how much refunding operation do you have ahead of you? Isn't it about \$80 or \$90 billion over the period that will be maturing in short-term securities and so forth?

Secretary FOWLER. I will give you the exact figures for that. There will be substantial turnover, as there always is each year.

However, with the successful advance refunding of a few weeks ago, we consider our debt management problems for the remainder of this fiscal year, and into the summer, as not terribly pressing.

(The following material was submitted for the record:)

Marketable securities maturing in fiscal year 1967 as of Jan. 31, 1966

[In millions of dollars]

	Total	Held by—	
		Federal Reserve and GIA	All other
CERTIFICATES, NOTES, AND BONDS			
1966—Aug. 15:			
3 percent bond ¹	699	48	651
4 percent note ¹	8,441	5,875	2,566
Oct. 1: 1½ percent exchange note.....	357		357
Nov. 15:			
3¾ percent bond.....	1,851	238	1,613
4 percent note.....	2,254	566	1,688
4¾ percent certificate.....	1,652	1	1,651
1967—Feb. 15:			
3¾ percent note.....	2,358	313	2,045
4 percent note.....	5,151	3,222	1,929
Apr. 1: 1½ percent exchange note.....	270		270
May 15: 4¾ percent note.....	9,748	6,788	2,960
June 15: 2½ percent bond.....	1,430	152	1,278
Subtotal.....	34,211	17,203	17,008
WEEKLY AND ANNUAL BILLS			
3-month bills.....	16,024	0,443	44,614
6-month bills.....	26,025		
12-month bills.....	12,008		
Total.....	88,268	26,646	61,622

¹ Adjusted for Feb. 15, 1966, exchanges.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, Feb. 28, 1966.

Senator WILLIAMS. I understand that; but I was raising the question primarily on the 12 months ahead of us. I understand that you would have—

Secretary FOWLER. That is a subject and an area which certainly we are very intensively examining now. I just did not want to be at all premature in my comments I might make here today.

Senator WILLIAMS. My time is about up, and I will pursue this further. I did not want to press you prematurely, but it is a problem with which you are confronted and with which the committee is going to have to deal. I think it is one we should be studying and arriving at a decision before we get caught in an emergency to act perhaps in 24 or 48 hours.

Secretary FOWLER. I would certainly hope to be up here well in advance of any deadline. I fully recognize this question is one of particular difficulty for the Congress.

Senator WILLIAMS. I think my time is up.

Senator LONG. Senator Anderson.

Senator ANDERSON. You read from the President's budget how much this interest increase is going to cost. Was that budget prepared before or after the increase granted by the Federal Reserve Board?

Secretary FOWLER. Prepared after.

Senator ANDERSON. On page 5, Mr. Secretary, you have a lot of figures about increased activities and uncontrollable legislative expenditures--\$740 million for military in excess of the President's recommendation. All these were signed by the President, were they not?

Secretary FOWLER. Yes, indeed.

Senator ANDERSON. To increase \$500 million each ---

Secretary FOWLER. That should be one of \$500 million for the space program, and \$162 million for the Commodity Credit program. That is simply the contractual obligation of the Government to pay its bills. The space contractors performed ahead of schedule last year, as you undoubtedly remember, so \$500 million more was owed by the Government to these contractors than had been anticipated.

Senator ANDERSON. I was questioning the two \$500 million in space.

Secretary FOWLER. No; just the one.

Senator ANDERSON. On page 7 you have a figure of corporate speed-up of \$1 billion in fiscal 1966. Does that come off of 1967 revenues?

Secretary FOWLER. Under present law, this year's April and June payments for corporations would each be based on 9 percent of 1966 income. Under the proposal, the April and the June payments would be increased to 12 percent.

Senator ANDERSON. Is it on taxes for 1966?

Secretary FOWLER. Yes, sir.

Senator ANDERSON. Then those figures won't be in for 1967, will they?

Secretary FOWLER. They won't have to make their final payments on calendar year 1966 estimates, of course, until 1967. But they follow the same practice they are following under present law, except their estimated payment is to 12 percent rather than 9 percent of the estimated tax.

Senator ANDERSON. I am wondering about this floor amendment in the House. Didn't the bill come out under a closed rule?

Secretary FOWLER. The committee offered the amendment on the floor.

Senator ANDERSON. I don't think I am going to have any detailed questions. I think we all would have felt better if some of these things had been postponed--since I offered a committee amendment to withhold the full reduction on the automobile taxes and others, I am pleased to see you back here again at this time.

Secretary FOWLER. Well, I think, Senator, you will recall that we had reservations on some of the reductions when we were here last year. I think I should state for the record that the President, when he signed the Excise Tax Reduction Act, noted, and I quote him:

"The only major change Congress made was the additional reduction in the automobile tax in later years. I had recommended a 5-point reduction in the tax and Congress decided to increase this to 9 points. But by postponing the additional 4-point reduction, the Congress allowed time for possible modification if future developments should indicate that this should be desirable."

The fact that Congress decided to remove the excises on automobiles and telephones in a graduated manner gives us the option we have today to have a moratorium, as it were, on that elimination.

That's the essence of the bill.

Senator ANDERSON. Thank you.

Senator LONG. Senator Douglas.

Senator DOUGLAS. Mr. Secretary, I think perhaps the immediate proposals that you are making are the least objectionable to the public of any that would be made. But you are effecting a very tenuous balance in the budget. If the war in Vietnam should intensify, as is quite possible, and which if we were greatly provoked I would support within limits, your expenditures will increase. On the other hand most of the increased revenue which you are going to get by speeding up collections are in the nature of a one-shot affair.

Secretary FOWLER. Yes, sir.

Senator DOUGLAS. Once realized, they will not be continued; isn't that true?

Secretary FOWLER. Yes.

Senator DOUGLAS. And so in a sense we are skirmishing now, I think. We have no immediate power to determine what is going to come afterward.

Now, we hear stories in the press that if, as, and when you propose a larger and more permanent increase in revenues, that you are going to favor merely raising vertically the rate of taxation upon incomes and corporate profits.

I hope this is not all that you will recommend because there are tremendous injustices in the existing tax system. Some of us have put in the Congressional Record—and I would like to ask you if our facts are not correct—the fact that in the year 1960 there were approximately 20 individuals in the United States with incomes over \$500,000 a year who did not pay a single cent in taxes.

Secretary FOWLER. I think that is correct, Senator Douglas.

Senator DOUGLAS. Five of these had incomes over \$5 million and paid no taxes, is that correct?

Secretary FOWLER. I think that is correct.

Senator DOUGLAS. That there was one man who had an income of over a million dollars every year from 1948 to 1960 who during that whole period never paid any taxes. Is that correct?

Secretary FOWLER. I think that is correct.

Senator DOUGLAS. And that there was one man with an "economic" income—and I put "economic" in quotation marks—of \$23 million in 1 year, who did not pay a cent in taxes.

Secretary FOWLER. I think those are facts that were supplied for the record.

Senator DOUGLAS. I am glad to have that for the record.

Now, Mr. Secretary, during a period of war we ask for great sacrifices on the part of young men, not only service to their country, but

wounds and death. Unfortunately those of us who vote for that cannot accompany them to danger, generally because of age.

Don't you think that in this period that we should try to cure some of those abuses instead of merely raising the rate for everyone? Do you think people can be asked to give their lives for this country when you have these conditions existing at home?

Secretary FOWLER. Senator Douglas, I would like to break my answer into two parts. One, with reference to this particular bill, this is clearly and designedly a bill designed for quick action and quick acceptance, hopefully.

Senator DOUGLAS. I understand. I intend to vote for this bill. But I do want to raise this issue in advance of the new bill which I am afraid you will have to introduce in the spring.

Secretary FOWLER. Well, as to that possibility—as you know, I remarked at the Joint Economic Committee hearing—I believe you were present—that while we do not feel that additional measures are prompted by the present situation, we do welcome the putting forward of specific proposals which will add to what I have chosen to call contingency planning, in which we are ourselves currently engaged.

Senator DOUGLAS. Well, I want to serve notice here and now that when it comes to a permanent tax bill, I will move to diminish the depletion allowance on gas, oil, and sulfur, and net approximately at least a half billion dollars more in revenue. But also I think the present capital gains provisions are defective in many respects, one of which is that if a person inherits an asset where there has been a large capital gain upon which no tax has been paid—inherits a potential capital gain upon which no tax has been paid by his father or the deceased—if he sells the asset he subsequently pays no capital gains on the original gain. This provision suggests a tremendous amount in lost revenues.

Now, my friend and colleague, Senator Gore, has been crusading for years on stock options and has become, I think, the greatest authority in the Senate on that subject. I won't intrude on his territory, but it's quite possible he may have something to say on the subject of stock options.

I hope that the Treasury, instead of opposing these measures, will help us.

Secretary FOWLER. I am glad to have your comments, Senator Douglas.

Senator ANDERSON. I hope you won't.

Senator SMATHERS. He's trying to pass this bill at this time.

Senator DOUGLAS. Well, we can always put off until tomorrow.

Senator WILLIAMS. Will the Senator yield for a point?

Senator DOUGLAS. No—excuse me, Senator. I want to take some time on other subjects.

Now, on the question of expenditures. This is a time for scrutinizing the expenditure side of the budget in order to reduce the amount to be borrowed which would have to be financed possibly by the creation of bank credit with a resultant inflation.

The Postal Department is really operating at a deficit of \$750 million a year. This may go to a billion dollars. The deficit is not on first-class mail which yields a surplus—the deficit is on second-class

mail—newspapers and magazines, who denounce subsidies and deficits, but are themselves the recipients of one of the largest subsidy. I want to exempt from this a newspaper which has not been amongst my warmest admirers, the Chicago Tribune, because hitherto they have supported me in this measure, almost uniquely.

But there is a deficit of at least \$350 million on second-class matter, a deficit of an equal amount on third-class matter, which is called junk mail, used by the direct mail advertisers, who meeting in advertising clubs denounce subsidies and Government deficits. And there is a deficit, I understand, of around \$125 million in its failure to increase parcel-post rates.

Now, it seems to me that these advocates of a balanced budget and opponents of subsidies should come forward with an offer to have their rates increased to reduce the deficit, particularly in a time of national emergency.

Secretary FOWLER. The observation I would make is that the word "priorities" has a different meaning to different people.

Senator DOUGLAS. Priority is always somebody else.

Secretary FOWLER. I have, of course, encountered a great deal of comment about some of the measures in the President's budget. Most of the time I have listened to my colleagues, the Director of the Budget, try to answer questions dealing with—why did you cut down on item 1, 2, 3, and 4, and why did you increase item 5, 6, 7, and 8? This was an exercise of a judgment on the part of the President as to where the national priorities are.

Senator DOUGLAS. I understand. But if an increase in postal rates is proposed, won't you be asked to testify on that?

Secretary FOWLER. According to the budget message, expenditures for postal service in fiscal year 1967 are estimated to exceed postal revenues by an estimated \$755 million.

Senator DOUGLAS. I was only \$5 million off. As a matter of fact, I think it would be nearer a billion dollars—because there are a lot of items charged as public services which are really private benefits.

Secretary FOWLER. I will be glad to relay this to the Director of the Budget and the Postmaster General.

Senator DOUGLAS. I would like your moral support.

Now, there is another item—I seem to be in a minority on this also. But I think it should be considered. We are spending \$5 billion a year, we have already spent well over \$20 billion in an effort to put a man on the moon. I have never seen any scientist who could argue convincingly that there was any real scientific value to putting a man on the moon and getting him back—and I have talked with a number of knowledgeable military experts who say there is no military value to this.

Now, we do it for prestige reasons, in order to get there ahead of Russia. What is the advantage of getting to the moon ahead of Russia when there is no advantage to either Russia or ourselves in getting there? We've got from 17½ to 20 million people living in abject poverty in this country—families with incomes of under \$2,000 a year. We have all kinds of unmet needs. Yet we are fascinated by this moon business. And this is only the prelude, because then we will want to go to the planets.

Well, I invite you, Mr. Secretary, to turn your attention to the depletion allowance, to capital gains, and to listen to Senator Gore when he talks on stock options. And there are many other things.

I don't know whether you have read Philip Stern's book "The Great Treasury Raid" or not.

Secretary FOWLER. Yes, sir.

Senator DOUGLAS. I will now make an offer. I will buy a paperback copy for every official in the Treasury Department with a salary over \$15,000 a year, if they will promise to read it. I will ask Mr. Surrey to turn in a list of people making over \$15,000 and I will send them a 50-cent copy, provided they agree to read it.

Secretary FOWLER. I think a great many of them perhaps contributed to Mr. Stern's knowledge in preparation of that book. I suspect most of it came—

Senator DOUGLAS. Mr. Stern drew a lot of his material from data which Senator Gore and I have introduced into the record.

Secretary FOWLER. Haven't we supplied you with considerable material?

Senator DOUGLAS. Upon my request—yes; upon my request. And I am going to request more material.

I want to know how much my plan for reducing depletion allowances will bring into the Treasury.

Senator LONG. Well—

Senator DOUGLAS. I know this will get the support of my dear friend from Louisiana.

Senator LONG. Senator, I'm not worried about those proposals that can't get votes; I'm worried about those that can.

As a member of the Foreign Relations Committee, I demanded that the witness be permitted to answer the question. On this committee I hope the members will go along with a rule that the witness should be able to answer the question. We had turns on that situation before television where a single member would make a 10-minute speech and refuse to let the witness answer a question. So I am going to accord the Secretary the opportunity to respond to Senator Douglas' last question.

Senator DOUGLAS. Thank you very much, Mr. Chairman.

Senator LONG. Do you want to comment or not comment? What is the witness' position?

Secretary FOWLER. The witness' position is that he is being informed about the views of the members of the committee on various subjects. He finds a considerable interest in them. They will all be studied very carefully. But at the moment, just as I did not choose to comment on Senator Williams' invitation to discuss doing away with 4¼-percent ceiling, I think I will not pass comment on some of Senator Douglas' proposals.

Senator LONG. If the witness wanted to answer the question, I wanted him to have the opportunity. Senator Gore.

Senator GORE. Mr. Chairman, I will forgo the privilege of interrogating the Secretary, but I would like to inform the committee that I expect to offer in executive session, and hope to obtain adoption by the committee—if not successful in the committee, then I will make a determined effort on the floor of the Senate—of an amendment to

substitute a 2-year suspension of the investment tax credit for the excise tax increases on automobiles and telephone service.

The investment credit was recommended on the basis that it was needed to stimulate the economy. I know of nothing that is less needed now than artificial stimulation of the economy. The investment credit was of dubious validity, even when offered. It is downright inflationary and harmful now.

Suspension or repeal of the investment credit would produce revenue of \$2 billion per year. The revenue is needed, the investment credit is not needed—indeed it is harmful now.

So instead of a regressive tax on the workingman who must buy an automobile to earn a living, and on telephone service which everybody in the country must use, I propose a suspension of the investment credit for an equal period.

Now, the Secretary has given in advance reasons, both long range and short range, as to why this should not be done. I will demonstrate later that in both respects the Secretary's position is ill founded in both philosophy and fact.

Thank you.

Senator LONG. Well, might I ask the Secretary's response—he's the witness. What's the position of your Department on that, Mr. Secretary? Frankly, I find some appeal to it.

Secretary FOWLER. I have covered it as fully as needed today in answer to a question by Senator Smathers. I know it is a controversial question. I don't believe I have anything to add to my answer to Senator Smather's question.

Senator LONG. Mr. Secretary, I want to talk about the Federal Reserve a little more.

Who does the Federal Reserve work for?

Secretary FOWLER. The Congress.

Senator LONG. Now, we have heard a lot about the independence of the Federal Reserve Board. It is true that that Board is named by the President. But as I understand it, that Board is supposed to be independent of the President, in position to make its own judgment.

Nevertheless the Board is responsible to the Congress that created it, is it not?

Secretary FOWLER. That is correct.

Senator LONG. So that in the last analysis, if those of us in Congress don't like what that Federal Reserve Board is doing, they are responsible to us, is that correct?

Secretary FOWLER. That is correct.

Senator LONG. I once discussed this with a previous President. I did not like the interest rates the Board was maintaining at that time. The President on that occasion informed me that the trouble was that the Board was not responsible to him, they were responsible to us, that we were the culprits. Now if we don't like what the Board does, what can we do about it?

Secretary FOWLER. I think the normal function of the Congress in this, as in all other areas where it creates agencies with regulatory authority, is to define the policies that it wishes the body that it has created to carry out.

Insofar as I know the policies of the Congress, it directs the attention of the Federal Reserve Board to those set forth in the Federal Reserve

Act, and as many will contend, and I think the Board members would accept, the policy stated in the Employment Act of 1946, which is a general declaration of a policy of Congress for the exercise of all forms of Federal authority in dealing with the economy. It has a number of ingredients—to act in coordinated fashion, promote the private competitive enterprise system, and enable that system to function so as to maximize employment and purchasing power and related matters.

Senator LONG. Well, if we think that that Board is not correctly construing these acts of Congress, and is not acting in the national interest as we interpret those laws, do we have the power to instruct that Board what it shall do?

Secretary FOWLER. Yes; I think that is implicit.

Senator LONG. And does the President have that power?

Secretary FOWLER. No; he certainly does not.

Senator LONG. Is that Board independent of the Congress?

Secretary FOWLER. I don't see how it could be argued under our system of government that any body created by the Congress and delegated authority by the Congress, which authority in turn is confined under the Constitution to the Congress, that that body is independent of the Congress.

Senator LONG. May I say, Mr. Secretary, some people would like to assume that that Board just operates out there in a vacuum, that they just are not subject to influence of any sort whatever. I don't know any other body in Government of whom that has been said. Some might contend it for the judiciary. But my impression has been everybody I have ever known in Government is subject to influence one way or another by somebody. If the Executive does not seek to use some influence in the national interest on them, then private interests will.

Now, I guess I know some of the influence that Board is subject to. Since becoming ranking member on this committee, and particularly since becoming chairman, I have been invited to attend meetings of business people. I must say that I gained some impression of how the Master must have felt when he was led to the top of the mountain and shown the world below. When I met some of those important people that one meets in positions of responsibility—just for a smalltown boy from Louisiana—it impressed the daylight out of me.

I must say that some fellow appointed to that Board, when he meets with people that can sign a check for a billion dollars, must be very impressed.

If we think that Board has been overawed by those with whom they associate, it seems to me that those of us who now and then have to go back and shake hands with a guy in overalls ought to tell that Board what we think about their policies. I don't have any illusions about the matter. My feeling is that we have some responsibility ourself. When we see that Board impose a high interest rate policy on the people of this country, which in general terms is an attack on the poor for the benefit of the well to do, it seems to me we have the burden ourselves to suggest alternates, and to suggest that that policy be changed. I am not advocating that we not have interest, but when interest becomes unnecessarily high. We should voice our objections.

As I understand it, Mr. Secretary—I just want to get this clear. That is our responsibility, and we have a perfect right to suggest a change in that policy if we wish to.

Secretary FOWLER. I would think that is very, very clear. This is a body of Congress and it, so far as I know, is answerable to no one but the Congress and through the Congress.

Senator LONG. I thank you.

Senator SMATHERS.

Senator SMATHERS. Mr. Secretary, I want to briefly question you about just two subjects

First, the balance of payments.

What is our situation with respect to balance of payments today as related to last year and the year before?

Secretary FOWLER. The most up-to-date figures, Senator Smathers, are for the calendar year 1965. They indicate that the 1965 deficit on the so-called overall or liquidity basis was \$1,299 million. That compares with a 1964 deficit of \$2,800 million.

I think 1965 was the most successful year we have had up to now in reducing the deficits which first became a matter of alarm in 1958, 1959, and 1960—when on this basis they approximated \$3 billion.

The deficit in 1965, while it was \$1.3 billion, was the smallest overall balance-of-payments deficit since 1957. It was less than half the size of our deficits in 1964 and 1963, and it compares with average deficits on this same accounting basis of \$3 billion a year in each of the 7 preceding years, 1958 through 1964.

Senator SMATHERS. You don't have any figures with respect to recent months which suggest that our balance-of-payments position is worsening?

Secretary FOWLER. No, sir. The figures that we get on a weekly or monthly basis are so fragmentary and unreliable that I have always found it very misleading to relate them publicly.

We will have our first good picture of the 1966 situation in May when the first quarter figures become available.

Senator SMATHERS. We still have a deficit, but it is diminishing, is that right?

Secretary FOWLER. The 1965 deficit was, as I said, less than half of the deficits in each of the preceding 2 years. Moreover, we have devised substantial improvements in the balance-of-payments program to help us achieve our objective of equilibrium in 1966—a balance in 1966 within the range of a quarter of a billion dollars surplus or a quarter of a billion dollars deficit.

Whether or not we are going to be able to achieve equilibrium, as we see it now, depends primarily on two factors. One—what the rising balance-of-payments cost in southeast Asia will be, as a result of our increased military and aid programs there, and, two, the other imponderable, what happens to our trade balance in 1966.

You recall that in 1964 we had a very substantial balance-of-trade surplus, approximately \$6.7 billion. Last year, due to what we hope are nonrecurring factors, it was reduced to approximately \$4.8 billion. We are hopeful that those nonrecurring factors, or their equivalents, will not recur, and that the trade balance can be brought back up toward a \$6-billion surplus level.

The voluntary program, both with reference to direct investment overseas and with reference to bank lending, is working admirably.

Senator SMATHERS. How is the voluntary program working with respect to tourist travel?

Secretary FOWLER. Not well.

Senator SMATHERS. What happened—what were the figures on that?

Secretary FOWLER. We had a tourist deficit in 1964 of \$1.6 billion. In 1965 the net deficit increased to \$1.8 billion.

Senator SMATHERS. So rather than the tourists responding to the plea of the Secretary of the Treasury and others, they traveled more than ever before.

Secretary FOWLER. I think they traveled and spent more than ever before. I think it should be said, however, that the program of encouraging domestic travel by Americans and encouraging foreign travelers to come to the United States got underway fairly late in the spring. Perhaps its true effectiveness can be better assessed in 1966.

Senator SMATHERS. Do you have any idea as to how many tourists last year went to Europe, approximately how many?

Secretary FOWLER. I don't have those figures with me, Senator, but we do have them. They are readily obtainable.

Senator SMATHERS. Would you supply them for the record?
(The following tables were submitted for the record:)

Expenditures for foreign travel by U.S. residents, 1960-64

[Millions of dollars]

	1960 ¹	1961 ¹	1962 ¹	1963 ¹	1964 ¹
Total.....	2,597	2,600	2,875	3,195	3,381
Transportation.....	865	865	990	1,105	1,165
Foreign-flag carriers.....	605	507	575	615	635
U.S.-flag carriers.....	360	358	415	490	530
Expenditures abroad.....	1,732	1,735	1,885	2,090	2,216
Canada.....	380	425	479	522	550
Persons staying less than 24 hours.....	48	47	55	(²)	(²)
Mexico.....	365	370	395	448	480
Persons visiting Mexican border only.....	245	254	280	322	340
Overseas areas.....	987	940	1,011	1,120	1,186
European and Mediterranean.....	692	618	652	755	815
United Kingdom.....	114	105	113	119	132
Ireland.....	11	12	15	16	20
France.....	116	103	113	124	127
Benelux.....	32	26	26	32	33
Germany.....	82	62	64	75	79
Austria.....	22	24	21	24	20
Switzerland.....	53	46	44	55	56
Italy.....	120	110	118	138	148
Spain.....	25	24	28	38	47
Israel.....	18	19	22	25	25
Greece.....	15	16	17	26	26
Denmark.....	23	19	18	21	23
Norway.....	11	12	11	13	15
Sweden.....	14	13	11	13	14
West Indies and Central America.....	160	160	178	180	190
Bermuda.....	23	31	30	32	33
Bahamas.....	42	45	48	48	55
Jamaica.....	28	30	38	40	45
Other British West Indies.....	18	18	18	19	20
Netherlands West Indies.....	10	11	10	10	12
South America.....	45	48	55	56	57
Other overseas areas.....	84	114	126	129	124
Japan.....	36	46	50	52	54
Hong Kong.....	18	24	23	24	25
Australia-New Zealand.....	(²)	11	12	13	14
Other.....	30	33	41	40	31

¹ Revised.

² Not available.

NOTE.—For coverage, see table 1.

Source: U.S. Department of Commerce, Office of Business Economics, Survey of Current Business, June 1965.

Numbers and expenditures of U.S.-born and foreign-born U.S. residents traveling in Europe and the Mediterranean area, selected countries, as available, 1963-64

	Number of travelers (in thousands)			Total expenditures (in millions of dollars)			Average expenditures (in dollars)		
	U.S.- born	For- eign- born	Total	U.S.- born	For- eign- born	Total	U.S.- born	For- eign- born	Total
Europe and Mediterranean:									
1964.....	963	287	1,250	681	134	185	704	403	649
1963 ¹	838	264	1,102	616	139	755	730	520	680
Sea:									
1964.....	163	60	223	163	39	204	985	632	888
1963 ¹	178	76	254	173	48	221	972	637	850
Air:									
1964.....	800	227	1,027	518	95	613	648	420	597
1963 ¹	660	188	848	443	91	534	662	474	630
United Kingdom:									
1964.....	532	88	620	113	10	132	213	213	213
1963 ¹	471	83	554	99	20	119	211	236	215
Ireland:									
1964.....	88	26	114	14	6	20	159	230	175
1963 ¹	62	18	80	11	5	16	175	280	200
France:									
1964.....	563	71	634	115	12	127	205	175	206
1963 ¹	518	79	597	110	14	124	212	177	208
Belgium-Luxembourg:									
1964.....	160	21	181	9	2	11	55	75	61
1963 ¹	128	21	149	8	2	10	60	81	67
Netherlands:									
1964.....	245	30	275	19	3	22	77	103	80
1963 ¹	203	32	235	18	4	22	89	117	94
Germany:									
1964.....	381	92	473	60	19	79	160	207	167
1963 ¹	333	81	414	54	21	75	163	255	181
Austria:									
1964.....	219	37	256	25	4	29	116	115	116
1963 ¹	178	35	213	19	5	24	109	155	113
Switzerland:									
1964.....	349	53	402	47	9	56	135	165	139
1963 ¹	330	53	383	47	8	55	142	151	144
Italy:									
1964.....	470	78	548	124	24	148	264	296	268
1963 ¹	424	79	503	113	25	138	265	311	274
Spain:									
1964.....	195	20	215	43	4	47	220	201	219
1963 ¹	153	18	171	34	4	38	217	243	222
Denmark:									
1964.....	166	23	189	19	4	23	115	164	122
1963 ¹	157	20	177	18	3	21	117	161	119
Sweden:									
1964.....	91	13	104	11	3	14	125	205	125
1963 ¹	78	11	89	10	3	13	134	256	146
Norway:									
1964.....	68	20	88	10	5	15	145	270	170
1963 ¹	(2)	(2)	70	(2)	(2)	13	(2)	(2)	186
Greece:									
1964.....	92	17	109	19	7	26	211	396	238
1963 ¹	80	16	96	18	8	26	231	421	271
Israel:									
1964.....	61	23	84	18	7	25	278	303	286
1963 ¹	52	24	76	16	9	25	306	353	328

¹ Revised.

² Not available.

NOTE.—For coverage see table 1: includes the expenditures but not the number of cruise travelers. Average expenditures of foreign-born U.S. residents are higher than those of U.S.-born travelers in some countries, though they are lower for the area as a whole, because foreign-born travelers visit fewer countries, and stay longer than the U.S.-born travelers, who visit more countries on each trip.

Source: U.S. Department of Commerce, Office of Business Economics, based on data of U.S. Department of Justice, Immigration and Naturalization Service.

Senator SMATHERS. Would you also show how many of those went to France and how much they spent in France?

Senator DOUGLAS. Would the Senator yield for a minute?

I also think that southern Florida is as attractive as the Riviera.

Senator LONG. The beaches are a lot better.

Senator SMATHERS. There are many advantages—plus the fact that apparently Mr. De Gaulle does not want our soldiers there. He apparently doesn't want anybody there except the tourists.

Why would it not be a good idea to eliminate some of this deficit, in the light of the fact that De Gaulle does not seem to want us under any conditions, by limiting our tourist travel to France? Would not that have a tendency to improve our balance-of-payments deficit?

Secretary FOWLER. It certainly would.

Senator SMATHERS. Then you would have no great objection if somebody on this committee offered such an amendment.

Secretary FOWLER. An amendment to do what?

Senator SMATHERS. If somebody—we have seven or eight members of the Foreign Relations Committee on this committee. So this is sort of a joint Foreign Relations-Finance Committee.

Senator DOUGLAS. You are facing the power structure.

Senator SMATHERS. In the light of the fact that we continue to have this balance-of-payments deficit, in the light of the fact that our imbalance with respect to tourist travel is worsening, and in light of the fact that Mr. De Gaulle apparently does not want our soldiers there—my question was, Would the Secretary have any objection if some Senator should offer an amendment which would temporarily proscribe our citizens from traveling into France?

Senator MCCARTHY. If the Senator will yield—

Senator SMATHERS. Let him answer the question.

Secretary FOWLER. I think that proscription or prohibition of travel is a very serious thing, and I would not—

Senator SMATHERS. I will withdraw that word. That's a bad word. I would like to suggest that we put a tax on them if they travel to France, in order to discourage traveling, comply with the apparent wishes of Mr. De Gaulle, and at the same time improve our balance of payments.

Senator GORE. I would be more interested in a little subsidy to go to Florida.

Senator SMATHERS. I am always interested in that.

Secretary FOWLER. This is a matter which I would like to discuss with my colleague, the Secretary of State. I don't know what the restrictions are on discriminatory treatment of other countries in connection with travel and trade. I do know that it's currently the policy of the administration to try to deal with the travel deficit primarily through encouraging, by voluntary means, travel by Americans in the United States and encouraging travel by foreigners to the United States.

I might suggest in that connection that we could use some help in the appropriation in connection with the U.S. Travel Service. It has always been substantially cut back in its requests for appropriations. I think that whatever the U.S. Travel Service could do to encourage foreigners to come to the United States and see the sights that are here, this would be the quickest and the most effective help we could get from the Congress in this area.

Senator SMATHERS. It has been suggested that a better method would be to put a tax on the passport as it relates to visiting in France.

Now, on one other matter.

Senator WILLIAMS. Before the Senator leaves that, would he allow for just one observation? As we get a report from the Secretary on that proposal, would you give us the effect it would have on the budgetary expenditures if in enacting that tax we did not exclude public officials who would likewise go there? If that tax were applied to public officials traveling in Paris, including the executive and congressional trips, I wonder how that would affect the budget.

Secretary FOWLER. I think it would be a substantial element in it.

Senator SMATHERS. I would like—

Senator MCCARTHY. Would the Senator yield to me before you leave this subject.

I think perhaps we might have a voluntary program. We could get Conrad Hilton to build a Hilton Rome in Miami and a Hilton Athens in St. Petersburg, and a Hilton Istanbul in Fort Myers, and then the Commerce Department could run a program to persuade Americans that they could have all of the joys of Rome, Athens, and Istanbul by going to Fort Myers, St. Petersburg, and Miami.

Senator SMATHERS. I would be all for that. That's one of the most constructive suggestions I have heard.

Secretary FOWLER. While we are being helpful to each other, I would like to offer the Senator the film that has recently become available and will be shown. It's called, "The Land We Love," and has been made available by the motion picture industry of the country. We hope that it will in a way induce people to see the United States and see all that there is to offer here. It is also going to be used in connection with our savings bond program. I think it is a very inspiring film, and I hope every American will see it before the year is out.

Senator SMATHERS. In light of the fact that I regrettably have had to spend considerable time in Minnesota, at Rochester, I would hope that Mr. Hilton would also build a new hotel in Rochester.

Senator LONG. Under the 10-minute rule—

Senator SMATHERS. Let me ask one more question, and then I'll be through.

Mr. Secretary, I introduced a resolution here the other day with respect to having this committee have some hearings so that some contingency planning, I think, as you call it, might be looked into.

Is it not a fact that in the President's message to the Congress of January 27 that that course of action was at least indirectly recommended?

Secretary FOWLER. I have not examined the message in that regard. I do know that in appearing before the Joint Economic Committee—I think Senator Douglas was there—early this month, I specifically said in a statement to the committee that—

There are those who propose that the administration come forward now with a program to enforce much harsher restraints on the economy than those now in effect or proposed in the President's budget. The administration disagrees with the premise that more needs to be done now. However, it welcomes the putting forward of any specific proposals since they may add to the range of contingency planning in which it itself is engaged. Indeed, it suggests that the House Ways and Means Committee or the Joint Economic Committee study, review, and recommend the type of tax increases which would be most suitable if inflationary pressures require additional fiscal action.

I would like to add to that statement that I think it would certainly be desirable if this committee had time to undertake an exploration of that, and also a related and important subject; namely, what types of tax action might be recommended to the Congress in the event hostilities in Vietnam ceased, and we were looking into the direction of additional tax reduction.

It seems to me that it would be helpful to have this subject explored now by those concerned in the general public, the various organizations, the various bodies, the various groups that have proposals for either of these contingencies.

I have had the feeling—it has been reflected, I think, in perhaps too many talks I have made—that there has been a certain amount of a psychological overreaction to the economic situation insofar as its present figures and present statistics would indicate.

I think public exploration of what one might call contingency planning, what we do in the event certain things happen would be a very useful thing.

Senator SMATHERS. I thank the Secretary.

Senator LONG. Two Senators have arrived since we have had our first round under the 10-minute rule this morning. If it's agreeable with the committee, we will allow them 10 minutes before we go back on the second round.

Senator McCARTHY. Mr. Secretary, you would acknowledge that the powers which the Federal Reserve Board have over money and credit in this country are probably the greatest powers of control over the financial institutions in America.

Secretary FOWLER. No question about that.

Senator McCARTHY. Now, is there any good reason why that power should be exercised independently of the determination of the Government of the United States?

Secretary FOWLER. Independent of what?

Senator McCARTHY. Independent, let us say, of the decisions of the Treasury, the President, or the Congress, in the short run.

Secretary FOWLER. I don't think any of the decisions that are made that have anything to do with the national economy should be independent of the Congress.

Senator McCARTHY. Let's take the existing system. Let's not get into the theory. Under present practice it is a fact that the Federal Reserve Board can make decisions that are contrary to what the Treasury would like to have them make.

Secretary FOWLER. That's correct.

Senator McCARTHY. Do you think that's a good situation?

Secretary FOWLER. I favor a coordinated policy mix between the actions of the various executive departments and the Federal Reserve Board as they bear on our economic situation in applying fiscal as well as monetary and credit policies.

I think coordination is an important element in the utilization of these powers.

As to the use of the word "independent" that's another question.

Senator McCARTHY. Well, how would you propose to achieve this coordination, by surrender of the Federal Reserve Board to the Treasury, or do you think we ought to establish substantive law to shift the

balance of responsibility and authority a little more clearly to the Treasury?

Secretary FOWLER. I think that the route of coordination is one that we have been trying to follow. I think it has produced fairly successful results over the last 5 years.

The difference of view which occurred in December was not a failure of coordination in the sense there was a failure of communication—we exchanged views at great length on whether it was the appropriate time to take any such action. It was simply a difference of judgment and a difference of decision. I think whether or not there should be any change in the locus of power as between the various constituent bodies of the administration and the Federal Reserve Board is a question for the President to determine. I don't intend to offer any view on that subject today.

Senator McCARTHY. It would be a question for the Congress and the President to determine.

Secretary FOWLER. That's correct.

Senator McCARTHY. As far as you know the Treasury Department is happy with the relationship that now exists?

Secretary FOWLER. Obviously you always would prefer to have your own views prevail on a given situation. But I would say that by and large we have had a very excellent working relationship and pattern of coordination over the past 5 years. That, however, does not exclude the fact that there was a difference of opinion in December and there could be differences of opinion at other times.

Senator McCARTHY. Do you think that the Federal Reserve policy over the last 5 years would have been essentially what it has been if the will of the Treasury had prevailed?

Secretary FOWLER. Excluding the situation last fall, I think it would be fair to say that the mix of policies that characterized the period that I have been familiar with—since 1961 up to April 1964, and from April 1965 up to this fall—represented a consensus view of what was the right thing to do in the fiscal and monetary field.

Senator McCARTHY. You don't think, then, that the Treasury in these years would have been subject to political pressures which would have made it act irresponsibly and differently from what the independent Federal Reserve Board has done?

Secretary FOWLER. No.

Senator McCARTHY. It is your opinion that whatever justification there may have been for an independent Federal Reserve Board which was set up in 1913, that that justification no longer exists and the Treasury has become independent of political pressure and become technically more competent and more responsible?

Secretary FOWLER. I think that is a question on which judgment should be really one of the President's rather than my own.

Senator McCARTHY. Well, this is one for an expert.

Secretary FOWLER. One can not be altogether objective about one's own—

Senator McCARTHY. You think the Department is responsible?

Secretary FOWLER. My Department is a good, responsible department.

Senator McCARTHY. It wouldn't be subject to political pressures?

Secretary FOWLER. It might be subject to some political pressures from a variety of sources. One sitting in the Treasury Department realizes that there are many of these forces at work constantly.

Senator McCARTHY. It would appear whether the rate was raised or not raised depends upon the presence of one man.

Secretary FOWLER. A board of seven members, four of which constitute a majority.

Senator McCARTHY. Do you think this is desirable?

Secretary FOWLER. Well, it's the way those decisions are taken, Senator McCarthy, counting noses. I don't know of any better system.

Senator McCARTHY. One more question on this matter.

It has been indicated that the Treasury was not really altogether unhappy with the recent interest rate increase. It's been said that you would have approved it, but you did not like the fact that they approved it some time in advance of the announcement of other policy decisions.

Secretary FOWLER. I would like, Senator McCarthy, to answer that question, and I would also like permission of the Chair to include in the record excerpts from four speeches that I made during this period giving my views in full on monetary policy and interest rate.

But to answer your question briefly, the increase is an accomplished fact. The President's tax and economic program took it into account. As the President said down at the ranch, he didn't think it was useful to indulge in a post mortem. I think it was very clear from the statement I made in New Orleans, in the presence of the chairman of the committee, on November 29 that I felt any decision taken at that time would be premature and unwise.

(The following material was submitted for the record:)

THREE PUBLIC COMMENTS ON MONETARY POLICY BY SECRETARY HENRY H. FOWLER
BEFORE THE RECENT FEDERAL RESERVE ACTION ON THE DISCOUNT RATE AND ONE
PUBLIC COMMENT AFTERWARD—EXCERPTS FROM FOUR SPEECHES

A. BEFORE FEDERAL RESERVE BOARD ACTION

1. *Remarks before the Economic Club of New York, Waldorf-Astoria Hotel, New York, N.Y., Monday, November 8, 1965*

"Some are not content to tackle any present or potential risks of inflation with that responsible kind of fiscal policy. They advocate abrupt restrictions on the expansion of money and credit to restrain the growth of demand, and would invite sharply higher long-term interest rates. This would be a substantial change in our policy mix of the last 5 years and amount to a new ball game. It would raise in the minds of our producers and consumers serious questions about whether or not to continue to buy and expand in the light of increased cost of money and tightness of credit.

"The important point is that no sufficient evidence has yet developed to justify this kind of treatment of the price situation or of the supply-demand relationship by cutting back on demand rather than emphasizing efforts to expand supply. To restrain demand at this time would be to admit that the continued growth of the U.S. economy in amounts comparable to the advances of the last 2 years is beyond our resources. In those years our pluses and minuses have added up to a generally smooth and well-phased expansion of about \$10½ billion a quarter in our GNP. The pluses and minuses that are in prospect, according to the analyses of most of our economic forecasters, public and private, do not suggest a marked deviation from that pattern in the next year—either upward or downward. Is it too much? I believe the answer is, and should be, "No."

"I would urge that from here on our priority objective should be to achieve that growth without increasing pressure unduly on reserve capacity. To do so

we must increase our efforts to provide the capacity to absorb that growth so that the risks of pressure on prices and of aggregate demand on productive capacity are minimized by increases in supply rather than restrain of demand.

"And to digress for a moment, we hear again a refrain that a solution to the balance-of-payments problem can be found in tight money and higher interest rates. Presumably proponents of this approach must be referring to rather drastic measures since that is what would be necessary bring into equilibrium the interest rate levels that characterize the U.S. economy and other capital markets.

"Let me also remind you that twice before the Federal Reserve has raised its discount rates—one-half of 1 percent in the summer of 1963 and one-half of 1 percent in the fall of 1964—to deal with balance-of-payments problems. We have clearly not overlooked this instrument. But our rises were followed by rises abroad and the gap remained—and in some important areas widened. Only a few months after the second increase it was necessary to request voluntary action to restrain an accelerating outflow of capital from our banks and nonbank financial institutions. As my predecessor, Douglas Dillon, several times pointed out—as early as Rome in 1962—the problem of disparity between interest rates and capital availability here and abroad is rooted in rates abroad that are far too high, and in the woeful inadequacies of foreign capital markets. This kind of substantial disequilibrium cannot be eliminated or reduced to manageable proportions under present circumstances by any monetary action at all consistent with our domestic needs.

"May I suggest that the zealous exponents of the use of monetary policy to achieve a better balance among international interest rates have a fertile field for missionary work in Western Europe. We should not play the game of the dog chasing its tail to the point of severely damaging our economy and risking a recession. It makes no sense to raise persistently our interest rates to a point where they may conflict with the maintenance of our domestic expansion and yet not provide a real solution to our balance-of-payments problem."

2. *Remarks before the Executives' Club of Chicago Hotel Sherman, Chicago, Ill., Friday, November 19, 1965*

"Let me close now with a brief discussion of a third, and related, area of strain on our working partnership of government, labor and business, for the maintenance of economic prosperity and the support of our national aims through economic responsibility. This is the subject of interest rates.

"We have been hearing again the refrain that a solution to the balance-of-payments problem can be found in tight money and higher interest rates. Presumably, proponents of this approach must be referring to rather drastic measures since that is what would be necessary to bring into equilibrium the interest rate levels that characterize the U.S. economy and other capital markets.

"Interest rates have already moved up in the United States significantly, particularly in the past 2 years, mainly in response to balance-of-payments problems. But our rises were followed by rises abroad and the gap remained—and in some important areas widened. As my predecessor, Douglas Dillon, several times pointed out—as early as Rome in 1962—the problem of disparity between interest rates and capital availability here and abroad is rooted in rates abroad that are far too high, and in the woeful inadequacies of foreign capital markets.

"It makes no sense to raise persistently our interest rates to a point where they may conflict with the maintenance of our domestic expansion and yet not provide a real solution to our balance-of-payments problem."

3. *Remarks before the Press Club of New Orleans, Hotel Roosevelt, New Orleans, La., Sunday, November 28, 1965*

"There is one other area which requires comment—money, credit, and interest rates. There are those who have advocated without any detailed knowledge of the budget for fiscal 1966 and the new budget for fiscal 1967, a sharp change in monetary policy to restrict further the expansion in money and credit. It seems to me that monetary policy so far has played a vital and constructive role in the coordinated mix of fiscal and monetary policy that has brought us to our present posture of economic strength. Credit has been ample, but not excessive, and has fueled a balanced economic expansion. It is premature and unwise to call for further restrictive monetary action now, in order to curtail the expansion of money and credit and raise interest rates more than the market has already raised them.

"There may be room for honest differences of opinion among well-informed and unprejudiced persons on this issue. However, it is my strong belief that any

orderly adjustment of a properly coordinated mix of fiscal and monetary policies to deal with the period ahead calls for that policy mix to be determined only with full knowledge of the President's new budget.

"Of course, I recognize, as all realists must, that new facts and new developments may at any time call for a reexamination of the policy mix that has served us so well—and that there may well be circumstances when the use of monetary policy to combat inflation would be wholly appropriate. However, today's circumstances call for a policy of watchful waiting until the 1967 fiscal year outlook is clarified in mid-January with the presentation of the President's new budget.

"It must never be forgotten that today's balanced expansion, free from inflation, reflects a combination and coordination of sound fiscal and monetary policies, intelligent business planning, and responsible restraint by business and labor in making wage and price decisions.

"Our task at home now is to prove that we can nourish and preserve that balanced expansion, free from inflation, in the darkening shadows of intensifying battle in Vietnam as well as we did in the months prior to July 28."

B. AFTER FEDERAL RESERVE BOARD ACTION

Remarks at the American Conference on the Atlantic Community and Economic Growth convened by the Atlantic Council, Crotonville, N.Y., Sunday, December 12, 1965

"It was this structural imbalance in foreign money markets that forced us in 1963 to apply an interest equalization tax on long-term portfolio credit to foreigners in developed countries. And it is this structural imbalance that makes it clear that whatever domestic reasons may justify them it would be folly for us to try to stanch the flow of U.S. funds abroad by restrictive monetary policies aimed at raising interest rates in this country to the structured high levels of the countries of Western Europe, and of Japan. Foreign borrowers were not daunted by two rises in the U.S. discount rate, in July 1963 and in November 1964. Before the latest increase in the Reserve System's discount rate a few days ago the gap was as big, if not bigger, than it was previous to the 1963 rise in the U.S. discount rate. And it appears from current reports that rises in interest rates in Western Europe will rapidly wipe out any temporary narrowing of the gap which might have resulted from the recent action of the Federal Reserve Board. Long before we could level rates here and abroad through this process, we would drive this country into a recession that would reduce the attractiveness of investment here and increase the attractiveness of investment abroad, aggravating rather than improving our balance-of-payments position."

Senator McCARTHY. How much premature was it?

Secretary FOWLER. The connotation of the statement was that the decisions about fiscal and monetary policy should be made in January when all the facts concerning the new budgetary program of the President were available. These involved not only the decisions on Vietnam, to the extent that they could be made at that time, but also the related problem of priorities which we discussed here this morning—what should be held back, what should be cut, to what extent there should be new taxation, to what extent there should be other programs.

I felt it was wise to make any decision regarding any form of restraint in the context of a coordinated whole rather than to make it separately 3 or 4 weeks in advance of the fact.

Senator McCARTHY. If the law provided that the pronouncement of a change in interest rate, rediscount rate, could be held in abeyance by the Treasury if it wished to do so for 3 months, you would not have had that difficulty, would you?

Secretary FOWLER. No.

Senator McCARTHY. And what would have happened after 3 months—if you had had authority to veto the increase or to approve it?

Secretary FOWLER. It's impossible for me to predict what the intervening events would have been and what the other alternatives would have been to either that particular decision or to variations of that particular decision.

Senator McCARTHY. Let me ask this.

The tax increases which you are proposing—were they in part determined in consideration of the interest rate—rediscount rate increase the Federal Reserve Board had ordered?

Secretary FOWLER. Oh, yes. That was part of it—as I have said—I think the President said—that was a fact of life which we accepted, and we did our planning and decisionmaking in the light of that fact.

Senator McCARTHY. What would you have recommended by way of taxes, if the interest rates had not been increased?

Secretary FOWLER. It is very difficult for me to say, Senator. That is, of course, a hypothetical question.

Senator McCARTHY. It's not exactly. You must have given some thought to this.

Secretary FOWLER. Well, no. We had a great deal to do at that time in devising a program in the light of the facts as they were, rather than to go off and decide what we would have done if the facts had been different.

Senator McCARTHY. You didn't know until that vote was taken that they were going to increase the interest rate?

Secretary FOWLER. That's correct.

Senator McCARTHY. You mean to say you were not making any plans?

Secretary FOWLER. We were making plans, we were engaged in studies.

Senator McCARTHY. You were making plans but did not assume there would be an increase in the interest rate?

Secretary FOWLER. We were surveying the field. But the fundamental problem was what the figures in the budget were going to be. And for the very reason that I thought it was unwise and premature for the Federal Reserve Board to arrive at a decision without a knowledge of those figures, and the decision that they reflected, so I would have felt it would be unwise for the Treasury to come to any conclusions about tax policy without knowing what the budgetary situation would reflect. We did not know that until late in December and early in January.

Senator McCARTHY. You are not prepared to say how your tax recommendations today would be any different from what they are if the interest rates had not been increased?

Secretary FOWLER. No, sir; I am not. I would surmise that there would have been a decision as to whether we would have more fiscal or tax action, and less monetary action, or whether we would have the same monetary action and the same tax action as you have confronting you today, or whether we would have a different kind of monetary action and the same or different tax action.

The variations are rather substantial in this kind of a situation.

Senator McCARTHY. Do the taxes you are recommending today anticipate an additional increase in rediscount rates?

Secretary FOWLER. No; they do not. They take the situation as we find it.

Senator McCARTHY. You are not making any guess?

Secretary FOWLER. I am not.

Senator McCARTHY. In anticipation of what might happen?

Secretary FOWLER. No, sir.

Senator McCARTHY. Does the Treasury have a view as to whether or not these increases in rediscount rates—up to this point—have they been deflationary or as they appear at least in the short run to have been inflationary?

Secretary FOWLER. In a way I think I answered that question before you came in. I think it takes about 6 to 9 months to make a real determination of what happens as a result of a change of this sort. Until more time has passed and more of the evidence is in, it is extremely difficult to come to any decision as to what the overall impact is. Undoubtedly it was for the purpose of deflating the economy and the purpose was so stated.

Senator McCARTHY. There are some economists, however, who think it is inflationary and perhaps the rate should have been raised even higher in order to have a truly deflationary effect. Everybody has his own economist these days.

Secretary FOWLER. Yes. But there would be rather more opinion in the economic fraternity that maybe the rate was all right, but other accompanying actions—

Senator McCARTHY. Mr. Secretary, in view of all these uncertainties, as to the Federal Reserve action, the cost of the war—why does the Treasury not come in and ask for discretionary authority to raise and lower the tax rates on individual or corporate incomes?

Secretary FOWLER. Because once such discretionary authority was requested by President Kennedy several years ago. The attitude and reception of the two taxwriting committees indicated that to pursue the proposal it would be a rather futile gesture.

Senator McCARTHY. There really was no very serious effort made to push that proposal. It was never submitted to us for action, was it?

Secretary FOWLER. It was submitted to the Congress, and there was no sentiment in the Congress for it.

Senator McCARTHY. How was it submitted?

Secretary FOWLER. President Kennedy recommended it in his economic message.

Senator McCARTHY. In a message. But it was never sent up to us by way of a specific proposal for action.

Secretary FOWLER. I think bills were sent up, Senator McCarthy. I don't have that history completely in mind.

Senator McCARTHY. Did you ever ask for hearings?

Secretary FOWLER. The atmosphere was such that it seemed quite futile.

Senator McCARTHY. Conditions were different then from now?

Secretary FOWLER. They were. As I have said to others, I think it is quite desirable for the Congress and the taxwriting committees and the Joint Economic Committee and others concerned to engage in contingency planning exercises that would enable us to move quickly when and if we had to move in this area.

Senator McCARTHY. It is a little difficult for me to understand this modesty on the part of the administration with reference to taxes. We

have the Tonkin Bay resolution interpreted as having given unlimited authority with reference to military action. We had a request in the AID program last year for open-ended authorization for foreign aid expenditures in Vietnam.

It would seem to me that in view of all the uncertainties in the domestic economy, possible increase in the cost of the war, that the request for discretionary authority for taxes would be on the side of good government. I do wish the Treasury and the Executive would have somewhat more confidence in this committee and the Congress to respond under these conditions.

Secretary FOWLER. It's because I have that confidence, Senator McCarthy, that I do not think that the time spent on this very important and difficult issue involving great historical precedent is necessary at this time, that I have every confidence that Congress will act promptly if and when circumstances require the administration to come forward with additional proposals.

I have a lot more confidence in Congress acting promptly in that kind of a situation than I do in Congress acting promptly to delegate to the administration discretionary authority to raise or lower taxes.

Senator McCARTHY. My time is up. I just wanted to make this one point. I think that sometimes Congress might act more responsibly if it laid down limited conditions under which the executive branch might act than to have the executive branch come up to us under the pressures of acting in a very limited period of time—that the overall purpose of responsible government might much better be served if we laid down guidelines long in advance and let the executive branch operate within those limits, rather than to be called upon to act as we are here, on this excise tax, under the pressure of special Treasury needs.

Now, you balance these one against the other as you speculate on this, Mr. Secretary.

Secretary FOWLER. It's because I agree with just what you have said, Senator McCarthy, that I specifically urge that the taxwriting committees and/or the Joint Economic Committee undertake the examination of what we would call contingency planning.

Senator McCARTHY. Thank you, Mr. Chairman.

Senator LONG. I am going to call on those Senators who were not able to be here in the beginning.

Mr. Secretary, the fact that they were not here to hear your opening presentation is because they had been requested to come to the White House for a briefing on the military situation in Vietnam.

Senator BENNETT. And I may say, Mr. Chairman, that we got no notice of that. They called many of us at home after dinner last night. So we were not able to notify you that we were not going to be able to be here this morning.

Senator LONG. That's not the first time that that type thing has happened. I am not being critical.

I will call on the Senators and inform them we are operating under a 10-minute rule—each Senator gets 10 minutes on the first round, and after that he can ask as many question as he wants to. For those who have not had their 10 minutes, I am going to call on them in the order in which they arrived here from their other pressing commitments. I now call on Senator Hartke.

Senator HARTKE. Thank you, Mr. Chairman.

Mr. Secretary, as I listened to your testimony which was presented in the Foreign Relations Committee, and the statements that have come from the administration about Vietnam, all the testimony has indicated that we are in for a long war. Isn't that true?

Secretary FOWLER. I would think that it is quite possible and quite probable that it could be a long war.

Senator HARTKE. The testimony that was before the Armed Services Committee—that money that we are now being asked to spend, part of which is for the present situation, part of it for the future, also anticipates not just a long war, but a rather expensive war: is that true?

Secretary FOWLER. Just how expensive, I do not know. I do have, of course, a clear picture of what the expenditures in the current budget contemplate. But I have no knowledge beyond that.

Senator HARTKE. Well, is there any communication from the Secretary of Defense to the Treasury as to what they anticipate the expenditures to be?

Secretary FOWLER. Through the budget documents the Congress is as fully informed about the financial requirements of the war as it is currently envisaged, as I am.

Senator HARTKE. Let me ask you this. According to information you have, then, if the war proceeds at its present level or is escalated in terms of the statements made by Secretary McNamara before the Armed Services Committee—and his testimony has been released—can you tell us what the cost of Vietnam is expected to be for fiscal year 1967?

Secretary FOWLER. \$10.5 billion is the additional cost over the rather minor amounts that were contemplated in the budget submitted in January 1965. This represents an increase of about \$4.7 billion in fiscal 1966, and then an add-on of \$5.8 billion in fiscal 1967.

Senator HARTKE. What is that total for fiscal 1967?

Secretary FOWLER. \$10.5 billion.

Senator HARTKE. We are being asked for an additional supplement at the present time; isn't that right?

Secretary FOWLER. The \$10.5 billion figure I have given you is the expenditure figure for fiscal year 1967. The supplementals being asked for, new obligational authority to meet requirements for fiscal 1966, for fiscal 1967, and some for longer term programs that stretch into later years. I am not familiar with what the breakdown of the \$13 billion new obligational authority figure between fiscal 1967 and thereafter.

Senator HARTKE. Well, are you familiar with how much money you are going to need during those periods of time?

Secretary FOWLER. Yes. The expenditure figure is the figure that gives us our requirement for money.

Senator HARTKE. In other words—

Secretary FOWLER. \$10.5 billion.

Senator HARTKE. Are the amounts which you are asking for here in this bill today, are they sufficient to cover all your money needs for fiscal 1966 and fiscal 1967?

Secretary FOWLER. This bill contemplates, as does the budget, a deficit in the administrative budget of \$1.8 billion in fiscal 1967, a

cash budget surplus of \$500 million in fiscal 1967, and a national income and product account deficit of \$500 million.

Senator HARTKE. Now, in this calculation of course you have anticipated a normal growth pattern of what percent?

Secretary FOWLER. We have anticipated a gross national product in the calendar year 1966 of about \$722 billion, with a \$5 billion range on either side. To come down to a hard figure, our estimate would be around \$722 billion. That compares to GNP in 1965 of approximately \$676 billion.

Senator HARTKE. If the expenditures do not stay within those presently in the budget, and if this growth is obtained, will you have to come back for additional taxes, either in fiscal 1966 or 1967 or 1968 to meet the expenditures which are presently being incurred?

Secretary FOWLER. We would not have to come back to meet the expenditures contemplated in the budget for fiscal 1967 provided the total for non-Vietnam expenditures are not substantially increased by the Congress, and provided there are no unforeseen developments in Vietnam that would require expenditures in fiscal 1967 over and above those presently contemplated in the budget.

Senator HARTKE. What was the amount of the increase in expenditures which you did not anticipate which makes it necessary for you to come to us now and ask for a change in our tax structure in this year?

Secretary FOWLER. \$4.7 billion of additional expenditures for Vietnam were not contemplated in the budget document of January 1965, for fiscal year 1966.

Senator HARTKE. When did the Treasury first learn it was going to have to pick up the tab for that amount?

Secretary FOWLER. Well, those figures first emerged, to my knowledge, when Mr. Moyers announced them in late November at the President's ranch.

I am not positive, but I believe he gave \$4.7 billion then. If not then, it was in the budget document, itself.

Senator HARTKE. Now, Mr. Secretary, what bothers me is why all of a sudden in November we found out that we were going to need this additional \$4.7 billion, and there was no anticipation on it on the part of the Treasury during the time we were being asked by the Treasury to reduce excise taxes last year.

Secretary FOWLER. At the time the Director of the Bureau of the Budget testified before the House Ways and Means Committee in late May he stated that according to all the information he had the budget expenditure estimate for fiscal 1966 of \$99.7 billion was still a hard estimate.

The decisions that led to the acceleration of activities in Vietnam occurred in July and the President made his television address to the Nation on July 28. It was clear from there on, once those decisions were announced, that there would be some substantial increases in defense allotments.

We knew that an indeterminate amount of additional expenditures would be in the offing in fiscal 1966, but did not have any clear picture of what the order of magnitude would be until late in the fall.

Senator HARTKE. Well, you didn't have any idea before Congress adjourned, then, that there was going to be a necessity for raising additional revenue through some new tax measures?

Secretary FOWLER. It would be fair to say that before the Congress adjourned in the fall we were all conscious of the fact that there would be a substantial change in the expenditure pattern. Your question earlier related to the time of the excise tax action, which I think occurred in June. I was not aware at that time that there would be additional expenditures.

Senator HARTKE. What I am coming to is that you permitted us to go on and adjourn the Congress, after we had reduced excise taxes, and some of it to become effective on January 1, knowing full well that you were going to have to come back here and ask for additional revenue, ask for additional taxes. And yet you let us go ahead and go home with no warning and no statement whatsoever to indicate that we had a different situation, a different ball game.

Secretary FOWLER. Senator Hartke, I did not know whether we would have to have additional taxes. I knew there would be a substantially changed budgetary pattern. What the order of magnitude would be and to what extent it could be accounted for by reducing other expenditures were decisions which none of us were in a position to take until the budget was finalized in late December and early January.

Senator HARTKE. In other words, we are operating on this situation almost on a month to month or day to day basis, is that what you are trying to say?

Secretary FOWLER. No. We are operating on much more than that. We know now we are in a long-term picture. That long-term picture, so far as it can be seen, and with all the uncertainties in the situation that always accompany a war of this kind, is reflected in what the President said on page 10 of his budget message.

I won't read that just to belabor the record. But there it is. There is a great stress on the uncertainties inherent in the present situation.

He says:

Because of the uncertainties inherent in this situation, the 1967 budget is designed to provide flexibility of response to changing conditions. In the new programs authorized by Congress in the last several years, we have an effective array of weapons to attack the major domestic problems confronting the American people in the fields of health, education, poverty, housing, community development, and beautification. The 1967 budget provides funds to press forward vigorously with these new programs. But because of the cost of maintaining our containment in Vietnam, those funds are, in many cases, less than the maximum authorized in the enabling legislation. Should our efforts to find peace in Vietnam prevail, we can rapidly adjust the budget to make even faster progress in the use of these new programs for the solution of our domestic problems. If, on the other hand, events in southeast Asia so develop that additional funds are required, I will not hesitate to request the necessary sums.

Senator HARTKE. My time is up, Mr. Chairman.

Senator LONG. Senator Bennett.

Senator BENNETT. Well, Mr. Chairman, I was one of those down at the White House. I have not had a chance to read the Secretary's statement, so that I really have no basis upon which to ask questions today, so I will pass.

Senator WILLIAMS. Mr. Chairman, I am going to make the suggestion—we have another witness here for the Telephone Association scheduled, and it's very clear we are not going to be able to finish the

hearings this morning. I suggest that the Secretary be asked to come back Monday. In the meantime, maybe today, we could go ahead and have this other witness.

Senator DOUGLAS. I appreciate the motive of the Senator from Delaware making the statement. But there are one or two small questions I would like to ask. I would not want to be foreclosed from asking them today.

Senator LONG. Here is the situation in which we find ourselves. We could seek to conclude the Secretary's statement today by asking consent of the Senate to meet while the Senate is in session, or by bringing the Secretary back as a witness after the Senate quits today, if the Senate should not give consent. That motion is debatable—and we don't want to hold up the matters before the Senate.

Now, there are some Senators who have plans that keep them from being here who would like to ask the Secretary some questions. I had hoped that we could dispose of all the questions Senators would like to ask. However, there are a number of Senators who cannot be here today and who would like to ask the Secretary some questions.

Senator Williams, as I understand, has a number of questions he wishes to ask the Secretary that would take considerable time.

Under those circumstances I suggest Senator Douglas ask his questions at this time, and then we will ask the Secretary to come back at 9 o'clock Monday morning. We can then proceed to hear the next witness.

So I will ask Senator Douglas to proceed.

Senator DOUGLAS. I would like to ask the Secretary whether General de Gaulle and the French authorities are continuing to demand gold in return for claims upon the American dollar.

Secretary FOWLER. Yes, Senator Douglas. Last year—

Senator DOUGLAS. I know about the last year. In the last few months has this policy been continued?

Secretary FOWLER. In the last few weeks—

Senator DOUGLAS. They drew out in the last year at least \$550 million.

Secretary FOWLER. Over \$800 million.

Senator DOUGLAS. And then Belgium, Holland, Portugal, and Spain drew out large sums, too.

Secretary FOWLER. Yes. My understanding is that the French are continuing to convert at the rate of around \$30 million a month.

Senator DOUGLAS. Now, I made a speech on the floor of the Senate 13 months ago calling attention to this and suggesting a number of steps, including military steps and economic steps.

No action was taken in response to these suggestions.

So I addressed a letter to all the policymaking agencies of the Government in the spring and received a reply which I take it was a composite answer from Mr. Douglas MacArthur III.

One of the simpler suggestions which at the time I thought could have been done was to stop grants and economic aid to these African countries which were formerly French colonies and which are still tied financially to France, and where expenditures of dollars find their way very quickly into French banks which are then deposited with the Bank of France and constitute gold claims against us.

Now, Mr. MacArthur turned that proposal down, presumably for the Government, in one sentence, saying that the need in these colonies was as great now as before and as great as elsewhere.

Now, I would like to ask you whether this might not be a simple way to help stop the gold drain? That amounts to approximately \$200 million a year.

Secretary FOWLER. Senator Douglas, in reply to your letter in October, I said:

With respect to the U.S. programs of aid to former French territories, we at the Treasury have urged State and AID to take into consideration the availability of economic assistance from France and access to French foreign exchange resources in determining the magnitude of U.S. assistance. I expect to urge that these factors be given still greater weight in the future.

Senator DOUGLAS. Do you know what the decision has been for the coming year?

Secretary FOWLER. I am not informed. I think that information would have to come more directly from Director Bell.

Senator DOUGLAS. This would be a very simple measure. It would not require congressional action. It could be done by administrative action. It could be done very quietly, without provoking international dissension.

I hope very much that this can be done.

According to my most recent figures, this would save \$200 million a year.

Now, there is another factor.

Is it not true that the banking facilities in South Vietnam are primarily controlled by the French, particularly the Bank of Indochina?

Secretary FOWLER. Senator Douglas, I am not informed on that question. Director Bell has an extensive mission in South Vietnam concerned with the economic program of the country. We have sent out Treasury representatives from time to time to make recommendations on particular issues, such as the use of military scrip. But I myself am not informed.

Senator DOUGLAS. I once went by the Bank of Indochina some years ago in Paris. I have never seen a more handsome and elaborate establishment in my life.

I know something about the way in which the Bank of Indochina dominated French politics, particularly through the so-called Radical Party.

Now, it is my understanding that the Bank of Indochina is still there, that the American dollars which are spent in Vietnam find their way into these banking institutions, primarily French, are transferred to Paris, and therefore become claims against the American dollar payable in gold.

Isn't that substantially true?

Secretary FOWLER. Senator, I think to some extent the payment for imports in dollars has that effect.

The one area that we are—

Senator DOUGLAS. Expenditures by American soldiers there.

Secretary FOWLER. This is what I wanted to come to. I recently had occasion to comment on this question in a letter to Congressman Mahon, in which he had referred to the use of scrip as used in World

War II. I informed Congressman Mahon that scrip has been used by our forces in Vietnam for nearly 6 months, having been introduced on or about August 31, 1965.

The desirability of the use of what is called military payment certificates was foreseen as our forces began to build up at about that time, and its use closely followed this military buildup.

I think the use of scrip is very desirable and is a warranted measure to cut down on the kind of flow that you have indicated. By the same token, I do not want to leave the impression that it is the panacea for all the exchange problems. There are other expenditures of dollars for goods and services administered by AID and by the military authorities which I can readily see would add to foreign exchange flows going back to other countries.

Senator DOUGLAS. The more money we spend in Vietnam, the greater drain upon our gold is likely to result.

Secretary FOWLER. It is my understanding that the AID agency has been conscious and aware of this and has tried to institute procedures designed to cope with it. How effective they are, how complete they are, how successful they are, would be a judgment that Director Bell would have to make.

Senator DOUGLAS. Have you considered the possibility of setting up an American bank which would have the exclusive right of accepting dollar claims so that these claims would not constitute potential and actual gold claims? In other words, we step in and try to replace the Bank of Indochina.

Secretary FOWLER. I cannot tell you, Senator, whether or not that particular measure has been considered. I do know that we had one of our ablest men go out to Vietnam last summer.

Senator DOUGLAS. I urge you to consider it.

Secretary FOWLER. I certainly will.

Senator DOUGLAS. Thank you very much.

That's all, Mr. Chairman.

Senator SMATHERS. Any other questions at the moment? If not, Mr. Secretary, we are going to excuse you until 9 o'clock Monday morning.

Senator HARTKE. Mr. Chairman, this doesn't exclude any further questions in the future, does it?

Senator SMATHERS. No. He's coming back Monday.

Senator HARTKE. I know. But I didn't want to have him come back Monday and have somebody say to me, "You had your chance on Friday."

Senator DOUGLAS. Mr. Chairman, there is one final comment I have to make, and that is on the purity of the English language, which I think should be guarded by Government departments as well as by Congress.

On page 18 of your statement, Mr. Secretary, you use the words "annualize" and "annualizing." One of the greatest corrupters of the language has been the bureaucracy. I have consulted the standard dictionary and the term "annualize" is very rarely used, and then not in the sense that you use it. I urge you to get your people to write good English, and if necessary to use two or three words to make the meaning clear, rather than these barbarisms which creep into the language. I mean that most sincerely.

Secretary FOWLER. Yes, sir.

Senator SMATHERS. On that note, we thank you, Mr. Secretary.

Senator WILLIAMS. Mr. Chairman, I would like to request the Secretary, when he comes back Monday, to be in a position to give what I hope will be an endorsement—at least an opinion—on some of the measures which I have called to his attention, amendments which I have proposed to this bill. They have a copy of them in their office. I would appreciate if when he comes back Monday he could give us a report on them at that time.

Senator SMATHERS. You understand what he is talking about? As Senator Douglas would say, let's make that clear.

Senator WILLIAMS. I would appreciate your comments Monday as to the merits of the amendments. I have examined them closely, and as I see it they are all noncontroversial—dealing with oil depletion and with one or two other matters. Perhaps we can clear it up Monday and reach an agreement.

Secretary FOWLER. I am sure we can.

Senator SMATHERS. In that connection, Mr. Secretary, would you be so kind as to have someone on your staff get us the number of tourists, as best they can, who traveled to France and how much money they left there?

I have a figure of 634,000 last year spending \$127 million in France. I don't know where it came from, very frankly. But I would appreciate having the benefit of your staff giving me their best estimate.

Secretary FOWLER. We will give you what information we have available on that.

Senator SMATHERS. Thank you, Mr. Secretary.

We will see you bright and early on Monday.

(See tables on pp. 106 and 107 for the above information.)

The next witness is Mr. William C. Mott of the United States Independent Telephone Association.

**STATEMENT OF WILLIAM C. MOTT, EXECUTIVE VICE PRESIDENT,
UNITED STATES INDEPENDENT TELEPHONE ASSOCIATION**

Mr. MOTT. Mr. Chairman, I am Adm. William C. Mott. I am executive vice president of the United States Independent Telephone Association (USITA), a trade organization representing the non-Bell segment of the telephone industry.

I think I could perhaps best bring the scope of this association home to you by mentioning that in Senator Douglas' State of Illinois we have some 117 companies, and our companies cover 80 percent of the geographical territory of the State of Illinois.

Senator DOUGLAS. I am aware of that, Admiral.

Mr. MOTT. Your colleague, Senator Dirksen, happens to live in independent telephone territory.

Senator DOUGLAS. I am aware of what you say. I am not ignorant of what goes on in my State.

Mr. MOTT. Yes, sir.

In Indiana we have a similar spread, and maps have been provided to the Senators to show just where independent telephony is in the States.

In Florida we have some 18 companies, and I might say in the State of Utah we cover more geographical territory than the Bell System.

Senator DOUGLAS. Is this purely accidental, that you choose these particular States for identification?

Mr. MORR. No, sir. We would be happy to go through the whole list. But I thought it might make more impression on those that were here.

Overall, we have some 10,760 exchanges to Bell's 6,670.

Now, I mention this, Senator Douglas, because it is important to note that these areas serve predominantly the smaller communities, the Nation's suburban and rural areas. Contrary to the statement that was made in the other body by a Congressman, when he said that the telephone companies will not pay the tax but will pass it on, so they do not care one way or the other whether this bill passes or not, I would like to make it perfectly clear that our telephone companies do care because the customers of our companies have a personal relationship to the company management.

It is not like the automobile business, where there is an amorphous mass of people who buy from one dealer one time and another one the next. Our customers are steady, and we like them to think that we do represent their best interests.

Now, Mr. Chairman, a witness is always in an unpopular not to say unhappy position when he has to come before a distinguished committee such as this one and oppose a recommendation of the President of the United States. This is particularly true when the country is in a state of national emergency which borders on war and a request has been made by the Chief Executive for funds to finance that war. No one in the independent telephone industry has the slightest desire to deny our Armed Forces in Vietnam all the funds they need to carry out the Commander in Chief's orders in that unhappy country.

Certainly I do not, because I have a son who is a first lieutenant in the Air Force in Vietnam.

But we at the United States Independent Telephone Association have read very carefully the administration's and President's rationale behind the reimposition of excise tax cuts—if you call it a rationale. In the first place, if you study the President's press conference where he answered questions on reimposition, you will see he does not have a very clear understanding of what is going to happen. In fact, he seemed to think that the tax is going to be put back only on long distance.

Unlike Mr. Fowler, who several times referred to decisions that were taken down at the ranch, we were not invited to the Pedernales to discuss this subject—even though an independent telephone company happens to serve Johnson City. I would like to make it clear that our companies were not in any way, so far as I have been able to find out, consulted about the President's plan.

Members of this committee know, of course, that this tax is to apply across the board, not just on long distance, and that the full burden of the 10-percent tax is to be reimposed on local service as well as long distance—in other words, across the board.

Our story to this committee is a simple one. It might be summed up by stating that in testimony before the House Ways and Means

Committee and the Senate Finance Committee just a few short months ago, administration witnesses leveled a devastating fire at "selective excise taxes" with pinpoint bombardment of the telephone excise tax as a selective excise which was particularly discriminatory, particularly regressive and absolutely indefensible. We fail to comprehend how a tax which could be labeled with such awful adjectives a few months ago could be turned from a sow's ear into a silk purse overnight. In fact, our protest comes before this committee while beneficiaries of the shortest tax cut in history are still celebrating the receipt of their first telephone bills carrying the excise tax reduction.

Thus, in the short space of a very few weeks, what was described in the words of the President as "a shining chapter in the legislative record of this Congress" has lost its gloss and its burnish in the eyes of our telephone subscribers. Moreover, it is difficult to explain to them—particularly our residence telephone customers—why it is that they stand virtually alone in suffering a total reimposition of the excise tax on an essential and necessary service. It is difficult because they do not understand why a service which everyone knows is necessary and essential should receive no tax relief while the racetrack goer, the cabaret habitue, the country club set, and buyers of jewels and furs are given complete excise tax relief.

Many of our telephone subscribers read the conclusions of this committee's report—No. 234, as printed June 14, 1965—which, among other things, said:

Many of these excises are objectionable in that they are regressive in their impact, absorbing a larger share of the low-income persons than those with higher incomes * * *. Your committee agreed with the conclusion of the House that the tax on local and toll telephone service and teletypewriter exchange service is undesirable as a permanent feature of our excise tax system. This conclusion was reached on the grounds, first, that these taxes are regressive and therefore fall with greater severity on those with lower incomes than those with higher incomes. Second, the charges for telephone service enter heavily into business costs. Therefore, the tax discriminates against those firms that must make extensive use of the taxed services.

If, in the words of this committee and in the words of the administration witnesses, the telephone excise tax was "regressive" and "discriminatory" then, it is more "regressive" and "discriminatory" now because: (a) It is still the only excise tax imposed on a public utility, and (b) the telephone user is now almost alone in being discriminated against.

I sincerely hope the members of this committee will share the views of their colleague, Senator Metcalf, of Montana—I spoke to him in the hall and received his permission without his being present to quote from a speech he gave just a few days ago out in Denver, to the National Telephone Cooperative Association. We have many cooperatives who are members of our association.

Senator Metcalf said:

I see no reason to change my attitude toward the telephone excise tax. I believe there are better ways to finance the increased expenditure necessary for Vietnam. The excise tax reduction should be permitted to continue as provided by Congress.

I have included in the record, Mr. Chairman, an editorial on this subject which I think is very clearly and precisely written, and in English that Senator Douglas would approve, from the Cleveland

Plain Dealer. I will not repeat the whole thing, because members of the committee have it. I will sum it up simply by stating one quote from it:

I hope enough Congressmen get their backs up and refuse to do it. There must be better ways to raise the dough.

Mr. Fowler, the Secretary of the Treasury, in his statement before this committee in 1965, said:

Excise taxes, unlike income taxes, impose burdens on those whose income is below the level of their personal exemptions and deductions. The present excise tax reduction program will lighten the burden of regressive taxation on low- and middle-income people. A great deal of the revenue involved comes from extremely regressive taxes, which are a heavy burden on low incomes. These include the taxes on telephones, automobile parts and accessories, toilet preparations, and most of the household appliances.

Now, we are not here to repeat at great length facts which you already know and which have been stated time and time again. We are bewildered and perplexed as to why Mr. Fowler, who has preceded me at these hearings and who was about as condemnatory of the excise tax as anybody could be, now comes back to your committee and tells you it is right to reimpose the tax.

As a matter of fact, Mr. Fowler's statements and Mr. Fowler's testimony reminds me of a line from Mr. Emerson's essay on "Self Reliance". The line goes something like this.

Speak what you think today in words as hard as cannon balls, and tomorrow speak what tomorrow thinks in hard words again, though it contradict everything you said today.

Now, I suppose he could come back and quote to me that a foolish inconsistency is a hobgoblin of little minds. But he would still leave me perplexed about his various positions.

I do not envy the Secretary of the Treasury's position.

As members of this committee will note, Mr. Fowler's position last year was that the burden of regressive taxes—and the telephone excise tax certainly is regressive—falls heaviest on the poor. Are these the people we wish to have bear the greatest burden of financing the war in Vietnam? Because that war is what this tax is being tied to.

One of the 2,400 telephone companies which I represent serves some 12,000 telephones through 13 small exchanges, all of which are located within the submarginal section of the United States designated as Appalachian. It happens to be in your neighboring State, Senator Smathers, of Georgia, and is well known to Senator Talmadge.

Nine thousand and ninety-three of these telephones are in residences, some 6,000 of which are located outside municipal corporate boundaries. It is ironic that the Federal Government should expend huge sums trying to lift the economic status of these people so that they might obtain the benefit of this essential commodity, and then apply a penalty equal to 10 percent of the cost if the citizen avails himself of this essential service.

More than one-half of the households with telephones in this country have incomes of less than \$6,000 a year and one-fifth have less than \$3,000 per year. Thus, the excise tax digs deepest into the pockets of the poor and the near poor. These are the people at whom the much advertised "war on poverty" is directed. The reimposition

of the excise tax may well make the difference between these families having or not having a telephone. That clearly is why this committee labeled it a regressive and discriminatory tax. We heartily agree, and we do not think that the passage of a few weeks can change the character of a regressive tax into one which is progressive. Moreover, to burden low-income families with a discriminatory excise tax is a consummate inconsistency with the objectives of the Great Society.

The basic reason given by the administration for the reimposition of the telephone excise tax is to finance the increased cost of the war in Vietnam. The suggestion has been made that it might be unpatriotic of affected industries to resist reimposition of the tax. In that connection, I just want to say that the managers of our independent telephone companies are among the most patriotic people in the land. Many of the members of the board of directors of the U.S. Independent Telephone Association have distinguished war records in the service of our country.

They would be among the first to make sacrifices in the interest of national security. They are, however, in this instance, representing their customers—and make no mistake about it—the excise tax is a tax on telephone users—not on telephone companies. We merely—and I might say reluctantly—collect the levy and pass it on to the tax thinker-uppers.

I would like at this point to digress, Senator Hartke, and point out to you that there is a great burden on our telephone companies. Many of your companies in Indiana, for instance, have written in and pointed out that they had to reprogram this whole tax on their IBM machines and go to the expense of so doing. Then immediately, almost before they could get the machines going, they will have to go back and reprogram it again at another expense.

Another thing that happens to many of these companies—and I wish Senator Fulbright was here, because one of the worst examples I know of is in the State of Arkansas, with the Allied Telephone Co. Here is a company that took ads in the local papers in Arkansas entitled "Uncle Sam reduces your telephone bill." Then, because the law in Arkansas requires it, they went to these people, these rural people, and said, "We would like to increase your service, to better your service, for approximately the same amount of the excise tax. Now, in order for us to do this, it is going to cost us half a million dollars, which we will have to raise."

So they went before the city councils, which is also necessary in Arkansas, and pointed out to them that they could put in four-party service for eight-party service, and two-party service for four-party service, without any increased cost because the excise tax would make up the difference.

Now, after having ripped out all the lines and invested the half million dollars, they are going to have to go back to the people and say "so sorry, our information was wrong and you are going to have to go back and pay the same rate that you paid before."

So this is the way that this is a burden on our companies. They feel as though—the customers do—the company has somehow broken faith with them.

I do not mean to suggest that some of the burden of the excise tax does not fall upon the telephone company—it does. For instance,

most of our telephone companies are fully automated. Whenever a change in the billing becomes necessary they have to reprogram at considerable expense to themselves. They have just finished paying the bill for reprogramming when the tax was reduced from 10 percent to 3 percent and they now find themselves faced with the same expense for reprogramming back to the original level. Furthermore, many telephone companies when their subscribers were relieved of the burden of excises made extensive capital investment to bring better service. They were able to do this by convincing their customers that they could afford this better service by reason of the lowered excises. Now, many of them are put in the position of having broken faith with their customers by actually having to raise the rates.

And so, Mr. Chairman and members of the committee, we, the officers, directors, and members of the United States Independent Telephone Association wish to go on record as being unalterably opposed to this proposed shifting of an inequitable share of the tax burden upon the low-income groups. We feel strongly that this actually is a specialized discriminatory sales tax, imposed upon 55,000,000 telephone customers. It largely hits those who can least afford to pay it. It hits the small farmer, the small businessman, the laborer, the white-collar worker.

The importance of the telephone to farmers and others who live in rural and submarginal areas, cannot be underestimated. The telephone in this modern and complex world is not a luxury but an absolute necessity—almost as necessary as the air we breathe. Its importance to civilian morale in time of war cannot be over emphasized. In fact, I know of no single instrument which is more important to the war effort at home and abroad than the telephone. The telephone is just as important as guns and/or butter.

And so we ask, why this sudden switch? Why this unseemly haste to sacrifice the telephone—using public upon the altar of fiscal and political expediency? Why us?

I would not be so presumptuous as to advise the members of this committee in what areas the President's budget might be pared to make the reimposition of excise taxes on telephones unnecessary, nor would I be so foolish as to suggest the kind of tax which would be most equitable to impose should it be decided that the country needs more revenue to carry on the war in Vietnam. I do say, however, that a tax which you yourselves have labeled as regressive, which the Secretary of the Treasury has labeled as regressive, and which the President has labeled as regressive, is not the one you should sanction or select. Millions of telephone subscribers look to you to do what is fair and equitable and to eliminate what is discriminatory and regressive.

To sum up, Mr. Chairman, the excise tax on telephone service has been "temporary" for 25 years. Eleven times the Congress of the United States has imposed this tax and temporized by extending it.

To repeat the punchline from Mr. Porter's hard-hitting editorial in the Cleveland Plain Dealer, "There must be better ways to raise the dough."

If this Congress reimposes the full excise tax, it will be the 11th time it has done so.

This cartoon, done by Art Wood, the gentleman present here, shows a cat with a stone around its neck coming back for the 11th time, after having been drowned by the Congress.

You cannot blame our telephone users for feeling that the promise to life the tax in the future is an empty one. They cannot understand why excise tax relief has been given to the customers of electric utilities, to those who use transportation facilities and the whole host of other users of products formerly taxed and not to them. Frankly, it is very difficult for us to find adequate and logical reasons to explain why they are so discriminated against.

If we must find more money to prosecute the war in Vietnam, to prosecute the war on poverty and other domestic programs which the Congress may agree with the President are essential, I would hope we could face up to the issue and impose those taxes necessary to meet the cost. They should bear across the board and not penalize one segment of our society—especially the low-income segment.

I would hope that this committee would take a long, hard look at any recommendation to reimpose a tax which it and the administration already have labeled as both discriminatory and regressive.

I have a great many letters from companies in your particular territories, some of them addressed to Senator Hartke and other members which, incidentally, we had nothing to do with originating, which expressed great bitterness on the part of the companies that this tax is being reimposed.

Mr. Chairman, that concludes my formal statement.

Senator SMATHERS. All right.

Thank you, Admiral.

Senator Hartke, do you have any questions? Senator Bennett?

Senator BENNETT. No questions. I would be curious to see some of the letters—and of those letters that you have that came from Utah.

Mr. MOTT. We would be glad to.

Senator BENNETT. Are you going to submit them for the record?

Mr. MOTT. If you wish.

Senator SMATHERS. You are talking about the ones he already has—not the ones he might get.

Mr. MOTT. I do not know whether we have anything from Utah or not.

Senator BENNETT. Are you going to make a request that the letters that you have with you today be submitted for the record?

Mr. MOTT. I was not; no, sir.

Senator BENNETT. Then I would appreciate it if you would thumb through them and let me take a look at any that may have come from Utah, if you have any.

No other questions, Mr. Chairman.

Senator SMATHERS. The letters have not come to you.

I was telling the admiral outside that I was one of those who voted to take the tax off, and I never got the first letter thanking me for it.

Mr. MOTT. We understood that Mr. Galloway had written you a letter thanking you, Senator.

Senator SMATHERS. Well, I have not seen it.

In any event, that is neither here nor there.

Senator Hartke.

Senator HARTKE. There is one question that I would like to ask with regard to a statement of the Secretary that this really does not have an added cost to the company for there really is no technical change required. I have forgotten the words the Secretary used.

You made the point this is not true.

I do know from going out to visit one of these telephone companies—they showed me exactly what was involved, and they wanted to know who was going to pick up the bill. I said I thought the telephone companies just have to, because I was not in favor of passing out any subsidy to the telephone company to pay the bill of changing it over from one system back to another.

Now, the change has been made, has it not?

Mr. MOTT. Yes, sir.

Senator HARTKE. And now they have to change back.

Mr. MOTT. Yes, sir. I think perhaps I can best answer that question by quoting from a letter from a little company in your own State which I happen to have with me. The letter comes from Hugh Barnhart, who is the president. It is a small company, serving Rochester, Ind.:

We changed our mailing plates to take care of the new tax and now we must replace them all with new ones. The two changes cost our company approximately \$2,000. And the worst part of it is that we must accept the complaints of our subscribers which will be far from pleasant.

These subscribers bear a continuing and a permanent relationship to us. And they have a tendency to blame the telephone company for these things.

I have many other letters to that effect. One is from the Hoopston Telephone Co. in Illinois, which happens to be in Senator Douglas' State, in which they point out the expense they went to in re-automating.

Senator HARTKE. It is sort of a selective sacrifice; is it not?

Mr. MOTT. Yes; it certainly is, Senator Hartke.

Senator HARTKE. As far as the war is concerned—you point out other places that we could go to, and we could find other sources of revenue. Frankly, the amount here involved at the best estimate is a little over a billion dollars; is that correct?

Mr. MOTT. It depends on what the Senate does, Senator. There are various ways of handling this. Sometimes in the military we learned it was always good to have a fallback position.

Now, if you take off the whole tax in 1 year it would amount, I believe, to some \$780 million. We estimate that that probably would go up to \$1 billion in 1968. But if you were to give relief to the residential phones only, these are the people who are hurt more than the others—it would only cost about \$350 million a year.

Businessmen, many times, can find ways to charge off these taxes as a cost of doing business. But the farmer in the country and the man in the rural area cannot do that. He gets stuck with it. And sometimes it is in this area where the tax is the highest.

I had a letter from a company official in North Dakota, for instance, that happened to be a co-op. We pointed out that eight-party service, because of the great expense of bringing it to the country, cost \$8 a month in that part of the country, whereas in the city they only pay \$4.

But the farmer had to pay an extra 80 cents now with the tax going back up to 10 percent. It is an unusual and high penalty on those in a low-income area. Incidentally, those telephones were subsidized by the Federal Government. The Federal Government lent 2-percent money to these people so they could bring telephones into this area, and then it turns around and taxes the same people 10 percent.

Senator HARTKE. Personally, I would like to see us have an overall plan of taxation submitted and not do this in bits and bites, and certainly not come back to a tax just repealed last summer, which in my opinion if we had had the proper type of communication between the departments of the Government we probably would have not taken off in the first place.

Mr. MORR. Well, I do not think they have the slightest idea in the Treasury Department, Senator, what the effect of this tax is on the telephone companies, because they never asked us. They just went ahead and did it and said this was not going to cause any trouble because the telephone companies could just reimpose it and nobody would be hurt.

I would like to point out this is just not true.

Senator SMATHERS. Admiral, on that particular point, as I gather from your testimony you are making, I think, a very effective and certainly a very eloquent appeal for the little farmer and the little businessman and the housewife which would demonstrate what the Treasury Department does say, that you people pass this tax right along. In other words, you pass the tax on. You do not assume the tax, the telephone company.

Mr. MORR. That is correct, we do not assume the tax. But on the other hand we consider that we bear a special relationship to our customers, and we feel that this is an undue burden on them, and if this tax—

Senator SMATHERS. You do not feel that sufficiently to where you would assume the burden of the tax yourself.

Mr. MORR. That is up to the Congress.

Senator SMATHERS. I know. I just want to get clear this great feeling that you have for these people. You have not felt it strongly enough to sort of share this tax burden.

Mr. MORR. I think our tax burden is very heavy already, Senator. We contribute about \$4 billion a year.

Senator SMATHERS. In order to keep the record straight—I am not unsympathetic with what you are saying. But to keep the record straight, you do pass the tax along.

Mr. MORR. That is correct.

Senator SMATHERS. The second point I would like to get clear is that this tax not only hits rural people using independent systems, but it hits the people under the Bell Telephone System as well, all over the Nation.

Mr. MORR. That is correct.

Senator SMATHERS. Even people who go to racetracks and cabarets, and all that, they also pay the telephone tax.

Mr. MORR. Yes, sir.

Senator SMATHERS. So this is probably about as broad scale a tax as you could get; is that correct?

Mr. MOTT. Well, of course—yes, I would say it is a broad base. But you could make it a great deal broader if you were to go to a low scale broad base general excise tax.

Senator SMATHERS. On income tax or State sales tax. But then again we would have people making the same argument, except it would not be the telephone company then—it would be the consumer groups themselves.

However, I do not want to argue.

The third point I want to make is this.

You are regulated by a local public utility, State public utility commission they call it in some States.

Mr. MOTT. Yes, sir.

Senator SMATHERS. And they pretty much set your rates, do they not?

Mr. MOTT. Yes, sir.

Senator SMATHERS. Now, when you have a hardship, having instituted one program and then having a few months later to have to reinstitute another—you will go before the public utilities commission, will you not, and ask for consideration of that hardship and probably an increase in rates, or maybe some better chargeoff operation than you previously had, will you not?

Mr. MOTT. Well, it depends on the situation, Senator. Normally I would say that this might happen. I would like to point out that in answer to that question there is what is known as a regulatory lag in this business. Sometimes it takes a couple of years to get that accomplished. And then who knows, Mr. Fowler might be back up with another tax proposal.

But the point is that there is a point of no return, or a point of diminishing return in these rural areas, Senator, in a place like Arkansas, to go back to the Allied Telephone Co. example again—those people are hard put to decide whether or not they can afford telephone service at all.

I have been out there and talked to them.

This might really make the difference.

It might be hard for people here to conceive, but it might really make the difference as to whether or not they have a telephone or do not have a telephone—a tax like this.

Senator SMATHERS. I thought your complaint was that this is going back on. You were talking about people who already had telephones.

Mr. MOTT. That is correct, sir.

Senator SMATHERS. You are not talking about people who are thinking about getting a telephone for the first time.

Mr. MOTT. I am talking about them, too, because the effect of putting this excise tax on here may slow up the development, which is something that all telephone companies try to do—to expand their telephones. Furthermore, if the tax is too heavy, you can just call the company and disconnect.

Senator SMATHERS. Senator Bennett.

Senator BENNETT. Mr. Chairman, I am looking at the law which imposed the tax originally, which we are about to take off, and that law specifically requires the taxes imposed by this section shall be paid

by the person paying for the services. So it is not fair to say that the company decides whether they are going to charge the tax or not charge the tax. The law requires them to charge the tax.

Mr. MOTT. I never suggested—

Senator BENNETT. No. But I thought that the discussion, some of the questions would indicate that there was a choice. There is no choice.

Mr. MOTT. That is correct.

Senator BENNETT. The person must pay the tax.

Mr. MOTT. That is correct.

Senator SMATHERS. My only question directed to the admiral was whether this was really tough on the small companies, that was the burden of his argument. But then, he argued about the fact that the Treasury's position was that the tax was passed along anyway. That was the whole point. That the tax was passed along.

Mr. MOTT. Yes, sir.

Senator BENNETT. Required by law.

Mr. MOTT. Yes, sir.

Senator SMATHERS. All right.

Thank you very much, you made an excellent presentation.

The committee will stand in recess until 9 o'clock Monday morning.

(Whereupon, at 12:30 p.m., the committee recessed to reconvene 9 a.m., Monday, February 28, 1966.)

TAX ADJUSTMENT ACT OF 1966

MONDAY, FEBRUARY 28, 1966

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 9 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Smathers, Anderson, Douglas, Gore, Talmadge, McCarthy, Hartke, Metcalf, Williams, Bennett, Curtis, and Dirksen.

The CHAIRMAN. Mr. Secretary, we are happy to see you are here on time today. As a matter of fact, it is not quite time according to our clock to open this meeting, but according to my watch, it is.

At the moment, Mr. Secretary, I don't believe I have any more questions to ask, although some may occur as the hearing goes along. Senator Williams had a number of things he wanted to inquire into. Senator Williams?

STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; ACCOMPANIED BY STANLEY S. SURREY, ASSISTANT SECRETARY FOR TAX POLICY—Resumed

Senator WILLIAMS. Mr. Secretary, I noticed in your statement on page 1 you make this quotation, and I would like to read it:

There are times when rapid action on tax legislation is needed. This is particularly true in the present case. Each passing day makes it harder for us to reduce the deficit for fiscal 1966 and much delay could lower our ability to reduce the deficit in fiscal 1967.

What is the urgency of this particular bill that it should be enacted so quickly?

Secretary FOWLER. Senator, the projected administrative budget deficit for fiscal year 1966 as set forth in the President's budget message is \$6.4 billion. The enactment of this bill by March 15, the date suggested in the President's letter to Chairman Mills and Chairman Long, would make it effective in time to reduce the fiscal 1966 deficit by approximately \$1.2 billion.

Moreover, I believe the prompt enactment of the bill would enable those who are going to be affected by the corporate acceleration provision to begin what will be a necessary review of their investment program and their cash flows to determine whether or not certain projected marginal investments should continue to be planned for, or whether they should be set aside in view of the cash requirements ahead. If

individual corporate managements determine that they should move ahead, they may wish to make arrangements for financing in the light of the fact there will be substantial increases in the corporate payment schedule in April and June of this year, and then, of course, again in the spring of 1967.

Senator WILLIAMS. Now, in the President's budget message he estimated the deficit as \$6.4 billion.

Secretary FOWLER. Yes.

Senator WILLIAMS. I understand that the enactment of this bill was taken into consideration in assuming that figure.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. That is correct.

Secretary FOWLER. Yes. There is a real emphasis here for accelerated action.

Senator WILLIAMS. In other words, if we don't enact it the deficit would be, based on that computation, \$7.6 billion?

Secretary FOWLER. Precisely.

Senator WILLIAMS. I want to clear up whether the \$1.2 was to reduce the \$6.4 or whether it could be added to if it were not enacted?

Secretary FOWLER. We hope to reduce what would otherwise be the deficit by \$1.2 billion.

Senator WILLIAMS. Then in reality the deficit for 1966 is \$7.6 billion based on those figures except for this one-shot operation which is provided in this bill to reduce it?

Secretary FOWLER. That is right. Based on the computations at the time the budget message was presented.

Senator WILLIAMS. While we are discussing the budget I would like to get straight the amount of the 1967 deficit. The \$1.8 billion projected deficit of the President for 1967 was made on the assumption that this bill would be passed; is that correct?

Secretary FOWLER. That is correct.

Senator WILLIAMS. Now, in the 1964 act, we had accelerated the corporate taxes payments whereby you would pick up, even without the enactment of this legislation, I believe it is \$1.3 billion; is that correct?

Secretary FOWLER. The proposed acceleration under present law would be \$1.8 billion.

Senator WILLIAMS. That is \$1.8 billion?

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. This bill will add to that, how much?

Secretary FOWLER. This bill will add—we are now talking fiscal 1966.

Senator WILLIAMS. No; fiscal 1967.

Secretary FOWLER. I will correct that \$1.8 billion figure. Under present law, the acceleration would have added \$2.2 billion in fiscal 1967. The proposed bill would make that figure \$5.4 billion, or a net addition of \$3.2 billion.

Senator WILLIAMS. \$3.2 billion. That is \$5.4 billion altogether that is nonrecurring income that will be added in the fiscal 1967 budget as a result of the 1964 act and this act which is now pending; is that correct?

Secretary FOWLER. That is correct.

Senator WILLIAMS. And again this is a one-shot operation; is that not true?

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. And it is not only a one-shot operation but there is no possible mathematical way whereby this could be repeated in years to come as another one-shot operation?

Secretary FOWLER. No, sir.

Senator WILLIAMS. This is done, once we pass it?

Secretary FOWLER. That is right.

Senator WILLIAMS. And that is \$5.4 billion that is being brought in, has been taken into consideration in arriving at the \$1.8 billion figure.

Secretary FOWLER. The \$1.8 billion figure, Senator, has to do with fiscal 1966. Under present law, in fiscal 1966, the Treasury gets \$1.8 billion by reason of the acceleration the Congress have already voted.

Senator WILLIAMS. I am not speaking of that. I am speaking of the projected deficit.

Secretary FOWLER. I beg your pardon. Yes, sir; that is right.

Senator WILLIAMS. The President's estimate for 1967 was \$1.8 billion.

Secretary FOWLER. I am sorry. That is right.

Senator WILLIAMS. That was the projected deficit, and if it were not for these one-shot operations which are being put into effect at this time, which, in effect, is borrowing on the taxes that would normally be collected in the 2 or 3 years ahead, without borrowing those and bringing them in this year, your deficit would be \$7.3 billion; is that not correct?

Secretary FOWLER. I believe that is approximately correct, Senator.

Senator WILLIAMS. Now, let's proceed further. The extra profit that is accruing to the Treasury as a result of this coinage, I understand, is around \$2.5 billion.

Secretary FOWLER. The figure for seigniorage for fiscal 1967 is estimated at \$1.57 billion. For fiscal 1966, it is \$902 million.

The total for the 2 years, 1966 and 1967, is \$2.5 billion.

Senator WILLIAMS. Then in reality a billion dollars of that accrues in 1966?

Secretary FOWLER. That is right.

Senator WILLIAMS. And if we put that over on 1966, then our deficit for 1966 is \$8.6 billion.

Secretary FOWLER. Approximately.

Senator WILLIAMS. \$8.6 billion deficit for 1966, and adding \$1.5 billion to the 1967 we have an \$8.7 billion deficit?

Secretary FOWLER. Approximately.

Senator WILLIAMS. Now, the withholding rates you are picking up you estimate, I understand, at \$400 million; is that right?

The House bill may have reduced that somewhat, but in the budget it was projected on the basis that you would pick up \$400 million; is that correct?

Secretary FOWLER. That is right.

Senator WILLIAMS. So looking at it from the standpoint of the expenditures of the Government as related to the income of the Government, and disregarding momentarily these one-shot operations as

I understand the deficit for 1966, we have it now at \$8.6 billion, and the deficit for 1967 is \$9.1 billion.

Secretary FOWLER. I wouldn't look at it that way, Senator. If you are going to count out these so-called one-shot nonrepetitive operations on the revenue side of the ledger, you also have to look at the expenditure items.

Senator WILLIAMS. I just—

Secretary FOWLER. For example, I call your attention to the special analysis on page 59 of the President's budget message. There are projected expenditures in repayable loans in fiscal year 1967 of \$8 billion. I think if you are going to count on one side of the ledger, you should also count on the other side. So I can't agree that this particular budget represents a \$9 billion deficit by this kind of reasoning.

Senator WILLIAMS. Well, I am just speaking of the administrative budget as we have always figured it.

Secretary FOWLER. I am speaking of the treatment of loans as we have always treated them. This budget is prepared, Senator Williams, in exactly the same way as in previous years. These items are treated in the same manner as we have always treated them. This is a characteristic of the budgets going way back.

Senator WILLIAMS. I am not questioning that. I am not quarreling with what you did. I am just trying to establish the record. I want to get a clear picture here because there are many people asking the question. I am getting asked that. If we are only confronted with only a \$1.8 billion deficit in 1967 as compared with the \$6 billion or \$8 billion deficit in 1966, what are you getting so concerned about in raising taxes? What I am trying to get across is the fact that we are not confronted with a \$1.8 billion deficit in 1967, but rather you have a \$9 billion or \$10 billion deficit. That is what I am trying to get cleared up here. I might say in the beginning that I expect to be supporting this bill. I am not quarreling with what you are doing, but I want to make it clear that what we are doing is only a one-shot operation. We are not correcting the real problem; namely, expenditures running so far ahead of our income. We would have now a difference in our expenditures and income in 1966 and 1967 of \$8.6 billion and \$9.1 billion deficit in the 2 years 1966 and 1967, if it were not for these one-shot operations.

Secretary FOWLER. Yes, Senator. I would like to add that the purpose of this bill is to finance the increased cost of the war in Vietnam. Whether that war is a 1-year proposition, a 2-year proposition, a 3-year proposition, or what the period will be, no one knows. It is completely unforeseeable. I readily agree with you that the method of financing the cost of the war incorporated in this budget, such as taking advantage of the acceleration of corporate collections and the other operations you characterize as one-shot operations, could not be repeated again next year.

In fiscal 1968, if the war continues, we will have to apply the fiscal dividends—the additional revenues that are the consequence of the additional growth of the economy—toward defraying the expenses of the war.

Senator WILLIAMS. Now you are getting to the point that I wanted to reach. After you apply those additional revenues and you still

have a \$9 to \$10 billion deficit, what will be your answer to the solution next year, because then you will not have the one-shot operation to fall back on?

Secretary FOWLER. First, one would have to look at the extent to which the cost of the war continued, increased, or declined. One would also have to determine what the projections for revenue from increased growth are—which might range somewhere around \$7.5 billion. They might be lower, or as is the case this fiscal year, higher than that. If those fiscal dividends were not adequate to finance the war, then one would have to ask for additional revenues.

Senator WILLIAMS. You have answered my question in the last half dozen words. As I gather it, the administration is planning to ask for a tax increase after the 1966 congressional elections.

Secretary FOWLER. No, sir. We have no specific plans as to when or if there would be an increase. As I have indicated, the decision as to whether or not there would be a necessity for additional revenue sources would depend upon whether the fruits of economic growth would be adequate to finance the expense of the war.

Senator WILLIAMS. The President was quoted in yesterday's paper from his press conference of Saturday that it was going to be a long, hard war and that we would have to prepare for it. I am wondering if, from a fiscal standpoint you aren't running on a year-to-year basis and that this pending bill is projected on the basis that the war will be over and everything will be normal at the end of this fiscal year. I don't think it will be and I don't think that the administration thinks it will be, but I don't think that you are facing up to the problem with which you are confronted because by your own figures today you have got a \$9.1 billion deficit for 1967 that you are curing with a one-shot operation, but when you move over into 1968, even if business level remains the same, no acceleration of the war, everything moving as it is now, you move over into an \$800 million a month deficit.

Secretary FOWLER. That depends also, Senator Williams, on what the Congress does this year in the appropriation process.

It depends upon what kind of a budget expenditure level the President develops in January of 1967 for fiscal year 1968. These variables enter into the situation. It is impossible to sit here now and predict what the combination of those figures will be.

Senator WILLIAMS. One other point I wanted to get straight. As we sell or liquidate the assets—and you have in this budget a program to liquidate some of the assets—as we sell these FNMA mortgages and mortgages from Small Business Administration, those funds are included into the Treasury and as spendable funds, is that correct, and to the extent that you sell a billion dollars worth of FNMA mortgages it reduces the necessity of borrowing that extra billion dollars and it also reduces the necessity of raising taxes? In other words, it reduces your reported deficit, is that not true?

Secretary FOWLER. It reduces the deficit, Senator, very definitely. However, this is a budgetary and administrative practice which, as you know, has been followed for a number of years under three administrations.

Senator WILLIAMS. Yes, and it was criticized by the Treasury Department heretofore as being a more expensive method of financing the debt.

Secretary FOWLER. I recall your colloquy with Secretary Dillon on February 27, 1963—well, I don't know whether that is the exact day. It was about that time.

Senator WILLIAMS. That is about the time.

Secretary FOWLER. At that time, Secretary Dillon drew a distinction which, as you said, you couldn't get over the fence with him at that time.

Senator WILLIAMS. That is right.

Secretary FOWLER. The distinction he drew was between a forced liquidation of these assets regardless of timing and circumstances—in order to stay within the debt limit—and a conscious, purposeful liquidation of the assets in order to carry forward a policy, which three administrations have espoused, of bringing in the private credit machinery to help defray these particular kinds of—

Senator WILLIAMS. I recall that colloquy very well. The point that I am trying to make, and I want to establish again is that, to the extent that you sell a billion dollars worth of these mortgages, that has the effect of reducing your projected deficit at the same time, does it not?

Secretary FOWLER. It also relates to the extent to which you make new loans at the time. For example, let's look at this picture in fiscal 1967. I am glad you raised it because I think—

Senator WILLIAMS. I knew you would be glad I raised it. That is the reason I did it for you.

Secretary FOWLER. Another side of the ledger has been taken into account. The net impact of Federal loans in 1967 is expected to lower the aggregate budget expenditure by \$2.5 billion since a \$2.2 billion expansion in Federal lending partly offsets the direct and participation sales projected of \$4.7 billion.

Furthermore, these loans represent only a part of the Federal Government's purchase and sale of assets provided for in this budget. When you take into account the loans, financial investments, and non-financial investment outlays of about \$20.9 billion, that are in the budget, you will find that the net contribution of this particular group of loans to the 1967 budget deficit is not quite that generally represented.

Senator WILLIAMS. Well, as I was saying—

Secretary FOWLER. I wish Senator Long, the chairman, were here because he sometimes engages me in conversation about the way we keep our books. He thinks we present far too pessimistic a picture in terms of the so-called capital items acquired by the Federal Establishment.

Senator DOUGLAS (now presiding). Since I am substituting for Senator Long, I wonder if the Senator from Delaware would permit me very inadequately to express my views.

Senator WILLIAMS. Surely.

Senator DOUGLAS. You charge as a current expenditure all capital outlays, do you not?

Secretary FOWLER. That is correct.

Senator DOUGLAS. A.T. & T. doesn't do this, does it?

Secretary FOWLER. No, sir.

Senator DOUGLAS. If A.T. & T. were to charge capital outlays as an operating cost, would it not have shown a deficit virtually every year since 1945?

Secretary FOWLER. I think that would be the case, Senator Douglas.

Senator DOUGLAS. Yet by their system of not counting capital investment as an operating cost, they show a handsome profit and it is a blue chip stock, is it not?

Secretary FOWLER. That is very true.

Senator DOUGLAS. I think the United States of America, if I may use a vulgar expression, is a blue chip stock, too.

Secretary FOWLER. I would certainly suggest that this other side of the ledger, the fact that in this projected budget we are acquiring about \$20 billion worth of assets, should be taken into account in an analysis of this sort.

Senator DOUGLAS. When these purchases are made, they are counted as an expenditure and as a deficit?

Secretary FOWLER. They are.

Senator DOUGLAS. My good friend from Delaware would not have them counted as an asset when they are sold, isn't that true?

Secretary FOWLER. Well, he would have to speak for himself.

Senator WILLIAMS. I haven't reached any point about them not being counted as an asset. I have oftentimes said that we need a little more intelligence in reporting Government business as related to the budget. But since we are comparing the Government with A.T. & T. as it filed its financial statements, that company also lists its accrued liabilities, does it not, Mr. Fowler? The Senator from Illinois failed to mention these.

Secretary FOWLER. I am not too familiar with the way they treat—

Senator WILLIAMS. A few moments ago you seemed to be familiar with the manner in which—

Secretary FOWLER. I am very familiar with this particular point.

Senator WILLIAMS. Certainly we are all familiar with that point. But any company, A.T. & T. or any other company when it files its financial statement, do they not also in reporting that financial statement at the same time file its accrued liabilities, liabilities for which it is definitely responsible, its debts and its accrued debts? Is that not a part of any financial statement? Surely these cannot be overlooked.

Secretary FOWLER. I think—

Senator DOUGLAS. I think the record should show that the debt of the United States is approximately \$321 billion and that the assets in real property and personal property on the basis of original cost, without allowance for depreciation, as of last June 30, was approximately \$325 billion.

Secretary FOWLER. They would take into account, Senator Williams, as you have suggested, accrued liabilities.

Senator WILLIAMS. The companies would take into account accrued liabilities just the same as if they were going to take capital accounts into the Government. To speak of capital accounts and omit liabilities is misleading. What about the \$40 billion deficit in the retirement fund of the Government.

Now, I appreciate the Senator from Illinois prompting you on your answer, but I think his response is a reflection on the Secretary. I believe the Secretary knows the answer to these questions and can speak for himself.

Secretary FOWLER. I wanted to be sure——

Senator DOUGLAS. The Secretary is able to answer. This is just due to my inveterate tendency to rush into a fight.

Senator WILLIAMS. I welcome the intrusion, but it may appear to be an indication that the Senator from Illinois doesn't think the Secretary is able to answer the question.

Secretary FOWLER. I am always glad to have any technical assistance, Senator Williams.

Senator DOUGLAS. It is my propensity to rush in where angels fear to tread.

Senator WILLIAMS. To get back to the question, to the extent you sell these assets, they are used to reduce the reported deficit to the Congress and reduce the amount that you have to borrow; is that correct?

Secretary FOWLER. Yes, Senator. In the same way that when we make additional loans they are treated as expenditures and——

Senator WILLIAMS. You said that before. Then the answer to the question is "Yes"; is that correct?

Secretary FOWLER. I answered the question, "Yes."

Senator DOUGLAS. I think the Senator from Delaware is paving the way for a very happy agreement in the future, getting the budget on a capital basis. We should have a capital budget with the capital investments, and repayments isolated from the operating costs. We have made a great step forward, but I hope my good friend from Delaware will follow through on the logic of what he said.

Senator WILLIAMS. Again I appreciate the Senator from Illinois helping the Secretary of the Treasury, but I suggest that the Secretary is well able to answer without your assistance.

Senator DOUGLAS. I am not trying to help the Secretary. I am just trying hinder you, John.

Senator WILLIAMS. I don't at all mind being hindered. I have got all day and tomorrow, and your interference will not prevent me from establishing the true deficit for 1966 and 1967.

To get back to the subject. Now, capital assets that you are planning to sell in 1967 amounts to \$4.7 billion. Has your sale of those assets been accelerated, or has it been reduced as compared to prior years?

Secretary FOWLER. It has been increased as compared with prior years.

Senator WILLIAMS. By how much, and what has been the sale of these capital assets over the past 3 to 5 years, in each of the years?

Secretary FOWLER. As I recall it, in the budget——

Senator WILLIAMS. \$4.7 billion, I think, in 1967 year's budget.

Secretary FOWLER. That is an increase of about a billion and a half over 1966.

Senator WILLIAMS. Over what it was the preceding year?

Secretary FOWLER. That is right.

Senator WILLIAMS. And the preceding year, 1966, how did that compare with the preceding year?

Secretary FOWLER. That was an increase over fiscal year 1965.

Senator WILLIAMS. By about what? Another billion dollars?

Secretary FOWLER. My memory for these figures is not completely accurate, but I believe it was about a billion and a half dollars.

Senator WILLIAMS. That is my understanding.

Secretary FOWLER. Now, I want to point also, Senator, that this device of bringing the private credit markets into this operation is one that has been followed by several administrations. It began in 1954 and has characterized our operations ever since. Moreover, from a policy standpoint it has been considered important to substitute, over a period of time, private credit for public credit in the operation of those credit programs. It is hoped that someday private credit could eventually take over the entire responsibility, but for various reasons, private credit could not assume the responsibilities and do the job that was required to be done at the outset.

Senator WILLIAMS. Well, Mr. Secretary, I am not raising this point for the purpose of either criticizing it or endorsing it. I raise it from the standpoint of clarification. I am aware that there has been a re-sale of these mortgages in the market over the prior years, but in the last 2 years in fiscal 1966 and in fiscal 1967, these sales that have been accelerated far beyond the previous.

Secretary FOWLER. Yes.

Senator WILLIAMS. And to the extent that it has been accelerated it has a tendency to reduce the reported deficits.

Secretary FOWLER. That is correct.

Senator WILLIAMS. Now—here we get to the point that I am talking about—this acceleration in 1967 is about a billion and a half dollars, and acceleration above normal in 1966 was about a billion dollars over and above the normal sales.

Secretary FOWLER. That is right. You say normal sales. I would say over and above—this has been a purposefully—

Senator WILLIAMS. Average level.

Secretary FOWLER. Expanded program.

Senator WILLIAMS. Over and above what would be accounted in the normal expansion. And these additional sales have had a tendency to reduce the deficit. When you take these into consideration, you have a \$9.6 billion deficit in 1966, and it brings the 1967 to \$10.6.

As I told you, I am going to support this bill or substantially all of it. I think some action must be taken. I am not quarreling with you on that, but I am emphasizing that we are really faced with a deficit in 1966 of \$9.6 billion, and we are attempting to cure a \$10.5 billion deficit in 1967. Yes, I support this bill but I don't join the administration in trying to kid the American people that by its enactment we will have only a \$1.8 billion deficit next year. We are spending next year about \$10 billion more than our revenue, and we are partially curing that with these one-shot operations.

Secretary FOWLER. Senator, I think we could discuss this at great length. I have an entirely different point of view about it. I think that we are using, as you call it, and purposefully using one-shot operations, to deal, for the time being, with what we would hope would be an international situation that could be brought to the negotiating table. If that does not develop and that is not the case, then we will have to look at our responsibilities again for financing our operations overseas.

We will have to look at them next January in any event, depending upon what the budget expenditure projections are for fiscal 1968. We will have to look at them again if hostilities should escalate to a de-

gree that would require substantial expenditures beyond those currently projected in the budget for the fiscal year 1967.

Senator WILLIAMS. As I said before, I am not trying to debate the merits or demerits of what we are doing, but I do think from the standpoint of the country we should state exactly where we stand. The President in his message advocated truth in lending and truth in packaging, and I am just trying to help him give some truth in Government because I think that we need it most.

Secretary FOWLER. I hope also when you make these comments that you will add the fact that there is \$10.5 billion in this budget to fight the war in Vietnam—and that is a rather unusual expenditure increase.

Senator WILLIAMS. That is correct, and I support our war effort.

Secretary FOWLER. And I think all of those who point to the fact that there would be this deficit if it weren't for this, that, and the other thing, ought to also point out that there might be a surplus. We might have had some debt reduction or further tax reduction if it weren't for the war in Vietnam.

Senator WILLIAMS. I realize there is a war in Vietnam. There was a war going on at the time these taxes were cut last year, and I was one of those who voted against them and said then that I thought it was fiscally irresponsible to cut taxes in the face of a war. For that reason, I am now supporting the administration in correcting its past error. But when you speak of the fact that the accelerated economy based on the current expenditures would take care of our deficits, if there were no war, that is misleading. Is not a part of the acceleration of the economy and a part of your increased projected incomes based on profits as a result of the war expenditures?

Secretary FOWLER. That factor certainly enters into it. But, I think it would be fair to say that given the force and pace of the private sector last summer, prior to the President's appearance in late July concerning Vietnam, the outlook was for a continuing expanding economy which would have produced—and this is a matter of judgment—substantially increased revenues this year. It would have been quite possible that we could have had a balanced budget projected for fiscal year 1967.

Now, of course, there could have been a flattening out of the economy. There could have been a change. But the general health and projection of the economy last summer was such that I think it would be a fair judgment to say that, without Vietnam, we would be confronted by the very different prospect of dealing with a balanced budget.

Senator WILLIAMS. Well, I yield at this point. I understand the chairman wants to proceed with others. But I do not go along with your projected estimate—that you would have a balanced budget, without the war. I am not unmindful of the fact that for each of the past 5 years we have been told the same thing and each of the succeeding years we find our deficit getting larger.

Secretary FOWLER. I might say, quite respectfully, I have studied the record, as I know you have, and I believe my predecessor, Secretary Dillon, also said to this committee that he thought it would be

feasible to anticipate, if the tax program worked out as was planned, a balanced budget in the fiscal year 1967, although it might take until 1968 to—

Senator WILLIAMS. I agree. He said that, and he projected that on the basis that he was going to cut taxes and bring in additional income. But I notice that now when he needs additional income instead of cutting taxes to raise income he is suggesting we raise taxes.

Secretary FOWLER. I am suggesting that had it not been for these additional expenditures in Vietnam—if you take \$10.5 billion off \$112.8 billion—you get down to an expenditure level of about \$102.3 billion. I think it would also be a fair projection to say that were it not for Vietnam, the economy would have continued to expand and our revenues for fiscal year 1967 would have exceeded \$102.3 billion.

Senator WILLIAMS. Neither of us knows the answer to the question on what would have happened if—

Secretary FOWLER. That is right.

Senator DOUGLAS. Senator Bennett came in too late yesterday to ask questions. I believe when he came in this morning he didn't have the opportunity to ask a question.

Senator BENNETT. Thank you, Mr. Chairman. I just have one problem that I would like to discuss with the Secretary.

Am I correct in my understanding that under this bill, those citizens who wish to take advantage of the extra allowance provision to reduce overwithholding must wait for that privilege until their 1967 tax record?

Secretary FOWLER. That is correct, sir.

Senator BENNETT. And that when they come to that time, if they wish to have their withholding reduced, they must be prepared to present to their employer a record of their previous tax payments to show that they have, in fact, made contributions or paid deductible expenses which justify the reduction of that withholding?

Secretary FOWLER. That is right. Additional withholding allowances have to be grounded on the previous year's tax return.

Senator BENNETT. How much of your \$1,035 million reduction in overwithholding would be changed if the privilege of establishing the right to reduce withholding were made effective when the bill is made effective on May 1?

Secretary FOWLER. I will ask Assistant Secretary Surrey to answer that since he has followed that particular more closely than I have.

Mr. SURREY. It would probably drop by somewhere around two-thirds to three-quarters.

Senator BENNETT. You mean it would be reduced anywhere—to a point of \$250 to \$350 million?

Mr. SURREY. Yes. Probably above three-quarters.

Senator BENNETT. Well, this is an interesting problem. Isn't it true that the same right or the same material with which to verify their right to a reduction of withholding exists today as will exist in January? They could use the 1965 tax return as the basis of their justification.

Mr. SURREY. The same material won't exist in this sense, Senator. This additional allowance system is a rather complicated matter. We have not had it before. It requires a large amount of preparation on the part of the Internal Revenue Service and understanding on the

part of employees generally to become familiar with it, and the time to put that into effect just wouldn't exist between the time this bill passed and the time that the graduated withholding is to take effect. There would be that very material difference.

The other factor that could be involved is that the system does depend upon having readily available a tax return for the previous year. If this system goes into effect when the graduated withholding goes into effect sometime in May 1966, it would be a question in some cases whether people have retained and have available their 1965 data.

It is expected that next year this would be filled out simultaneously with a person's tax return.

Secretary FOWLER. Senator Bennett, the House report on page 16 added an additional observation. I quote from the report:

Moreover, since graduated system is not in effect for the first 4 months of 1966, any overwithholding attributable to these rates is not expected to be serious in 1966.

That is due to the graduated—

Senator BENNETT. Let me find that.

Secretary FOWLER. The last sentence on page 16, under the heading of "Effective Date."

Senator BENNETT. Well, now, I am confused. It says any overwithholding attributable to these rates is not expected to be serious. Mr. Surrey said it represents from two-thirds to three-quarters of the total amount of your billion dollars.

Mr. SURREY. No. I think the difference between the two statements is this, Senator. You asked what would be the reduction in withholding and I gave you that. The question is whether there would be any serious overwithholding in the year 1966 to warrant the necessity for relief.

What the House committee report indicates is that for a part of 1966, we will be running at underwithholding. That underwithholding in early 1966 will compensate for some overwithholding in the latter part of the year.

When you come into the year 1967, then the graduated withholding, of course, will be in effect from the very first day of the year, and the overwithholding will be larger than it would be in 1966. That is the point Secretary Fowler was making.

Senator BENNETT. Well, I can understand the problem of the Treasury in getting the machinery in operation to handle this thing, but—

Mr. SURREY. It is also a problem for employers, too, that would have to be taken into account.

Senator BENNETT. It would seem to me that if an individual taxpayer were disturbed by the impossibility of overwithholding he would see to it that his employer got the information and made the correction on his return because it is to his advantage.

Mr. SURREY. Well, that is correct. I am saying that the overwithholding in 1966, however, will not be the size of the overwithholding that will exist in 1967. It will be balanced by the underwithholding.

Secondly, the information that the employee has to give to the employer is information that will have to be stated on new forms. New tables will have to be devised for employees to enable them to figure the number of allowances they are entitled to. All of that is a rather

large printing, distribution, and educational job. The House thought since it wasn't necessary to relieve hardships and difficulties in 1966, then there was every reason to make it available only in 1967, when the problem really emerges for the first time.

Senator BENNETT. The problem is created for me because I am a member of a religious group whose members are expected to give a flat 10 percent of their income to the church and every member of that group who does that and who earns a normal income is immediately involved in this problem.

Mr. SURREY. Yes, sir; except to the extent, of course, as I said, that the fact that this is a split year ameliorates the problem. It isn't the same problem. The problem that you were thinking of is the problem that I think motivated the House in adopting this new system, but they were concerned about the impact of withholding, graduated withholding, when it was fully in operation. It will not be fully in operation this year.

Senator BENNETT. Well, it is in operation 8 out of 12 months.

Mr. SURREY. That is right.

Senator BENNETT. That is two-thirds.

Mr. SURREY. Roughly speaking, in many cases the amount of overwithholding that will exist in this year will be about the amount that will exist next year after the use of the new allowances.

Senator BENNETT. Was this seriously discussed in the House to the extent that they examined the possibility of changes in the law to make it practical?

Mr. SURREY. With respect to this year? Yes, sir. This point was gone into as the House report indicates. This was discussed with the House committee.

Senator BENNETT. I hesitate to say what I am about to say, because I know what the answer is, and I am afraid I kind of agree with the justification, but this might be a place where, because of this split year and the withholding of the right to make the proper return and correct the withholding rate, the Treasury might pay the same interest to people overwithholding during these 8 months that they collect from people who collect to pay their taxes in full. But I recognize this would create a tremendous administrative problem and it would also create a precedent on the basis of which everybody who was overwithheld from here on out would say, let's have interest.

But I wish there were some practical way to solve this problem for people who, as a matter of conscience, or for other reasons, automatically put themselves in this situation for this year.

Mr. SURREY. I think your observations on interest are well founded. Of course, we do not charge interest in cases of underwithholding today.

Senator BENNETT. Do you have someone else who wanted to question?

Senator DOUGLAS. Senator Talmadge has not had an opportunity.

Senator BENNETT. I have two or three more questions that I would like to have a chance to study first, please.

Senator TALMADGE. Do you want me to proceed?

Senator BENNETT. Yes.

Senator TALMADGE. I will be delighted to and will endeavor to be quite brief.

Mr. Secretary, I think that people who kept a close watch on the fiscal policies of our country primarily are concerned with our continuing and constant budget deficits, the problems of our balance of payments, gold drain, and also the possible threat of inflation. Would you agree that those are the principal problems that concern us at the present time in a fiscal way?

Secretary FOWLER. Yes. In addition, we always have the overriding problem of maintaining a healthy, expanding economy. In our constant daily concern with the problems you mentioned we have to also take into account that in reacting to and treating those problems we also try to maintain the general economic expansion we have had for 5 years.

Senator TALMADGE. What do you anticipate the budget deficit for fiscal year 1966 to be?

Secretary FOWLER. \$6.4 billion. I have no additional information since the presentation of the President's budget message on the expenditure level that would indicate any difference in that estimate. It is a very sound estimate.

Senator TALMADGE. What was our balance-of-payments situation last year?

Secretary FOWLER. Last year we reduced the so-called overall deficit, from \$2,800 million in the year 1964 to \$1,300 million in the year 1965. This represented by far the most substantial progress that we have made in any given year in dealing with this problem.

It is the smallest overall balance-of-payments deficit since 1957. It is less than half the size of our deficit of \$2.8 billion in 1964 and \$2.7 billion in 1963. On a comparable basis, it compares with average deficits on the same accounting basis of \$3 billion a year in the 7 preceding years, 1958 to 1964.

Senator TALMADGE. Of course, you would agree—

Secretary FOWLER. Now, I don't want to conclude this comment without saying that in making our plans for 1966 in the latter part of last year we tried to tighten and improve our program both as it concerns private capital and Government flows for the purpose of trying to reach our objective—equilibrium in 1966—by which we mean a balance \$250 million either side of zero.

Senator TALMADGE. You don't think that a dollar deficit of \$1,300 million is a very healthy situation?

Secretary FOWLER. I do not, Senator Talmadge. I think it is up to the United States to take the measures that are necessary to bring this balance into equilibrium, and to keep it there over the indefinite future.

Senator TALMADGE. What was our gold loss last year?

Secretary FOWLER. About \$1.6 billion, which was, of course, primarily the result of the very substantial deficits that characterized the preceding years. The loss of gold in the first two quarters of the year were a consequence of the deterioration in the balance-of-payments outlook for the United States in late 1964 and early 1965. The rate of losses of those first 6 months were sharply scaled down in the last 6 months of 1965. In fact, they ran at the rate of only about \$100 million a quarter in that period.

I should also say that in looking at that \$1.6 billion of gold loss, about \$259 million represented a deposit of gold with the International

Monetary Fund to meet our obligations in connection with an increase in our quota, about \$100 million was for industrial uses, and about \$880 million represented gold sales to the French financial authorities.

Senator TALMADGE. What are our gold reserves now?

Secretary FOWLER. About \$13.8 billion.

Senator TALMADGE. What are our short-term claims overseas?

Secretary FOWLER. Short-term claims against that gold?

Senator TALMADGE. Yes, sir.

Secretary FOWLER. They should be broken down into two categories. The so-called official claims, that is, holdings of dollars by the official monetary authorities of other countries—in the general magnitude of approximately \$15 billion—and private dollar holdings—of approximately \$11 billion.

Senator TALMADGE. If our friends in Europe wanted to, then, and acted in concert, and demanded gold, they could break the bank, couldn't they?

Secretary FOWLER. They theoretically could. As a practical matter that is a bugaboo that does not concern me because they would bring down much more disaster upon themselves than they would upon the United States.

Senator TALMADGE. How much of our dollar deficit is attributable to the maintenance of our six divisions in Europe?

Secretary FOWLER. I would have to go into considerable detail to give you a complete answer to that question. Insofar as the cost of maintaining divisions in the Federal Republic of Germany is concerned, we have an arrangement with the Federal Republic, which has served very well, under which military offset sales—that is, military procurement by German authorities either through the U.S. Government or in the United States—offsets our dollar balance-of-payments costs in West Germany. With the predominant cost of maintaining forces in Europe being the cost in West Germany, one could assume that a large part of the total cost is defrayed. Now, of course, there is always the question of how much the Germans would buy anyway if we didn't have any troops there. My own judgment about that would be that, over the long pull, that would turn out to be a very negligible amount.

Senator TALMADGE. Exclusive of West Germany, can you estimate the dollar drain attributable to troop maintenance in Europe?

Secretary FOWLER. I would prefer to give the precise figures on that for the record.

Senator TALMADGE. I think—Mr. Secretary, but I realize it is a policy decision that does not address itself to the Secretary of the Treasury, that it seems strange indeed at the present time to maintain six divisions in Europe while the Europeans have done little or nothing to protect themselves, especially in view of the fact that we are running a dollar deficit and a tremendous gold drain there, have a war being conducted in South Vietnam, and have taken no positive steps to prevent these same Europeans that we are protecting from trading with North Vietnam at the present time. I think that those six divisions in West Europe are primarily there for the purpose of showing the flag. I don't think they would be a serious deterrent militarily if the Russians decided to attack in force there, which they apparently have no intention of so doing.

Therefore, it seems to me that we should give serious consideration to bringing about four of those divisions home or sending them to South Vietnam where the actual war is being fought. We would not only beef up our military forces there, but would do much to curtail our dollar deficit and our gold drain and I think it is high time that our Government gave serious consideration to such a course of action.

We have been in Europe now for some 25 years and I think we have become unwelcome guests in a lot of respects.

I also believe the European governments would make more serious efforts to defend themselves if we started looking after our own interests to a greater degree rather than theirs.

Secretary FOWLER. Senator Talmadge, your comments, of course, go to military and foreign relations considerations that are somewhat beyond the immediate field of the Treasury Department.

Senator TALMADGE. I acknowledged that fact at the outset of my discussion of this policy area.

Secretary FOWLER. I think it is more appropriate to have the political, diplomatic, and military reasons for the maintenance of those forces developed by my colleagues in the State Department and the Department of Defense.

Insofar as the area of concern to the Treasury; namely, the balance-of-payments aspects, I would only want to say that as long as the arrangement with the Federal Republic of West Germany is maintained on the basis on which it has been followed over the last few years, I don't believe that the balance-of-payments consideration should be the swing consideration on any of the decisions of the sort you have indicated. I think the decisions as to the maintenance of our forces there, and in what quantity and what degree, should turn on the political and military considerations on which I am not—

Senator TALMADGE. All of these individual factors, as you know, now are completely interrelated. At the present time, our world fiscal policy, political policy, military policy, are interrelated and you can't completely segregate one from the other.

I want to ask you briefly about inflation. What do you think is the best criteria of determining whether inflation exists or threatens to become existent?

Secretary FOWLER. Well, Senator, there are many, many definitions. Taking two of the many types, I think you can have serious creeping inflation—which would mean persistent rise in prices over a long period of years of substantial character—as well as a sharp, quick, inflation—by which I mean something that can occur in a period of a few months or a half year. You don't have to wait for years to recognize certain types of very serious inflation.

It is a matter of opinion just what the mathematics of it are. I think it would be fair to say that the increase in prices in the order of magnitude of 1 percent, $1\frac{1}{2}$, or 2 percent per year is not generally considered by the professional economists as being characterized as inflation. When you get up around 3 percent you began to get quite a bit of an argument about whether that is inflation or whether it isn't. A good deal of the determination depends upon the collateral circumstances, whether it is—

Senator TALMADGE. Would you say that the wholesale price index would be about as good a criteria as any?

Secretary FOWLER. I think that is perhaps the best one, Senator Talmadge.

Senator TALMADGE. How much has the wholesale price index risen in the past 12 months?

Secretary FOWLER. From December 1964 to December 1965, and from January 1965 to January 1966, it has gone up about 3.4 percent and 3.6 percent, respectively.

Senator TALMADGE. 3.4. How much has it risen in the last 90 days?

Secretary FOWLER. For all commodities, Senator Talmadge, is that your question?

Senator TALMADGE. Yes, sir. I believe that is commonly referred to as the wholesale price index.

Secretary FOWLER. For December, for all commodities, it was 104.1 on a 1957-59 base, and as of February 15, it was 105.

Senator TALMADGE. So more than half—

Secretary FOWLER. That February figure is preliminary—that is to be confirmed.

Senator TALMADGE. More than half of the price rise of 3.4 then has taken place in the last 60 days?

Secretary FOWLER. I believe that about one-fourth would be approximately correct.

Senator TALMADGE. You would think, then, that it is time for us to take a good hard look at this problem in view of the—

Secretary FOWLER. I think it has been true since last summer and fall. I began speaking publicly to this question on a number of occasions last fall—that we had to be extremely vigilant and that a policy of responsible restraint would be required, not only by management and labor in terms of wage-price decisions but by the Government in terms of its budgetary processes. You might say all of us had to be concerned because we had had a fairly flat trajectory of the wholesale price index for a period of about 6 or 7 years. Whenever it begins to move up, I think it is time to be vigilant and to be concerned.

I would like to point out that you have to take a closer look at the wholesale price index movement from January 1965 to January 1966 of 3.6 percent to get the correct picture. In the field of farm products the change was 12.3 percent. In the field of processed foods, it was 7.8 percent. The price change in industrial products that go into the wholesale price index was only 1.6 percent. So that, by far, the predominant contributing factor to the change in the wholesale price index of 3.6 percent over the past 12 months, January to January, fell into the area of farm products and the processed foods which represent one-fourth of the makeup of the index.

Senator TALMADGE. In a period of inflation, agricultural commodities usually rise first, don't they?

Secretary FOWLER. Economists will have many explanations of the movement. There is a good deal of discussion that the movement of farm products has certain cyclical characteristics and it sometimes can occur wholly apart from an inflationary period, for example crop failure—

Senator TALMADGE. We know there is a considerable shortage of pork and some other agricultural commodities.

Secretary FOWLER. That is right.

Senator TALMADGE. Which account for that price rise.

I want to congratulate you, Mr. Secretary, on your presentation Friday and also on your statements that I have read from time to time in the last several months viewing with considerable alarm the possibility of inflation and urging the Government and management, as well as labor, to exercise caution.

Thank you very much.

I have no more questions, Mr. Chairman.

Senator DOUGLAS. Senator Dirksen, I think you have not had a chance to ask any questions.

Senator DIRKSEN. Mr. Secretary, with the one-shot gain in 1966 and 1967, the corporate speedup would not be an actual gain over the years?

Secretary FOWLER. No, sir. It is a one-shot affair, Senator Dirksen.

Senator DIRKSEN. When does that begin to fall off?

Secretary FOWLER. There would be no large gain from corporate acceleration, if you adopt the proposal before you, after fiscal year 1967.

Senator DIRKSEN. Now, there would still be some overwithholding, notwithstanding the provisions.

Secretary FOWLER. That is correct, sir. You cannot completely eliminate either underwithholding or overwithholding. However, the magnitude of both will be substantially reduced.

Senator DIRKSEN. Is there any provision to pay interest in the case of continued overwithholding?

Secretary FOWLER. No, sir, there is not. We do not, of course, charge interest on underwithholding, and we do not believe it would be wise to pay interest on overwithholding.

We think that these things will balance out fairly well between taxpayers as a group. We believe payment of interest would give rise to very substantial administrative difficulties and would be an unwise step.

Senator DIRKSEN. I have no more questions.

Senator DOUGLAS. Thank you.

I wonder if Senator Bennett would permit me to ask one or two simple questions?

Senator BENNETT. Surely. I have had my turn and I will wait until it comes around again.

Senator DOUGLAS. Mr. Secretary, on Friday I called attention to the fact that in Vietnam the banking facilities are controlled by French banks, notably the Bank of Indo-China. Therefore American expenditures in that country in terms of dollars would largely find their way into the Bank of Indo-China, would then be shipped to France, and under the present policies of President de Gaulle, would constitute claims against our gold and would result in a gold drain. And I suggested that a constructive step would be to develop American banks in Vietnam into which dollar claims would be channeled so that they would not constitute claims against our gold.

Do you have any further statements to make today in response to that suggestion of mine?

Secretary FOWLER. Yes. We have made inquiries as to the situation. We find that there are some American banks, I think three or four in number, who have applied for permission to be chartered to operate in

that area. I am hopeful that favorable action will be taken by the authorities there on one or all of the applications. Unless there is fairly prompt action in that area, I would feel it important enough for the Treasury to dispatch someone to Vietnam to go into the situation.

This is primarily a matter for the diplomatic mission, Ambassador Lodge, to be concerned about. But we will keep in close touch with the situation.

Senator DOUGLAS. You feel this is a constructive suggestion?

Secretary FOWLER. I do, sir.

Senator DOUGLAS. It may be very crucial because if we expend additional billions of dollars, a goodly percentage of which would be spent inside of Vietnam, it could constitute a gold drain of very large magnitude.

Secretary FOWLER. This has been the subject of considerable examination by Administrator Bell—to know where the funds will ultimately end up. It would depend, of course, upon the private decisions that are ultimately made as to whether funds would be banked in U.S. facilities or other facilities. This is a matter of choice. I am not—

Senator DOUGLAS. By internal regulation—

Secretary FOWLER. I think it is incumbent upon us to do everything we reasonably can do, consistent with respect for other sovereignties, to minimize in every way possible both the impact on our balance of payments—and the impact on our gold supply—as a result of our activity there.

Senator DOUGLAS. By internal regulations of the South Vietnamese Government, it could be provided that all dollar claims should be deposited in American banks rather than in French banks, isn't that true?

Secretary FOWLER. I would think that could certainly be a decision.

Senator DOUGLAS. Now, if I may touch another suggestion which is an old one, as you know, I have been urging for 13 months that we assume no further responsibility for economic aid to African nations, formerly French colonies because just as with South Vietnam, the banking facilities of those countries are still French based.

Now, I know that this is perhaps a subject which should be more properly addressed to the Administrator of AID but we never quite get a chance to bring this matter up before him. I wonder if it would be appropriate for you to express your opinion on this suggestion?

Secretary FOWLER. Yes, sir.

In a letter to you I have expressed my opinion. I will be glad to do so again.

Last October, in reply to your letter, I said on this subject:

With respect to U.S. programs of aid to former French territories, we at Treasury have urged State and AID to take into consideration the availability of economic assistance from France and access to French foreign exchange resources in determining the magnitude of U.S. assistance. I expect to urge that these factors be given still greater weight in the future.

This has been our position since the matter was brought to our attention. I would be glad to Mr. Bell communicate with you if you would like.

Senator DOUGLAS. Of course, you know that Mr. Douglas MacArthur III, presumably speaking for all Government agencies except

the Treasury, rejected this suggestion on the ground that the African nations have their needs which should be met and that these should be considered independently of where the dollars were finally deposited.

So the official policy of the administration was adverse to this suggestion. I do hope that this will be considered seriously, especially in view of your statement that last year France withdrew \$800 million of gold and that its current policy is to present at least \$30 million a month in dollar claims. This example is being followed, is it not, by Belgium, the Netherlands, Spain, and Portugal?

Secretary FOWLER. To a lesser degree by Belgium and the Netherlands. But Spain has been a frequent purchaser of gold over the past year.

Senator DOUGLAS. Senator Bennett?

Senator BENNETT. Thank you, Mr. Chairman.

I have two or three questions here largely for the record. I would like to return to the withholding problem. Under the graduated withholding plan, in computing withholding allowances, estimated deductions for the current year may not exceed the total, the amount of actual deductions for the prior year, that the taxpayer may know very well that his deductions are going to be larger. Why shouldn't he be allowed to estimate these deductions if they are reasonable?

Secretary FOWLER. I will ask Secretary Surrey to answer that.

Mr. SURREY. The House committee went into this Senator, and was concerned with the possibilities of serious—I don't want to use the word "abuses"—serious problems in the entire withholding system if there was not some anchor upon which to base their additional allowance system. At the present time, there is after all a good deal of certainty in our withholding system. The only factors the taxpayer takes into account are the number of his dependents. These are given facts. This additional allowance system injects two major uncertainties. The taxpayer has to estimate his deductions and the taxpayer has to estimate his salaries and wages and the House was concerned that without some definite anchor, at least at the start of this new additional allowance system, there could conceivably be a breakdown in the whole withholding system. This new withholding allowance system is somewhat complicated, it is new, people will have to get used to it, and in the initial stages there was the thought there should be some definite certainty in the matter.

If the taxpayer were allowed to guess or estimate what he thought his deductions would be for the year, you could see the problems that could start to creep in and at the beginning of the use of this system. The House thought it would be better to have definite figures the taxpayer could use and those would form the anchor for his statements as to whether he is entitled to an additional allowance or not.

That was the reason for that provision in the House bill.

Senator BENNETT. And your answer would be the same for the alternative question about his right to estimate that his actual income will be lower?

Mr. SURREY. It is the same principle; that is correct.

Senator BENNETT. Is there any special rule when a taxpayer changes from a 10-percent standard deduction to itemized deductions?

Mr. SURREY. Any special rule with respect to what?

Senator BENNETT. The conditions under which he may make an estimate if he is changing from a standard deduction.

Mr. SURREY. No. I don't think so, if I understand the question.

Senator BENNETT. Well, on page 35 of the House report, we read:

If for the taxable year immediately preceding the estimation year, the employee elected under section 144 of the code to use the standard deduction, his estimated itemized deduction for such estimation year were zero.

Why shouldn't he be treated that his estimated itemized deductions were 10 percent?

Mr. SURREY. At least the amount of the standard deduction, yes.

Senator BENNETT. Yes.

Mr. SURREY. I think the reason for that is in a sense they are equal to 10 percent but he would not be able to qualify for the additional allowance in that you need, under the House bill, over a 12-percent relationship between itemized deductions and salaries and wages. So consequently if he called his itemized deductions equal to 10 percent, he would still be in the nonqualifying class.

I think this was a shorthand way of saying in the House bill that inasmuch as you don't qualify, then we will call your itemized deductions zero. If they called them 10 percent, the net result would be the same.

He still would not be eligible.

Senator BENNETT. How does a man change from standard to itemized then if, every time he presents his record, you say, well your record last year was zero and your request for deductions can't be any higher than last year's record?

Mr. SURREY. Let's assume a person in the year 1966 is on standard deduction basis.

Senator BENNETT. That is right.

Mr. SURREY. Then, since at best his deductions can't be more than 10 percent of his income, he would not be eligible under the House bill, in view of the qualifying floor of 12 percent; but let's assume in the year 1967 he goes up in his deductions, and they go to, say, 25 percent. Then in filing in 1968 he would then become eligible for the additional allowance. His deductions would actually have to rise.

Senator BENNETT. But you would force him to wait 1 year.

Mr. SURREY. That is, I think, no different than the first point that you asked me about, a situation in which, for some reason or other, a taxpayer's deductions may rise. It is really an example of the first case that you gave me, I believe.

Senator BENNETT. Well, except that it has the additional factor of a time lag which is created by the interpretation of the law.

Mr. SURREY. No. I don't think so. I think in the first case, his deductions happen to be low in the first year. The reason he took the standard deduction is simply because his itemized deductions came to less than 10 percent. That is the normal reason why a person would claim the standard deduction. It is then worth more to him than his itemized deductions. So you are dealing with the taxpayer who, in the base year or the year to which reference is made, has low itemized deductions.

Now, then, if his deductions rise for one reason or another, he would be in the same position as the taxpayer whose itemized deductions were,

say, 15 percent and rose to 20 percent. His happen to be less than 10 percent and may rise to about 15.

Senator BENNETT. What happens in using your example—you use the itemized deduction in 1966. He had deductions of 16 percent in 1967 which he couldn't claim until 1968. What could he claim in 1967?

Mr. SURREY. Well, the difference—when you use the word “claim” so there is no confusion, you are talking about claim for the additional allowance?

Senator BENNETT. Yes, that is right.

Mr. SURREY. He could always claim the itemized deductions for his tax return. There is no bar there in computing his actual tax for the year. He always gets the correct deduction. So we are talking only about whether he believes he is eligible for this additional allowance.

Now, if his actual deductions in 1966, when he comes to file his tax return in 1967, show a certain amount, it is that figure which he would use on his claim for additional allowance, and we have a form prepared for that. He would use that figure unless he expected his deductions in 1967 to drop, in which case he should be using the lower figure.

Senator BENNETT. Let me see if I can say it back to you.

The taxpayer who uses the standard deduction method in 1966 wishes to change over to the other deduction method. He files his tax return on the 15th of April for 1966. He files it on the 15th of April. Therefore, he is not in a position to claim the higher deductions in January.

Mr. SURREY. He did not have a large amount of deductions in 1966. That is right.

Senator BENNETT. Well, perhaps he discovered that his deductions in 1966 were, in fact, higher than 12 percent, even though he made the mistake, or through carelessness or some other reason just filed for the standard deduction?

Mr. SURREY. When he comes to file his return in 1967 for the year 1966 there is nothing that prohibits him from using the standard deduction or itemized deductions. He then is in a position to look at his 1966 deductions and claim what actually happened. If his itemized deductions in the year 1966 came to less than 10 percent, he may claim the standard deduction because that will reduce his tax liability. If his itemized deductions in 1966 came to more than 10 percent, he will claim his itemized deductions and he will use that figure from his 1966 tax return to start the calculations that he will have to make on his claim for additional allowance. There will be nothing in 1967 that will keep him from entering the correct figure in his tax return for the year 1966, and in turn to use that correct figure based upon the 1966 deduction in computing his claim for additional allowance.

Senator BENNETT. Well, now, I am confused.

Mr. SURREY. I am sorry it turned out that way. You see, I think maybe the difference is we are talking about two things and I don't want to get that confused.

One is how he handles his claim for additional allowance for withholding purposes, which is only for withholding purposes.

Senator BENNETT. That it right.

Mr. SURREY. When he comes to file his tax return, he is in no way barred from computing the right amount of deductions regardless of what the claim was for the withholding allowance.

Senator BENNETT. But let's come back to the original problem and I probably confused it by my use of the word "claim."

Standard deductions in 1966, he wishes to change over to itemized deductions. He cannot do that until his 1967—until 1968. He can't change his withholding rate until 1968.

Mr. SURREY. That is right.

Senator BENNETT. After having used the standard deduction in 1967. Then what does he use in 1967?

Mr. SURREY. In 1967, for the purposes of withholding, he would, as the House report indicated, use the data from the 1966 return which would be the standard deduction. In filing his tax return for the year 1967, to compute the correct tax liability, he would use whatever the facts show for 1967.

If itemized deductions were larger than the standard deduction in 1967, he would use the larger itemized deductions.

Then in 1968, when he would make his appropriate claim for withholding allowances, he looks at his 1967 return. This is really just an illustration of the same fact that you asked me at the very beginning, what is the basis for computing deductions, and it is always the return for the last year's return.

Of course, the withholding system always gives you credit for at least 10 percent deduction. That is built into the system. And, as I say, the reason for this anchor in the House bill is just the desire to have some certainty when we start out with this system. The case you gave me is really an illustration where he thinks, that his deduction will rise, he may quite accurate, but in other cases he may be guessing. It is an example of that situation basically.

Senator BENNETT. Perhaps he obligates himself for a rather substantial loan and he knows his interest is going to carry the deduction involved. It is something that he can demonstrate definitely.

Mr. SURREY. Yes. In some cases, yes, and I think in some cases, no. In some cases he might believe that in April that there is going to be a medical operation which will cost him money. It turns out a month later they decide to postpone the operation for several years. Factors of that nature are sometimes hard to pin down.

Senator BENNETT. The House bill contains a floor amendment which purports to relieve overwithholding. Are you in favor of limiting overwithholding in general?

Mr. SURREY. The Secretary, in his statement said, "Yes." In other words, the Secretary in his statement said, while the House provision overall is complicated and there will be a period of adjustment to it, he thought it was an appropriate approach to moderate overwithholding. You will never be able to have a perfect system.

Secretary FOWLER. Do you want to go into the floor amendment?

Senator BENNETT. Yes. That is what I am talking about.

Mr. SURREY. On the floor amendment, the Secretary's statement said there are problems associated with the variation in that technique introduced by the committee floor amendment which we will be glad to discuss in the technical sessions. That variation involves added complexities and also produces underwithholding in some situations.

I think with respect to that floor amendment we would say that that was not an appropriate way to approach the problem. In other words, that addition does give us a number of problems and one of the princi-

pal problems is that it builds in underwithholding for a number of the people involved.

Senator BENNETT. Assuming that the committee is not sympathetic to your point of view and the floor amendment stays in the bill, wouldn't you think it more fair that the floor amendment goes only to the first withholding allowance, permits you to vary that basis down to a rate of half a percent rather than a full percent?

Don't you think if we leave that in the bill that we should apply that to allowances above the first allowance, assuming that a man's income justifies, say, two or three allowances?

Mr. SURREY. I do not think so, Senator, and I think when we get into the tables, you will see the problem. You see, the concern we have on the floor amendment is—and we can go into these tables later—you can run through the figures and you can get \$50, amounts of that nature of underwithholding, under the floor amendment. We think it is inadvisable to give taxpayers a system which they are led to believe will bring them out right so they will not owe any money at the end of the year, and then have them come to the end of the year and find that due to the mathematics of the system they are going to end up owing the Government \$50 or something like that.

Consequently, if there is to be any further reduction in overwithholding, we would like to discuss other variations with you rather than this particular mathematical approach.

Senator BENNETT. How does the withholding allowance work when a taxpayer receives bunch income in a year and uses the income averaging provision?

Mr. SURREY. Are you asking what withholding tax would apply to a particular bonus item or something of that nature?

Senator BENNETT. That is right.

Mr. SURREY. I think there is a special rule which takes account of that situation.

Senator BENNETT. What income does he use in the following year to measure his right to have an allowance established?

Mr. SURREY. He would use, I think, his total salary for the prior year, to my recollection.

Senator BENNETT. And ignore the—

Mr. SURREY. It would be total salary and wages for the prior year.

Secretary FOWLER. I don't think you ignore bonus. If he got that bonus and that is treated as wages, salary, income, that would be included.

Senator BENNETT. But here is a man in 1966 who gets a bonus and bases his overwithholding on it and next year he doesn't get the bonus. Then this is just an accidental case of overwithholding?

Mr. SURREY. These are problems that are going to occur just as if a person believed he is going to be employed for a whole year and isn't employed for a whole year. Nothing in this bill is going to be able to cure his overwithholding.

Senator BENNETT. Is it cured under the present law?

Mr. SURREY. No, sir.

Secretary FOWLER. You are going to have a very substantial amount of overwithholding and underwithholding continuing. But if you

look at the table on page 13 of the House report, you will note that there will be a very substantial reduction in a number of returns in which there is overwithholding or underwithholding. The so-called break-even number of returns will be substantially increased as a result of this bill and at the same time the order of magnitude of the overwithholding and underwithholding will be reduced substantially.

Senator BENNETT. That is what the chart shows but you are still left with personal problems of overwithholding and underwithholding.

Secretary FOWLER. We can't get away from them.

Senator BENNETT. My last question takes you into a completely different field. There have been two newspaper reports that have come to my attention over the weekend making the charge that the 1-percent increase in the automobile excise tax is there because the President said in his budget on page 111:

Legislation will be proposed to finance highway beautification costs by transferring to the trust fund receipts equal to 1 percentage point of the existing auto excise tax explicitly designated for that purpose.

Is this a situation in which the 1-percent excise tax isn't going to be available for Vietnam but is going to be taken out for the automobile highway trust fund if the President's proposal carries through?

Mr. SURREY. No. The two 1 percents are not at all related. As you know, there has always been a basic 1-percent floor on the auto tax. It is never going to be reduced to zero under the legislation of last year, under this legislation. There was some assumption in last year's discussions of the automobile tax, that the 1 percent might well have to be used for items associated with the automobile such as beauty, and I think that is the 1 percent that is being talked about in the budget.

The 1 percent that is being talked about here is the drop that occurred in January from 7 to 6 percent.

Senator BENNETT. Then to say it another way, whether we pass this bill or not, there is 1 percent in the automobile excise tax which it is expected will be devoted for this purpose?

Mr. SURREY. That is right.

Senator BENNETT. Then there is just a coincidental relationship between the two figures of 1 percent?

Mr. SURREY. That is certainly right.

Senator BENNETT. It is clear to me but I raised the question to get it into the record so that it would be clear to other people who may be confused by this charge.

Thank you, Mr. Chairman.

Senator DOUGLAS. Senator Hartke, have you had a chance to ask any questions?

Senator HARTKE. I have, but if Senator Smathers wants to go ahead, it is all right.

Go right ahead. I am willing to wait.

Senator SMATHERS. You may ask the questions I was going to ask.

Senator DOUGLAS. Senator Hartke?

Senator HARTKE. Mr. Secretary, over the weekend there have been quite a few statements issued, not only with regard to the war, but also in regard to financing this war.

Without regard to how you are going to conduct the military end of the war, do you think—there are some good friends of yours, Mr.

Samuelson, Mr. Heller, Mr. Rowan—all have indicated that the time is way past for you to put off the request for increase in taxation.

Do these statements have any influence upon your opinion as to whether or not we should put aside this bill now and really take up the big issue of how we are going to pay for a 3- to 7-year war as the President indicated on Saturday?

Secretary FOWLER. I do not believe they change the position that I have taken up to now, Senator Hartke. The important thing to do now is to enact this legislation as quickly and as definitively as possible and deal, as my statement to the committee indicated, with future developments as those future developments occur.

I did include in my presentation to the Joint Economic Committee earlier this month a rather detailed statement on various proposals that had been made that we come forward now with enlarged tax proposals, with more monetary policy, or with harsher restraints of another character. Rather than take up the time of this committee, I would simply say I stand on my previous position. However, I would like to include my statement before the joint committee as a detailed exposition of why I take that position.

(The statement is as follows:)

SUPPLEMENTARY STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY, BEFORE THE JOINT ECONOMIC COMMITTEE, FEBRUARY 3, 1966

During these hearings members of the committee have expressed their concern about the threat of inflation. The administration shares that concern. Its actions on the Government employee pay raise in August, the steel settlement in September, and the aluminum, copper, and steel price situations this past fall, as well as its current budget, bear witness to this concern.

There are those who propose that the administration come forward now with a program to enforce much harsher restraints on the economy than those now in effect or proposed in the President's budget. The administration disagrees with the premise that more needs to be done now. However, it welcomes the putting forward of any specific proposals since they may add to the range of contingency planning in which it itself is engaged. Indeed, it suggests that the House Ways and Means Committee or this joint committee study, review, and recommend the type of tax increases which would be most suitable if inflationary pressures require additional fiscal action.

First, let us be very clear as to the position of the administration in the uncertainties that the situation in Vietnam makes inescapable. The President has given to the Congress an unqualified commitment that "Should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability." He has pointed out that "The extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power over wages and prices." This is our answer to those who ask, "Will the Government go for tax increases later this year?"

Second, the administration does not believe it is wise to impose measures of restraint on the economy in addition to those in effect or proposed in the President's budget and Economic Report unless or until the "unforeseen inflationary pressures" develop.

We have seen too many expansions turned into recessions by slamming down too hard on the brakes. We have seen too much unemployment and underemployment too long to cut back drastically and unnecessarily on private demand to provide purposefully an idle reserve of manpower and capacity. We advocate a course of moderation and balance in dealing with any danger of economic excess as we have advocated moderation and balance in curing economic deficiency.

The national economic objectives as set forth in the Employment Act of 1946, under which this committee functions, provide that "It is the continuing policy and responsibility of the Federal Government to use all practicable means * * *

for the purpose of creating and maintaining, in a manner capable to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

This administration includes price stability as a goal to be sought along with these more particularized objectives of full employment and a healthy rate of growth. It believes that there is a fundamental compatibility of these three objectives and that in seeking one of them it is unwise to sacrifice the others. If one objective, such as price stability or full employment, is sought with the utmost rigor without concern for the others, this is not wise national policy.

Of course, from time to time very special situations may force one economic objective to move ahead of the others. It is quite conceivable that the threat of an inflation of such size or duration might cause stabilization of the price level to be given top priority. These black and white situations seldom occur. The more usual task is to seek price stability, growth, and high employment simultaneously and in a reasonable degree. The challenge today is to find the mix of monetary, credit, and fiscal measures best designed to achieve all these objectives, recognizing that public policies will not be adequate if some groups who enjoy and exercise substantial market power choose to push up or maintain prices or wages at unwarranted levels.

Against this background let us look at the present situation objectively and carefully with a concern that we press toward all these goals rather than become preoccupied with a single one. In this calendar year 1966 restraints which did not characterize 1965 have already been imposed upon the economy. Beginning in January an extra \$6 billion a year in social security and medicare taxes is being withdrawn from private purchasing power to flow into the trust funds. This was not true of December 1965, or November, or October.

In December 1965 the Federal Reserve Board announced two actions designed, in its words, "to dampen mounting demands on banks for still further credit extensions that might add to inflationary pressures." The full effect of these actions, which take a considerable period of time to be felt, is yet to be ascertained.

The new tax proposals recommended by the President, if adopted by March 15 as he urged, would withdraw from private purchasing power an additional \$2.9 billion during calendar 1966.

The shift in the budgetary situation from substantial deficits in fiscal 1966, brought on by the response to the challenge of Vietnam, to surpluses or minor deficits in the administrative, cash and national income account budgets has been made possible by expenditure reductions coupled with the new tax proposals.

Coming onstream in 1966 are vast quantities of new industrial capacity which are the fruits of investment made in recent years. Coming into the labor force are a million and one-half additional new entrants from the younger age group and, in addition, many hundreds of thousands are being given the benefit of manpower training to better equip them to fill the needs of the labor market. And, of course, the dwindling rate of unemployment is stimulating renewed effort in the private sector to train and better utilize the available labor force.

Given all these new factors the wise course of balance and moderation in pursuing continued growth, a higher rate of employment and relative price stability would seem to call for determining how the economy reacts to this new mix of relatively moderate restraints before adopting without apparent present reason the far harsher measures—presumably increased tax rates, direct price and wage controls, and much tighter monetary restraint.

Senator HARTKE. What is the date of that report?

Secretary FOWLER. February 3.

Senator HARTKE. That is February 3. Do you think that the attitude of the administration has changed since February 3 with regard to the anticipated length of this encounter which is now referred to as a war in South Vietnam?

Secretary FOWLER. No, sir. As I read the President's statement to the press on Saturday, the situation is very much like the statement on page 10 of his budget message—in which he outlined the uncertainties

that are inherent in the present situation and then concluded with the note that:

If, on the other hand, events in southeast Asia so develop that additional funds are required, I will not hesitate to request the necessary sums. And should that contingency arise, or should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability.

I think that that statement, made in his budget message on January 25, is, as I understand it, very much the same as the statement he made Saturday to the press.

Senator HARTKE. Well, is there any contention within the administration from any source with which you have talked—and I am not asking you to reveal any military secrets or any security information—is there any information of any nature whatsoever that there is an impending negotiation, that there is an impending settlement of this situation in Vietnam, that there is an impending holding of the cost to the rate at the present time, or that which was being consumed last month, for example, or the month before?

In other words, what I am asking you, do you have any information whatsoever which would justify us to plan militarily for a 3- to 7-year war and to plan financially for a 6-month war?

Secretary FOWLER. In this particular budget, and in the proposals before this committee, we are not planning for either a 6-month war, a 12-month war or 3-year war. We are planning for the period covering the fiscal year 1966, and fiscal year 1967, on the basis of facts as they were known to the President and budgetary authorities when the budget went to press.

To my knowledge, as I said to you the other day, there has been no change in those budgetary estimates in roughly the last month.

Senator HARTKE. Mr. Secretary, is the report which was printed in the papers that there is at the present time in the Defense Department preparation of the material asking for an additional supplemental for 1967 already being prepared; do you have any information with regard to that whatsoever?

Secretary FOWLER. No. To the question, Senator Hartke, of whether the 1967 budget provides for the situation as we see it now—I specifically asked the Director of the Bureau of the Budget whether the 1967 budget provides for any escalation in the Vietnam activities as we currently foresee them. I discussed it with him, and he has provided me with the following answer:

Insofar as financing the Vietnam conflict is concerned, quite obviously the 1967 budget had to be put together under conditions of uncertainty. In this budget we have fully provided for continuing the conflict without any dramatic changes in the current level of intensity through fiscal 1967. At the same time, the budget does provide the forces and equipment for an immediate response to further possible step-ups in activity. However, should the level of intensity of the conflict substantially increase, financing at higher level may require additional funds. Should such a situation develop, we will promptly ask the Congress for such funds and accompany that request with appropriate fiscal measures to maintain economic stability.

What I would like to stress—

and I continue the Budget Director's comments to me—

is that we have met these uncertainties as straightforwardly as we can. On the one hand, fully providing for the necessary financing to meet the future as we can best see it now, and frankly, telling the people and Congress that the uncertainties of the situation may require additional action.

Now, I just cannot look beyond that.

Senator HARTKE. Well, now, what was the date of that question and that answer?

Secretary FOWLER. This was in connection with my coming before this committee and knowing that there would be questions on this subject.

Senator HARTKE. Last week?

Secretary FOWLER. That is right. I assumed there would be questions of this nature presented to me.

Senator HARTKE. This is a rather involved answer.

Mr. Chairman, I do not know whether the chairman has this information, but has the Budget Director been asked to appear on these hearings?

Senator DOUGLAS. Not that I am aware of.

Senator HARTKE. I would think in view of this statement and in view of the uncertainty expressed by the Secretary here as to this position, that it would be appropriate for the Budget Director to hear him and give us an amplification of whether or not we are preparing for a long struggle here and going to finance a long struggle, or whether we are going to finance one for 6 months to a year. In other words, the President's message is 3 to 7 years. I think we have to know how we are going to pay for this war.

Secretary FOWLER. Senator Hartke, I knew——

Senator HARTKE. Just a minute.

Senator DOUGLAS. I would suggest that that suggestion be withheld until we meet in executive session rather than passed upon in open session, and at a time when the chairman of the committee can be present.

Senator HARTKE. Let's take the statement for what it is. It is very difficult to take a written answer to a question submitted by a witness and then try to find out what the person who gave the answer really meant. I think it is very difficult, but we will try the best we can.

Now, he says that at present levels, to continue the effort at present levels, is I think the wording you gave me, and I don't have a copy of it, but I assume that is what it said, and with no escalation, does that mean——

Secretary FOWLER. No. The question was, "Does the 1967 budget provide for any escalation in Vietnam activities?" One sentence goes to your point. It says:

At the same time, the budget does provide the forces and equipment for an immediate response to further possible step-ups in activity.

So there is some margin provided for additional escalation. However, it contemplates that there might be further developments that will require further financing.

Senator HARTKE. This is what I am trying to find out. Senator John Stennis has made the remark on the floor of the Senate that we will have 600,000 troops there by the end of the year. What I am trying to find out, does this present request by the Treasury in its tax proposal, is it sufficient to cover for 1967 400,000 troops, 205,000 which we have now, or the 600,000 which Senator Stennis mentioned in his floor speech?

Secretary FOWLER. I have no knowledge as to the magnitude of troop commitments that the present budget would cover. I can only—

Senator HARTKE. Does the Secretary of Defense give us any idea as to whether or not the nature or the amount of additional financial requirements that are going to be entailed by the so-called continuation of the effort at the present levels?

Secretary FOWLER. I know the Secretary has been appearing before various committees. I am not able to—

Senator HARTKE. He didn't appear before the Foreign Relations Committee. He refused to appear in public. I don't know whether he is going to appear in private. I think maybe possibly—

Secretary FOWLER. It is my understanding that a number of very detailed statements have been made by the Secretary of Defense to the Armed Services Committee. What I am saying is that I am not familiar with the comment in those statements as to the magnitude of the forces that would be funded by the budgetary request in 1967.

Senator HARTKE. I do not want to become involved in security measures and I am not asking for statements now, but I am asking you as a matter of fact does the Treasury Department consult with the Department of Defense on these matters? Do you have in your Cabinet meetings, does the amount of money which is going to be required to pay for this operation, is it discussed or is it not discussed, or is there a communication between the Departments in this field?

Secretary FOWLER. Communication between the Departments in this field, Senator Hartke, primarily flow through the Bureau of the Budget in the President's Executive Office. Insofar as the expenditure projections are concerned, and insofar as trying to meet those expenditure projections with revenue, we deal with the Director of the Bureau of the Budget and not collaterally with the various departments and agencies concerned.

Senator HARTKE. In other words, what you are saying is they tell you how much money to raise and you are supposed to find out how to raise it?

Secretary FOWLER. That is correct.

Senator HARTKE. Is that fair?

Secretary FOWLER. And the Bureau of the Budget is the coordinating arm to bring in the estimate on expenditures from the many departments and agencies concerned, including the Department of Defense. Therefore we do not have any day-to-day, or week-to-week, detailed exchanges collaterally with the individual departments.

Senator HARTKE. Mr. Chairman, just for the sake of the record I would like to again put forth the proposition that this is another indication why it is very necessary that the Director of the Budget appear before this committee, and I want this noted at this time so it is not indicated that it was passed up, that the opportunity was passed up. I don't want to waive any rights in this regard.

Senator DOUGLAS. When the committee meets in executive session, and when the chairman of the committee is present, I think it would be very appropriate for you to raise that matter.

Senator HARTKE. Now, in this regard, though, we have the past to look to and the same question of communication and how this Govern-

ment coordinates its war plans with its finance plans for the war presents some problems in this specifically last year when we had before this committee a war which possibly accelerated during the year at a gradual but steady rate. When was the first time that the Treasury was notified by the Budget Bureau that there was going to be a substantial increase due to the escalation of the war, and therefore a substantial increase in the deficit which would have to be financed by borrowing or increased taxation?

Secretary FOWLER. I don't recall the precise date, Senator Hartke, but my recollections are that following the announcement of the Presidential decisions on July 28, 1965, we became aware, in general terms, as did the American people, and the Congress, that there would be substantial increases in the financial requirements. The general order of magnitude, and the amounts, were not known, I don't believe even to the Secretary of Defense, until many months later.

Senator HARTKE. Well, we did know as far back as August, at least, of 1965, in the hearings which were held at that time, that we were going to have at least an additional appropriation of \$1.7 billion at that time, which means that before August somebody had to know or surely knew in the Government someplace that this was the immediate request, and we also knew at that time that that was not going to be sufficient, that we were going to have to have a substantial increase above that amount.

Isn't that true?

Secretary FOWLER. I think in August and in September, Senator Hartke, everyone in the country knew that there would be substantial requirements. As I recall it, the \$1.7 billion, special appropriation was for the so-called long leadtime items that Secretary McNamara identified when the orders had to be placed long in advance in order to meet possible contingencies that might arise.

Senator HARTKE. Well, the information certainly should have been known at least in the Defense Department. They had to know sometime before those hearings in August that this additional amount of \$1.7—that amount had to be put together before it was sent to Congress, and it was done in August, isn't that right?

Secretary FOWLER. I don't recall the date in August, but it was done in August, to my recollection.

Senator HARTKE. August 1965. Now, then, after that, of course, they said at the time of those hearings it was clear that the \$1.7 was only a part of the financing—I am speaking about financing now—required for the 1966.

Isn't that true?

Secretary FOWLER. That is right.

Senator HARTKE. Now, at that time did the Defense Department notify you that in any amount whatsoever, give you any estimate of how much more they were going to have to spend?

Secretary FOWLER. No, sir.

Senator HARTKE. Did the Budget Bureau give any estimate as to the additional amount?

Secretary FOWLER. No. The general impression that I obtained from the Director of the Bureau of the Budget was that there would

be a requirement for substantial additional outlays and that the budgetary problems for fiscal 1967 would represent quite a change in budgetary outlook from what had been previously contemplated. I began to say at that time that the first casualty of Vietnam on the economic front was the prospect of further tax reductions that had been under some discussion prior to that time. I think you are familiar with the general statements and comments that were made during the fall and that this new situation would call for a new budgetary approach which would preclude any possibilities of tax reduction. Whether or not it would require tax increases, or some of the devices that are employed in this bill, naturally depended on the amounts that would ultimately be determined as necessary to meet requirements of Vietnam as well as what would happen to the other parts of the budget—the sector of the defense budget not related specifically to Vietnam, to the other departments and agencies of the Government, and to other expenditure programs of substantial magnitude.

Senator HARTKE. Let's come on back. In other words, we had their recognition at least that it was going to be substantially more than 1.7, isn't that true? Before we adjourned the Congress. And immediately following the elimination of the excise taxes which are now being asked to be reinstated. Isn't that true?

Secretary FOWLER. While we are on that particular subject, may I say that in the hearings before this committee last June 8 and 9—when the question came up about going beyond the administration proposals on the automobile tax—I was asked specifically by the committee whether we favored the House bill which went 4 percentage points beyond the administration proposal. We said that we did not favor the House bill and that we hoped the lesser reduction would be acted upon by the Congress. There were a number of questions and answers about holding off on that. Now—

Senator HARTKE. Let me ask you, Mr. Secretary, you have the record there and it certainly ought to reveal this if it is true. Was that holding off request being made on the reduction of automobile taxes made on the basis of information that you had received?

Secretary FOWLER. No.

Senator HARTKE. The cost of war was going to escalate.

Secretary FOWLER. No, it was for various reasons. For example, Senator Long said:

Mr. Surrey, if during the next:

I quote from page 30—

if during the next 2 or 3 years we should run into an emergency situation, in other words, suppose the war in Vietnam got to be a hot war and we got engaged in other areas where we had to raise a lot of additional revenues, would this very tax here on automobiles be one of those that you might very well have to recommend either putting back on or further deferring the cancellation of in the event that we had voted to take only 5 points off?

Mr. Surrey replied;

I think so, Senator. As I indicated this is a tax where the revenue is large, but it is the kind of tax where to collect that large amount of revenue is no particular burden on the manufacturer involved and no particular burden on the Internal Revenue Service.

Senator HARTKE. The burden is only on the people who buy the cars.

Secretary FOWLER. That is right.

Senator Long goes on to say:

In the event we don't go along with the House in this particular matter, do you see any impediment to our deciding at a later date if the thing works out the way we hoped it would and the economy continued to prosper, to repeal this tax and phase it out the way the House bill recommends?

Mr. SURREY. No, I don't. That is our position that future Congresses can take a look at this, make up their mind in the light of the situation at that time.

And there were similar exchanges looking to the prospect that there may be a designation.

Senator HARTKE. The whole point about it was at that time none of the action taken in front of the committee was based upon information which you had received from the Department of Defense directly or indirectly, either from the Secretary of Defense or from the Director of the Budget, is that correct?

Secretary FOWLER. That is correct. And I think in the House hearings on the excise tax bill, the then Director of the Budget, Mr. Kermit Gordon, appeared and testified concerning the posture of the budget and the expenditure outlook as he saw it at that time. He said that he felt that the \$700 million additional military appropriation that had been proposed in May could be taken care of by other economies in the budget.

Senator HARTKE. All right. Now let's come on back to this thing.

Secretary FOWLER. I think that was the debt hearings, Senator Hartke.

Senator HARTKE. After the excise tax had been acted upon in the Congress, did the Director of the Budget at any time ever tell you the magnitude of the deficit which was anticipated for fiscal 1966 before Congress adjourned?

Secretary FOWLER. My recollection, Senator Hartke, is that he gave me a clear indication that we would have a very serious budgetary problem for fiscal year 1967, which we would have to take very heavily into account in the preparations for the 1967 budget and in trying to hold down the expenditure levels in the fiscal 1966 budget. Various questions were up at the time. For example, the question of the civilian pay bill, as you remember, was up, and that was a serious consideration because of its impact on the 1966 budget, as well as the 1967 budget—and the President took the position that the bill as passed by the House was not acceptable.

Senator HARTKE. I am willing to listen to these long answers and these other little items that you want to drop in. That is perfectly all right. But I would like—what I am trying to establish right now, I am going to tell you what it is. I am not trying to beat around the bush. What I am trying to find out very simply is where the line of communication broke down and just when it broke down and when it was reestablished, if it has been reestablished, in regard to the cost of this effort in Vietnam. That is, where in a period of time from the time when we came in here and reduced the excise taxes upon the recommendations of the administration with very serious charges that these were regressive taxes, that they were on the board, that they were the type of taxes which absolutely were, in the opinion of the

administration generally, the type of taxes which should have been abolished a long time ago, all of which I agree with, incidentally, but I am trying to find out when the change of attitude occurred and when the information change occurred. What I am trying to find out is simply this. When if at all did the Director of the Budget indicate the size of the financial problem for fiscal year 1966? Was it before Congress adjourned, in the interim between Congress' adjournment and the time that the President made his state of the Union message, which was the first public declaration? Was it after the state of the Union message immediately following the time we had that information? Where in point of time was the information first transmitted from the Budget Bureau to the Treasury Department which has to finance the governmental expenditures? Where did this occur? When did the magnitude of the deficit occur?

Secretary FOWLER. The order of magnitude, Senator Hartke, as I have indicated before, could only be determined in connection with the budgetary process as reflected in the President's budget document. What the exact order of magnitude of these figures—the increase in military requirements—would be, what their incidence would be, when they would have their impact, where matters that all had to be developed and presented in connection with this budget document.

Now, we were all aware following the President's statement on July 28, and following the presentation of the appropriation of the additional \$1.7 billion, that there would be very substantial additions to the 1966 budget and over and beyond that, into the 1967 budget. But precisely what those magnitudes were, and what the timing was on when they became known, you would have to get from the Secretary of Defense. I don't have it.

Senator WILLIAMS. Would the Senator yield at that point?

Senator HARTKE. Just a moment. I might suggest in view of this statement that possibly the Secretary of Defense could come here and testify on figures and statements on finance, because we are expected here to—not on procedures, not upon the war strategy, but how you are going to finance this war which the President has indicated now is planned for a 3- to 7-year war, that possibly he should be, and I think this would be a matter of discussion in executive session.

Senator DOUGLAS. The Senator from Indiana can propose that in the executive session. The acting chairman will merely remark that the Secretary of Defense testified before the Armed Services Committee, though he has not testified before the Foreign Relations Committee. He had certain communications. Now, if we call these men before every committee of the Congress which has any tangential relationship to the subject, the administrative officers won't have time to do any work at their desks, and while I appreciate the suggestion of the Senator from Indiana, I think it very properly could be decided by the committee as a whole. I ask that we have a certain compassion for these hard-pressed Cabinet officers.

Senator HARTKE. With all due deference to the acting chairman, I might say this. It wasn't this Senator that suggested those facts would have to be secured from the Secretary of Defense. It was the response to the question made by the Secretary of the Treasury that if

these facts were wanted, they would have to be secured from the Secretary of Defense. Maybe we can have one of his assistants come on in. I am not—maybe he has a budget director down there. Certainly somebody down there ought to be willing to tell us about what we are expected to pay for. I think we have an obligation to this country to tell the truth about how much we are going to be spending here and how we are going to pay for it.

Senator DOUGLAS. What is—

Senator DIRKSEN. Will you yield?

Senator HARTRE. The Senator from Delaware asked me to yield. I will be glad to.

Senator WILLIAMS. I was just going to ask this question, Mr. Secretary. When you discovered last, you said, July and August that there had been an acceleration and that you were going to be confronted with these problems, why did you not come down to the Congress and ask for cancellation of the tax reductions that you had proposed in June and the ones that were scheduled to go into effect January 1, rather than let them go on again and off again as you are now doing?

Secretary FOWLER. They are not going on again and off again, Senator.

Senator WILLIAMS. They are not?

Secretary FOWLER. We are not asking that the excise taxes that were repealed by the Congress and went completely out of our tax system on July 1 or January 1 be restored.

Senator WILLIAMS. Is that the reason you call this an adjustment back rather than a tax increase?

Secretary FOWLER. I didn't coin that name. That was coined in the—

Senator WILLIAMS. By the Great Society?

Secretary FOWLER (continuing). In the House Ways and Means Committee. You will have to ask them their reasons for the title of the bill.

Senator WILLIAMS. I will pursue that a little later. Go ahead, the Senator from Illinois.

Senator DIRKSEN. How many outstanding issues of Federal bonds will we have to refinance in fiscal 1967, if you have got a round figure? And you can correct later if you want.

Secretary FOWLER. In order to be completely accurate on that, Senator Dirksen, I would like to supply that for the record. We will, of course, have to regularly turn over 3 month bills, 6 month bills, and yearly bills as they mature. Insofar as major financing problems are concerned, I think it is fair to say that we have broken the back of our problem as we see it in the months ahead by the February financing which took out a very substantial portion of the issues that were coming due in April, May, and August, in addition to the notes maturing in February. There were five issues there. Therefore, instead of having to go into the market to refund very sizable public holdings in May and August, by the advance refunding those have been substantially reduced so that their order of magnitude is not such as to cause either any concern to us or to the market.

Marketable securities maturing in fiscal year 1967 as of Jan. 31, 1966

[In millions of dollars]

	Total	Held by	
		Federal Reserve and GIA	All other
Certificates, notes, and bonds:			
1966:			
Aug. 15:			
3-percent bond ¹	690	48	651
4-percent note ¹	8,441	5,875	2,566
Oct. 1: 1½-percent exchange note.....	357		357
Nov. 15:			
3¾-percent bond.....	1,851	238	1,613
4-percent note.....	2,254	566	1,688
4¾-percent certificate.....	1,652	1	1,651
1967:			
Feb. 15:			
3½-percent note.....	2,358	313	2,045
4-percent note.....	5,151	3,222	1,929
Apr. 1: 1½-percent exchange note.....	270		270
May 15: 4¼-percent note.....	9,748	6,788	2,960
June 15: 2½-percent bond.....	1,430	152	1,278
Subtotal.....	34,211	17,203	17,008
Weekly and annual bills:			
3-month bills.....	16,024	9,443	44,614
6-month bills.....	26,025		
12-month bills.....	12,008		
Total.....	88,268	26,646	61,622

¹ Adjusted for Feb. 15, 1966, exchanges.

Senator DIRKSEN. The reason for the question, I see a figure in a financial sheet that the larger banks certainly are loaned up to 63 percent of balance, both time and demand. Now, if that is true, that is probably the highest percentage of bank loans in the history of the country, and it would mean that if you don't have a tight money policy, we will certainly have—if you have a tight money policy your interest rate on refinancing will be higher. Now, I have seen speculations here. Treasury may have made as much as 5½ percent before they get through. If that is the case, then the amount would be substantially higher actually than the figures show.

Secretary FOWLER. It might well be, Senator. That would depend, as you say, on the trend of the money market. We did take advantage of a good market opportunity that existed in late January and early February to achieve some moderate debt extension and lighten the nearby calendar of financing, that is, through the spring and summer. But events will simply have to determine what the situation will be in the fall and in the winter. Your surmise about it might turn out to be correct. On the other hand, I would not want to venture any agreement or disagreement with that particular assumption. We think we are in fairly good shape as far as our financing needs are concerned over the next 6 months, and we believe that with this February financing behind us, and with the benefit of this bill, should it be enacted, we will be in fairly good shape.

Senator DIRKSEN. One other thing. In the budget you show \$9.7 billion for net interest paid in 1967, and you use the word "net" because you accepted with the interest received by States and subdivisions and individuals.

Now, heretofore I have no recollection that we used the term "net interest rate" and extended it so that the interest on the public debt as of now—

Secretary FOWLER. The expenditure for interest is set forth in various places in the budget document, for example, on page 19 in the table "Payments to the Public." The estimate for interest fiscal year 1967 is \$12.9 billion.

Senator DIRKSEN. Thank you.

Senator DOUGLAS. Are there any other questions?

Senator SMATHERS. I would like to ask three short questions, if I may, Mr. Chairman.

Senator HARTKE. I am perfectly willing to wait. I will yield to the Senator from Delaware and to the Senator from Illinois. I will be glad to go ahead and waive my time if the Senator from Florida wants to ask questions. I want it first understood that I am not trying to take anybody else's time. I sit down at this end of the table and—I will take my time whenever it comes to me.

Senator WILLIAMS. After the Senator from Indiana gets through I will have a couple more questions to ask.

Senator DOUGLAS. The Senator from Florida.

Senator SMATHERS. Mr. Secretary, with respect to the reasons why you took this approach to meet the increasing demands of the cost of the war in Vietnam rather than the investment credit repeal, can I ask you this question. If you had followed the investment credit repeal rather than this particular approach, how soon would any money have come into the Treasury for the purposes, we will say, of financing the war in Vietnam?

Secretary FOWLER. It would depend upon the way in which the suspension or repeal were enacted. I believe, in fairness to those who had initiated expansion plans, placed orders, and commenced projects in reliance on the investment credit which is available to them when they complete the project, that Congress would provide an exception for projects which are underway. Assuming that that would be the judgment of Congress, we would not reap any revenue benefits from the suspension of the investment credit of any general magnitude during this fiscal year under the formula of Senator Gore's amendment. According to our calculations, in the next fiscal year we might receive benefits of about a billion dollars.

Senator SMATHERS. So, then, the answer is that if we followed the repeal of the investment tax credit, there would not be any, in your judgment, additional revenue to the Government this year.

Secretary FOWLER. For fiscal 1966 gain would be zero on the repeal as provided in Senator Gore's bill. We may be a little high on our estimate for 1967. We are recalculating it now.

Senator SMATHERS. Now, when you decided to make this recommendation to the Congress was one of the conditions, upon which you based this judgment, that this particular recommendation would lessen the demand for goods which apparently are now going into short supply? In other words, was your purpose also one of dampening what you might say was the beginning of the fires of inflation?

Secretary FOWLER. The general bill as a whole had two rationales.

The primary rationale, and the one on which I think there is the most emphasis, is that we need this money in order to finance the costs of the war in Vietnam.

Senator SMATHERS. Right.

Secretary FOWLER. A secondary consideration is that the consequences of the bill will, and I make no contention that it is a harsh measure, will be that in a moderate way it will tend to restrain the growth of demand. The drawing out of revenues from private purchasing power, which under this bill in the calendar year 1966 will be in the order of magnitude of about \$2.7 billion, will have some restraining effect on the economy.

Senator SMATHERS. Now, the third and last question. Was it your belief, and it is your belief as I understand it, that the investment tax credit actually is an incentive for the building of more capacity so that there will be a greater supply of goods which would mean that there would be less pressure for increased prices, and less likelihood of inflation?

Secretary FOWLER. That is very definitely one of the reasons why we did not choose the investment credit approach. We also have to keep in mind as an important consideration that our balance of payments is still a continuing problem. As I just indicated in response to questions by Senator Talmadge, it will continue to be a long-term problem.

Therefore, we want to keep our economy as efficient and as competitive with other economies as possible. As you will recall, one of the original purposes for enactment of the investment credit was to encourage investment in facilities and machinery that would increase productivity and maintain it at a very high rate.

Senator SMATHERS. In the United States?

Secretary FOWLER. In the United States.

I would like also to observe in connection with this, just as a general comment, that when you have an expansion in demand, the best way to meet it is to expand supply, which means expanding facilities. As you will recall, during World War II and the Korean war, in order to expand many of the facilities that you might say are induced by the investment credit, Congress made special emergency tax amortization processes available.

In my response to your inquiry, Senator Smathers, on Friday as to desirability of suspending the investment credit, I indicated some of the reasons why we considered such a suspension to be unwise. I would like now to recapitulate and supplement the points made in our previous discussion.

1. The investment credit is a sound, long-range measure which provides incentives for expansion and modernization of our productive capacity.

2. The credit encourages technological advance and the introduction of more efficient processes, which increase our productivity and enable the economy to deal with the periodic wage increases which are characteristic of our economy without price increases.

3. In this way, as well as by making investment here more attractive, the credit helps us to deal with our balance of payments.

4. The investment credit is not suitable as a short-range restraining measure—cash flow or revenue effects are delayed. The credit be-

comes available as the investment project is completed. As a matter of good faith and fairness, a suspension would have to provide an exception for projects already underway or contracted for prior to the effective date. The impact of the suspension in terms of both raising revenue and restraining the cash flow to investing business would therefore be delayed by a considerable period, reflecting the leadtime involved in most investment activity. The real impact of the suspension might not hit us for a year or so following the effective date of the suspension.

5. **Leadtime in modern investment involves more than contractual commitments:** In this connection, I would point out that in taking action to suspend the credit, even if prior "orders" or contractual commitments were excepted, considerable injustice and disruption would be caused to businesses which have already gone ahead with "in-house design" and other preparatory activities for making new investments. Leadtime, viewed realistically, often involves various steps including extensive plant design carried out by the investing business itself. Suspending the credit on projects on which extensive preparatory work has been done may involve about the same losses or penalties to taxpayers as cancellation of an outstanding contract. For obvious reasons, however, it would be difficult to draft a suspension provision which would take care of investment already started in the sense described here.

6. **Problem of unused credit carryovers:** Businesses are allowed a 3-year carryback and a 5-year carryforward of unused credits—denied currently by the 25 percent of tax and related limitations. Substantial unused credits have accumulated, possibly at the rate of \$300 million a year. It would be harsh to deny the use of the unused credit carryover if the current credit were suspended. Removing the credit currently would increase the availability of substantial amounts of credit carryover. The exact amount of this effect is difficult to estimate, but it could potentially cancel a considerable part of the revenue effect of a temporary suspension.

7. **Suspending the investment credit may hit the small plants hardest:** The available evidence indicates that the investment leadtime, including design and procurement, varies directly with the size of the plant. Productive facilities for equipping small plants can be designed and completed in a fraction of the time required for large facilities. Temporary suspension of the credit would thus hit small plant construction soonest and hardest. The equipping of large plants already contracted for could go on for a longer time, still receiving the credit on completion, and large plants could be started after the effective date of the suspension, looking forward to completion after the date the credit is restored.

8. **Return of uneconomic "repair and maintenance" of outmoded equipment:** The credit has apparently been helpful in discouraging previous practices of repairing antiquated equipment to eke out its industrial life. Prior to the credit, taxpayers often preferred to spend money keeping the old machine going, partly because they felt they could get current tax deductions for these outlays. The investment credit tipped the balance in favor of getting modern equipment. Suspension of the credit may send many businesses back to the uneconomic

repair and maintenance practices so that their expenditures can be expensed for tax purposes. This would not only be bad for our technological progress but also would involve demands on the economy and revenue decreases which would offset both the economic restraint and revenue contribution of suspending the credit.

9. Suspension of the credit might prove to be most effective in curtailing the type of investment that makes the most anti-inflationary contribution: Suspension of the credit would operate most promptly and effectively on equipment which has a short leadtime between order and delivery and which bunches its contribution to production within a short period of time (that is, has a relatively short useful life). This type of equipment would help round out productive capacity in the next year or two. On the other hand, the long leadtime equipment with a long useful life would be much less affected by suspension of the credit because completion could be scheduled 2 years or so hence, when the credit was to be restored.

10. Suspension of the credit would create imbalance in the 1966 revenue program and apply too severe a restraint on investment: The program provided in the bill before the committee relies heavily on restraint of corporate cash flow and liquidity to apply a moderate restraining factor on the economy. Of the \$4.8 billion revenue total for the fiscal year 1967, \$3.2 billion, or about two-thirds, is derived from the acceleration of corporate tax payments. This in itself will provide a moderate and salutary restraint on investment. The other increases in revenue affecting purchasing power generally will also operate to moderate expansive investment activity. If a suspension of the investment credit is added to the program, it will concentrate too much on the business sector and run the risk of slamming on the brakes too hard.

Senator SMATHERS. I want to yield to the distinguished acting chairman at this point.

Senator DOUGLAS. I would merely like to remark that there is an ironical paradox and contradiction between the monetary policy of the Federal Reserve Board and the Government on the one hand, and the tax policy of the administration on the other. The effect, of course, of increasing the interest rate initiated by the Federal Reserve Board but now acquiesced in and approved by the Treasury, is to restrain investment, and that was certainly one of its purposes, to restrain investment by increasing the cost of long term borrowing.

But on the other hand, now the Treasury defends the investment credit refund on the ground that it stimulates investment.

Secretary FOWLER. Once—

Senator DOUGLAS. Just a minute. I think I have got a bon mot here coming that I don't want to cut myself off. It reminds me of the character in Stephen Leacock's story, who mounted his horse and rode off in all directions. The front legs of the horse restraining investment, the rear legs of the horse stimulating investment, and the horse itself being torn in two by these conflicting forces.

Secretary FOWLER. If I could put a slightly different version on this, Senator, it would be this. We accept the fact that the corporate acceleration will cause a review of marginal investment projects on the part of the 16,000 companies affected, and may result in some modest

or moderate reevaluation of whether or not they should be carried through. This is an incidental result of the corporate acceleration. The purposeful result of the corporate acceleration was to acquire the additional revenue in a very substantial amount to help bring the budget into more approximate balance.

Senator DOUGLAS. The Senator from Indiana.

Senator HARTKE. I think the Senator from Illinois has put his finger on what I was eventually going to come back to, and it is all right with me that he has done it very quickly, and that is the fact that there seems to be a lack of communications here. I want to find out when we can't put that back together and have people start talking to each other in the administration so that we have the corporate acceleration holding back investment, we have the increase in the interest rate by the Federal Reserve Board holding back investment, and here we have the retention of the investment credit to increase investment.

I just wonder if these policies are discussed or whether there is some explanation which I have missed.

Secretary FOWLER. They have been discussed a great deal. As you know, from the colloquy last Friday, we do not always see eye to eye. This is not because of a failure of communication or because of a failure or lack of discussion. It is just that insofar as the action of December 6 is concerned, there was a difference of opinion.

Senator HARTKE. Let me ask you, then, an obvious question, I think, and that a lot of talk again, and it seems that some of these conversations in the press, and so forth, do have a way of sometimes becoming policy, a lot of discussions in banking circles, some which I talked to quite honestly say that they anticipate another increase by the Federal Reserve Board in the discount rate. What is going to be the policy of the Treasury, since Bureau of the Budget is not here and Federal Reserve Board is not here, what is going to be the policy of the Treasury if within the very near future there is another proposal to increase the interest rate? I know we have a new member of the Federal Reserve Board. Maybe we can make him the swing vote, have a little influence on him, more influence than we had in the past, since it was a 4-to-3 decision.

Secretary FOWLER. All I can say on that subject now, Senator Hartke, is as I have stated on February 3, to the Joint Economic Committee, that as I see it now, given all the new factors that are present in the situation, the wise course of balance and moderation in pursuing continued growth, a high rate of employment, and relative price stability, would seem to call for determining how the economy reacts to the new mix of relatively moderate restraints before adopting far harsher measures which would include, of course, tighter monetary policy.

Mr. Chairman, since the question has been raised by various Senators as to what the position of the Treasury is on why we do not advocate more action now, I would like to make my statement to the Joint Economic Committee a part of the record in order that our position may be completely understood.

Senator DOUGLAS. Without objection, that will be done.

(See p. 160.)

Senator DOUGLAS. The Senator from Indiana.

Senator HARTKE. Let's go back and I will try to pick up again where we left off when the Senator from Delaware was questioning. I

thought his question was very appropriate and I was going to ask basically the same question. But I would like to come back to the question raised by the Senator from Florida.

On this investment credit, as I understand the answer from the Treasury was that you could not hope to reap any benefits in this year but in the neighborhood of about \$1 billion next year; is that correct?

Secretary FOWLER. We are making a further study of the revenue constants and that figure may turn out to be high. But in any event there will be a substantially delayed revenue benefit from it.

Senator HARTKE. So there is no misunderstanding about this, it is fair, in executive session, if I report the testimony of the Treasury that on the investment credit, that if it were repealed or suspended at this time, say for a period of 2 years, which in effect would be a temporary repeal, if it were repealed or suspended, there would be no revenue come to the Treasury this year.

Secretary FOWLER. Senator Hartke, my whole answer was prefaced on the assumption that Congress would include in any suspension or repeal a provision exempting those projects which were underway or which had been undertaken in reliance upon the existence of the investment credit. Given that kind of provision in the law, the figures are as I indicated.

Senator HARTKE. The amount would, according to the best estimates you have, be in the neighborhood of that.

Secretary FOWLER. That is right. We will have refined figures for the executive session, but I think they will be at that level or lower.

Senator HARTKE. I might say to you if you are going to have them for the executive session, the acting chairman has just informed me that the chairman wants to act upon the Senator from Tennessee's proposal at 12 o'clock noon, so you have got 25 minutes to get those additional figures in here.

Secretary FOWLER. We will stand on the figures I gave you.

Senator HARTKE. You will stand on the figures, then. All right.

Now, one element which is just a side element for the moment, that is this: In this regard you feel that the Congress must act fairly with its taxpayers and therefore would probably exempt that portion of their investment policy which already has been acted upon in reliance—

Secretary FOWLER. Action in reliance, that is correct.

Senator HARTKE. Of course, we are not doing that in the case of the acceleration, are we?

Secretary FOWLER. No, sir.

Senator HARTKE. We are telling them on acceleration that even though we passed a law last year which provided that acceleration should be extended over several years, that we have now changed our policy, which the Government has a right to do, that we are now recommending that the acceleration be speeded up and—an escalated acceleration; is that right?

Secretary FOWLER. That is right.

Senator HARTKE. All right. And therefore, if they have relied upon this and it causes any difficulty in these corporations what relief do you suggest that we in Congress give to them?

Secretary FOWLER. None.

Senator HARTKE. None.

Secretary FOWLER. I think they are two entirely different cases, and the order of magnitude—

Senator HARTKE. No question they are different cases. They just affect different taxpayers.

Secretary FOWLER. I think the effect and difficulty involved in taking care of the cash flow problems that are a consequence of corporate acceleration are entirely different from the withdrawal of a tax credit which really changes the liability of the taxpayer—not the speed or time of payment.

Senator HARTKE. Well, on the cash flow element of that, this will affect him in regard to his cash flow—what if he doesn't, what if he hasn't made allowances for this? I know that your answer is that it doesn't present a serious problem, but what if they have to go out and borrow this money? Isn't this going to be an added expense to them in this business this year?

Secretary FOWLER. Yes, indeed. This is a consequence of the incidence of acceleration.

Senator HARTKE. In fact, what he is going to have to do is borrow money to pay the taxes which he ordinarily, last fall, based upon the action of Congress, would not have anticipated he would have to pay.

Secretary FOWLER. I think the general practice, at least most of the corporate practice that I know anything about, is that you accrue funds to meet these taxes. You keep them. You put them in bills, in commercial paper, or something of that nature, but you accrue the funds to meet your taxes as a current matter.

Senator HARTKE. This is a bookkeeping entry.

Secretary FOWLER. There may be some companies that don't follow that practice, but that certainly is the standard practice.

Senator HARTKE. But when they figure out their whole balance, when they make their determination for their operations for the year, they go ahead and anticipate this is going to be paid not in March, say, of 1965, but, for example, generally speaking, the figure is going to be paid in April of—April of 1965—in April of 1966. Isn't that true?

Secretary FOWLER. Undoubtedly the funds which they presumably have accrued and have invested in bills or commercial paper will have to be called on in larger amounts in April and in June of this year than was contemplated. Instead of paying 9 percent of their estimated tax, 12 percent will have to be paid.

Senator HARTKE. I think that we agree with that.

Now, the point, though, remains that you anticipate that the Congress is going to be fair to the taxpayer on one aspect, but you say that you are going to have to go ahead and take advantage of him on this other aspect. Isn't that true, now, really?

Secretary FOWLER. If you would include the fact that one would be a change in what you owe the Government. This is a much different question than the rate at which you have to pay the Government. Congress has on many occasions changed the timing and scale of collections, and it has had different consequences for different taxpayers.

Senator HARTKE. In the same field, the excise tax field, there is a change, too. Certain places have acted upon the basis of the actions

of Congress, I mean these telephone companies, for example, have notified their consumers they have had to change all their procedures, too, isn't that correct?

Secretary FOWLER. I don't think they had to change their procedures in any substantial way. They still have to send a bill. They simply changed the calculation of the tax from a 10-percent rate to a 3-percent rate. They will have to reset the computers to bill the tax at a different rate.

Senator HARTKE. Now, I am not an expert in these computers, but the point is, IBM informs me there is an expense involved in this, and for the small companies it is small, but proportionately very large, that for the large companies, of course, it is a larger amount, but proportionately very small, is that true?

Secretary FOWLER. I would like Mr. Surrey to speak to this in detail. This change will not cause substantial administrative hardship.

Senator HARTKE. Let's come back to that in a moment. What I am trying to get in this little side excursion is the fact that we have now established a principle which we anticipate we will act on in order to protect the taxpayer in one field upon his anticipation, the tax consequences as a result of change in tax policy, but in the other case we are not, isn't that true?

Secretary FOWLER. We looked at these two different situations and one is more serious than the other.

Senator HARTKE. Only a question of degree.

Let's come back to the whole problem again. Back to the tax credit, which the Senator from Florida has raised. I have not raised this question. The Senator from Tennessee raised this question.

Isn't it true that no matter when you make that change on investment credit, if you make it now, next June after you have had a re-assessment, next May, as most people have indicated when you will be back, I don't know—these people seem to have some special psychic approach.

Secretary FOWLER. They have psychic approaches, Senator, I don't understand?

Senator HARTKE. Whenever they come back, if you are going to change the investment credit at that time, the same leadtime would be involved, same action involved, and then you would be dealing with whatever period is in the future before you would have any substantial reaping of results to the Treasury.

Secretary FOWLER. That is correct.

Senator HARTKE. So no matter what you do in this field, there is a delayed reaction.

Secretary FOWLER. That is right.

Senator HARTKE. So if this is going to be the policy, if the Congress wanted to take this, they would probably be better advised to do it at their earliest possible moment rather than at the latest moment, if they wanted to have the least possible number of cases which they would have to create an exception for.

Secretary FOWLER. If all of the reasons that have been advanced as to why it was unwise to do it are overborne by the Congress, then I think Congress should look at the revenue requirements as it sees them.

As you say, the same time problem will be present whenever the Congress deals with this particular tax credit.

Senator HARTKE. In regard to investment tax credit, as I understand, the Senator from Florida indicated that this would create a greater capacity and greater supply of goods which therefore would result in less likelihood for inflation. Is that—and the Secretary answered that in the affirmative.

Secretary FOWLER. I agree with that statement.

Senator HARTKE. As I understand also, in answer to another question, the purpose of this bill, as I think you used the word, the consequences, the secondary consequences, were moderately intended to restrain the growth of demand. Is that true?

Secretary FOWLER. That is a secondary consideration. The primary consideration is to raise the funds to finance the war.

Senator HARTKE. I am just taking these two points. In other words, this was in answer to questions from the Senator from Florida, that we have on the one hand the rationale, the secondary consequences of this bill, moderately tend to restrain the growth of demand. And on the other hand we have investment tax policy which is intended to create an increase in the supply of goods.

Now, if that is true, how are we—we have an increase in the supply of goods and restraint on the demand—who is going to buy this increased supply of goods?

Secretary FOWLER. As my statement of February 3 indicated, in looking at the problem of whether inflationary pressures require certain actions, I think it would be wise policy, as I have said before, to see how the economy responds to the new combination of measures, which include this particular bill, before going, as many are advocating today, into much harsher measures.

Senator HARTKE. Let me ask you this as an alternate.

Secretary FOWLER. I think this is another element of moderate restraint. As I say, you can capitalize it by saying that if this bill is adopted by March 15, it would withdraw from private purchasing power an additional \$2.7 billion during the calendar year 1966. That is a measure of its restraint.

Senator HARTKE. All right. Now, what if the Congress on the investment credit, instead of completely suspending its operation or repealing it, would provide for its temporary suspension and give to the President the authority to make the determination into which field investment credit was desirable? Now, we have the so-called guidelines in front of us, in which the President is making under his Council of Economic Advisers the determination as to whether or not the price increases are within the guidelines or whether it is justified and the wage increases, whether they are justified.

What would be wrong with providing the President with the authority to make up his mind as to whether or not we should have increased production of automobiles and increased production of pin-ball machines and bowling alley equipment, and items of this sort, and whether or not the investment should be permitted in the field of those items which are necessary for the prosecution of this war?

Secretary FOWLER. Senator Hartke, given a situation comparable to World War II or to the magnitude of the buildup in the Korean

war, I think such a selective use of tax amortization or tax advantages would perhaps be desirable. I do not believe it would be desirable at this time to modify the generalized treatment of the taxation of new machinery and equipment and place in the Treasury or some other department of the Government the determination of what expansion was particularly related to the military effort, as we had to do during these two previous wars, and then grant or deny tax amortization certificates to individual companies who applied in connection with it. It would completely change the character and nature of the investment tax credit. Unless the situation developed to be far more different from the situation today, I think it would be a mistake for Congress to do that.

Senator HARTKE. If we head into a 3- to 7-year war, that would be a considerably different approach than what we are heading into today; isn't that true?

Secretary FOWLER. I think it depends not only on the duration of the conflict, but the magnitude of the effort involved. We must keep in front of us the fact that the percentage of our gross national product which is today devoted to the entire defense operation is in the order of magnitude of 7.6 percent. Of that, the war in Vietnam, according to the budget figures, takes about \$10.5 billion in fiscal 1967. The relationship of this \$10.5 billion, the cost of the conflict, to a gross national product of over \$700 billion, is an entirely different order of economic magnitude from the situation we had during the Korean conflict.

Therefore, it is not only the question of duration, but it is a question of how limited or how extensive the demand on our economy is. This \$10.5 billion is about 20 to 25 percent of the annual accretion to our gross national product.

Senator DOUGLAS. I wonder if the Senator from Indiana and the Secretary would permit the acting chairman to make an observation and a plea. We all recognize how essential these hearings are and how important it is for the rest of the people to question administrative officials.

On the other hand, we are faced with the need for a certain amount of celerity in action and the Secretary, like the Secretary of Defense, is a heavily burdened man, and I have a good deal of sympathy for the members of the Cabinet and the pressures that they have to do their work under and at the same time meet the demands of the congressional committees.

Without trying to shut anybody off, I would like to express the hope that we can finish with the Secretary of the Treasury today, and I hope that we could meet in executive session, but if that is not possible, I hope that we could conclude the examination of the Secretary today and then go on to executive session tomorrow.

Now, I have no power to shut any member of the committee off and I do not intend to do so, but I do wish to preach the gospel of restraint as well as examination.

Senator WILLIAMS. Mr. Chairman, if the Senator will yield, I, too, would like to see this hearing expedited, but I was here 4 hours last Friday, and the minority took exactly 10 minutes on this side of the table with the Secretary. I was here at 9 o'clock this morning, and

I think we had 28 minutes discussion. I have some questions very pertinent to this bill which I do want to ask. If we can complete the hearings today, fine, but if we do not complete the hearings I think it is well enough to come back here tomorrow morning.

I realize the desire of the administration for rapid action on this bill, and I am going to cooperate with them, but I remind all concerned that we are in this situation because the administration passed an ill-advised tax cut last year at a time when in my opinion the whole country and the administration knew we were in a war, knew we had a deficit of \$8 billion.

Senator HARTKE. I recall—the chairman will notice that I was here when these hearings began, too. I had a total of 10 minutes. Quite frankly it was a very abbreviated 10 minutes. It was right on the nose. I do not mind telling you I know some of the other members of this committee were given time beyond that. I did not complain. I did not complain this morning. I am willing to yield to anybody else, but I recall that the acting chairman indicated the other day that he did not want to be cut off and made the request in front of this committee. He said, I want it thoroughly understood, as I recall, that I have a right to pursue some of my questions. I think that in all fairness the mere fact that I sit down at this end of the table should not be a reason why you should not have a chance to go into some of these matters which I think are very important like the Senator from Delaware has indicated, most of these items are one-shot operations and I think it is important that this country, if we are going to be asked to finance a war, that we get down to the business of financing it, tell the people what we have to do. We may have to tighten our belts and have more taxes. I think the American people are willing to face up to it. I think they have a right to know exactly what is going to be involved.

Senator SMATHERS. Mr. Chairman, will the gentleman yield there that I might ask a question? I wonder if it is possible for the Senator from Indiana to advise the committee and the Secretary how much longer he expects to take?

Senator HARTKE. If you will check the hearings, you will find out that the questions asked by the Senator from Indiana have been extremely short. The replies have been extremely long and I am not complaining but I just want you to know if there has been any violation of time, it certainly has not been on the part of this Senator. I am not complaining. I am glad to hear it. We had one interjection. We went all the way from the answer to the question to the question of the pay increase and other matters which I asked nothing about whatsoever. But I went back and I said what I was trying to establish is one simple fact, this question of communication between the members of the Cabinet. Now we are faced with another question of communications as to what is going to happen in the future.

Senator SMATHERS. Will the Senator yield?

Senator HARTKE. I yielded to the Senator a while ago.

Senator SMATHERS. He did not answer my question.

Senator HARTKE. I offered to yield to the Senator from Florida. I said I would wait and let him go ahead if he wanted to. He took a new line of approach which I had not intended to pursue whatsoever, but I

thought the record ought to be clarified, and I am glad that the Senator from Illinois joined in that participation. I just want you to know that this is a question of the suspension of the investment credit. I had no questions on this matter but since it was raised, I thought it should be clarified that we did have, as the Senator from Illinois so aptly described, the horse going in two directions, but I would like to find out and I think this makes it appropriate, whether or not we are dealing with a short-term, one-shot operation, whether we are going to face up to the fact that we have a serious war on our hands, and somebody is going to have to pay the bill.

Senator SMATHERS. Will the Senator yield? If I may just ask a very friendly question to help everybody?

Senator HARTKE. I will be glad to.

Senator SMATHERS. I am not fussing, Senator. I am just merely asking him does he think he will be able to conclude his line of questioning so that the Senator from Delaware might be able to finish by 1 o'clock and that the Secretary might know what plans he can make.

Senator HARTKE. If the Senator from Florida can tell me what the answers to my questions are going to be, I probably would be in better shape to give him an answer to that question.

Senator SMATHERS. In other words, you do not know.

Senator HARTKE. I do not know.

Senator SMATHERS. Go ahead, then, Vance.

Senator HARTKE. As I understand, then, now on the question of the selective—you used the word "selective". Selective sacrifice, which is more appropriate than the term you used. This selective sacrifice approach which the President could make up his mind on which one he needed to sacrifice and which one he needed to help, the bowling alley people or people manufacturing automobiles, or whether he is going to help the people in the Defense Department. It depends on the cost of the war.

Secretary FOWLER. That is right.

Senator HARTKE. You are talking about finance. But if this occurred, that this is a solution which would probably receive very high priority in the Treasury, is that true?

Secretary FOWLER. No. I did not want to pass any judgment, Senator, on this measure as to where it would stand in the hierarchy of choices. I only tried to say that as of now I do not think replacing the investment credit with a selective tax amortization system like we had during World War II and the Korean war would be advisable.

Senator HARTKE. All right. Do you think it is going to be advisable at any time that we do anything in the field of the so-called tax credit or do you think that this should be considered, as I have read from some of your statements, as a permanent part of our tax policy?

Secretary FOWLER. I do.

Senator HARTKE. You feel that it should be a permanent part of our tax policy.

Secretary FOWLER. Yes.

Senator HARTKE. And without regard to whether or not there is an acceleration of the financial cost of the war, that it should be retained.

Secretary FOWLER. Of course, Senator Hartke, all of these matters would be open to reconsideration when and if it is necessary to come in for additional revenues.

We do not make any advance judgments about this particular provision or that particular provision. I am simply saying that, as of now, I think the investment tax credit is very desirable and should be a permanent piece of our tax machinery. I think it would be inadvisable to modify or suspend it as a part of this legislation.

Senator HARTKE. All right. Now, then, let us come on back to where I left when I yielded to the Senator from Delaware. That is the question on these excise taxes. This was some 35 minutes ago, in which I want you to know we went down this other excursion which I had no intention of pursuing whatsoever, but since it was raised, I think it needed to be pursued.

In regard to the excise taxes which were imposed last summer, and with regard to the statement by the Secretary of Defense before the Congress in August of last summer that there was going to be at least a \$1.7 billion amount plus more, will you explain why you did not come back and ask for the rescission of the excise taxes of \$1.2 billion which would still have left you \$500 million short?

Secretary FOWLER. Because, Senator, I did not know before the Congress adjourned what the order of magnitude of the total budget would be or whether or not it would be necessary to ask for additional revenues, and if so, in what amounts we would need additional revenue. I knew at that time, it was so announced, that tax reduction would be out of the way as far as the war was concerned, but I did not know whether it would be necessary to ask Congress for additional revenues, or in what amount or of what nature.

Senator HARTKE. Well, now, am I to understand, then, that as far as the Treasury Department is concerned, that before the Congress adjourned last year, you were not in any way informed of the potentiality of having a budget deficit at least in excess of \$1.2 billion beyond that which had previously been estimated?

Secretary FOWLER. Well, yes, we knew that there would be, as I have said, substantial additional expenditures in fiscal year 1966 for military outlays in South Vietnam.

Senator HARTKE. We so-called gave the candy to the baby, said, "Look at it good, take one good bite, and then away we go."

Secretary FOWLER. Senator, the law had been enacted and signed in June. If you will review the record, you will find the environment existing then was quite different from the situation last fall. To come in and ask for particular kinds of tax action in the fall without knowing what the order of magnitude would be, or what action the budget would require when the calculations for fiscal 1966 were in hardened form, was just not a situation in which we felt we would have a case for coming back and asking Congress to undo at that time what it had done a few months before.

Senator HARTKE. But you did know that it was going to be in excess of \$1.2 billion, beyond what had previously been estimated for the deficit, did you not?

Secretary FOWLER. We knew it would be substantial.

Senator HARTKE. You knew it was going to be substantially more than that, did you not?

Secretary FOWLER. Yes, sir.

Senator HARTKE. And were so informed.

Secretary FOWLER. I did not know the order of magnitude.

Senator HARTKE. You knew it was going to be substantially more than that and now you come on back and say in view of the situation, you are asking us to repeal the repeal in this session of Congress rather than doing it in the last session of Congress. I am just trying to establish the facts as they were at the time.

Secretary FOWLER. We are asking you only to graduate the reduction of these two taxes in a different pattern from that which had been voted on in June. We are asking for a moratorium on the graduation of the reduction.

Senator HARTKE. Now, on excise taxes, one reason, as I understand, you stated that you moved in this field, because it was a fast way to get revenue.

Secretary FOWLER. That is right.

Senator HARTKE. No question about that. A fast way. And also that it was the easy way. Easy, fast way to get revenue.

Secretary FOWLER. That is correct.

Senator HARTKE. Now, then, in view of that, and since this has been the action, if there is an escalation, which I frankly fear there is going to be, in the cost of the war, is it contemplated by the Treasury that the next step would be to take that easy, fast way again by further increases in the sales taxes, these excise taxes?

Secretary FOWLER. No, Senator. When and if there are circumstances that would require additional tax action, we would have to look again at the order of magnitude to determine whether or not it was substantial and face up, then, to the problem of what is the fair, equitable, and most appropriate way in view of our long-term economic problems to finance the war.

Under this particular bill, we think the questions of how the cost is spread about are substantially minimized. But I think if we came back for further increases in taxes, the character of the increases would be before the Congress.

Senator HARTKE. You admit that the only increase in taxes at this stage is really the excise tax feature; is that not true?

Secretary FOWLER. Right.

Senator HARTKE. The rest of it really is nothing except collection of taxes which ultimately would become due anyway.

Secretary FOWLER. That is right.

Senator HARTKE. All we are doing is accelerating the collection of them.

Secretary FOWLER. That is correct.

Senator HARTKE. Therefore, if there is a continuation of this cost, then next year this acceleration will not be available to pay that cost.

Secretary FOWLER. That is right.

Senator HARTKE. So we are faced—how much does that represent in the tax bracket?

Secretary FOWLER. Around \$4.8 billion for fiscal 1967. That would represent an increase of \$3.6 billion over 1966.

Senator HARTKE. \$3.6 billion.

Secretary FOWLER. That is right.

Senator HARTKE. So what you are faced with, if this war continues at the present levels, without acceleration, you are faced then with the problem of raising in the next fiscal year without any change in the revenue, without any change in expenditures, assuming it is all the

same, which we know it will not be, but assuming it is, you are faced with the problem of the increasing taxes or increasing borrowing by \$3.6 billion.

Secretary FOWLER. No. As I pointed out to Senator Williams, the economy continues to grow and advance. Therefore the increased revenues at current rates or under the tax system which we will have, would produce, according to our estimates, an additional \$7.5 billion. Our estimate for the current fiscal year is that the fiscal dividend, as it is called, is about \$9 billion.

Senator HARTKE. That is estimating how far in advance?

Secretary FOWLER. Through fiscal year 1967.

Senator HARTKE. Which means that begins in June—that is about 15 months—16 months from now.

Secretary FOWLER. Next December or January we will be estimating what the outlook for the economy is for calendar year 1967, which would give us the base on which we would project the revenue expectations for the fiscal year 1968. What I am saying is that if the growth pattern continues like it has in the last few years, the growth in revenues from that source could be in the range from \$5 billion to \$8 billion or \$9 billion a year.

Senator HARTKE. Now, to another matter. As I understand, the Government position is that they plan to pool their mortgages and guaranteed loans and offer these for private participation; is that correct?

Secretary FOWLER. Not to pool all of them. Pool selected portions of them. The figure in the budget, including direct sales of \$500 million, is \$4.7 billion, compared with approximately \$3.3 billion in the current fiscal year.

Senator HARTKE. But this is another one-shot operation, is it not?

Secretary FOWLER. No. This is a continuation of a practice which has characterized the operations of the Government for many years. As I pointed out in the discussion with Senator Williams, it is an intensification of that process in that the amounts of these disposals are \$1.5 billion more this year; that is, for fiscal year 1967, than projected for fiscal 1966.

Senator HARTKE. The truth of it is you would have to raise, if you did not do that, an additional \$4.7 billion in revenue or you would have to borrow that amount of money otherwise.

Secretary FOWLER. That is right.

Senator HARTKE. So whether you say it is a one-shot operation or not, it reduces the deficit.

Secretary FOWLER. This is not a one-shot operation. That would be a continuing practice.

Senator HARTKE. It reduces the deficit amount by \$4.7 billion.

Secretary FOWLER. It always has that effect and also has the effect, as it is intensified, of substituting private credit for the direct lending programs of the Government in that sense of the word.

Senator HARTKE. What happens if you cannot market them?

Secretary FOWLER. Your deficit is that much bigger.

Senator HARTKE. Your deficit is that much bigger?

Secretary FOWLER. That is correct.

Senator HARTKE. Now, we have just gone through a nice experiment on that with the Export-Import Bank situation.

Secretary FOWLER. We have found the Export-Import Bank—they offered \$700 million of participation at a rate of $5\frac{1}{2}$ percent to commercial banks, and a little more than half, \$360 million, was taken up by the banks.

Senator HARTKE. This was for 18 months, is that not correct?

Secretary FOWLER. Put-and-call feature at that point.

Senator HARTKE. Put-and-call feature at 18 months and the rate was $5\frac{1}{2}$ percent?

Secretary FOWLER. Correct.

Senator HARTKE. Which is a substantially high rate for this type of obligation.

Secretary FOWLER. It was higher than it had been through—

Senator HARTKE. Higher than we had ever offered before, and yet the public response to that was less than half; is that not true?

Secretary FOWLER. That is right.

Senator HARTKE. Now, how do you account for that?

Secretary FOWLER. Money is tight.

Senator HARTKE. Money is tight, is it not; very tight and getting tighter?

Secretary FOWLER. Well, money is tight. Whether it is getting tighter or not is a judgment I will not make.

Senator HARTKE. Now, is money tight partially as a result of the action of the Federal Reserve Board in your opinion?

Secretary FOWLER. I think that the primary cause of the tightness of money is the greatly increased requirements for credit and the desire for credit on the part of many elements in the economy.

Senator HARTKE. Some places are rationing credit; is that not true?

Secretary FOWLER. As we both know, the policies of the Federal Reserve Board in handling the various facets of monetary policy have a very important and significant relationship to the tightness of money. Therefore, in a sense, you could say the total complex of policies of the Federal Reserve Board against the background of the very large demand for money result in what we call a tight money situation.

Senator HARTKE. Now, as a result of this offering only being partially sold, this was quite a disappointment to the Treasury, was it not really?

Secretary FOWLER. I would not characterize it as quite a disappointment. The Export-Import Bank went out trying to find a market for this paper. We were willing to sell under the terms that Mr. Linder announced. We were willing to sell and would have been pleased to sell \$700 million. We did not have the expectation that the total amount would necessarily be sold.

Senator HARTKE. Well, now, how much of this \$4.7 billion does the Treasury anticipate that it will not be able to sell?

Secretary FOWLER. I have no estimate of that as of now. This looks ahead for 18 months and I do not know what the situation in the market will be during that 18-month period. I would expect that we would be able to dispose of—

Senator HARTKE. I do not want to be accused—

The CHAIRMAN (now presiding). Just 1 minute. Hold on. Suspend everything for a moment. As long as I am chairman of this committee, I am going to give Senators the chance to get information

they want, but at the same time I am not going to have a witness denied the opportunity to answer a question.

Now, do not answer the question for the witness, Senator. Let him answer the question for himself. I have considerable sympathy for your position, but I just want to get both sides on the record. Let the Secretary answer the question and then ask your next question.

Go ahead, Mr. Secretary.

Senator HARTKE. Just a minute Mr. Chairman. Can I at this time say that I am going to permit the Secretary to answer the question.

The CHAIRMAN. I am going to suggest that the Secretary answer the question and then I am going to call on the Senator to ask his next question.

Senator HARTKE. Go ahead, but I want to comment.

The CHAIRMAN. All right. You can comment but let him answer the question.

Secretary FOWLER. I have nothing further to add.

The CHAIRMAN. Go ahead.

Senator HARTKE. The point I wanted to make, before the chairman arrived was that the acting chairman was attempting to terminate the right of this Senator to ask the questions he wanted to ask. At least so I interpreted it. And I pointed out at that time that the questions were not all of the problem. Part of the problem was the answers, all I was trying to do was accommodate the committee.

The CHAIRMAN. May I say to the Senator from Indiana, as far as the chairman of this committee is concerned, the Senator is going to get the information he wants. Now, I have some difficulty gaining consent of the Senate for this committee to meet while the Senate is in session. But I will come back here after the Senate gets through and, if the Secretary of the Treasury who is a hard working man is agreeable, we will come back here the moment the Senate quits and stay past midnight, until 1 o'clock in the morning if need be for the Senator to get the answers. The Secretary of the Treasury is a most patient and reasonable man. But we are not going to proceed on the basis that a Senator makes a 10-minute speech and does not give the witness a chance to respond to it. The witness is going to be given a chance to answer the question, and if he takes too long, if he is filibustering a question, I will call him to order. But I do not want to have these lengthy speeches made. Of course, under our procedure we will let any Senator make enough of a statement to make his position clear with reference to his question.

Senator HARTKE. I personally like this approach much better and that it to permit the witness to answer in whatever manner he wants to, but permit me to ask the question. I just do not want to catch both ends of this thing, be criticized on one end for asking a question and taking time, and criticized on the other because I tried to cut the answer short. I personally prefer to let the witness answer in any way he wants to, and I am glad the chairman has now revoked the previous suggestion of the acting chairman and is going to permit us to proceed along that line.

The CHAIRMAN. I am willing to take whatever time it takes to get any information the Senators want. The only objection I have is that I would just like for the Senators to be willing to come here and ask

questions and not object to the committee working extra hours if it is necessary to get the job done.

The Senator from Indiana is one of the most hard working, diligent members of our committee and Congress as a whole, and we are proud to have him.

Senator HARTKE. I will be glad to be here at 1 o'clock in the morning if that is necessary, too.

Now, back on this \$4.7 billion. As I understood, you said now, just to get us back where we were, at this time it is impossible to say whether or not the participation will meet the same fate as the \$700 million offering of the Export-Import Bank.

Secretary FOWLER. That is right. Although it would certainly be our expectation that we would be able to market the securities on suitable terms between now and June 30, 1967.

Senator HARTKE. Does the Secretary anticipate that they will have to be offered at a higher rate than the five and a half percent?

Secretary FOWLER. I have no anticipation along that line, one way or the other.

Senator HARTKE. Or at a shorter term?

Secretary FOWLER. I have no anticipation along that line either.

Senator HARTKE. But if you wanted to make them more attractive, that would be one—

Secretary FOWLER. One way to—

Senator HARTKE. One of two ways to approach that situation.

Secretary FOWLER. That is correct.

Senator HARTKE. All right. Now, that account for \$4.7 billion. Does this \$700 million—is that to be added to that or is that in the \$4.7 billion of offerings?

Secretary FOWLER. This particular Export-Import Bank?

Senator HARTKE. Yes. That was an addition?

Secretary FOWLER. That was part of the 1966 fiscal year program.

Senator HARTKE. Now, in the anticipations also in the budget figures, as I understand it, it is anticipated to receive about \$1 billion out of the stockpile sales; is that true?

Secretary FOWLER. The Senator has the figures there before him. I do not have that precisely in mind. But I think—

Senator HARTKE. Let me say—

Secretary FOWLER (continuing). Approximately.

Senator HARTKE (continuing). Approximately \$1 billion, and if that is wrong, the Secretary can correct it.

Secretary FOWLER. We will correct the record.

Senator HARTKE. Now, that is a one-shot operation, too, is it not?

Secretary FOWLER. No. We expect to continue to sell out of the stockpile as requirements indicate. There are very large quantities of excess materials in the stockpile.

Senator HARTKE. But the point about it is that the \$1 billion, whatever items you sell this year out of the stockpile, that is gone. You cannot sell them twice.

Secretary FOWLER. No. Except there are many billions of dollars worth of materials in the stockpiles.

Senator HARTKE. I am quite aware of that, and I think industry is, too.

Now, another \$1.7 billion has been secured in a one-shot operation by switching on the coinage from silver to the copper.

Secretary FOWLER. The estimate is \$1,570 million in fiscal year 1967.

Senator HARTKE. Oh.

Secretary FOWLER. \$1,570 million.

Senator HARTKE. I missed it by a little over \$125 million. \$1,570 million.

Secretary FOWLER. That is correct.

Senator HARTKE. And that is a one-shot operation.

Secretary FOWLER. That is right. There will be a sharply declining figure in fiscal year 1968. We would not expect coin production to be of the same order of magnitude as in fiscal 1967.

Senator HARTKE. In this alone you have \$4.7 in the sale of these mortgages and guaranteed loans. You have approximately \$1 billion in the stockpile, which makes \$5.7 and \$1.5, I would say, which will give you \$7.2 billion which basically comes up into one-shot operation; is this not true?

Secretary FOWLER. Senator Hartke, I think I can shorten this exchange since I have answered all these questions for Senator Williams in very much the same terms that you have offered them here. My answers to Senator Williams will suffice to answer this line of questions.

Senator HARTKE. Well, is that not true, though?

Secretary FOWLER. Yes.

Senator HARTKE. But you will, then, have to make determinations how to raise taxes next year to accommodate that \$7.2 million.

Secretary FOWLER. How to deploy the additional revenues that come out of an expanding economy and how to do that in connection with the budgeting of expenditures for fiscal 1968.

Senator HARTKE. That is all the questions I have.

Are you the acting chairman?

Senator WILLIAMS (now presiding). Yes. The committee is back in the hands of the minority.

Mr. Secretary, the chairman asked would it suit you to come back tomorrow morning at 9 o'clock?

Secretary FOWLER. I can stay here, come back after the session of the Senate, or come back tomorrow at 9.

Senator WILLIAMS. The chairman does not have consent of the Senate to meet this afternoon and asked me to recess this meeting until 9 o'clock tomorrow and make the announcement that he is going to try to have an executive session at 10:30.

Secretary FOWLER. I will be here at 9 o'clock in the morning.

Senator TALMADGE. Mr. Chairman I would like to have this statement I received from Mr. Joseph H. Leopold, whose economic and fiscal theories are well known and highly respected in Georgia, printed at this point of the record.

The CHAIRMAN. Without objection it will be done.

(The material referred to follows:)

SUMMARY STATEMENT PERTAINING TO CURRENT TAX PROPOSALS BY
JOSEPH H. LEOPOLD, ATLANTA, GA.

Purpose.—The purpose of this statement is to present new and important discoveries in the field of economic technology that are unfavorable both to the proposed legislation, and the basic theories prompting its recommendation.

SUMMARY OF CONCLUSIONS

The quantity theory of money is false

Present monetary policies are based entirely upon the quantity theory of money which holds that as the supply of active money in an economy increases or decreases, prices increase or decrease directly in some proportion thereto.

The foregoing theory is false because it fails to take into account the fact that, within the productive capacity of an economy, new money introduced usually generates production of a corresponding amount of additional wealth at current prices; sometimes at lower prices when unit costs are reduced due to increased volume of output.

In a pecuniary economy, new money is the only medium that makes possible production of more wealth at ever-increasing rates. Curtailment in the rate of supply of new money will result in a corresponding curtailment of economic growth. In effect, money is the fuel that drives the economic machine; the rate of output of an economy is limited by the amount of currently active monetary fuel being fed to it.

Basic definitions relating to monetary theory

Money is media (articles or bookkeeping entries) that are generally accepted in an economy as proof of ownership of monetary units.

The monetary unit is the official empirical unit used for measuring the exchangeable value of productive human effort; or what amounts to the same thing, the official unit used for measuring the exchangeable value of produce of human effort. In the United States, the monetary unit is the dollar established by Congress in 1792.

A monetary medium is considered legal tender when the Government declares it to be acceptable for the payment of all debts, public and private. The principal monetary media in the United States are bank deposits, currency notes, and coin. Only currency notes and coin are legal tender, although transfer of deposits (bookkeeping entries) via bank drafts are used for most financial transactions.

National taxation

Present concepts of taxation at the national level are false; they reflect an unnecessary destruction of earned purchasing power, and have the effect of voiding the beneficial natural money supply process that is inherent in the natural tax process. With the balanced budget concept of national taxation, the money supply process is delegated by the Government entirely to the commercial banking industry which creates new credit money out of thin air through loans to customers and to the Government; instead of permitting the money supply process to be equitably shared by the Government and the banking industry, as it should be. The present arrangement results in an inadequate noncredit money supply in the economy, forcing owners and workers to borrow disproportionately large amounts of credit money in order to support current rates of production.

The vital tax secret waiting to be unlocked is that remittances to the Internal Revenue Service are not the Federal tax, but that the Federal tax is the goods and services surrendered to the Federal Government and/or its employees by the civilian economy in exchange for authorized Treasury checks which, all by themselves, are the tax money because Congress requires the Federal Reserve System to have member banks convert Treasury checks into deposits and/or cash on demand of the payee, in precisely the same way that banks so convert authorized civilian checks.

Taxation at the national level is not a transfer of money from citizens to the Government, but is the process whereby the Government commandeers wealth produced by the civilian economy in exchange for official Treasury drafts which are always convertible into deposits and/or cash anywhere in the economy.

Remittances to the Internal Revenue Service simply reflect destroyed purchasing power justified only to the extent that the economy does not have the industrial capacity to produce the wealth that the citizens would attempt to purchase if they were permitted to retain the remittances for expenditures as they see fit.

It is not necessary for Treasury drafts to be matched with citizens' remittances to the Internal Revenue Service for the same reason it is not necessary for the Government to lower the rate of improvement in the citizens' living standards

below what the economy has the industrial capacity to achieve. Blind adherence to the balanced budget concept of Federal taxation simply provides a built-in limitation on the Nation's economic growth; it is the principal cause of present malignant pockets of poverty in this country and around the world.

Official statistics confirming the foregoing analysis

The irrelevance between a balanced budget and avoiding inflation is confirmed by comparing statistics for the 3-year war period 1943 through 1945 when deficits were astronomical with the postwar period of similar duration, 1949 through 1951 when "deficits" were negligible.

During 1943-45 the total deficit was \$163 billion, or almost 60 percent of total Federal expenditures of \$272 billion; while during the same period the wholesale price index increased only 2½ percent. On the other hand, during 1949-51 the total deficit was only \$1.4 billion or 1.1 percent of total expenditures of \$126 billion; but this time the wholesale price index increased over 15 percent. In other words, when remittances to the Internal Revenue Service amounted to 98.9 percent of total Federal expenditures, inflation increased six times faster than when the remittances amounted to only 40 percent of expenditures. If this performance means anything, it means that balancing the budget is very inflationary fiscal policy.

Recommendation

As a counter proposal to the tax legislation under consideration; in view of the foregoing; and in view of the fact that the principal cause of price increases is wage increases, not increase in the money supply, the writer respectfully offers the following as a solution to both the tax problem and the problem of halting inflation due to wage increases.

Congress should immediately impose a freeze on all wage increases, except for upgrade in worker classification through performance, and except for increases resulting in wage rates of less than, say, \$2 per hour. In return, Congress should annually reduce the rates of remittances to the Internal Revenue Service by an amount calculated to give everyone—individuals and corporations—an increased take-home net income of approximately 3.2 percent or whatever the guidepost analysts come up with. Any resulting deficits should be financed by selling interest-free Treasury bonds to the Federal Reserve System.

In the case of a current personal or corporate remittance rate of 50 percent, for example, the new rate (based upon a 3.2-percent guidepost) would calculate 48.4 or, say, 48.5 percent. For the subsequent year the new rate would calculate 46.85 or, say, 47 percent. In the case of a current rate of 20 percent, the new rate would calculate 17.44 or, say, 17.5 percent. For the subsequent year it would be 14.86 or, say, 15 percent.

Even though it would increase everyone's take-home pay by the desired controlled amount, this proposal would not be inflationary because it would not raise employment costs, and would actually reduce other ingredients of price, without reducing profit rates. It would also provide more funds for owners and lenders to finance creation of more new plant capacity, so as to further increase output of goods, the only nondepression way of combating inflation; and the only way of increasing the rate of improvement in average living standards.

Not only would this program leave little or no excuse for raising prices (thus making Government pressure to discourage the practice more effective) but also, in those industries where competition is brisk, or profits are regulated by the government (Federal, State, or local) prices might actually be lowered by some portion or all of the corporate remittance reduction; analogous to passing on to consumers excise tax cuts. In due course, prices would be subject to further lowering due to reduced production costs achieved through automation.

An added feature is that the proposal would prevent further increase in the Federal "public debt"; instead the debt would continue to be retired through Federal Reserve purchases of Government bonds in the open market, in order to create bank reserves, the present basis for permitting member banks to make more commercial loans. The Federal Reserve System has already retired \$40 billion of the public debt in this manner, but this fact is effectively obscured by the official semantics used by monetary authorities to describe the operation.

Still another desirable feature is that all citizens would benefit from the policy, instead of the present arrangement which favors organized workers at

the expense of the unorganized, even though, on balance, the latter support the former by purchasing the former's output.

Of course, if the Vietnam conflict becomes a major war, requiring more destruction of, rather than increase in worker purchasing power, then the goldpost analysts would come up with the percentage increase in remittances necessary to match take-home wages with the reduced physical volume of consumer goods available. The important point is that the remittances would be geared to the meaningful concept of physical volume of output, and not the irrelevant concept of a balanced budget.

Reference attachments:

Authors complete statement in support of conclusions and recommendations.

Auxiliary statement: "What is the Source of 'Deficit' Money?"

COMPLETE STATEMENT IN SUPPORT OF CONCLUSIONS AND RECOMMENDATIONS PERTAINING TO CURRENT TAX PROPOSALS BY JOSEPH H. LEOPOLD, ATLANTA, GA.

It is a pleasure to present to this committee information which, I believe, is of vital importance to the future economic welfare, not only of this Nation, but of all nations.

When one surveys the worldwide economic scene, the view is not pleasant. In many nations poverty is spreading faster than the population. In our own Nation we are frequently reminded that tens of millions of citizens are living in substandard conditions bordering on poverty.

But what makes all this worse is that there is no agreed-upon practical solution in sight; authorities are hopelessly divided over just what should be done, and the steps taken thus far hardly scratch the surface of the problem.

Some authorities say the problem is due to automation which displaces workers and causes unemployment. Yet, if it were not for the cost-reducing effect of automation, the wage increases imposed on the economy during the past 25 years would have caused prices to rise even higher than they did, thus further reducing demand and causing more worker layoffs than were actually experienced. The present tragic situation in the coal regions of this country illustrates this principle. In the absence of automation in coal mines, there would be even greater unemployment in Appalachia.

Some authorities say the trouble is caused by insufficient gold in the world. Yet a little thought will confirm to anyone that the presence or absence of gold in a nation has absolutely nothing to do with the amount of useful natural resources in that nation, or the intelligence or ability of its citizens to exploit these resources. If the presence or absence of gold stored in bank vaults does, in fact, interfere with production of wealth for which there is capacity and know-how to produce, then this, in itself, is a severe indictment of the present use of gold stored in bank vaults.

Some authorities say the problem is caused by low prices for imported wealth; that higher tariffs should be imposed to protect higher prices in this country. But higher prices result in lower living standards, and are particularly harsh on those at the lower end of the economic ladder. Upon analysis, such "protection" of higher prices is found to be merely Government-sponsored dissipation of capital and labor on uneconomical employments contrary to the interests of consumers who are thus forced to support these employments. If certain workers jobs must be subsidized to avoid welfare problems, it would seem that the matter should be handled as welfare relief, and direct payments made accordingly. Artificially raising prices to consumers is not only unfair use of Government power, it also delays abandonment of the uneconomical activity, thus denying the economy the benefits of a more efficient application of the capital and labor in question.

In this country, some authorities say that workers' monetary wages are not high enough, and that profit rates are too high. Yet since 1947 most wages in the United States have more than doubled, while the average corporate profit rates in terms of total receipts have reduced about 45 percent from 5.5 to 3.0 percent. In fact, many businesses are actually caught in a profit squeeze. It is needless to say what would happen to these businesses if wages were raised still further. The automobile worker layoffs at Studebaker and American Motors, for example, speak for themselves in this regard.

Some authorities say our economic problems stem from inflation caused by too much credit money being used in the economy because the rate of increase in credit money is greater than the rate of increase in output of real wealth. But on examination, all this relationship really means is that a larger portion of the increased output of wealth in the economy is being financed with credit money, than is being financed with noncredit money; and that credit money apparently is carrying an increasing share of the monetary load in supporting current rates of production. This would logically suggest, therefore, that the cause of the shortage of noncredit money in the economy should be investigated, rather than arbitrarily cutting off the substitute medium, credit money, which, though not as free of "fiscal drag" (interest payments) as noncredit money, is better than no money.

Some authorities say that corporate remittances to the Internal Revenue Service, excise levies, and interest rates should be raised to fight inflation. Yet these items are part of the price level. Raising these would fan inflation by raising prices paid by the public. The logic in adopting these proposals is analogous to a businessman accepting a small loss on each article sold because he expects that a profit will be realized due to the large number of such sales.

Some authorities say the problem is due to payment imbalances between exports and imports; and that these payments must be brought into balance in order to achieve economic progress. Yet the central banking systems of the world do not seem to recognize the only practical remedy for this situation; i.e., returning to natural self-balancing rates of exchange which were used for centuries prior to 1929, the year the present imbalance—inducing system of fixed unnatural rates was imposed upon commerce. The present exchange rate for the Indian rupee is a glaring illustration of the severe price distortions for traded goods that can be caused by the present system: The Indian rupee is officially subsidized by India's Central Bank on behalf of dealers in foreign exchange, at 21 U.S. cents; whereas its natural value is only 12 U.S. cents. This means that an American importer must pay \$21 for an article selling for 100 rupees in India, even though the natural value of the article is only \$12. (The natural value of 100 rupees is \$12 because an American made article, comparable to an Indian made article selling in India for 100 rupees, sells for about \$12 in the United States. This is reflected in the fact that the free (unsubsidized) rate of exchange of an Indian 100 rupee bank note in the United States is \$12, not \$21.) It is needless to say what this price distortion from \$12 to \$21 imposed on U.S. importers is doing to the export commerce of India. Yet nothing is being done to remedy the situation. Instead, the Indian Government attempts to discourage imports of wealth which she desperately needs, by high tariffs or outright prohibitions, in order to hold down imports to match the reduced volume of exports caused by the inflated prices for her goods abroad caused by the unrealistic rate of exchange supported by her Central Bank to the detriment of her international commerce.

Still other authorities say the earth is overpopulated, and that the solution to man's economic problems lies in birth control, even though only a small fraction of the earth's habitable surface and its natural resources have yet been exploited. Aside from lacking logic, this view would appear to be an insult to providence.

Where does all this lead? It leads up a blind alley described simply in two words, "economic ignorance." Social scientists are being taught incorrect application of fundamental economic theory because their tutors were similarly taught; the problem goes back several generations. The modern scholar simply has not fathomed the natural science of economics—a science that is waiting patiently to be rediscovered. It was essentially discovered 200 years ago by Adam Smith, but it has become lost again. Mr. Smith's invisible hand, for example, is invisible all right, but it is as real and as inexorable as time.

It was a suspicion that the foregoing might be the situation that prompted me to undertake several years ago a comprehensive survey of fundamental economic theory to find out if I could combine my knowledge of economic principles with analytical skill acquired through my training in, and experience with the natural laws of the engineering sciences, to pinpoint the elusive natural economic secret, or secrets, that I suspected were waiting to be discovered. For this study it was decided that only rigorous scientific techniques of analysis would be used based upon unwavering application of fundamental principles instead of the dogmatic interpretation of empirical statistics, which has been

the principal method of inquiry engaged in by most orthodox social scientists during the past several generations.

My investigation was successful beyond imagination; startling new information was uncovered concerning natural economic laws and how they have always operated to determine the rate of economic growth, or the lack of it, anywhere; and this is what my message is all about.

Because social scientists have been so thoroughly indoctrinated in their present basic concepts, it may be difficult for many of them to even consider conclusions contrary to these beliefs. But, fortunately, some practitioners already have observed discrepancies between traditional dogma and actual performance; they are beginning to sense that all is not exactly what they have been taught to believe; and they are now probing into economic theory that heretofore has been considered sacrosanct. These analysts have no idea of what a Pandora's box of natural economic secrets lay behind their cautious inquiry. They, too, will be amazed at what they discover, but because they already suspect something not presently understood is there, they will be able to recognize it more quickly when it comes into view, and interpret it properly in terms of practical economic policy. Nevertheless, it will be a difficult debrainwashing operation at best (as it was for me), stubbornly resisted to the end, analogous to the many staunch believers in the concept of a flat earth right up to the time of Columbus' voyages.

ECONOMISTS' FAILURE TO CHALLENGE TRADITIONAL BELIEFS

In essence, present economic theory comprises a variety of nebulous and often conflicting views postulated from four basic beliefs that have been passed on from generation to generation, and that have been almost universally accepted without question. These beliefs are pure dogma because they are not conclusions deduced from principles, but are, themselves, assumed to be principles. Accordingly, they are rarely challenged, but are the starting point from which practically all economic analysis is undertaken, notwithstanding the fact that there are many incongruities inherent in them that become very apparent with only a relatively small amount of investigation.

ANALYSIS OF OFFICIAL ECONOMIC DOGMA

The first of the four beliefs embraced by economists, and from which all official economic concepts have been postulated, is that economics is not a science; but is applied governmental philosophy, subject to the preferences of government officials for achieving specific social goals relating to distribution of wealth.

The correct explanation of this matter follows:

Economics is a natural science

Economics is the science concerned with natural laws governing the application of human effort to the production and distribution of necessities, comforts, and luxuries. Natural economic laws, like natural laws of any kind, are inexorable and immutable. There is no way in which they can be circumvented without eventual unpleasant consequences—the degree of unpleasantness is proportional to the extent of the attempted deviation. Galileo stated essentially the same thing several centuries ago when his discoveries in the field of astronomy were rejected by contemporary intellectuals: "Nature is inexorable and immutable; she never transgresses the laws imposed upon her, or cares a whit whether her abstruse reasons and methods are understandable to men." The basic natural law of economics is the "law of supply and demand." This law determines the equitable value of all articles and services. Maximum economic growth will occur in all sectors of any economy when the value of everyone's services is determined by free operation of the law of supply and demand in a non-monopolistic environment. It is the duty of government to protect the economy against monopolism practiced by any sector. (Monopolism is collusion among any group of individuals to force the economy to pay a higher than natural price for their services. The natural price of anything is the price that automatically occurs in a free competitive market through interaction of the forces of supply and demand.)

The second belief embraced by economists is that the value of a monetary unit is determined by its gold content; hence the acquisition of a large gold supply is necessary to protect that value.

The correct explanation for this item is as follows:

The gold fallacy

Gold has nothing whatsoever to do with the value of any nation's monetary unit. Monetary units are empirical units of measure of the exchangeable value of productive human effort. The value of a monetary unit is established only by the quantity and quality of productive human effort that the citizens in the issuing nation are willing to exert in exchange for that unit. This effort can be broken down into three categories: (1) the number of minutes and how industriously civilian and government workers currently work for the monetary unit; (2) how small a percent profit on sales owners accept in payment for their economic leadership in creating jobs for workers; and (3) how small a percent rate of interest lenders accept for their services in channeling spare capital to owners and others for productive application.

In the case of the U.S. dollar, for example, the foregoing three human-effort-per-dollar ingredients are all that backs up the value of the dollar, because the dollar price of anything is equal to the sum of the dollar charges for their services of everyone having anything to do with its production and/or distribution for sale. When U.S. citizens in any category receive more dollars per unit of output of wealth for their services, the value of the U.S. dollar is reduced proportionately. Gold does not enter the picture in any way.

Gold possesses its present value only because the U.S. Government offers to surrender dollars—backed up by U.S. human effort—for gold. Contrary to popular belief, gold does not give value to dollars. Moreover, there is no logical reason for our giving an unnatural value to gold by subsidizing it at a higher-than-natural price, as we now do. And, anyway, gold is no longer used for money. There is no commercial market anywhere in which merchants honor uncoined gold as money. If the U.S. Treasury announced tomorrow that it would no longer buy gold at any price, nobody would be interested in buying our gold at \$35 per ounce, and the price of gold on the world market would promptly plunge to its natural value as determined by the huge supply of it in storage around the world, in relation to the limited demand for it for useful applications. It is doubtful that the natural price of gold is as much as \$10 per ounce.

The third belief embraced by economists is that the value of a monetary unit automatically increases or decreases inversely in some proportion to the volume of demand deposits in commercial banks plus currency notes in circulation. (This quantity theory of money is really inconsistent with the gold content theory referred to previously. Yet both propositions are embraced with more or less equal fervor by orthodox economists who have not yet noticed the inconsistency.)

The correct explanation for this item is as follows:)

The quantity theory of money is false

From the "human effort" content of the dollar previously explained, it is apparent that the value of a monetary unit (which is reflected in the price of goods) is independent of the total amount of money in the economy, for the same reason that the power content of a gallon of gasoline is independent of the number of gallons in storage back at the refineries; the two variables are simply unrelated. The only price that changes significantly with the size of the money supply is the price of money (interest rates). The smaller the money supply the higher interest rates will be, and the lesser will be the incentive for owners to engage in productive effort requiring borrowed capital. Contrary to popular belief, an excess (unused) money supply in "storage" in banks does not contribute significantly to inflation. Conversely, contraction of such money supply does not combat inflation. Inflation stems only from increases in wage, profit, interest, or tax rates, or some combination of these solo components of price. The tax rates that contribute to inflation are price subsidies, tariffs, excise taxes, and business taxes such as corporation income taxes; all of which must be included in the selling price of goods and services affected by these levies. Only personal income taxes at the lower income brackets (affecting the bulk of consumers) are effective in curtailing inflation; and then only that inflation which is attributable to increased profit rates. This is because an increase in personal income taxes does not reduce the cost of production; and hence cannot possibly combat inflation due to increased costs; it only reduces effective demand for produced wealth which puts a profit squeeze on owners, and thus curtails inflation, provided that the inflation is due to higher profit rates.

The fact that excess money supply does not contribute to inflation to any measurable extent was proven beyond question during the thirties. Throughout the

decade of the great depression commercial banks held huge excess reserves of money available for lending; there was no inflation. Indeed, throughout this period the Government was engaged in a desperate futile effort to create inflation (higher prices) to a degree because social scientists advising the Government incorrectly thought this was the way to solve the depression. (The real cause of the prolonged stagnation—low-profit rates, especially after taxes—was not recognized, but instead was actually (but unknowingly) aggravated by higher taxes imposed on businesses in order to balance the budget. During this period, taxes on business profits and on the income of the rich were increased substantially; as a consequence, a severe recession set in, in 1937-38, which continued unabated until advent of World War II.) Inflation (which is always undesirable) was later induced primarily by wartime wage increases.

The fact that contraction of the money supply does not combat inflation was clearly demonstrated after the war. Throughout the postwar period of the forties and fifties the wage-price spiral of inflation continued unabated, even though the Federal Reserve System squeezed the money supply on several occasions. All that was accomplished through these credit restrictions was increased interest rates and postwar recessions with no effect on the continuing price spiral. The wage demands of organized workers, which induced postwar inflation, were simply not influenced by the availability of credit to owners. Since 1960 the price spiral has slowed down only because the cost-reducing effect of automation has been able to keep up with the cost-increasing effect of wage increases. But wage increases now seem to be getting the upper hand again, and so a resumption of the price spiral can be expected. Squeezing the money supply again will not correct this, or even help. With present wage patterns, there is no way that additional erosion of the dollar's value can be avoided, for the same reason that there is no way that the whole of anything can be more or less than the sum of its parts.

Contrary to official belief, there is no desirable upper limit to the size of the money supply in an economy, as long as the proper amount of productive human effort (i.e., at current wage rates) is expended in exchange for every monetary unit in existence when it is spent in the economy. This applies to credit money or noncredit money; new money or old money. From this, it is also apparent that the balanced budget concept of national taxation is irrelevant, and that the need for remittances of any kind by citizens to their national Government is dependent only upon whether the economy has the capacity to produce additional wealth that would be demanded by the citizens through the spending of these remittances if they were retained.

Treasury checks, by themselves, are the real Federal tax money, and the civilian human effort engaged in producing the wealth purchased with Treasury checks is the only real tax paid by the civilian economy to support the Federal Government. Taxation at the national level does not necessarily require a surrender of money by the civilian economy to the Government; it requires only that the civilian economy surrender real wealth (the produce of civilian human effort) commandeered by authority of Congress through the various appropriation acts, in exchange for the tax money, Treasury checks. This natural tax process consists only of the civilian economy's honoring Treasury checks as money, as it now does. Incidentally, Treasury checks, all by themselves, are money because Congress requires the Federal Reserve System to have member banks convert the checks into deposits and/or cash, on demand of the payee.

It is interesting to note that all citizens in the economy are automatically taxed individually and equally (natural taxation) by a hidden increment in the prevailing price level for civilian goods and services that would not be there if the Treasury checks were not spent to purchase some of this wealth. Remittances by citizens to the Internal Revenue Service (which constitute, in effect, a second tax on top of the natural tax already paid) are logically justified only to the extent necessary to prevent excessive inflation-producing competition that would otherwise occur between the remittances (if they were retained for expenditure by the citizens who earned them) and the Government's Treasury check tax money, for the limited quantity of goods and services capable of being produced by the civilian economy when working at its current full capacity.

For example, during a major war when the efforts of many citizens are diverted from their normal employment producing wealth for personal consumption to the needs of war, it is necessary for the citizens to be divested of large portions of their gross earnings in order to prevent inflation-producing competition for

the limited quantity of civilian goods for sale to the public. However, if it were possible during a war say, through automation, for nonservicemen to produce all of the materiel needs of the war effort, plus all the wealth that would be demanded in the market by citizens if they were permitted to retain their gross wages, then remittances to the Government, even during a war, would not be necessary. But since a major war usually requires such a proportionately large diversion of manpower from the production of wealth for personal consumption to the production of war materiel, the production of sufficient wealth for personal consumption to satisfy total demand is impossible; hence remittances to the Government are always required under such a situation. The important point is that even when the remittances are necessary, they are not the tax money; a balanced budget is never the criterion for them; only the productive capacity of the economy is relevant.

Practically every State and local government in the United States needs more revenue to pay for urgently needed community services. From the foregoing explanation, and the fact that State and local governments spend only about half of what the Federal Government spends, it can be seen that the local tax problem stems entirely from false concepts about taxation at the national level. If the Federal Government did not try so hard to balance its expenditure of Treasury checks with citizens' remittances to the Internal Revenue Service, the people could afford to provide their State and local governments with adequate revenue. Stubborn belief in the need for a Federal balanced budget is the hidden culprit.

Normally, the productive output of an economy is an ever-increasing variable whose rate is determined only by the rate at which money, "backed up" by the proper amount of productive human effort, is spent in the economy. Curtail the active money supply, (i.e., money being spent) and the production of wealth will be curtailed, with corresponding reduction in average living standards. But prices will not fall significantly unless wages are reduced, because wages are by far the principal ingredient in the price of anything. The postwar experience in the United States, previously referred to, illustrates this principle.

Except during a major war when substantial amounts of manpower are diverted from productive effort, and there are restrictions against "nonessential" production, there is no such thing as reaching the upper limit of an economy's productive capacity because, as the current apparent limit is approached, the productive capacity is automatically increased due to the population growth and new technology; this process continues ad infinitum, with average living standards rising in proportion to the rate at which the Nation's real output increases faster than the population.

It is absurd to say that the economy is "overheating," and hence should be slowed down because it is producing wealth at a higher rate than formerly. Increased rate of production of wealth, aside from being the only way to raise living standards, is the most potent weapon for combating "inflation." As previously noted, the latter evil occurs only when the cost-reducing effect of automation—man's priceless economic blessing—is offset by the cost-increasing effect of worker's wage increases.

Similarly, it is false reasoning to conclude, as economists are now doing, that full employment carries with it the threat of "ballooning wages" and "rampant inflation." Actually, the greatest impetus to technological advancement, permitting larger output of wealth at lower unit costs, is provided by scarcity of labor and/or higher labor costs. (But, to avoid unemployment, the higher labor costs must arise only out of a natural scarcity of labor; not out of monopolistically imposed wage increases.)

During the fifties and sixties, increased output per worker man-hour (due to automation) somewhat softened the inflationary impact of monopolistically imposed wage increases. Without automation, these wage increases would have caused prices to rise so much higher than they did, that demand would have been curtailed sufficiently to induce much more unemployment than was actually experienced. It is incorrect to equate automation with unemployment; in a "natural economic environment" automation increases employment; in a monopolistic environment automation reduces the amount of unemployment caused by wage increases. Automation can never be harmful, for the same reason that goodness can never be evil.

Price increases due to scarcity (resulting in higher profit rates) are healthy and have their own built-in correction; they attract additional effort to the

production of the scarce items; thus soon eliminating the shortage, often causing prices to be lower than they were before the price rise. Scarcities in a booming economy (except wartime scarcities) are signs of economic health; surpluses are signs of economic sickness.

Instead of fretting about the possibility of "full employment" and "scarcities" due to heavy demand—characteristics of a healthy "natural economic environment"—economists should be encouraging adoption of Government policies calculated to hasten achievement of these concomitant indexes of economic virility. As noted, the ingenuity of management, the real economic leaders—spurred by competition—is quite capable of overcoming "scarcities" through automation, through additional plant and equipment, and through utilization of the constantly increasing civilian work force. (Release to the civilian economy of more workers through elimination of unnecessary Government jobs would help also; as would be encouragement of healthy citizens to postpone retirement, by permitting them to continue working as much as they desire, while drawing full social security benefits.)

The alarm being expressed by economists over the current high rate of construction of new plant and equipment is completely unjustified. It would be a tragedy if public officials adopted the same view and interfered with this vital productive effort which is a mandatory prerequisite if more wealth and higher living standards for all citizens—the primary goal of any economy—are to be achieved. Current recommendations for increasing remittances to the Internal Revenue Service in order to discourage plant expansions, if followed, would be a major blunder. Such action would not only accomplish the opposite of its intended purpose with regard to curbing inflation (prices would rise as owners attempt to pass on the increased remittances to consumers), but it would also aggravate the Nation's poverty problem by discouraging the creation of new jobs, the only solution to this problem. The last time such increases were imposed in a nonwar situation (1937-38) a severe recession set in soon thereafter.

Although the economic demands of the present Vietnam conflict are not insignificant, neither are they yet sufficient to justify curtailment of production of wealth for private consumption. When production of wealth for private consumption is curtailed prematurely through increased remittances to the Government and/or curtailing growth of the active money supply, unemployment soon follows. On the other hand, if workers are absorbed in the Armed Forces in sufficient numbers, then private production must be cut back in favor of Government orders. Under these circumstances increased remittances to the Internal Revenue Service are justified to prevent inflation-producing competition for the reduced output available for civilian consumption.

By way of summary, then, the vital tax secret waiting to be unlocked is that remittances to the Internal Revenue Service are not the "Federal tax," but that the "Federal tax" is the goods and services surrendered to the Federal Government and/or its employees by the civilian economy in exchange for authorized Treasury checks which, all by themselves, are the "tax money" because Congress requires the Federal Reserve System to have member banks convert Treasury checks into deposits and/or cash on demand of the payee, in precisely the same way that banks so convert authorized civilian checks.

Taxation at the national level is not a transfer of money from citizens to the Government, but is the process whereby the Government commandeers wealth produced by the civilian economy in exchange for official Treasury drafts which are always convertible into deposits and/or cash anywhere in the economy.

Remittances to the Internal Revenue Service simply reflect destroyed purchasing power justified only to the extent that the economy does not have the industrial capacity to produce the wealth that the citizens would attempt to purchase if they were permitted to retain the remittances for expenditure as they see fit.

It is not necessary for Treasury drafts to be matched with citizens' remittances to the Internal Revenue Service for the same reason it is not necessary for the Government to lower the rate of improvement in the citizens' living standards below what the economy has the industrial capacity to achieve. Blind adherence to the "balanced budget" concept of Federal taxation simply provides a built-in limitation on the Nation's economic growth: it is the principal cause of present malignant pockets of poverty in this country and around the world.

The fourth and final basic belief embraced by economists is that monopolistic power over wages must be granted to workers in a capitalistic economy in order to assure maximum improved living standards for workers.

This Item gets deeply into the field of labor-management relations and, although I would be happy to discuss it as I have the others, I suspect the committee would rather concentrate on topics having to do with finance. Suffice it to say, however, my analysis demonstrates this belief to be false also.

Although this concludes my general remarks, I feel that no analysis of a problem is complete without a specific recommendation of how the proposed solution might be implemented in a practical way. I would, therefore, respectfully like to offer such recommendation at this time, which is a counterproposal to the "tax" statute under consideration, as well as to the present "guidepost" concept of granting annual increased gross wages to workers, much of which, because of the inequitable way the "guides" are calculated, must be paid for out of profit rates and/or inflated prices.

Congress should immediately impose a freeze on all wage increases, except for upgrade in worker classification through performance, and except for increases resulting in wage rates of less than, say, \$2 per hour. In return, Congress should annually reduce the rates of remittances to the Internal Revenue Service by an amount calculated to give everyone—individuals and corporations—an increased take-home net income of approximately 3.2 percent or whatever the "guidepost" analysts come up with. Any resulting "deficits" should be financed by "selling" interest-free Treasury bonds to the Federal Reserve System.

In the case of a current personal or corporate remittance rate of 50 percent, for example, the new rate (based upon a 3.2 percent "guidepost") would calculate 48.4 percent or, say, 48.5 percent. For the subsequent year the new rate would calculate 46.85 percent or, say, 47 percent. In the case of a current rate of 20 percent, the new rate would calculate 17.44 percent or, say, 17.5 percent. For the subsequent year it would be 14.86 percent or, say, 15 percent.

Even though it would increase everyone's take-home pay by the desired controlled amount, this proposal would not be inflationary because it would not raise employment costs, and would actually reduce other ingredients of price, without reducing profit rates. It would also provide more funds for owners and lenders to finance creation of more new plant capacity, so as to further increase output of goods, the only nondepression way of combating inflation; and the only way of increasing the rate of improvement in average living standards.

Not only would this program leave little or no excuse for raising prices (thus making Government pressure to discourage the practice more effective) but also, in those industries where competition is brisk, or profits are regulated by the Government (Federal, State, or local) prices might actually be lowered by some portion or all of the corporate remittance reduction; analogous to passing on to consumers excise tax cuts. In due course, prices would be subject to further lowering due to reduce production costs achieved through automation.

An added feature is that the proposal would prevent further increase in the Federal "public debt"; instead the "debt" would continue to be retired through Federal Reserve purchases of Government bonds in the "open market," in order to create bank reserves, the present basis for permitting member banks to make more commercial loans. The Federal Reserve System has already retired \$40 billion of the "public debt" in this manner, but this fact is effectively obscured by the official semantics used by monetary authorities to describe the operation.

Still another desirable feature is that all citizens would benefit from the policy, instead of the present arrangement which favors organized workers at the expense of the unorganized, even though, on balance, the latter support the former by purchasing the former's output.

Of course, if the Vietnam conflict becomes a major war, requiring more destruction of, rather than increase in worker purchasing power, then the "guidepost" analysts would come up with the percentage increase in remittance necessary to match take-home wages with the reduced physical volume of consumer goods available. The important point is that the remittance would be geared to the meaningful concept of physical volume of output, and not the irrelevant concept of a "balanced budget."

WHAT IS THE SOURCE OF "DEFICIT" MONEY?

(By Joseph H. Leopold)

A statement often repeated by economists and public officials in support of a Federal "balanced budget," is the following:

"When the Government decides to spend more money than it receives from the citizens, that extra money is 'created out of thin air,' through the banks, and

when spent, takes on value only by reducing the value of all money in the economy."

The above statement is false, as the following analysis demonstrates:

Through the mechanism of "loans and discounts" commercial banks are continually creating new money "out of thin air" to finance current production and distribution of wealth. (Last year they created about \$30 billion.) This new money is always accepted in the economy on a par with all other money; it is "inflationary" only if it competes with other money actively seeking a fixed amount of wealth previously produced. (In such case, the price rise would be due to the relative scarcity of goods, reflecting extra profit to the seller.)

But, if, instead of competing with other active money for a fixed amount of wealth previously produced, the new money generates production of a corresponding amount of additional wealth, then it is not "inflationary," but becomes monetary fuel performing a necessary function—indeed, a function that is mandatory if the additional wealth is to be created at all; since without expenditure of the new money, the new wealth obviously would not be produced. New money, therefore, is the medium that makes possible production of more wealth in an economy at ever-increasing rates. Curtailment in the rate of supply of new money must result in a corresponding curtailment of economic growth. This is why all recessions and depressions of the past have followed shortly after curtailment of the money supply.

In effect, economists have adopted the belief that new money created by banks for commercial loans is not inflationary; but if the same money is created for Government loans, it is inflationary. A corollary which follows from this proposition is that Government-spent money does not generate production of new wealth—only civilian-spent money accomplishes this. But this makes no sense since everyone knows that a Government-spent dollar commands the same wealth anywhere in the economy that a civilian dollar does. As every Member of Congress has learned, owners certainly do not frown on, or shy from producing wealth in exchange for Government-spent dollars. Therefore, within the productive capacity of the economy, including its capability of expanding capacity, newly created Government-spent dollars are no more or less "inflationary" than newly created civilian-spent dollars.

From the foregoing, it also follows that the Government can create its own "deficit" money, and need not have it created by commercial banks as it now does. As a matter of fact, all new bank-created money is honored in the economy only because Congress, in effect, has instructed the Federal Reserve System to convert the bank-created money into legal tender on demand of citizens. Since Congress also requires the Federal Reserve System to convert all authorized Treasury checks into legal tender on demand of citizens, Treasury checks, all by themselves, are perfectly sound money.

The belief, implemented by present official monetary policy, that it is necessary for commercial banks to first create "deficit" money "out of thin air" and then lend it to the Government before it can be spent by the Government, is false for the same reason that a father should not be prevented by his child from performing certain work just because father taught child how to perform similar work.

President Lincoln, when confronted with the choice of issuing Government bonds to banks to obtain "deficit" money, or issuing new money directly to the economy, decided as follows:

"If the Government can issue a dollar bond, it can issue a dollar note; the element that makes the bond good, makes the dollar equally good. It is absurd to say that the Government can issue a bond but not a dollar."

Another way of stating this principle is as follows:

"If commercial banks can create money 'out of thin air' and lend it to the Government at interest, the Government can create the same money 'out of thin air' and save the taxpayers the interest."

From the foregoing, it is apparent that at least the portion of the "deficit" created by commercial banks and loaned to the Government is unnecessary; the interest paid on these funds, amounting to billions of dollars annually, reflects a parasitical drain on the productive sector of the economy.

(Whereupon, at 12:25 p.m., the committee recessed to reconvene at 9 a.m., on Tuesday, Mar. 1, 1966.)

TAX ADJUSTMENT ACT OF 1966

TUESDAY, MARCH 1, 1966

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 9 a.m., in room 2221, New Senate Office Building, Senator John J. Williams (chairman) presiding.

Present: Senators Long, Smathers, Anderson, Douglas, McCarthy, Hartke, Ribicoff, Metcalf, Williams, Carlson, Curtis, and Morton.

Senator WILLIAMS. The chairman has asked that we go ahead and start these hearings if it is all right.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. Mr. Secretary, last October I introduced a couple of bills dealing with the question of political advertising and whether or not they should be deductible for business expenses. One bill suggested that they be deductible and the other that they should not be deductible.

Now, the reason that I did that, as I explained, was to have the two extremes as an approach to the problem and to force an answer. I asked if you had any recommendations. Are you ready to comment on these bills as to the recommendations of the Treasury Department?

Which bill and what formula for treating these political contributions disguised as advertising do you recommend?

STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY, ACCOMPANIED BY STANLEY S. SURREY, ASSISTANT SECRETARY FOR TAX POLICY—Resumed

Secretary FOWLER. Senator, we have been studying the bills that you have referred to relating to the tax treatment of advertising in political convention programs and similar publications, and also the related topic of the purchase of tickets to political dinners or events. I understand, as you have stated, that one of your proposals would make the expenditure deductible, while your other proposal would make such expenditures nondeductible.

These difficulties and uncertainties present the Internal Revenue Service with a very real problem in trying to apply to this area the present provisions of internal revenue laws dealing with deductions generally.

I think it would be of great benefit to the Internal Revenue Service and the Treasury Department from an administrative standpoint to have this matter clarified as fully as possible.

As respects a choice between your two different approaches and looking at the matter from strictly a standpoint of tax policy, I believe it would be more in keeping with the general nature of these expenditures to make them nondeductible. That result would more closely align the situation with the general approach of the tax law that payments or contributions for political purposes are not to be treated as deductible by the payor. That would be our position on these measures. I, of course, would like to add as a tangential matter that I am hopeful that the present bill can go through without getting over into many other areas, but I know that is a matter for the committee to determine, and I will only express my wish and hope that the consideration of this problem won't impede the progress with the bill.

Senator WILLIAMS. I thank you for that statement.

As I said yesterday, I am expecting to support this bill so I am not trying to delay it. I do think this is a field in which we should act now. As I told you privately, I agree completely that these should be nondeductible. I always understood heretofore that they were not deductible. With the endorsement which we are now getting from the Department this proposal will be offered as an amendment to this bill. I am hoping it will be adopted.

This is an area that needs clarification.

I introduced one other proposal in this connection that would deal with the method of treating small political contributions. I proposed that we make the smaller political contributions, \$10 to \$25, subject to 70 percent tax credit. The next \$75 would be treated as a deduction. I am wondering if the Treasury Department has had time to study that proposal and reach any conclusions?

Secretary FOWLER. Yes; we are engaged in the study of that subject matter, Senator. With respect to your bill proposing a tax credit or tax deduction for political contributions in smaller amounts, we are studying it in view of the President's statement in his state of the Union message to the effect that ways should be found to provide incentives for political contributions so as to make political giving and financial support of political parties more widespread. There are various possibilities which are being looked at. Some of them are in the nature of a review since an intensive study of this subject was made several years back. They are being reviewed now from the standpoint of their effectiveness, their costs, their administrative feasibility and other relevant policy considerations.

This is a study which is very actively going on, Senator Williams, at this time, and until it is completed and the President submits a detailed proposal dealing with this problem, among others, I would hope that I could be excused without making any particular comment on the approach you suggested, which is certainly one of those which is being studied. That is about all I want to say this morning.

Senator WILLIAMS. With that semiendorsement, I won't press you further, Mr. Secretary, because based on my conferences I have had with the Department on this same subject I know that it is being studied with the thought of coming up with recommendations. Therefore, I will, in line with your suggestion, be inclined to wait until you get the report, but I do feel, as you have stated and as the President stated in his message, this is an area with which we should deal. We

will have other tax legislation before us at a later date, and I am hoping by that time we can reach a formula. I think it is generally believed that this field needs attention, and if we can hold it up until we can reach an area of agreement it would promptly pass.

Secretary FOWLER. I think that is correct, Senator. We will certainly work with you to that end.

Senator WILLIAMS. I appreciate that, and I shall be glad to work with you.

Now, I had a third bill. In the 1964 act we provided for the information returns to be sent to the taxpayers who were receiving interest and dividends, and of course the wages were already taken care of before by the W-2 forms.

In enacting that legislation and in extending the requirement for the sending of the W-2's it was called to my attention that we excused the Government itself from complying with the same rules. I specifically refer to the Department of Agriculture and the payments that they make on acreage reserve, soil bank, and various other programs to the farmers, all of which under the law are 100-percent taxable, just the same as dividends and interest. Yet the Department is not sending out these W-2 forms that we require of industry. I introduced the other day a bill which would bring the Department under the same rules and regulations of reporting not only to the recipient of these checks but also to the Treasury Department. This is not a revenue-producing measure as we both realize.

Secretary FOWLER. Yes.

Senator WILLIAMS. And I would like to have your comments upon that proposal.

Secretary FOWLER. Senator, we certainly favor this proposal in principle. We realize that it involves another Department, and I understand that members of the Treasury staff are in touch with the Department of Agriculture to determine the administrative problems that might be involved. But I think we are very affirmatively in support of the principle and would hope to work something out along the lines you have indicated.

Senator WILLIAMS. Well, I appreciate that, and that amendment will also be offered.

In talking with the Department the only objection that I have had is in the amount of bookwork involved, but we got that same complaint from industry and nobody seemed to be concerned, so certainly the Government should live by its own rules. If it is rather burdensome maybe they would be more sympathetic sometimes when they get complaint from industry.

Secretary FOWLER. It certainly would be helpful to us in administering our part of the job.

Senator WILLIAMS. We are making such excellent progress in getting your cooperation, I have another proposal that I think that we can dispose of equally fast, and that is a suggestion that I made that we reduce the oil depletion rate. I propose that we reduce it to 25 percent the first year, 22½ percent the second year, and 20 percent the third year, and remain at that rate thereafter.

I have an old estimate as to revenue that would be produced, this estimate was made a couple of years ago, but it would be somewhat similar now.

Reducing to 25 percent I understand would bring \$75 million, 22½ percent would increase it another \$75 or make it \$150 million, and when it got into full effect it would be \$250 million. I am wondering if we can get a simple endorsement on that, too.

Secretary FOWLER. That gives me more of a problem, Senator Williams, in view of the fact that the present bill is somewhat limited in scope and does not address itself to many of the problem areas related to the structural reform of the tax system.

As I said at the outset while commenting on some of your earlier measures, my main concern is that we not get into areas which would impede progress in the prompt and quick enactment of this bill, which I know is your interest also.

The proposal before the committee is designed to raise what we believe is necessary revenue quickly. It is purposely designed to do that in a way that could avoid controversy or certainly minimize any controversy and do so in a way that doesn't increase income tax liability for either individuals or corporations.

We know from past experience that any time you change tax liabilities, no matter how worthy or how clear the reasons, those that have their liabilities increased are inclined to be rather strongly opposed to any such change.

We also know from our experience on various proposals that have been proposed to the Congress in the last 3 or 4 years, that changes in the structure of depletion rates raises controversial issues which I believe would be likely to cause substantial delay in the enactment of this program. For that reason, I would have to say at this time I would not feel it wise to include any such amendment in the bill.

Senator WILLIAMS. Do I detect a ray of hope that the administration has endorsed this with the one qualification that this is not the exact time but if I can find an appropriate time to put this on a bill where it would not cause delay we would have your endorsement?

Secretary FOWLER. I didn't mean to imply one way or the other. I think that I had better stand on the proposition that the President stated in his economic report that we must review special tax preferences, that is an exact quotation. As a part of any such review, this is certainly an area that could be examined.

Senator WILLIAMS. Is it being examined as a part of your next proposals?

Secretary FOWLER. Not currently. We are pretty well occupied with this current tax program, and we are not, at the moment, engaged in an examination of the subject. However, I know that it is being looked into, and has been looked into in other Departments that have related concerns to the topic.

Senator WILLIAMS. I realize it has been looked into because for the past 15 years we have had—

Secretary FOWLER. We have had the experience along that line, too.

Senator WILLIAMS. I was hoping that while we were in such a mood of endorsement here, we could have continued right on through.

Secretary FOWLER. Senator, I think that probably my endorsement would not be very meaningful one way or another on this subject.

Senator WILLIAMS. You would be surprised.

Secretary FOWLER. There are others who would—

Senator WILLIAMS. You would be surprised.

Secretary FOWLER. We weren't too successful a few years ago in dealing with this problem when my predecessor tilted his lance at one small flange of it, and I don't think I have any more influence in that direction than he had.

Senator WILLIAMS. Well, we will try to save you in spite of yourself on that one. [Laughter.]

I noticed in the papers the other day—and this was not a quotation from you—that consideration was being given to a tax in reverse is the way it was described, that somebody who has an income below \$3,000, which was the level set by the President, would get a tax refund in proportion to the amount of his income that was below this stated level.

Is the Treasury Department really giving any consideration to any such proposal?

Secretary FOWLER. Well, I certainly haven't, Senator Williams. I know it has been a matter of some comment and study in academic circles. I also think the Commission on Automation has dealt with it, but I certainly have not given it any serious consideration at this time. My preoccupation, certainly for as long as the Vietnamese situation confronts us, will have to do with questions of additions to revenue rather than in reductions.

Senator WILLIAMS. Would you care to give us an opinion on such a wild proposal?

Secretary FOWLER. No, sir, I would not. I haven't studied it. I haven't given it any serious consideration at all.

Senator WILLIAMS. This bill before us extends the tax 1 percent on autos and increases it by 1 percent, and it increases the tax on telephones by 7 percent.

Is there any particular reason why these two items were selected?

Secretary FOWLER. Yes, sir.

There were two or three reasons. Number one, it seemed to be an established policy of the Congress, incorporated in the excise tax act revenue producers is the reason they were singled out for gradual re-pattern. We thought that by asking for a further stretching out of the process of gradual reduction the Congress has already adopted we were more in line with established congressional policy in this area.

Number two. The fact that these two taxes are very substantial revenue producers is the reason they were singled out for gradual reduction. If we were going to try to raise an equivalent amount of revenue by selecting a composite of other excises we would have to impose taxation on a very large number of items.

As you know, the tax had been completely removed from many items last July 1 and January 1. The administrative machinery and the burden on the seller, the manufacturer or retailer, has been completely eliminated. To achieve a similar amount of revenue would have meant not only restoring taxes, but also restoring the whole administrative machinery.

Senator WILLIAMS. Well, of course, this bill is not only a stretchout, it is a reimposition of taxes.

We are reimposing a 7-percent tax on telephones, and we are reinstating a 1-percent tax on automobiles. Those taxes have been repealed, and so we are putting taxes back on.

Secretary FOWLER. Well, the rate of tax has been repealed, but the administrative machinery, already exist. A tax at a lower rate is still presently being collected.

Senator WILLIAMS. That was the reason I was suggesting that we move over into the field of the oil depletion because the machinery is all there. All we would have to do is just make a very simple change in the formula. You are going to endorse this yet. [Laughter.]

I get mail asking this question, and it is a little hard to answer—with these taxes on telephones and automobiles having gone off January 1, why put the 7-percent tax back on a telephone and a new tax on a car at 1 percent, and at the same time not do anything with the 10-percent tax on cabarets and the 20-percent tax on racetrack admissions both of which also went off January 1.

Actually the cabaret tax went off December 31 to make sure they could enjoy New Year's without a tax. Tax on country club dues of 20 percent were repealed January 1, chewing tobacco tax was reduced 10 percent January 1. There are \$150 million in those four items. I get asked the question, just how under the Great Society these can be counted as necessities while the telephone on the farm must be counted as a luxury. They want to know when you are going to put these back. Why did you pick out these four items and say they were the necessities of life?

Maybe you can give me a suggestion how we can explain that action to the people.

Secretary FOWLER. By selecting these two taxes, and confining the problem just to these two where the administrative machinery for the imposition and collection of taxes continue to be intact, we avoided the reinstatement on a selective basis of a large number of highly controversial taxes which wouldn't have produced enough revenue. I do not believe it would be worth the delay and the difficulties that would have been entailed in selecting from all of the myriad excise taxes those on which for one basis of logic or another, it might be said that they should be imposed.

Out of all of the excise taxes that were going to be repealed, Congress last June decided in its wisdom that these two big revenue producers were going to have to be repealed or reduced in a graduated way. We are simply following the policy of a graduated removal of these two taxes. There is no contemplation in the President's message, or in any statement that I have made to the Ways and Means Committee or this committee, that this is a permanent turnaround. It is simply a postponement of the removal of these two graduated taxes along the lines that Congress had proposed.

Senator WILLIAMS. I realize that the bill before us is referred to as an adjustment act rather than as a tax increase, but you still can't get away from the fact that you are putting a 7-percent tax back on one industry and a 1-percent tax on another.

What concerns me is the justification of this tax on these two industries. It would seem to me our tax system should be set up on the basis of equity, and not by singling out one industry as an easy way to get money or by taxing one or two industries because they are big. It seems to me there should be some equity.

Secretary FOWLER. I would agree, Senator, but I think the administrative matter is an element that is also worthy of some consideration.

Senator WILLIAMS. I do, too, and again you are getting closer to my oil depletion amendment because that is so simple administratively to change it to pick up \$250 million.

Secretary FOWLER. Again, I come back to the point that there is some premium on speed in the enactment of this particular bill.

Senator WILLIAMS. You would be surprised at the speed we could get if you would just endorse that oil depletion.

Secretary FOWLER. I have no such confidence in that result.

Senator METCALF. I wonder if the Senator would yield? I would suggest in spite of the fact, if the administration would come up with some suggestions in changes in depletion not only in oil but in minerals and other things, that many of us would very seriously consider those before approving them. If there is an emergency on this bill, an amendment certainly should not be put on as far as this whole business of depletion is concerned.

Senator WILLIAMS. I think the Senator is right and, as I stated earlier, I certainly have no intentions of trying to cause undue delay in this bill. I realize the interest in the Treasury of getting it enacted, but I am not too overly concerned over a few days in order to do the job right. As I have stated earlier, I think the administration made a terrible mistake when it recommended that Congress reduce these taxes last year. I so stated at the time and voted against it. There was a war going on when the administration signed the bill. They knew there was a war going on, or at least they should have known it—they were sending 200,000 men over there. They knew it was going to cost money.

Before Congress adjourned you also knew that the war was escalating, and it would have been very simple to have postponed this reduction. Then you would not have had to go through all of this tedious process of reinstating the taxes. I am not going to be stampeded into just a few days in order to get a good deal.

Secretary FOWLER. I certainly did not intend to imply that, Senator.

Senator WILLIAMS. I don't think you did.

Secretary FOWLER. For the record, I should say this. After the Excise Tax Act of 1965 was enacted, and after the time I appeared before this committee to support its enactment on June 8 and 9, a very substantial change in national policy occurred following a most careful and thoughtful study and the most intensive consultation, both inside Government and outside Government, on what our military situation was and responsibilities were. This occurred after the enactment of the Excise Tax Act. As you recall, these decisions were announced to the public on July 28. At the time I appeared before this committee, I certainly did not contemplate the problem of financing the effort in Vietnam on an escalated scale. I would also like to cite some exchanges on pages 30 and 34 of the hearings before this committee wherein the administration stated its concern about the action of the House in removing the automobile tax. The administration asked for only a 5-percent graduated reduction. The House had enacted a 10-percent graduated removal. The reasons we gave for holding off that action had to do with the fact that it might be desirable to reserve that additional 5 percent for action at a time when we were moving into a deflationary period.

I think that an examination of page 34 of the record of testimony before this committee will indicate that the timing of the excise tax reduction on automobiles was in all of our minds at that time.

Senator WILLIAMS. Mr. Secretary, I realize that that was your testimony, and I don't question for a moment that that was the information you may have received as far as the administration was concerned.

But I know for a fact as a member of one of the committees that last June the Armed Services Committee and the Foreign Relations Committee were both being alerted to the fact there was a stepup in the war. We were alerted to that fact in June, prior to the enactment of this bill. It is true that the President did not make a statement to the American public until some time in the latter part of July, but the administration knew before that. They were alerting the Congress. They knew they were escalating the war, and there was no reason why such information had not been transmitted to the Treasury Department and they should have taken action to stop the reductions.

There is no doubt in my mind that the administration was well aware of the danger with which we were confronted, and if it was not then someone was asleep at the post, and I shudder to think that anybody was sleeping to that extent down there.

Does the Senator from Kentucky want to ask any questions?

Senator MORTON. If you will yield for just one point, Mr. Secretary, I have some appointments in my office, and that is in connection with this floor stock tax on automobiles. I am sorry I was not here when you gave your statement.

Secretary FOWLER. I don't think this topic has come up, Senator Morton, in the hearings up to now.

Senator MORTON. The last paragraph on page 9 of your testimony mentioned this. It is the method of collecting the floor stock tax. One of the major automobile companies had been in contact with me, expressing some apprehension about this, and I hoped that they would have a brief which I could have studied before coming here, but as of this morning it hadn't arrived at my office.

I don't know just what their concern is, but there seems to me a difficulty in collecting it from the retailer.

Secretary FOWLER. Yes, I think I can help a little bit on that. This matter of the method of collection of the tax came up for very intensive examination in the executive sessions of the House Ways and Means Committee. We had initially proposed that the floor stock tax be collected directly from the dealer and paid to the Treasury. There were those who were concerned that the dealer would not know the precise amount of the manufacturer's excise tax so that he wouldn't be cognizant of the precise amount that he could pass on, as it were, to the customer or reflect in the operations of his business. It was thought, therefore, that the most equitable way of collecting the tax from the standpoint of the dealer and thus enable him to cope with the problem would be as this bill proposes. Although the tax be paid by the dealer, it is to be collected by the manufacturer from him and then paid over to the Treasury by the manufacturer.

This wasn't a casual consideration. It was the result of a discussion that went on for the better part of a morning. The committee came out with the formula incorporated in the act.

So far as the Department is concerned, I think it was comme ci, comme ça.

Senator MORTON. In other words, as I get it, after the action taken by the Ways and Means Committee and upheld by the House, the manufacturer will pay the Treasury the tax and collect it from the dealer.

Secretary FOWLER. That is right—and in the process inform the dealer of the precise amount of the tax, so that he can deal with his customers knowing the exact amount of the tax.

Senator MORTON. Your original proposal to the Congress did envisage a floor stock tax?

Secretary FOWLER. That is right.

Senator MORTON. And the difference in what the Ways and Means have come up with and what you originally proposed are the mechanics of collection?

Secretary FOWLER. Just the mechanics of collection.

Senator MORTON. How much—do you have any estimate at all of what this floor stock tax amounts to?

Secretary FOWLER. It is about \$25 million.

Senator MORTON. Competition in the marketplace in these automobiles, I guess we have to collect the floor stock tax, but it is a headache to go through one of these things however you collect it, I can guarantee you that.

I may before we finish our markup of the bill, I now have a copy of this memorandum which I have to study, and I may call on—

Secretary FOWLER. Mr. Surrey is very familiar with this.

Senator MORTON (continuing). Mr. Surrey or someone to go over it with me.

Thank you.

Senator WILLIAMS. I appreciate the Senator's raising that point, and I had it on the agenda.

One further question that is raised concerns the bill. We propose the bill to be effective on March 15 in general, but there is language here that says the floor stocks tax will be imposed the day after enactment. If the President signs the bill the 10th or the 12th you will have all of this uncertainty as to just when the tax is to go on. I raised this question with them before the meeting started hoping that we could work out some kind of an understanding as to an effective date. That may be a matter which we could better deal with when we get into executive session.

Secretary FOWLER. In executive session.

Senator WILLIAMS. The Treasury is aware of this problem. I do feel that the bill as it is drafted does need some modification or some clarification.

Secretary FOWLER. Mr. Surrey is aware of this, and will be glad to discuss it with you, sir.

Senator WILLIAMS. I have another question to raise in connection with the bill. It is from a party who claims that under the bill certain exemptions are made from the excise taxes for nonprofit organizations, but others are not exempted. I quote the letter:

We are neither for nor against the bill as such, but do believe that if exemptions are to be made for certain groups not to pay this excise tax the exemptions should be extended to all agencies which are exempt under section 170(b)(1)(a), of the Internal Revenue Code. That either it should apply to all or none.

What would be your reaction to that point?

Secretary FOWLER. At this time we would be opposed to extending the exemption any further, Senator Williams.

Again, this is not appropriate legislation for expanding or extending exemptions.

Senator WILLIAMS. The bill does depart from the existing practice in that it does extend exemptions, as I understand it, to some new areas; is that correct?

Secretary FOWLER. Nonprofit hospitals. This is something the House committee wished to do. The administration didn't sponsor it.

Senator WILLIAMS. I am not objecting to what you did, but it just raises this point.

Secretary FOWLER. I would hope the process could be arrested where it is in the bill and that we do not get into the question of all the other types of exempt organizations that might be considered.

Senator WILLIAMS. One other problem that we have had brought to our attention. I have before me a letter transmitted by Senator Hickenlooper, I won't mention the company by name for reasons you will understand, but they claim they bought a posting machine, and it is only about 2 years old. In order to handle their withholding tax under this new withholding formula, these machines will be obsolete.

Secretary FOWLER. Senator, I can't give you a definitive answer on this case. All I can say is that during the development of the graduated withholding proposal we met with many employers and this problem was not raised. The Internal Revenue Service has checked with other employers in the process, and they have not encountered any computer problem. I think we first heard of the case when you raised it informally the other day with one of the members of the staff—who has been trying to track down the source of it. We will be prepared to discuss it with you in the executive session.

The thing that gives me some doubt as to whether it is a serious problem is the fact that, as you know, 18 States presently have graduated withholding. It is hard to believe that there would be major computer problems that those in the business wouldn't have adapted themselves to by this time.

Now it may be that some old machine that was created for a variety of other purposes long before this, one of the early devices you might say, might be obsolete and not adaptable to this process. But I would doubt very much that there is any substantial line of updated computer equipment that could not be adapted to this operation, or I think we would have heard of it.

Senator WILLIAMS. This letter indicates that the machine was bought since 1961, and I am going to give the letter to Mr. Surrey after this meeting and will discuss it later.

Secretary FOWLER. Right, sir.

Senator WILLIAMS. I shall ask you to study it, and we will take it up with you when we get into executive session. I didn't have the name of the company when I discussed it the other day, but I do have the letter now, I will give it to you later.

Secretary FOWLER. Thank you, sir.

Senator WILLIAMS. We were discussing earlier the question of interest rates and the 1967 deficit. I won't go back and review all that

because I think we reached an agreement that the deficit for fiscal 1967 was between \$9 and \$10 billion.

Secretary FOWLER. That was your statement. We didn't reach any agreement on that.

Senator WILLIAMS. Well, if we didn't reach an agreement we will go back over it again.

Secretary FOWLER. We would be here a long time. I just couldn't agree to the way you phrase it, Senator. That is all.

Senator WILLIAMS. Well, let's go back because I certainly wouldn't for the world want to leave you, least of all, with a misunderstanding as to the deficit this year. I was perfectly satisfied by the way we had it clarified before.

Secretary FOWLER. I don't think there is any problem about the arithmetic—it is the interpretation and application of the arithmetic and what you don't include in your summation about the other side of the ledger.

Senator WILLIAMS. I am not speaking of the FNMA. I am speaking of the expenditures, normal expenditures, and the normal income of this Government as it was projected to the Congress in the President's message wherein he claimed that there would be a \$1.8 billion deficit.

Secretary FOWLER. That is right.

Senator WILLIAMS. Now, in order to arrive at that \$1.8 billion deficit you have figured on a \$5.4 billion acceleration of the corporate income tax payments.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. Part of which was taken care of in the 1964 act, and part of which is taken care of in this bill now before us.

But the sum total of the combined acceleration is around \$5.4 billion that will come in 1967, that would not have come without the accelerated payments, is that correct?

Secretary FOWLER. Well, about \$5 billion.

Senator WILLIAMS. There were approximately \$400 million that will come under your proposal for withholding tax that would not have come in normally, is that correct?

Secretary FOWLER. That is correct.

Senator WILLIAMS. And there is about a billion and a half that will come into the Treasury in the 1967 fiscal year, as a result of the reduced content of silver in the coinage, about \$1 billion in 1966, and about \$1½ billion in 1967 that is nonrecurring income, is that correct?

Secretary FOWLER. It is nonrecurring and it will diminish substantially in 1968.

Senator WILLIAMS. That is right, it practically vanishes; but \$1 billion in 1966, and \$1½ billion in 1967 fiscal, is that correct?

Secretary FOWLER. That is roughly correct.

Senator WILLIAMS. And the above normal sales of FNMA certificates are about \$1 to \$1½ billion, is that correct?

Secretary FOWLER. That is correct, sir; when you say above normal I would say—

Senator WILLIAMS. Well, I would say average.

Secretary FOWLER. At the average.

Senator WILLIAMS. You are selling \$4.7 billion; this is an acceleration of about a billion and a half above the average sales. The point

I make, if you take these totals which you will admit are one-shot operations—

Secretary FOWLER. We definitely admit they are one-shot operations.

Senator WILLIAMS. Figuring the 1968 fiscal year with the same rate of expenditures, projecting the same level of income that you have now you have a \$9 billion deficit. This one-shot income is used up, is that not true?

Secretary FOWLER. This is used up this time. I would like to make just two comments, Senator, and I think we can leave this where we have it. My objection went to the phrasing of this as a deficit different from the \$1.8 billion that is included in the President's budget. I will make my point with just one illustration.

We have had corporate accelerated income incorporated in the 1965 budget to the tune of about a billion dollars as a result of the—

Senator WILLIAMS. That is right.

Secretary FOWLER. In computing the deficit for fiscal year 1965 we didn't treat that billion dollars of accelerated corporate income in any different way from the manner in which we are treating the \$5 billion acceleration in fiscal 1967.

Senator WILLIAMS. That is right.

Secretary FOWLER. And we called the deficit the deficit taking into account the income that comes from whatever its particular source. Now, that is—

Senator WILLIAMS. Mr. Secretary, I am supporting you in accelerating these payments. Don't misunderstand me in that. I supported it in 1955, but I did it with the clear understanding that we were moving forward a portion of the corporate tax payments and that our action would have the effect of reducing the deficit in those years. Congress did it in 1955; it does it now. I don't quarrel with what you are suggesting, but what I am trying to point out is that we are going to reach a cutoff period in 1968 where this nonrecurring income will not be available. Based on a \$1.8 billion deficit for 1967 that is about \$150 million deficit. When in 1968 you move beyond this notched period with the expenditures and income running the same, you overnight move into an \$800 million deficit per month. I am just pointing out that this is a real problem we have got to recognize and deal with.

Secretary FOWLER. The only other thing I would like to add is that when the time comes to draw up the budget for fiscal 1968 that the absence of these, as you phrase them quite properly, one-shot sources of revenue will have to be very definitely taken into account. The expenditure pattern in fiscal 1968 will have to take into account the increases in revenue that are a derivative of the economic growth of our economy. The budgeting problem in fiscal 1968, assuming a continuance of the war at its present scale, is going to present a very serious problem, which I know the President is quite conscious of. It will mean that the expenditure pattern for fiscal 1968 will have to be kept very much in scale.

Senator WILLIAMS. That is the only reason I was raising this here. I think we have a clear understanding that there is this notch provision. After 1968, it will have to be taken care of either with reduced expenditures or it will have to be taken care of with a substantial increase in taxes unless your revenues have gone way beyond what any-

body has anticipated. I am wondering if this one-shot operation isn't something to get us by the 1966 elections, and then you are going to come back in again with a proposed tax increase. I don't think the American people should be caught by surprise or allowed to be unaware of the fact that this is a one-shot operation that will not cure a rather serious problem with which we are confronted. Our revenue and expenditures are not in balance. As one who is going to support this proposal here this year. I am doing it with the clear understanding that it does not cure the problem with which we are confronted. It is only an aspirin that is going to relieve the headache at this particular time. It is not curing the real problem of a \$9 billion deficit. We are going to have to have a major operation here someday.

Secretary FOWLER. Senator, there is no question but I think we agree that the financing of an additional \$10.5 billion for expenditures in South Vietnam presents a serious problem with which we are all confronted. The financing of this additional requirement, both in this budget and in the budgets that follow, if the situation continues, will necessitate a serious holddown in the pattern of expenditures and, on the revenue side, the taking advantage of the so-called fiscal dividends of economic expansion. I think this current budget does that to a very considerable extent by applying revenues resulting from the bill before us, as well as the fruits of the economic expansion anticipated in this calendar year, to defraying the costs.

Now, next year when we sit down in the budgeting process the scale of the war will, of course, be an overriding consideration. I want you to know that we are just as conscious of the problem as you are, or we won't have these one-shot additions at that time. I believe the allocation of the increased revenues from an expanding economy to the war will be an overriding consideration.

Senator WILLIAMS. I appreciate that statement, and the reason I raised it was that I had two or three make the point as to why the concern. They say that a one-shot operation was used in 1955 to a partial degree, as you just stated, and the administration uses a one-shot operation now to accelerate the payments, why not use it again next year. The point that I was trying to get through, and you have agreed, is that we have used it up; it is done.

Secretary FOWLER. That is right.

Senator WILLIAMS. In 1955 they used a part of it, but this time we have used the remainder.

Secretary FOWLER. That is right, sir.

Senator WILLIAMS. There is no possible way you can advance these taxes further. They are current after the enactment of this bill.

Secretary FOWLER. You can't collect taxes in advance.

Senator WILLIAMS. That is right.

Now, one other point, and we were discussing this point in the office a couple or 3 months ago, and that is the need for a change in the interest rates on E-bonds, I noticed that it has been changed to 4.15 percent, I think that was—I won't say overdue—but it was certainly a justified correction.

The question that is in my mind, and the point we were discussing, is that the sale of these E-bonds could very well be used as a deterrent to inflation if you could get the people to buy them, encouraging

them to save rather than spend the money. I am wondering if the 4.15 rate is adequate to encourage the savings that would really help the situation from an inflation standpoint now.

Secretary FOWLER. I think, Senator, that the 4.15-percent rate will go a good part of the way to giving us a base for a much more intensive, and I hope a much more successful, savings bond program this year.

We are trying to make this year's savings bond program far more intensive than at any time since the war days.

I appreciate your interest and concern with this problem, because I think you see the savings bond program as a useful way of dealing with any threat of inflation. The more that we can induce savings at this time, the greater safeguards we have.

In addition to changing the rate of interest and putting a good deal of effort into the industrial payroll savings plan—in connection with which I might add we have very excellent committees and receive substantial volunteer help from industry—we are considering whether or not a new product line could be devised within the framework of the 4.15 rate, but tailored in such a way as to give inducements over and above the present type of bonds that are being sold.

I am not prepared at this time to say whether we are going to arrive at something that we think will be more attractive in connection with the payroll savings plan, but we are working on it very hard, and hope to have something to report soon on that subject.

Senator WILLIAMS. I know you are, and I have discussed this subject with you many times.

Secretary FOWLER. Yes.

Senator WILLIAMS. We are both pretty much in agreement as to the objective, but the reason I make this point is that during World War II, at a time when we were really confronted with inflation and price controls, I think the rate was 2.94 on these E-bonds. It was right around 3 percent, but at that time money deposited in the banks would draw 1 to 1½ percent, and the E-bonds were made the most attractive investment.

There was a limitation put on as to the amount each could buy, but they were used to siphon off much of the spending power of the consumers. The Government encouraged them to put their money into savings. Today we do have, and I don't like to say it, but we do have this threat of inflation. I think that is misleading—I think we have inflation. I don't think it is something we are dealing with as a future possibility. We have inflation here within our midst, and we had better recognize that as such. I think you feel that way about it.

Secretary FOWLER. No, sir, I don't feel we have inflation. I think we have threats. We have price instability, but I do not go along with the proposition that we currently have what I would call inflation.

Senator WILLIAMS. Well, I won't deal with words. It is a good bit like this bill is called a tax adjustment instead of an increase, but I expect the people paying their telephone bills, getting a 7-percent extra charge on it, are going to think it is more of an increase than it is an adjustment.

But regardless of words, the historic record of these E-bonds is that we made them a more attractive form of savings.

I noticed in the paper this morning that one of the New York banks is paying 5-percent interest on time deposits, I think they were about 6-month certificates of deposit.

If a man can get 5-percent interest he is not going to buy 4.15-percent E-bonds. You can buy Treasury bonds that yield 5 percent. You financed a sizable maturity just a couple of weeks ago with 5 percent. If we are going to pay the banks 5 percent wouldn't it be better to offer a more attractive form of some type of a bond, an E-bond, or call it a retirement bond, perhaps a 10- or 20-year bond, but offer the small investor, the man working in the plant whom we are encouraging to lay aside a portion of his earnings, a plan whereby you will pay him at least the equivalent of what we are paying the banking system?

Secretary FOWLER. I think there is a great deal of merit in what you say and this is one of the areas that we are studying quite intensively—as to whether we can couple the patriotic incentive that is always involved in the industrial and Government employees payroll savings ment of thrift and the automaticity of saving that is particularly involved in the industrial and Government employees payroll savings plans. We are studying possible ways of coupling those two things so as to induce the 8 or 9 million people who are currently engaged in regular saving through wage and salary payroll deductions to add to the magnitude of their savings along with inducing additional millions to become participants in the program. This is the area of the problem we are addressing ourselves to.

Senator WILLIAMS. I have been a supporter of your program, as you know.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. I have been very much interested, and it is not something I am suggesting we should correct in this legislation but it does need consideration.

Secretary FOWLER. Yes.

Senator DOUGLAS. Will the Senator from Delaware yield for a mischievous interjection on my part?

Senator WILLIAMS. If you will wait for this next question then you can make all the mischief you wish. I realize that there is a patriotic appeal being placed on purchases of the E-bonds, but I don't think it is quite cricket to figure that the 8 or 9 million workers who are going to buy these E-bonds should be called upon to contribute their savings from a patriotic standpoint at 1 percent less than we pay the banks. Patriotism is something that extends to everybody, not just this particular group of people who are buying the E-bonds, and I hope we can work out something in the spirit of equity. I don't think that they should be asked to finance the Government at lower rates than we pay the banks; but even more important in this question of dealing with inflation and the excess purchasing power at this time. It would help tremendously if we could siphon some of this money into savings.

There is general agreement on that.

Senator DOUGLAS. Now will the Senator permit me.

The CHAIRMAN. Hold on, the Secretary hasn't had a chance to answer the question.

Secretary FOWLER. I have no further comment.

Senator WILLIAMS. Now the Senator from Illinois.

Senator DOUGLAS. In Greek tragedy Cassandra always perceived evil and misfortune. From time to time she probably played an important part. But many times she was quite inaccurate. When the modern Cassandras get up and say we are being devoured by inflation, I think that they are exaggerating the danger. I will merely point out that the newspapers this morning carried a release from the Bureau of Labor Statistics that the wholesale price level remained absolutely steady last month. So we need to have a sense of proportion.

The CHAIRMAN. Senator Williams.

Senator DOUGLAS. Thank you, I thank the Senator from Delaware.

Senator WILLIAMS. Thank you. I thank the Senator from Illinois in classifying his own remarks as mischievous. This is the point I am making, the great danger as I see it is that for some time there has been a reluctance on the part of many in responsible positions to recognize that inflation can develop in this country or to recognize that we are at war. I think we are confronted with both. Both inflation and the war are real. If we close our eyes to these threats and just treat them as big bugaboos that will go away I think we are going to be rudely awakened at some time.

Senator DOUGLAS. This is not mischievous. It is a threat but not a reality.

Senator WILLIAMS. Well, I expect there are 200,000 boys in South Vietnam who think that war is a reality, and even though it is not so declared. I know that they consider it a reality, I consider it a reality and will consider it a reality until such time as we have everyone back home safe. I think that our Government should recognize what is happening on the domestic front. I am sure that the Secretary of the Treasury is vitally concerned about inflation.

Secretary FOWLER. Senator Williams, I think I should say that the administration has been seriously concerned since the earliest time the wholesale price index indicated that we were not enjoying the price stability that we had for the past 7 years. I made a number of speeches in various areas, addressing myself just to the problem of expression of concern. Many other members of the administration, including the President, also expressed concern from time to time. The President has made repeated appeals to those in his own administration, the department heads, to hold down and reduce expenditures. I heard him make this point 3 or 4 times last summer in connection with the budget operations. He went into great detail, in a way I have never seen any previous President pursue the matter, on the necessity for holding down and giving priority to particular operations and cutting back on others. At the same time, as you know, all during the late summer and fall there have been repeated appeals for restraint to management and labor in dealing with the wage and price decisions. I don't think there has been any—as a matter of fact, I think there has been an effort on the part of the administration to focus, as Senator Douglas has indicated, on the importance of dealing with this threat. And I don't think it is fair to say that we have tried to cover it up.

Senator WILLIAMS. I didn't say that. I want to congratulate you on your remarks and your recognition of the problem. You men-

tioned in a colloquy with the Senator from Georgia the other day that the wholesale index had jumped I think it was around 3 percent and the bulk of that increase was in the last 60 or 90 days. I realize that the administration has been expressing concern, and I think very properly so. I certainly don't join those who characterize your concern as mischievous. This is a real concern, and I hope that those in Congress who don't agree with you won't consider that you and anyone else who expresses a concern is a mischiefmaker. Maybe the mischief-makers are in the other direction.

Senator McCARTHY. If the Senator will yield, I hope the Treasury doesn't get overcommitted to support the position which has been opened up by the Senator from Delaware. I don't think the problem of inflation is particularly serious at the present time. Do you, Mr. Secretary?

Secretary FOWLER. No, I think that the threat of inflation, the loss of price stability, is something that we have to constantly guard against, Senator McCarthy. I think it is one of the three or four major national economic objectives. I couple maintaining what I would call relative price stability, along with a healthy rate of economic growth, full employment, achieving a balance in our payments. I think those are the four objectives. I don't think any one of them should have a special priority, and I have said so. I think the problem is to achieve the economic mix that achieves a maximum of all of these things and not just to be preoccupied with any particular one.

Senator McCARTHY. It is a pretty good mix now, isn't it?

Secretary FOWLER. I think it is a very good mix.

Senator McCARTHY. What has been going up? What has influenced the index to cause the rise?

Secretary FOWLER. The wholesale price index of farm products has gone up by 12.3 percent from January 1965 to January 1966, and the index of processed foods has gone up 7.8 percent. All others, which includes the industrial category which is in a way the most significant one in terms that we are talking about, went up 1.6 percent over the last year.

Now—

Senator McCARTHY. That is about what it has averaged, isn't it, over the last 7 or 8 years?

Secretary FOWLER. Over the last 7 years the wholesale price index has been at a fairly steady level. There was no—

Senator McCARTHY. The overall index though went up 11 points, roughly, since 1957.

Secretary FOWLER. You are talking about consumer price index, Senator.

Senator McCARTHY. Yes.

Secretary FOWLER. We are talking about the wholesale price index.

Senator McCARTHY. Overall.

Secretary FOWLER. The consumer price index has gone up on the average of about 1.3 percent over the last 7 years. The 1964-65 increase was 1.7 percent.

Senator McCARTHY. Isn't it a fact that farm prices have generally been depressed for the last 10 years and what is happening now is an equalization? The administration is not opposed to an increase in farm prices. They don't think they are out of hand, do they?

Secretary FOWLER. Well, I am not particularly an expert on farm prices or prices of foods and farm products and processed foods, but I do think this is an area, just like any other, that we ought to be concerned about insofar as prices go. I think Commissioner Ross indicated yesterday in announcing a consumer price index for January that we could continue to expect some increase in meat prices in the months ahead.

Senator WILLIAMS. You mentioned wholesale prices had been relatively stable in the last 6 or 7 years. Is it not true that in the last year they rose about 3 percent and that that is what caused the concern?

Secretary FOWLER. That is right. And I think any departure from relative price stability is something which is a cause of concern. I do think that there has been a tendency, as Senator McCarthy indicates, to magnify concern with the threat of inflation and sometimes to diminish our concern with the other economic objectives. I think, under ordinary conditions, and even under the conditions we have today, all objectives should have close to equal emphasis.

Senator WILLIAMS. One of the arguments you used in support of this bill was the fact that it would draw from the corporations a certain amount of cash, it would reduce their cash flow, and thereby reduce their ability to expand or it would act as a deterrent.

Secretary FOWLER. It will diminish private purchasing power in calendar year 1966 by \$2,700 million. That would be its economic effect.

Senator WILLIAMS. How much is your corporate tax normally?

Secretary FOWLER. I don't have the exact figure.

Senator WILLIAMS. Approximately.

Secretary FOWLER. The estimate for fiscal year 1967 is \$34,400 million. For fiscal 1965, actual receipts were \$25.5 billion. The estimate for fiscal 1966 is \$29.7 billion.

Senator WILLIAMS. I realize this bill is not raising corporation tax rates; it is only advancing payments, but the mathematical effect from the cash flow of the corporations by this bill is the equivalent of a 6-percent tax increase, is it not?

Secretary FOWLER. I think—

Senator WILLIAMS. Approximately?

Secretary FOWLER. You have to take into account the normal practice, Senator.

Senator WILLIAMS. I realize—don't misunderstand me. I am supporting the bill as I told you in these accelerated payments, but from a cash flow standpoint of the corporations of America the mathematical effect is the same as withdrawing 6 percent extra tax.

Secretary FOWLER. I wouldn't want to be in a position of contending that the economic effect of the corporate acceleration was the equivalent of a tax increase in the same order of magnitude in dealing with any threat of inflation. I think the two are entirely different things. One is a much milder deterrent.

Senator WILLIAMS. I am just speaking from a dollar standpoint that that is about what we are doing. One of the arguments advanced—one of the principal arguments advanced is, of course, you need the money.

Secretary FOWLER. That is the principal argument.

Senator WILLIAMS. Sure. One other argument advanced was that it would withdraw this money from the purchasing stream of these corporations and thereby act as a deterrent at this particular time of overexpansion.

Secretary FOWLER. We think that the fact that it has that secondary effect is appropriate in view of the general economic situation.

Senator WILLIAMS. Mr. Chairman, if somebody else has some questions I will yield.

The CHAIRMAN. Mr. Secretary, one thought occurs to me for simplifying our tax laws. According to a chart on page 4 of our summary of H.R. 12752, you estimate that the number of people who would break even under the system that is provided here would be increased from 10.8 to 20.8 million.

Secretary FOWLER. That is the number of returns; 10 million returns break even under the present system and 20 million would break even under the new system.

The CHAIRMAN. Fine.

That works out to be about, roughly about 35 percent, I would suppose of all returns would be at the break even on the basis that they would be within \$10 of their actual tax liability.

Secretary FOWLER. About a third of the returns.

The CHAIRMAN. Now, my thought is this. There is an awful lot of minutia and bother about a return where you have only a dollar or \$2 coming to you. Why don't we just provide by law that if a person takes a standard deduction and if he lists the correct number of exemptions, then within that \$10 range there just would be no payment one way or the other; that is it?

Secretary FOWLER. You mean carry it over until the next year.

The CHAIRMAN. No.

Secretary FOWLER. Cancel it out.

The CHAIRMAN. Cancel it out. Just provide by law that within that range of \$10, what you owe, if you elect a standard deduction and claim the right number of exemptions, it what is withheld.

That in that small range, tax liability would be the amount withheld. You wouldn't have to collect small amounts and you wouldn't have to write small refunds.

Secretary FOWLER. Senator, my natural inclination is to be very reluctant about forgiveness in taxes in any amount. I would like to think about it.

The CHAIRMAN. My point is this, Mr. Secretary: If you elect the standard deduction you are not itemizing. You just take a standard amount. So if you elect a standard deduction, if we overwithhold by less than \$10 it is ours, that is what the law would say. If we underwithhold by less than \$10 it is yours. But we could affirmatively provide by law that the amount withheld is the tax obligation, rather than the amount that you would get in the event that you went into all the details.

Secretary FOWLER. I am not worried about all the people that are underwithheld and you forgive the tax. I am thinking about these people that are overwithheld and want their \$10 back.

The CHAIRMAN. Well, my thought about the matter, Mr. Secretary, is that it would have practically no revenue consequence if you said either way. It seems to me the chance it would break one way is about

the same as the chances of breaking the other. A great number of taxpayers would just like to be done with it once their tax is withheld. In other words, by the time he gets through with all this computing, and one thing or another, and goes down to some consultant and pays him \$10 to figure out if he has \$10 refund coming back, it seems to me it would be just as well to say if they withheld on the basis of a correct statement of what his exemptions were, there is nothing owed.

If he owed the Government another \$5 let's just forget about it. If the Government owes him \$5, the same answer.

Secretary FOWLER. Well, I, of course, have concern about all the people who aren't involved with withholding. Do you give them the same treatment, \$10 more or less?

The CHAIRMAN. No; because if people itemize—

Secretary FOWLER. No; who use the standard deduction but file a return—have nonwage income.

The CHAIRMAN. Well, if you are going to go to the trouble of working it all out and listing everything this wouldn't apply, but where you are withholding and only a standard deduction is involved, I think most people prefer just to be done with it, especially if the range in which you are working is a range of less than \$10. If you are getting down to a \$3 range I know they would rather be done with it than to mess around with it.

Secretary FOWLER. They are still going to have to file a return.

Senator, I think this is a very interesting suggestion. I would hope that at some point during the year we could have some tax simplification matters for the Congress to consider. I am reluctant to pass judgment on it in connection with this particular bill. I think if it proves to have merit after study, I would see no reason why it couldn't be taken up just as well later rather than in connection with this bill.

The CHAIRMAN. I would appreciate it if you would look at it, because I look at this chart and we come down here and it says 20,800,000 people are going to break even. That looks great. I would say hurrah, there are that many people who are not going to be bothered with and working all this tax out, they would break even. That is the whole basis of the graduated system, to try to equalize tax withheld with tax due. I think if we get down especially to within \$5 or even within \$10, it is fair to say we have worked this out as closely as we could. If you are not trying to jimmy the thing one way or the other then let us withhold on that basis and forget about this small difference.

I think it would do well to apply the principle if we can work it out. If we could have 20 million taxpayers that would be done with by the time they got through withholding it would be a great simplification and a great relief to them.

Secretary FOWLER. We will certainly get to work right away on a staff paper to deal with this and try to have it within 24 hours or so, or by afternoon, so that in your executive sessions you could consider this. I just don't want to pass on it without giving some thought to the consequences of it. I don't want to go along on any principle of forgiving a tax owed without giving it very serious consideration.

The CHAIRMAN. The withholding tax is popular among working people but I think it would even be more popular if the average workingman finds his tax is all paid up by the end of the year through

withholding and he doesn't have to bother with complicated computations. I think he is entitled to know what he is paying but I also think that the less bother there is, the more popular the tax would be. As you know, very few people like to pay taxes.

Senator WILLIAMS?

Senator WILLIAMS. Mr. Secretary, there has been one other point called to my attention. In the bill there are two withholding schedules, one for married persons and one for single persons. How will heads of household be treated, single or married?

Mr. SURREY. The head of a household is treated in this bill as a single person. That result more closely coincides to his ultimate tax liability than would be the case if he were treated as a married person.

Senator WILLIAMS. Would that result in an overwithholding on the head of households?

Mr. SURREY. It would result in some overwithholding for that person. If you swung it the other way, it would result in underwithholding. The allocation to the single side is closer to the final tax liability. In other words, you are going to have a plus on one method and a minus on the other method and the minuses would have been much greater than the pluses.

Senator WILLIAMS. Does it result in more overwithholding under this formula than it would under the existing law?

Mr. SURREY. I couldn't answer that question right off. Since it will vary from bracket to bracket, I would have to check the particular income levels and the amount of withholding.

Senator WILLIAMS. Will you check that so that when we get into executive we can take this point up further? In line with the statement by the chairman of the committee about the future date when we will be dealing with a simplification of the Revenue Code, I have just this one request to leave with you. This is perhaps from a personal standpoint, but when you simplify the Revenue Code further let's not simplify it as we have the withholding rates under this bill, because I will be frank with you, I don't understand it and I don't think very many others do. It took about 60 pages of this bill to simplify the withholding task here.

This simplification reminds me of a letter I received from one of my constituents about this bill. He said, "I will not object to any suggested tax increases in this bill or the method of paying, all I object to is the simplification." He said, "You have simplified the form so much now it costs me more to pay the accountant than to pay the tax."

Secretary FOWLER. As a layman in the tax field I believe I somewhat share your point of view on this. However, I believe that the end result of this tax bill will be for simplification.

Senator WILLIAMS. I hope so. But the end result of this withholding is only a difference of about \$65 million a year, isn't it?

When this gets to working, say 3 years from now, the difference in the withholding as provided for under this bill is about \$65 million a year; is that not correct?

Secretary FOWLER. The total overall result——

Senator WILLIAMS. Of the withholding.

Secretary FOWLER. Well, I don't think it will end up in any difference as far as——

Senator WILLIAMS. Not as far as the tax is concerned. The \$65 million amount, as I understand it based on the committee report—

Secretary FOWLER. Yes; but I think those totals, Senator, obscure the fact that for different people there will be different results.

Senator WILLIAMS. That is right.

Secretary FOWLER. The table on page 4 of the staff summary of the bill indicates that there will be a substantial reduction in the amount of overwithholding, a substantial reduction in the amount of underwithholding, and a substantial increase in the number of people, as Senator Long indicated, who are pretty well at the break even.

Senator WILLIAMS. I accept that.

But speaking from a mathematics point of view. The first year, 1967, you will pick up an additional amount of approximately \$220 million under this withholding provision as passed by the House; is that correct?

Secretary FOWLER. \$210 million.

Senator WILLIAMS. In 1968, you don't pick up any money but you lose \$290 million, do you not?

Secretary FOWLER. That is correct.

Senator WILLIAMS. So you actually lose revenue in fiscal 1968 as a result of what we are doing?

Secretary FOWLER. Yes.

Senator WILLIAMS. Then in 1969, 1970, and the years thereafter there is a \$65 million difference when it gets back on the even keel; is that right?

Secretary FOWLER. Yes; that is right.

I think this measure is one which results in a good structural change in the method of tax collection and one that is more appropriate to take at this time in view of the revenue situation and the economy than it would be at some other time when there would be some worry about its adverse effect.

Senator WILLIAMS. In other words, it would draw \$220 million from the economy during 1967 when you would like to draw from the economy?

Secretary FOWLER. That is right.

Senator WILLIAMS. \$220 million?

Secretary FOWLER. Approximately.

Senator WILLIAMS. This is to combat this inflation which some don't want to recognize, and which the mischiefmakers say we don't have.

Secretary FOWLER. I wouldn't put it that way. I would say that a primary purpose is to affect a permanent structural change in the collection system. The incidental fact that it has this impact at this time is appropriate and not something to be concerned about—as we were last spring when we considered whether or not the imposition of a graduated withholding system would have an adverse effect.

Senator WILLIAMS. And the fact that \$220 million—

Secretary FOWLER. If it has any affect on the economy, it will be good.

Senator WILLIAMS. The \$220 million extra that we will take in during 1967 will be offset by \$290 million lost in revenue in 1968, and the fact that this happens to be an election year is only incidental, is that right?

Secretary FOWLER. Only incidental. I never thought of it until this minute, Senator Williams.

Senator WILLIAMS. I am sure of that, just as when the withholding rate was reduced from 14 percent during the 1964 election year. The fact that it provided lower taxes in an election year and extra payments in the year after was again only incidental.

Secretary FOWLER. Senator Williams, I went back into private life in April, 1964, so I was unaware of an election.

Senator WILLIAMS. I won't hold you responsible for it.

Senator McCARTHY. If the Senator will yield.

We Democrats look to what happened to the Republicans after they cut taxes in the 80th Congress. It didn't help them very much in the next election. Apart from the economic considerations, from a purely political point of view, there would be no reason to believe that reducing taxes in an election year would be of any help at all, would there?

Secretary FOWLER. I think, Senator, the changing of taxes up or down is a perilous business.

Senator McCARTHY. In fact, I think it is almost politically more difficult to explain tax reductions than it is to explain tax increases.

Secretary FOWLER. I have had the greatest difficulty.

Senator McCARTHY. We observed that in the great cut of 1964 some people preferred to be relatively better off than their neighbors rather than to have both their neighbors and themselves to be absolutely better off.

Secretary FOWLER. It seemed to be a real problem.

Senator WILLIAMS. Now that we are being told that tax reductions do not help politically, we might also say that this crew style tax cut of the Great Society that went into effect January 1 and is now being repeated 12 days later, didn't help either the political situation or the taxpayers.

Senator McCARTHY. Could I ask the Secretary this question: Let's assume that the excise tax change you are proposing is not approved by this committee, do you have a fallback provision? Are there any other taxes that you have as a second choice, that we might increase to raise an equivalent amount of revenue?

Secretary FOWLER. No, I don't have any fallback position. In that event I think that would be a factor that would expedite our contingency planning to some extent.

Senator McCARTHY. You don't want to make any suggestion? Do you want to leave it up to us?

Secretary FOWLER. I will leave it up to the wisdom of the committee. I know they will replenish the revenue to the extent that they can.

Senator McCARTHY. If we didn't give you the \$1 billion if we used our own discretion to raise \$1 billion by putting on our own taxes, do you think we would do more harm than if we didn't give you the \$1 billion in excise taxes?

Secretary FOWLER. I would get some taxes from some other source.

Senator McCARTHY. You would leave it to the committee?

Secretary FOWLER. I would leave it to the committee.

Senator McCARTHY. I appreciate the confidence. It is a rather limited confidence.

The CHAIRMAN. Thank you, Mr. Secretary.

Senator CARLSON. Before you conclude this hearing, I would like to state I was unable to be here when the Secretary made his statement and answered some of these questions, and I shall read the transcript at the earliest opportunity.

Secretary FOWLER. Thank you, Senator Carlson.

The CHAIRMAN. Thank you, Mr. Secretary. You have testified before us for 3 days now and that is about 10 hours on the witness stand and we appreciate very much your testimony, and in my judgment you are doing a forthright answer to every question that has been asked and we appreciate your advice here.

Secretary FOWLER. Thank you, sir.

The CHAIRMAN. That concludes the session this morning, and we have an executive session scheduled at 10:30 of this committee.

Senator RIBICOFF. Mr. Secretary, and, Mr. Chairman, I would like to tell you that I intend to offer an amendment to this bill on the floor for tax credit for college tuition. It involves a substantial sum of money and has a lot of interest, both in the country, and in the Senate, I believe, and I would imagine that you would be violently opposed to it this year, too.

Secretary FOWLER. I was asked at the House Ways and Means Committee by, I believe, Congressman Curtis—he has known of my long interest and deep concern with manpower training and retraining—whether the Treasury would favor a tax credit in connection with his human resources development bill. I replied to him in much the vein that I must reply to you, that given the conditions that we have today it will have to be the position of this Department to oppose any measure that involves a substantial reduction in taxes for any group or individuals. As I understand your proposal, the amounts involved certainly qualify within the meaning of the term substantial.

Senator RIBICOFF. It is substantial.

Secretary FOWLER. And, therefore, we would be opposed for that reason, over and above the other reasons you are familiar with which were the basis of our opposition to this proposal when it came up in connection with the 1964 tax reduction bill.

Senator RIBICOFF. Well, I feel one of these days, the Congress will pass it. I believe, in almost all your tax programs, the middle income groups are being short-changed and very little is ever proposed that would be helpful to them. I did want to put you on notice and also the Chairman that there will be another fight on this on the floor. I will offer this as an amendment to the bill when it comes to the floor.

I just wanted to tell you, in fairness.

Secretary FOWLER. I think for all the reasons, Senator, that we have been opposed to your bill before, there is now the additional reason that I just don't think it is the time for tax reduction in any substantial amount to be considered.

Senator RIBICOFF. Of course my only reply to you is it never is the season. It wasn't this year. Last year when you were cutting taxes it wasn't the season either.

Secretary FOWLER. No.

Senator RIBICOFF. Now that you want more taxes it isn't the season now.

Secretary FOWLER. No, we had substantive reasons for our opposition then. I say there is only the additional reason now. I hope your continued advocacy of this measure would be more for the record than—

Senator RIBICOFF. It is not for the record. I can assure you it will not be for the record. It had quite a few votes last time and I hope to have same thing this time.

Senator McCARTHY. Mr. Secretary, I reassure you I don't intend to offer any amendments of head-of-household treatment to people over 35.

The CHAIRMAN. Would you give us your estimate about how much the matter would cost? If you can't give it to us now—

Secretary FOWLER. It is approximately a billion dollars.

Senator RIBICOFF. I would say between \$700 million to a billion.

Secretary FOWLER. \$700 million to a billion were estimates prepared over the last several years. The cost goes up as college enrollment increases.

The CHAIRMAN. In full operation, it would cost more than that. It would be maybe \$2 billion.

Secretary FOWLER. The cost will go up as college population and tuition costs increase.

Senator RIBICOFF. If prosperity goes up, but suppose this went into effect, not in 1967 but in 1968. In other words, suppose we amended it to be effective in 1968 instead of 1967. I am not saying that I would contemplate that, but would you still be opposed to it?

Secretary FOWLER. Oh, yes. Tax reduction should not be considered in piecemeal fashion. I have a very great concern, as you know my predecessor did, that in connection with further tax reduction consideration should be given to the impact of the tax system on the low-income groups. I think if any priority is to be given in tax reduction, the first priority should be given to the low-income group.

Senator HARTKE. Do you prefer the Hartke-McCarthy plan, direct subsidy to the students of tax subsidy?

Secretary FOWLER. Very strong advocate.

Senator RIBICOFF. Would you be opposed to that amendment?

Secretary FOWLER. Considering the general budgetary considerations, I would have to be opposed to anything that would add substantially to the President's budget as presented at this time.

Senator SMATIERS. Let me just say this, I want to claim a little parenthood with respect to this proposal of Senator Ribicoff. I introduced an amendment 12 years ago, I think it was, on this same matter without any success then, and at one time—of course I know it depends upon how far you go but it cost \$5 billion, I was told—and one of the reasons that they talked me out of it was because of that fact.

Then I have since subsequently been advised that now with respect to education, that the educational recommendation made by the administration and adopted into the law have been such now that most any boy and particularly the low-income boy can get an education, and the ones who can afford to send their children anyway, don't particularly need it.

I still have great sympathy for it, but I support the administration's position on it.

I did want you to know that at one time I was one of the fathers; there were many fathers of this kind of legislation.

The CHAIRMAN. Mr. Secretary, the committee has received a great many inquiries from tax-exempt organizations urging a uniform exemption from excise taxes for all tax-exempt organizations which are publicly supported and to which 30 percent charitable contributions can be made. I note that the House bill includes a new exemption from the communications tax for private hospitals. What is your advice as to the advisability of extending this exemption?

Secretary FOWLER. In our view, this is not the appropriate time to consider revenue losing measures. The increased revenues which would result from enactment of this bill are necessary in light of the current economic and fiscal situation. It is inconsistent with this goal to add measures which will reduce revenues at this time.

In addition to the revenue implications of this suggestion, there are serious policy issues involved in the question of exempting various organizations from the excise taxes. Aside from the telephone and automobile taxes which are scheduled for gradual reduction, the excise taxes which would be affected are ones which are in the nature of user charges, regulatory taxes, and sumptuary taxes. It is inconsistent with the purpose of these taxes to exempt from them a large number of organizations. For example, the principle behind user taxes, such as those which are devoted to the highway trust fund, is to recoup the costs of certain programs from those who benefit from them. Within this context, there is little logic for exempting a particular class of users merely because of their income tax classification.

Moreover, granting exemptions to a large number of organizations would substantially increase the administrative burdens for the businesses on whom the excise taxes are imposed. They would have to process many requests for exempt sales which would involve extensive paperwork. Similarly, verification problems for the Internal Revenue Service would be substantial.

Finally, adoption of this suggestion would not end the issue. Past experience has proven that it would merely provide an impetus for still other types of organizations or businesses to press for similar relief in the future. The usual argument advanced is that an exemption is needed for any organization or business which performs functions similar to those of an organization that is already exempt. The exemption in the House bill for nonprofit hospitals was requested on just such a ground. The result can only be a further erosion of the tax base. As I have indicated, this is especially inconsistent with the philosophy of most of the remaining taxes. Perhaps the most sensible solution at this time is to remove the limited and selective exemptions now in the law rather than add to them.

The CHAIRMAN. At this point, without objection, I should like to submit several statements and letters for inclusion in the printed record.

That concludes the hearing, and we will now go into executive session.

(Whereupon, at 10:45 a.m., the committee recessed, to reconvene in executive session.)

STAMFORD, CONN., *January 18, 1966.*

HON. RUSSELL LONG,
U.S. Senate,
Washington, D.C.

DEAR SIR: If the 10-percent Federal excise tax on telephone service is to be restored, is there any possibility of an amendment to exempt the Nation's non-profit hospitals?

Since schools have long been exempt and since all governmental hospitals always have been exempt, it is believed that this would correct a longstanding inequity, which never was the intention of the Congress.

In a 1962 letter to me, the Assistant Secretary of the Treasury said that his department would oppose any exemption for hospitals on the same grounds that it opposed the exemption for schools.

Undeniably, I have an ax to grind, as this letterhead makes obvious, but in my opinion the Government has an interest in keeping hospital costs as low as possible, particularly since medicare, that may be more important than the small amount of Federal revenue that would be lost.

Sincerely yours,

DAVID V. SHAW.

EMPIRE COMMUNICATIONS Co.,
Eugene, Ore., January 26, 1966.

HON. RUSSELL LONG,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: If it becomes necessary to reimpose the excise tax on communications, would you please consider the following:

A tax on radio common carrier messages and equipment is an extremely discriminatory tax. No other segment of radio communication industry pays any tax. There is no tax on the equipment or use of radio for private radio communications either at the manufacturer level or user level that in even the slightest fashion equals the communication excise tax.

For years, RCC owners have been collecting the excise tax from the user-subscriber in the face of severe competition from nonprofit cooperatives and individual users of privately licensed radio systems. A like comparison in the transportation field would exist if the only tax to be levied was on the common carrier passenger service with no highway, gasoline, and license tax being collected from private automobile and similar users.

May I cite a few examples?

An RCC charges a customer \$30 a month per unit which includes message service and equipment. Total present tax is currently \$0.90 and would be \$3 if the previous rate of 10 percent is restored temporarily. A private user obtains a license from the FCC and uses the equipment free of tax and pays no tax on the purchase of the equipment.

Now let's look a little further. The \$30 a month per unit which includes message service is broken down as follows: \$10 message service, \$20 equipment rental. If the subscriber owns his equipment or rents or leases from a manufacturer or some other source, he still does not pay a tax on the equipment rental. The subscriber pays the full tax only if the equipment is rented from the radio common carrier.

Another example is the person who, with others, operates a cooperative message service. The service charge is \$12.50 a month for station operator and message service. Equipment and maintenance is furnished for an additional \$18 to \$20 a month from any one of a number of sources. No tax is collected for either of the charges.

The total amount of excise tax on RCC services to be collected at the old (10 percent) rate would be figured only in the thousands of dollars per month not even tens of thousands. While this does not amount to anything in terms of the millions collected on telephone service, it has a very damaging effect on our radio common carrier.

We plead for a fairer and more equitable treatment. Eliminate all tax on radio common carrier service and equipment.

Sincerely yours,

LESLIE F. SMITH, Jr., *President.*

TACOMA, WASH., February 1, 1966.

HON. RUSSELL B. LONG, of Louisiana,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LONG: "Painless method for increasing withholding-tax payments."

In 1965 I had an extended correspondence with Dr. L. N. Woodward, chief of staff, Joint Committee on Internal Revenue Taxation, on a proposal to increase withholding-tax payments. He suggested that I should bring my proposal to the attention of members of the tax-writing committees.

Employees are now subject to a 4.2-percent social security-medicare levy on the first \$6,600 of their income. Once they paid this levy on \$6,600 wages, the deduction stops. My suggestion was to ask employers to continue to deduct the 4.2-percent levy after the maximum social security contribution has been paid in full but credit withholding taxes.

Under the present law, once an employee receives \$6,000 income, his after-tax paycheck suddenly increases (this happens on April 1 for a \$26,500 man, on November 1 for an \$8,000 man). Under the new proposal, the employee's after-tax paycheck would be unchanged the year round. The employer would note, as he does today, when the employer passes the \$6,600 mark, stops the social security tax but increases the employees withholding tax with the same amount.

The chief advantages of this method are simplicity, painlessness, and ease of understanding. The potential drawback of this method is the possibility of some underwithholding and overwithholding. Both conditions exist, of course, with any system of withholding. Under the Treasury's proposed graduated withholding tax rates, the dangers of overwithholding increase.

The continuation of the 4.2-percent deduction as additional withholding income tax would achieve most, if not all, the objectives the Treasury is seeking. Underwithholding would be minimized. Overwithholding would be also minimal. What overwithholding would happen, would necessarily happen in the last quarter (more likely the last month) of the year. A quick refund is available now and it could be accelerated.

The staff of the Internal Revenue Taxation Committee very kindly made extensive research into this plan. I am sure it is available to you from the committee.

Sincerely,

JOHN PARKANY,
Ph. D. (Economics), Columbia University.

UNITED FOUNDATION,
Detroit, Mich., February 14, 1966.

HON. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: It has come to our attention that your committee has under consideration at the present time certain proposals to increase certain excise tax rates which have been placed on a decreasing scale by the Excise Reduction Act of 1965.

You may recall that William H. Bulkeley, president, National Social Welfare Assembly, testified before the House Ways and Means Committee on this subject in July 1964 on behalf of some 40 national health and welfare voluntary organizations. We take this opportunity to endorse Mr. Bulkeley's recommendation urging an end to the discriminatory pattern of exemption from excise taxes under present law and the recommendation that all publicly supported organizations exempt from taxation as described in section 501(c)(3) of the Internal Revenue Code be exempted from the payment of retailers' and manufacturers' excise taxes and the tax on communication and transportation services.

We would suggest to you that this might be accomplished by a simple amendment providing any organization which falls into any of the definitional categories of section 170(b)(1)(A) of the Internal Revenue Code shall be exempt from all of the above-described excise taxes."

We urge you and your committee to include such an amendment, the result of which would effectively clean up what is now a statutory jungle.

Sincerely,

JAMES L. BLEAN,
Assistant Secretary-Treasurer.

UNITED COMMUNITY FUNDS AND COUNCILS OF AMERICA, INC.,
New York, N.Y., February 14, 1966.

HON. RUSSELL B. LONG,
*Chairman, Finance Committee,
 Senate of the United States,
 Washington, D.C.*

DEAR SENATOR LONG: From time to time over the past 8 years our organization, in company with many other charitable groups, has sought the same exemption from excise taxes enjoyed by hospitals, private schools and colleges, the Red Cross and State and local government. When the Excise Reduction Act of 1965 was being written, we were told that since most of the excise taxes were being eliminated, an exemption was no longer necessary.

Now the President has asked for the restoration of the manufacturer's excise tax on automobiles and the tax on telephone communications. Indications are that the Ways and Means Committee will report favorably to the House on this proposal and that your committee will be asked to act speedily on the bill passed by the House.

Consequently, we take this means of requesting that there be incorporated in the text of the bill an exemption for all charitable and other organizations, contributions to which are deductible under section 170(b)(1)(A) of the Internal Revenue Code. This would eliminate the discriminatory treatment to which some charitable organizations have been subjected for many years and would be consistent with the action taken in the 1964 Revenue Act to accord uniform treatment to colleges, hospitals, publicly supported charitable organizations, churches, etc., under the Internal Revenue Code.

It may be that such an exemption will be contained in the bill as it is enacted by the House. If it is, we would hope the Senate Finance Committee would retain it in the text to be recommended to the Senate. If it is not, we would urge your committee to incorporate an amendment to this effect.

Sincerely yours,

LYMAN S. FORD,
Executive Director.

AMSTERDAM COMMUNITY CHEST, INC.
Amsterdam, N.Y., February 14, 1966.

Senator RUSSELL B. LONG,
*Chairman, Senate Finance Committee,
 U.S. Senate Office Building,
 Washington, D.C.*

DEAR SENATOR LONG: We understand that at the present time there are certain proposals before Congress to restore certain excise taxes which would affect public and private charitable organizations.

The present regulations seem to be unfair in that they qualify some nonprofit organizations for this exemption, but do not do it for others.

May we suggest that the proposed amendment be so worded as to provide that any organization that falls into any of the definitional categories of section 170(b)(1)(A) of the Internal Revenue Code shall be exempt from all of the above-described excise taxes.

This section 170(b)(1)(A), as you know, relates to the deductibility of contributions and describes in its various subparagraphs all the categories of organizations which qualify for the so-called 30-percent limitation as to contribution deductibility.

The simple expedient of incorporating this brief and uncomplicated amendment into the bill, which will increase the excise taxes on the purchase of automobiles and the use of telephones, would accomplish a much desired end for charitable organizations such as the Community Chest and United Fund.

Respectfully yours,

WILLIAM A. WILDE, Jr., *President.*

UNITED CRUSADE, SACRAMENTO AREA,
Sacramento, Calif., February 11, 1966.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

SIR: We understand the House Ways and Means Committee is now studying proposals which could reverse the intent of the Excise Reduction Act of 1965 and that excise tax rates on such things as automobiles and telephone communications might be increased, rather than decreased.

This renews the concern of the local and national voluntary health and welfare organizations about the inconsistencies and discriminatory exemptions involved in the excise tax program.

If it seems to be necessary to increase excise taxes, may we urge your committee to eliminate some of the inconsistencies by adopting section 170(b)(1)(A) of the Internal Revenue Code as the definition of "exempt organizations."

It is our understanding such a redefinition would result in very minor revenue losses.

Very truly yours,

RICHARD W. HELDRIDGE, *President.*

NATIONAL ASSOCIATION OF MANUFACTURERS,
New York, N.Y., February 23, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate,
Washington, D.C.

MY DEAR MR. CHAIRMAN: The National Association of Manufacturers wishes to again state its view that selective excise taxes to raise general revenue are discriminatory and should be eliminated from the Federal tax system. We were especially gratified that the Congress, in enacting the Excise Tax Reduction Act of 1965, provided for the elimination of practically all existing excise taxes except those earmarked for special purposes and the so-called sumptuary taxes.

Our current concern is the part of H.R. 12752, the Tax Adjustment Act of 1966, now before the Committee on Finance, which would temporarily reimpose auto and telephone excise tax reductions which took effect on January 1, 1966, and place a moratorium on further reductions until April 1968. We, of course, are not in a position to refute or contest the reasons advanced for this action. However, we do wish to express our support for the provisions of H.R. 12752, under which the auto and telephone rates would revert in April 1968 to the levels provided in the 1965 act for January 1968 and thereafter be reduced as scheduled in that act. We urge your retention of these provisions.

We respectfully ask that this letter be made part of the record of your committee's hearings.

Sincerely,

W. P. GULLANDER.

AMERICAN HOSPITAL ASSOCIATION,
WASHINGTON SERVICE BUREAU,
Washington, D.C., February 25, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: Your committee has before it H.R. 12752, the Tax Adjustment Act of 1966, which was passed by the House of Representatives on February 23, 1966. On behalf of the American Hospital Association, whose members number about 90 percent of the Nation's hospitals, I should like to

call your attention to section 202(b) of the bill. It provides an exemption from the excise tax on telephone and teletypewriter services furnished to voluntary nonprofit hospitals. We urge you to act favorably on this much needed exemption. The following comments are intended to explain the imperative nature of the measure.

The costs of operating hospitals must be borne by the patients, purchasers of hospital insurance, subscribers to hospital prepayment plans, Government agencies, charitable donors, or whoever actually pays for the patients' hospitalization. In the case of excise taxes on telephone services, we estimate that at the 10-percent level the voluntary nonprofit hospitals of this country which have been subject to the tax would be paying out about \$6 million per year; at the 3-percent rate now in effect, these hospitals would expend about \$1.8 million a year. At either level of tax, the burden has been hard to justify because it falls primarily upon sick people whose costs of illness are already extremely high.

Your committee labored long and well to produce Public Law 89-97. Under this legislation, commencing July 1, 1966, the Federal Government will be assuming most of the hospital costs of the aged and, as a consequence, will be paying an estimated 25 percent of the hospital bills in non-Federal short-term hospitals. It is in the best interests of the Federal Government to avoid any unnecessary strain upon the hospital insurance trust fund created by Public Law 89-97. Certainly, the excise tax upon hospital telephone service provides no benefits to the patient. To tax hospitals in this way increases the cost of hospital care as well as the financial demands upon the many Government programs which purchase hospital care for their beneficiaries—all without contributing anything to improve the care of any patients.

We must point out that governmental hospitals, whether Federal, State or local, already enjoy a statutory exemption from the obligation to pay excise taxes on telephone service. There is, of course, no discernible difference to the patient as between governmental and nongovernmental nonprofit hospitals. It is patently unfair to tax one kind of hospital and not the other since the burden falls upon the innocent patients whose physicians have chosen to place them in nongovernmental hospitals. The solution is to exempt all nonprofit hospitals from excise tax burdens. This is the intent of section 202(b) of the Tax Adjustment Act of 1966 (H.R. 12752), as approved by the House, relative to the telephone taxes.

For some years now the excise tax statutes have contained an exemption for nonprofit educational institutions. Although many voluntary nonprofit hospitals conduct extensive educational programs, they generally have not qualified as educational institutions for purposes of enjoying the exemption from payment of certain excise taxes. Here, again, there has been a discrimination against hospitals which is impossible to justify. After all, hospitalized patients are as much in need of keeping down the cost of their care as students in private nonprofit education institutions are in need of restraints on the rise of their tuition rates.

The amount of money at issue in the telephone tax matter is a few million dollars a year. To the hospitals and their patients this is a significant sum, but to the Treasury it is not. We suggest that the Treasury, in the national interest, would do well to abandon this oppressive and troublesome tax in order to provide some small relief to the financially strained patients being cared for in the Nation's voluntary nonprofit hospitals.

For the foregoing reasons the American Hospital Association respectfully requests that the specific exemption granted to voluntary nonprofit hospitals in section 202(b) of H.R. 12752 be approved by the Senate Finance Committee. Hospitals had been willing to endure the current 3-percent rate on telephone service in the knowledge that within less than 3 years it would be reduced to zero. With a threatened restoration of the 10-percent tax, however, we must reemphasize our plea that excise taxes upon goods and services purchased by nonprofit hospitals are completely unjustified under any rational theory.

We would like this letter to be included as a part of the record hearings on H.R. 12752.

Sincerely yours,

KENNETH WILLIAMSON,
Associate Director.

CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY,
Chicago, Ill., February 28, 1966.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Because of the current need for revenue for defense purposes, the Chicago Association of Commerce and Industry does not oppose the enactment of H.R. 12752—the Tax Adjustment Act of 1966.

The association members believe most strongly, however, that while defense requirements remain at the current high level, there must be a substantial curtailment of nonessential expenditures. They also believe that any tax increase must be temporary in nature and must be based solely on defense requirements.

Respectfully submitted.

WALKER WINTER,
Vice President, Government Affairs Division.

AMERICAN TELEPHONE & TELEGRAPH CO.,
New York, N.Y., February 25, 1966.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

MY DEAR MR. LONG: This statement is respectfully submitted on behalf of the telephone companies of the Bell System to express our regret that an increase in the excise tax on local and long-distance telephone and teletypewriter services is under consideration by the Congress.

The proposed increase in the telephone excise tax contained in the Tax Adjustment Act of 1966 (H.R. 12752) will again postpone the direct benefits of the recently enacted tax reduction which the 45 million residential and business customers of the Bell System have waited so long to receive. We fully recognize the country's need for additional revenues during the Vietnam emergency, but there will be keen disappointment among our customers that reimposing the full 10-percent tax on telephone service has been chosen as a means of obtaining a substantial portion of these revenues.

If excise taxes on telephone service are to be increased in the present emergency, we earnestly request that the emergency and temporary nature of the increase be made clear in the committee reports accompanying the legislative proposal. The bill as passed by the House of Representatives would provide for a reduction of the proposed 10-percent rate to 1 percent for the 9 months of 1968, and for complete elimination by 1969. If the 10-percent rate is reinstated, we strongly urge that the tax on telephone service be entirely repealed effective April 1, 1968, inasmuch as the revenue effect would be relatively minor and such action would eliminate the cost of billing, collecting and remitting the tax. If additional revenues are still needed beyond that date, a solution other than continuing a discriminatory tax on telephone service should be found.

We have previously testified before your committee and before the Ways and Means Committee on a number of occasions urging the repeal of the telephone excise tax. The principal reasons we submitted in support of the repeal were: (1) The impact of the tax is heaviest on lower income groups, (2) the tax is levied on a necessity, (3) telephone service is the only household utility service on which Federal excise tax is still imposed, (4) the tax adds to an already heavy tax burden carried by users of telephone service and (5) it has been emphatically indicated that the public generally regards this tax as unfair and discriminatory, especially as it applies to a service that is an essential, not a luxury. These reasons are equally applicable today.

We earnestly hope that whatever action is taken, your committee will give full recognition to the discriminatory nature of this undesirable tax.

Sincerely yours,

A. L. STOTT,
Vice President and Comptroller,

STATEMENT BY E. S. HALL, PH. B., B.S. (M.E.), ECONOMIST, RESEARCH ENGINEER, PATENT ATTORNEY, FREEDOM, INC., FARMINGTON, CONN.

I agree on the need for more revenue, but believe there's a better way to get it—a tax way out of inflation and Vietnam to price stability and peace.

1. Communists, brainwashed by Karl Marx, fanatically believe it is their mission to liberate nations from capitalism and socialize the world. Neither months nor years nor decades of killing Communists in Vietnam can convince them they are wrong, but a right idea could. As Victor Hugo put it, "No army is as powerful as an idea whose time has come."

2. Government spending has given us 5 years of prosperity, but (referring to the following equation) when deficit spending raises the numerator, dollars,

$$\frac{\text{number of dollars spent}}{\text{number of units of commodities paid for}} = \text{average price of commodities}$$

faster than business raises the denominator, commodities, the ratio, price rises. This price rise is commonly called inflation. More precisely, inflation is the increase in the quantity of money and credit (relative to the quantity of available goods) which causes the price rise. Inflation weakens the dollar, robs us of purchasing power, causes strikes for higher wages, hurts our competitive position in world markets and our balance of payments. Inflation is "the cruelest tax"; it taxes unmercifully the millions on fixed incomes: pensions, compensation, insurance and social security benefits, etc.

3. Inflation doesn't just happen; it's a crime committed on the theory it is the way to avoid recession and extend prosperity (but it's not the only way). Government commits this crime (inflation by deficit spending) because our income tax law, the Internal Revenue Code of 1954 as amended, is inadequate. Thousands of pages—yet it cannot even raise enough revenue to keep up with spending and prevent inflation. Preposterous. We need a new tax code.

4. All the inequities and complexities of the Internal Revenue Code grow from two unsound roots: (1) indirect taxation, the attempt to tax business; and (2) "progressive" taxation, the attempt to soak the capitalists and benefit the workers. A direct and proportional (flat percentage) income tax law can be equitable and simple, but it is not yet politically possible. As long as employees are independent contractors not receiving their parts of profit or loss, they will vote for Congressmen who support double taxes on profits and the progressive income tax.

5. Employees are part of the business. As free people, they own themselves. They own part of the business, the human part. Why not recognize the fact by making them limited partners? When employers and employees are limited partners receiving their respective parts of profit or loss, they will work together to increase profit and prevent loss. No strikes.

And a simple proportional income tax law will be politically desirable, a real vote-getter, the freedom tax law for example, a law that will—

(1) Let employers elect to withhold a simple tax on profits, salaries, and wages (instead of the complex taxes of the Internal Revenue Code of 1954 as amended). Comparisons made from annual reports show that, in a profitable business, everyone concerned will get a tax cut, a take-home raise.

(2) Let the needy elect to change from partial to total security.

(3) Taxing the broadest tax base (national income) insures lowest rate, 20 percent collecting \$110 billion. Adjust the rate currently as an automatic governor on the price level. Free-market price stability.

6. An example of industrial peace and price stability in the United States will expose Karl Marx as a quack. Communists and other Socialists will be left without a mission. Their ideology will collapse. The war in Vietnam—all "wars of liberation"—will cease. We can lead the world toward peace.

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
February 11, 1966.

Hon. RUSSELL B. LONG,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Please find enclosed what appears to be a well-reasoned critique of the workability and practicality of the proposed income tax withholding formula, by Mr. Howard W. Anderson, executive secretary-treasurer of United Food Markets, Inc.

I would hope that the questions Mr. Anderson raises receive serious consideration when the committee deliberates on the advisability of amending and/or enacting this legislation.

Yours sincerely,

B. B. HICKENLOOPER.

UNITED FOOD MARKETS, INC.,
Des Moines, Iowa, January 24, 1966.

Hon. Senator BOURKE HICKENLOOPER,
Senate Office Building,
Washington, D.C.

DEAR SENATOR: I have always heard that elected Members of the House and Senate appreciate receiving thoughtful, constructively critical letters from their constituents. This will be an attempt at such a type of letter.

In studying the transcript of Treasury Secretary Fowler's tax program, stemming from President Johnson's state of the Union address, we are greatly concerned with the type of income tax withholding formula which is proposed. It appears to be unworkable.

In September of 1961, our company came under the provisions of the Federal wage and hour law for the first time. Up until that time, we had paid our store employees by cash, at the store, and were only involved with postings to employees earnings records at company headquarters. After that date, we knew we would need to initiate payroll at headquarters, as we were now involved with adequate recordkeeping, regular hours, overtime hours, etc.

To do payroll centrally, we purchased a National Cash Register "Computronic" accounting machine, at a cost of \$15,000. It is no small undertaking to comply with all requirements demanded of us relative to income tax withholding, social security deductions (with ceilings involved), employee benefit deductions, United Campaign deductions and U.S. Savings Bond deductions, and do all this accurately and still mail payroll checks promptly to all employees. Two additional year-end functions are also involved; that of reconciling income tax withholding per W-2's for all individuals with the W-3 form, and mailing correct W-2's to all employees by January 30.

In addition to this, we are required to calculate weekly regular hours, overtime hours, regular earnings and overtime earnings, and record all this in such form as will satisfy the Labor Department for the purpose of their periodic audits.

After using the NCR "Computronic" for only 2½ years, we replaced it with a National Cash Register "395" accounting machine. It replaced some mechanical speeds of the "Computronic" with electronic speeds, and gave us additional "memory" capacity.

One factor leading us to the decision to purchase the "395" was the belief that the State of Iowa would enact a withholding of income tax law for State purposes. The last Iowa Legislature did enact such a law and we have just reprogrammed the "395" to take care of this. The "395" had the capacity to handle the additional job and is performing quite satisfactorily. The "395" was purchased at a cost of \$26,325.

The formulas as promulgated by the State Tax Commission gave us problems in reprogramming, but they were at least solvable.

I have serious doubts that the formulas as offered by Treasury Secretary Fowler are adaptable to an NCR 395; \$26,325 is about at the upper limits of what our company can afford to pay for accounting machine equipment. Cost of investment is not the key issue, however. The key issue is this: Business must be furnished with a method of accelerating income tax withholding from individuals that is workable. Business has always been willing to try to comply with legislation involving it. We are willing to try in this instance. But the formulas are ridiculous.

Our "395" is equipped with a card reader that "reads" the fixed data of an employee. It "reads" that an employee has five exemptions; it knows that each exemption is worth \$13, to be subtracted from gross wages; it makes this computation electronically and then multiplies that figure by 14 percent, and withholding is calculated correctly.

Fowler's table A for single people, and table B for married people, is a programmer's nightmare. It would not appear that our card reader would have enough columns (the limitation is 80 columns) to enable us to enter all necessary fixed data, nor the proper internal capacity to make all the indicated calculations.

I am not an expert. However, the manufacturers of computer and accounting machines are experts. They should be asked to appear at your hearings to testify as to whether or not the task is possible.

The executive branch of government evidently does not care. The legislative branch of government must care. Congress must satisfy itself that companies all over the land can do the task that is to be handed to them.

We read that this legislation is to be passed by March 15, and in effect on May 1. If our equipment will not handle it, we would not be able to receive delivery of a more sophisticated piece of equipment for over a year, if we ordered it today, and if we could find a piece of equipment within our financial capability that would handle it at all.

The Nation's workers are to be on pay-as-you-go. The budget of the worker's Government does not have to meet this lofty goal, however. The Government can have guns and butter, but at the price of a deficit, and with the smokescreen to be furnished by accelerated withholding to reduce the apparent size of the deficit, and by a method that will create chaos in the office of any employer who prepares a payroll.

We could do this job, manually. To revert to a manual method in this day and age would be absurd. It would require more clerical help and our people would receive their paychecks at least 2 days later than presently.

Wage earners in the State of Iowa, in paying higher social security taxes, in paying 2 years' Iowa income tax in 1 year and now to have Federal income tax be collected on an accelerated basis will have been pretty well thumped. The President has also reserved to himself the right to ask Congress for increased rates for Federal income tax.

Companies with accounting machines less sophisticated than ours have an even greater problem in seeking a solution for payroll preparation.

We will be willing to cooperate with Government in collecting income taxes on an accelerated basis, but we are making this urgent appeal to the legislative branch to cause the Treasury Department to rewrite the formula in some workable manner, that will be adaptable to our high cost equipment.

If the term "in excess of \$200, etc." could be eliminated from the formula, it would be helpful. If the wage earner brackets could be based on gross wages, it would be helpful.

Sincerely yours,

HOWARD W. ANDERSON,
Executive Secretary-Treasurer.

SUMMARY OF ATTACHED STATEMENT OF NATIONAL AUTOMOBILE DEALERS ASSOCIATION

I. H.R. 12752, as passed by the House, would temporarily increase the automobile excise tax from 6 to 7 percent until March 31, 1968, at which time it would be reduced from 7 to 2 percent—a reduction at one fell swoop of 5 percentage points. The tax would be further reduced to 1 percent on January 1, 1969. Additionally, a 1-percent floor stock tax would be imposed on automobile dealers covering all new cars in their inventories on the effective date of the legislation.

II. The National Automobile Dealers Association opposes the 1-percent increase in the automobile excise tax. It is a regressive, discriminatory tax constituting a substantial burden on low-income purchasers of essential transportation while high-income purchasers of luxury items bear no tax burden at all. It is inequitable to single out the most tax-burdened product in our national economy for an increase in tax when most other articles carry no tax whatsoever.

III. NADA also opposes the proposed reduction of the auto excise tax from 7 to 2 percent on April 1, 1968. A too sharp reduction in the excise tax at one time would have the effect of discouraging purchases of automobiles during the interval preceding the reduction date. Additionally, it would produce severe dislocations in the used car market.

IV. The proposed 1-percent floor stock tax is opposed for the following reasons:
1. Congress has never, since the first auto excise tax in 1917, imposed a floor stock tax on automobiles. To do so now would set an unwarranted precedent for similar action if the tax is increased again in the future.

2. The tax must be paid by the dealer himself regardless of whether he can pass it on to the car purchaser. Since this tax will not be shown on the label, it will be difficult to collect it from the purchaser and the dealer should not be expected to absorb the increase himself.

3. This inventory tax will burden the dealer with expensive and time-consuming recordkeeping and compliance problems. To add this burden to the already excessive amount of paperwork required of dealers by Federal, State and local governments and manufacturers, will compound an already difficult situation, particularly for small dealers.

4. The mechanics and timing involved in computing the increased tax on units in inventory on the effective date of the proposed tax increase will create difficult problems for dealers.

RECOMMENDATION

1. The National Automobile Dealers Association urges the Senate Finance Committee to strike the 1-percent increase in the auto excise tax from H.R. 12752. Such action would, of course, resolve the problems that would be created by the 1-percent floor stock tax.

2. The association also urges the committee to amend H.R. 12752 by phasing out the tax so that it will not be reduced at any one time by more than 2 percentage points.

3. If the committee, in view of the pressing need for revenues, decides to retain the 1-percent increase in the automobile excise tax, NADA urges the elimination from H.R. 12752 of the floor stock tax on dealers.

STATEMENT SUBMITTED BY THE NATIONAL AUTOMOBILE DEALERS ASSOCIATION

The National Automobile Dealers Association welcomes the opportunity to register with this committee its reasons for opposing those portions of the administration's 1966 tax program which propose an increase in the automotive excise tax from 6 to 7 percent for a period of 2 years as well as the imposition of a floor stock tax of 1 percent on automobile dealers covering all new automobiles in their inventory on the effective date of the proposed change in the rate of tax. As passed by the House on February 23, H.R. 12752, the Tax Adjustment Act of 1966, contains both of these recommendations of the administration.

The NADA is a national trade organization comprising nearly 22,000 franchised new car and truck dealers engaged in selling and servicing new cars and trucks of all makes, domestic and imported, in all 50 States.

Organized in 1917 to represent new car and truck dealers, NADA has long opposed discriminatory tax on automobiles. Since the imposition of a 3-percent excise tax in October 1917, and through all of its 50-year history, NADA has sought to remove the excise tax from one of the most heavily tax-burdened products in our national economy—the essential family car.

This struggle culminated in a partial victory with the passage last year of the Excise Tax Reduction Act of 1965 which provided for a gradual phaseout, over a 5-year period, of all but 1 percent of the 10 percent automotive excise tax. Our industry was relieved to see the Congress reduce this tax even though other industries fared far better. By comparison, the full 10-percent retailers' excise taxes on jewelry, furs, toilet preparations, and luggage were repealed completely in 1965 as were most of the manufacturers' excise taxes and taxes on facilities and services.

H.R. 12752, as passed by the House, would temporarily increase the automobile excise tax from its present rate of 6 to 7 percent until March 31, 1968, at which time it would be reduced from 7 to 2 percent—a reduction at one fell swoop of 5 percentage points. The tax would be further reduced to 1 percent on January 1, 1969. In addition, for the first time in the long history of the excise tax on automobiles, the bill imposes a 1-percent floor stock tax on automobile dealers covering all new cars in their inventories on the effective date of the legislation.

This association is impelled to express, on behalf of its members and their customers, the car-buying public, its vehement opposition to both the increase in the automobile excise tax and the imposition of a floor stock tax on our dealers, as provided in H.R. 12752.

At the outset, we wish to make it crystal clear that the members of our association, as loyal Americans, fully recognize the exigencies of the emergency situation presently confronting our country which require increased Federal revenues for our Government to meet its commitments in this difficult period of our Nation's history.

Our quarrel is not with the question of the need for additional Federal revenues. Rather, it is concerned with the source from which and the method by which the bill would raise some of these revenues—specifically, the increase by 1 percent of the automotive excise tax for a 2-year period and the imposition of a floor stock tax on automobiles in dealers' inventories when the proposed 7-percent rate becomes effective. Our reasons for opposing these two provisions of H.R. 12752 are set forth below.

I. THE AUTOMOBILE EXCISE TAX INCREASE

It is discriminatory and inequitable to single out an essential commodity for an increase in tax while ignoring luxury items as an alternative source of needed revenues.

With the exception of the proposed restoration of the excise tax on telephone service, only one other industry has been tapped to carry the burden of our increased national defense effort. Other than the purchase of a home, the purchase of a car represents the biggest single investment by the average taxpayer. Thus, the amount of excise tax on the present purchase of an automobile—averaging approximately \$138 on a new vehicle at a tax rate of 6 percent—is a significant cost factor to all new car purchasers. It is a particularly serious financial consideration to the 2½ million new car purchasers each year with incomes of less than \$7,500 per year, for most of whom a car is a necessity, not a luxury. As to them, the evils of a highly regressive tax will be compounded if the tax rate is increased from 6 to 7 percent—a jump of approximately \$23 in tax.

H.R. 12752 compounds the discrimination and inequity which presently exist in the excise tax treatment of automobiles vis-a-vis other articles, particularly those in the luxury category, which bear no tax whatsoever. As noted above, the 10-percent retailers' excise tax on jewelry and furs was completely eliminated last year, and the manufacturers' excise tax on such luxury items as hi-fi and color television sets, musical instruments, sporting goods, photographic equipment, and other articles has been terminated.

Yet the automobile—a far more essential product than most of those enumerated above—was granted only a 3-percent reduction from the 10-percent tax last year and of the remaining 7-percent tax, 6 percent was scheduled for reduction in gradual stages through 1968, with permanent retention of the final 1 percent on January 1, 1969.

If equity and fairness are valid criteria in evaluating the Federal excise tax structure, candor compels us to state that we can find little equity and less fairness in the proposition that only the purchasers of automobiles and the users of telephones should be subjected to increased taxes to help the Government meet its financial needs, while no sacrifice whatever is asked of purchasers of either luxury items or of other far less essential articles than the automobile or the telephone.

The fact that the automobile excise tax is a large revenue producer and is collected with a minimum of administrative effort on the part of the Government is a patently flimsy basis on which to justify the selection of the automobile for further discriminatory tax treatment. To do so violates every maxim of equality of tax treatment and of fairness in the levy and collection of taxes.

II. REDUCTION OF AUTO EXCISE TAX FROM 7 TO 2 PERCENT IN 1968

H.R. 12752 provides for the restoration of the 7-percent automobile excise tax rate for a 2-year period beginning the day after the date of enactment and ending on March 31, 1968. The rate will then drop to 2 percent on April 1, 1968, and to 1 percent on January 1, 1969. Under the provisions of the Excise Tax Reduction Act of 1965, the rate was reduced from 7 to 6 percent on January 1, 1966, and is scheduled to drop to 4 percent on January 1, 1967; to 2 percent on January 1, 1968; and to the permanent level of 1 percent on January 1, 1969.

In its report on H.R. 12752, the House Ways and Means Committee explained that the bill provides a 2-year moratorium on these tax reductions scheduled under present law, at the end of which period, the rate will revert to the level which would have been in effect in the absence of the moratorium.

This time schedule is a considerable improvement over the administration's recommendation which would have delayed the entire schedule of reductions until 1968. Nevertheless, the reduction on April 1, 1968, of 5 percentage points in the automobile excise tax presents serious problems to the automobile industry.

Too steep a reduction in the excise tax at one time would have the effect of discouraging purchases of automobiles during the period preceding the reduction date. Additionally, it would produce severe dislocations in the used car market. Both this committee and the Ways and Means Committee recognized this fact in their consideration last year of H.R. 8371, the Excise Tax Reduction Act of 1965. In its report on that bill, the latter committee pointed out:

"* * * there are problems in the passenger car industry making undesirable too large a decrease in the tax as of any one time. The prices of new cars have an important bearing, for example, on the prices of used cars in the hands of dealers and owners. A too sharp reduction in the 10-percent manufacturers' excise on new automobiles might, therefore, produce severe dislocations in the used car market. Additionally, any substantial rate reduction scheduled any appreciable time in advance could be expected to have the effect of discouraging purchases in the interval before the reduction takes place * * *." (H. Rept. No. 433, p. 18.)

For the same reasons, NADA is opposed to the reduction of the tax from 7 to 2 percent on April 1, 1968, as provided in H.R. 12752. We would urge your committee to amend the bill by phasing out the tax so that it will not be reduced at any one time by more than 2 percentage points.

III. THE FLOOR STOCK TAX OF 1 PERCENT

H.R. 12752 imposes a floor stock tax of 1 percent of the manufacturer's or importer's price on all new automobiles held in inventory by dealers or distributors on the day when the 7-percent tax rate becomes effective. This tax is to be paid by the dealer and is to be collected from him by the manufacturer or importer.

NADA must register its strenuous objection to this provision of the bill which would have a serious adverse impact on every member of our association. In short, it would pose innumerable problems for dealers and would saddle them with expensive and time-consuming administrative and compliance burdens which they should not be expected to bear.

It should be emphasized that Congress has never, since the first automobile excise tax was written into law in 1917, imposed a floor stock tax on automobiles. In that connection, a little bit of history is informative. The tax was increased from 3 to 5 percent in 1919. After its repeal in 1928, it was reimposed at 3 percent in 1932, increased to 3½ percent in 1940 and raised to the permanent rate of 7 percent in 1941. A "temporary" 3-percent increase took place in 1951 and was continued from year to year by successive Excise Tax Extension Acts. In all this period of time, not once did Congress see fit to impose a floor stock tax on the automobile, even though in 1950 a floor stock tax was imposed on trucks, truck trailers, buses, and other articles (sec. 4226, Internal Revenue Code of 1954).

For Congress to now impose a floor stock tax would set an unwarranted precedent for similar action if the automobile excise tax were to be increased again in the future—a possibility that can hardly be said to be far fetched in the light of both the past history of the automobile excise tax and the present specious arguments advanced by the administration to support its case for a "temporary" increase in the tax this year.

It should also be noted that the floor stock tax must be paid by the dealer regardless of whether he can pass it on to the car purchaser. Since this tax will not be reflected on the car label, it will be difficult to explain it and to collect it from the purchaser. Certainly, the dealer should not be expected to absorb the increase himself and he cannot, in fact, afford to do so.

The retail passenger automobile business is an intensively competitive trading business and our recent experience under the Excise Tax Reduction Act of 1965 indicates conclusively that a dealer cannot fail to pass along tax reductions to the consumer if he is to be competitive. Dealers also know from long experience that they cannot pass along to and collect from the customer charges not reflected on the price label placed on each passenger car by the manufacturer in compliance with Public Law 85-506, the "Automobile Information Disclosure Act." This means that the 1-percent floor stock tax would have to be wholly, or in great part, absorbed by dealers who are not financially able to assume this burden.

It is true that the automotive industry has had several extremely good years, back to back. It is also true that the major automotive manufacturers are all

reporting recordbreaking sales and after-tax profits. But the profit picture of the retail automobile merchant is not nearly as rosy and the figures set out below clearly indicate that he has not enjoyed anywhere near the same prosperity, despite recordbreaking sales, as the manufacturers. By way of illustration, the industry average on dealer profits on sales, before taxes (Federal, State, and local), was 2.2 percent for 1962; 1.9 percent for 1963; 1.8 percent for 1964; and 2.1 percent for 1965. We emphasize that these are pretax figures. We also emphasize that for 1965, the best sales year the industry has ever had, some 12 percent of the dealers showed an operating loss. This is twice the number showing such a loss for 1964.

H.R. 12752 provides that the floor stock tax is to be paid by the dealer on a date not earlier than 60 days after the date of enactment as indicated in regulations prescribed by the Secretary of the Treasury or his delegate.

Even assuming that the floor stock tax can be collected from car purchasers, to the extent that dealers are unable to sell those units in their inventory on the effective date of the tax increase within the period designated by the regulations for payment of the floor stock tax, they must tie up sorely needed operating capital in prepaid excise taxes. This is not an insignificant consideration. At the end of January of this year, of the 1,394,000 units then in dealer inventory, NADA's research department estimates that approximately 3 percent of these units were 1965 models produced before August of last year.

A further indication of the burdens imposed on automobile dealers, if the floor stock provision becomes law, is the fact that, of NADA's membership of nearly 22,000 franchised car dealers, our research department has found that 16.5 percent of the dealers employ 1 to 3 persons, 20 percent have 4 to 7 employees, and 36.4 percent have 8 to 19 employees. Generally speaking, about 11 percent of dealership employees are engaged in clerical and office work. It is obvious, therefore, that in the smaller dealerships, the burden of computing, collecting, filing, and paying the floor stock tax will almost certainly fall upon the dealer himself. To add these problems to the already excessive amount of bookwork required of such dealers by the nature of the sales transaction of the automobile, the paperwork requirements imposed by his manufacturer, as well as the recordkeeping demanded by State and Federal Governments, is without question compounding an already difficult workload situation for these small, independent merchants.

The mechanics and timing involved in computing the increased tax on units in inventory on the effective date of the proposed tax increase will create additional difficulties for the dealer. In its report on the bill, the Ways and Means Committee explains the procedural application of the floor stock tax in the following language:

* * * A tax of 1 percent of the manufacturer's (or importer's) price is imposed upon all new automobiles held in stock by dealers or distributors on the day when the 7-percent-tax rate becomes effective. The tax is to be paid by the dealer and is to be collected from the dealer by the manufacturer (or importer). The Secretary of the Treasury will prescribe regulations which will instruct the dealer to prepare for the manufacturer (or importer) a list of the cars in his inventory on the day when the 7-percent tax becomes effective together with any other information needed for the manufacturer (or importer) to determine the sales price. The manufacturer (or importer) then will prepare a bill for the dealer on which he itemizes the floor-stock tax upon each of these automobiles. The dealer then is to pay this tax to the manufacturer (or importer) who transmits it to the Government. If a dealer refuses to submit either the information or the tax to the manufacturer (or importer), no liability for the tax attaches to the manufacturer if he informs the Internal Revenue Service of the failure. In addition, the manufacturer (or importer) is to provide the dealer with information the dealer can use to show the customer a close approximation of the floor-stock tax on each car. This is to be made available on, or shortly after, the date the floor-stock tax applies. The Treasury Department may authorize the use of averages in any of the above computations to the same extent as already has been done in the case of the floor-stock refunds. The floor-stock tax of 1 percent will be paid on a date not earlier than 60 days after the date of enactment as indicated in regulations prescribed by the Secretary or his delegate * * * (H. Rept. No. 1285, pp. 30 and 31.)

It is immediately evident that this procedure does not answer the basic problem confronting the dealer; namely, computing and explaining the additional 1-percent tax to those who purchase cars in the interval between the effective date of the tax increase and the time the dealer receives from his manufacturer

the itemization of the floor-stock tax on each of the automobiles in inventory on the effective date. It may well be a lengthy period of time before the manufacturer can furnish each dealer with this information. Nor does the additional information to be provided by the manufacturer to the dealer, which is to be used "to show the customer a close approximation of the floor-stock tax on each car," solve this problem unless received by the dealer before the date the floor-stock tax becomes effective. What information is to be provided the dealer by the manufacturer is left unanswered.

It is beyond the scope of this brief presentation to point out other problems which readily come to mind in the interpretation and application of the floor-stock tax as explained in the above-quoted language of the committee's report. Suffice it to say, however, that many technical problems will exist.

It is earnestly submitted that a floor-stock tax generating a relatively small amount of revenue to the Federal Government—roughly \$25 million on a new-car inventory of 1 million units—has no justifiable basis when balanced against the heavy expenditure of time and money by, and the inconvenience to, both automobile dealers and their manufacturers who are charged with the administrative burdens of this unwarranted tax, thus making them, in effect, salary-less employees of the Treasury Department.

The discrimination and inequity so evident in the proposed 1-percent increase in the excise tax on the most tax-burdened product in our national economy is difficult to swallow. The addition of a floor-stock tax provision to H.R. 12752 makes it impossible for our members to swallow this bill, and we wish to record with this committee our vehement opposition to H.R. 12752, as passed by the House. We earnestly solicit your support in rejecting each of these provisions.

If, however, your committee concludes that it must, in view of the pressing revenue needs of the Government, legislate a 1-percent increase in the automobile excise tax, we urge you to reject the floor-stock tax provision of H.R. 12752 in fairness to the small businessmen who would bear the brunt of this unprecedented and unwarranted tax.

[DEALER COPY]

Charge to: _____.

Dealer order No. —.

Ship to (if different from above) _____.

Make: Oldsmobile.

Final assembly point: Lansing, Mich.

Vehicle identification No. :—.

Model: Cutlass Supreme _____ \$2, 846. 00

Destination charge _____ 68. 75

Subtotal _____ 2, 914. 75

Factory-installed options and accessories:

M33 Jetaway variable vane transmission _____	205. 37
N40 Roto-matic power steering _____	94. 70
D31 Glareproof rearview mirror _____	4. 43
Y60 Visor vanity mirror _____	1. 09
Luggage compartment lamp _____	1. 68
Glove box lamp _____	2. 95
U63 Deluxe radio _____	64. 25
P26 Standard-size whitewall tires _____	31. 60
P01 wheel discs _____	16. 85
B32 Auxillary front floor mats _____	6. 77
A02 Soft-ray tinted windshield _____	19. 49
A39 Deluxe front and rear seat belts—includes retracting _____	14. 74

The following items, options or accessories on some other models, are standard equipment on this model vehicle: A65 custom sport seat, B30 wall-to-wall floor carpeting, B50 foam-padded front seat cushion, B52 foam-padded rear seat cushion, B80 chrome roof drip moldings, N30 deluxe steering wheel, O28 ash tray lamp, Y67 deluxe interior equipment.

Total options and accessories _____ 464. 61

Total _____ \$3, 379. 36

¹ Based on reduced excise tax rate effective June 22, 1965.

OLDSMOBILE DIVISION, GENERAL MOTORS CORP., LANSING, MICH.

Cutlass Supreme:

Suggested retail price.....	\$2,846.00
Dealer billing price.....	2,154.60
E.O.H. (7.24 percent).....	156.00

Code	Accessories, options, and extras	Suggested retail price	Dealer price	E.O.H.
A02.....	Tinted windshield.....	\$19.49	\$14.10	\$0.99
B32.....	Partial floor mats.....	6.77	3.90	.27
M33.....	Jetaway transmission.....	205.37	148.20	10.37
P01.....	Wheel discs.....	16.85	12.20	.85
U63.....	Deluxe radio.....	64.25	46.40	1 35
A39.....	Deluxe seat belts.....	14.74	10.60	.74
D31.....	Tilt mirror.....	4.43	2.60	.18
N40.....	Power steering.....	94.79	68.40	4.79
P26.....	Standard whiteside wall tires.....	31.60	22.80	1.60
Y60.....	Accessory Package.....	6.32	4.50	1.32

: 7 percent.

Suggested retail price.....	\$3,379.36
Hold back.....	53.20
Total car and accessories, options, and equipment.....	2,488.30
Total, E.O.H. amount.....	179.36
Destination amount.....	68.75
Invoice amount.....	2,736.41

Date shipped, October 18, 1965; date of note, October 25, 1965; date of execution, October 18, 1965.

CAR INVOICE, DEALER'S COPY

Sold to General Motors Acceptance Corp. (grantee).

Shipped to dealer and destination shown above.

Terms: No cash, promissory note, copy attached, payable at the office of General Motors Acceptance Corp., designated below.

Notice to consignee (important).—When accepting delivery of this shipment be sure to examine car carefully and have shortage or damage noted on your delivery receipt to carrier; also be sure to secure seal record on all doors (side and end) on rail shipments. We cannot assume responsibility for loss or damage to cars in transit, unless notation of shortage or damage is noted when accepting delivery.

Instructions to dealers.—Fill in the wholesale release order on the reverse side of your promissory note copy and attach it to your remittance when releasing car from trust. Amount due on car is shown above, to which amount must be added the applicable flat charge and interest. Interest accrues from the interest date indicated above to date of payment. To release car for demonstration, follow instructions shown in the current GMAC demonstration agreement.

"We hereby certify that these goods were produced in compliance with all applicable requirements of sections 6, 7, and 12 of the Fair Labor Standards Act, as amended, and of regulations and orders of the U.S. Department of Labor issued under section 14 thereof."

MACHINERY & ALLIED PRODUCTS INSTITUTE,
Washington, D.C., February 28, 1966.

Re Tax Adjustment Act of 1966.

Hon. RUSSELL B. LONG,

Chairman, Committee on Finance, U.S. Senate, New Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: In connection with current public hearings, we welcome this opportunity to present for the record our views on one aspect of the tax program outlined by President Johnson in his state of the Union message and included in H.R. 12752 as passed by the House. As you know, the Machinery & Allied Products Institute and its affiliate organization, the Council for Technological Advancement, are the national spokesmen for the capital goods and allied equipment industries of the United States.

Our comments are addressed to one part of the bill—(section 104)—the provision that the schedule for accelerating corporate income tax payments, in accordance with section 122 of the Revenue Act of 1964 and as set out in section 6154 of the Internal Revenue Code of 1954, be further speeded up so that corporations will be on a current basis with respect to estimated tax liability by 1967 instead of 1970 as now provided. For 1966, this would mean that on April 15 and June 15 a calendar year corporation would owe 12 percent payments, instead of 9 percent payments, on its estimated current income tax liability; in 1967, these payments would rise from the now-scheduled 14 percent to a full 25 percent.

It is clear that, for the average corporation, adoption of the speedup recommendation will increase cash-liquidity requirements and the problems inherent in estimating. The strain that will be caused for some corporations by adding these proposed percentage increases to the existing schedule for stepping up payments will be quite severe. For that reason, we urge that the committee, in connection with its consideration of this proposal, study the possibility of liberalizing section 6655 of the Internal Revenue Code which relates to the determination of underpayment by a corporation of estimated tax liability and the consequences of such underpayment. Specifically, recognizing that the annualization method of estimating corporate income and tax liability for the payment due on the 15th of the 4th month is now based on the first 3 months' experience, we recommend that the annualization method should be amended to permit also, at the corporation's option, estimation based on the first 2 months' or first month's experience.

ANNUALIZATION METHOD OF ESTIMATING FIRST CORPORATE TAX PAYMENT DUE IN CURRENT YEAR

A corporation is required to make installment payments on its current-year tax liability on the 15th day of the 4th, 6th, 9th, and 12th months of its taxable year—for a calendar year corporation these due dates are April 15, June 15, September 15, and December 15. The 6-percent "addition" for underpayment is assessed if any of these payments is based on an estimated tax liability which amounts to less than 70 percent of actual tax liability.

However, there are three alternative methods which the corporation may use to avoid liability for the 6-percent "addition." The first two are based on the preceding year's tax liability and the preceding year's income taxed at the current year's rates. Use of these methods obviously creates special problems when the current year's income greatly exceeds the preceding year's income and a very substantial part of the current year's tax liability must be paid in one lump sum with the filing of that year's return on the following March 15. The third alternative, annualization—estimating the current year's earnings and tax liability on the basis of experience for a fraction of that year—seems to be of greater significance than the first two alternatives for the average corporation.

Under the annualization concept, the corporation is to pay at least 70 percent of whatever fraction of the tax liability of the current year, based on the earnings for that year up to that point, is to be paid by that date. With respect to annualization for the second, third, and fourth quarters—in connection with the payments due on June 15, September 15, and December 15, in the case of a calendar year corporation—the installment can be based on earnings experience through either the end of the immediately preceding month or the end of the third month preceding the current month. Thus the corporation can base its projected earnings and tax liability for the second, third, and fourth quarters on the basis of earnings experience through either the 15th or the 75th day prior to the due date for paying that particular installment.

In the case of the first installment, however, no option is available; in the case of a calendar year corporation, the first installment due on April 15 must be annualized on the basis of experience through March 31.

The problem caused by underestimation and liability for the 6-percent underpayment "addition" perhaps has not been too significant for most corporations when, under the annualization method, the minimum payment due for calendar year corporations on April 15, 1964 and April 15, 1965, has been merely 0.7 percent and 2.8 percent, respectively, of its actual tax liability for those years. But under the administration recommendation these percentage figures rise sharply to 8.4 percent and 17.5 percent, respectively, for April 15, 1966 and April 15, 1967.

You will recall that a similar problem arose in connection with the enactment of the Internal Revenue Code of 1954 which initially required corporations to begin to pay their income tax liability on September 15 and December 15 (in the case of calendar year corporations) of the current year. With respect to the application of the annualization method to these current year payments, the Congress accepted in the final version of the bill a Finance Committee amendment which permitted annualization based, at the option of the corporation, on experience either through the month prior to the month in which payment was due or through the month prior to the month in which payment was due or through the period ending 2 months before that month.

The following reason for the amendment given by this committee seems to us equally applicable to the current situation respecting the payment due for the first quarter:

This provision will substantially ease the compliance burdens for a number of corporations which, because of the difficulties in inventorying, would have inadequate time to prepare an estimate on the basis of the annualized income through the months ending before the month in which the installment is to be paid.¹

¹ S.Rept. 1622, 83d Cong., 2d sess., p. 140.

Accordingly, we suggest that section 6655(d)(3)(A)(i)—the provision relating to the application of the annualization method to the first quarter payment—be amended to permit estimation, at the corporation's option, based on the first month or the first 2 months of the current taxable year as well as estimation based on the first 3 months.

This brief presentation has been confined to one aspect—and a technical aspect—of the current tax recommendations of the President. We do feel obliged, however, to offer general comment with regard to the tax program and related Government policy considerations which are now before the Committee on Finance. During the deliberations of the Committee on Ways and Means regarding H.R. 12752, as reflected in the committee Report No. 1285, some consideration was given to the question of overall fiscal policy, in particular, restraint on nondefense Government expenditures. This subject was also discussed at some length in the floor debate in the House. We hope and urge that the Committee on Finance in its consideration of H.R. 12752, and later the Senate as a whole, will give increased emphasis to the question of, and in our view the need for, increased restraint on nondefense Government expenditures.

Respectfully,

CHARLES W. STEWART, *President.*

WESTERN GROWERS ASSOCIATION,
Los Angeles, Calif., February 25, 1966.

Senator RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: The Western Growers Association represents the vegetable and melon industry of California and Arizona. Its membership to every corner of the United States and Canada over 300,000 carlots of these food commodities, in fresh form, annually. Under H.R. 12752, the Tax Adjustment Act of 1966, a request is being made to restore the reduction of excise tax on telephones which the administration recommended and Congress approved in 1965.

This \$500 million industry dealing in perishables arranges for distribution of its production almost completely by telephone communications. Daily supplies, shipments, costs, and sales are discussed and confirmed over the telephone. It has been conservatively estimated the annual telephone bill of the produce industry is over \$100 million.

It is most discriminatory to place a special tax on such specialized service so vital to growers. To an industry already caught in the trap of ever-increasing costs, with no control on prices for its commodities, the proposed telephone tax increase is a most severe blow.

On February 24, 1966, the board of directors of the Western Growers Association met and adopted a resolution, copy enclosed, urging that the Members of Congress oppose the reinstatement of the excise tax on telephone service.

We respectfully solicit your support for the protection of the flow of our perishable produce to the Nation's markets.

Yours very truly,

FRANK W. CASTIGLIONE,
Executive Vice President.

RESOLUTION

Whereas the use of telephone communications are an integral part of the production, shipment, and distribution of perishable food commodities to consumers; and

Whereas the proposal to restore the reduction in excise tax on telephone service which the administration recommended and the Congress approved in 1965 is detrimental and prejudicial to the already overburdened production costs of growers; and therefore, be it

Resolved, That we urge Members of the Senate to oppose reinstatement of the tax on telephone service and seek sources of needed revenue which are not prejudicial to such a vital, integral part of the distribution of food commodities to the Nation's marketplace.

Adopted: Western Growers Association, Los Angeles, Calif., February 24, 1966.

F. W. CASTIGLIONE, *Secretary.*

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., February 28, 1966.

HON. RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR CHAIRMAN LONG: The American Farm Bureau Federation, a general farm organization representing more than 1,677,000 member families in 49 States and Puerto Rico, has long maintained a keen interest in Federal tax policies. Through an extensive policy development program, our member families discuss problems and develop recommendations on many issues which affect them directly in the business of agriculture as well as those matters which have an important impact upon them as citizens of the United States.

In view of the expenditures made necessary by the Vietnam conflict, we recognize the necessity for the reduction of nonessential Government expenditures. A prime candidate for close scrutiny by Congress is the increased emphasis on direct payments in the Department of Agriculture budget. These payments could be substantially reduced.

Farm Bureau has carefully reviewed the recommendations made by the administration with regard to certain tax adjustments. We are opposed to the proposal to restore the January 1 reductions in the excise tax rates on telephone service and passenger automobiles.

Farm Bureau's 1966 policies state:

"Federal excise taxes should be limited to nonessentials and user taxes such as the tax on passenger transportation by air and the taxes now committed to the Federal highway trust fund. The reductions enacted in 1965 should become effective as scheduled. In revising the excise tax structure, priority should be given to the elimination of taxes that affect farm production costs."

Farm Bureau believes that the Federal excise taxes on telephone service and passenger automobiles—

Are highly discriminatory;

Invade a field of taxation which should be left to local and State governments;

Bear heavily upon farmers and ranchers, increasing their production costs and decreasing their net income.

In 1965 Farm Bureau supported the removal and reduction of many of the Federal excise taxes. We urge that priority be given to the removal of those excise taxes which directly affect our cost of production—especially telephone service and automobiles.

While removal of the taxes on telephone service and automobiles was scheduled over a 4-year period (except for a 1-percent tax on automobiles which was made

permanent), the excise taxes on many luxury items were removed immediately upon the effective date of the act.

The President's recommendation would delay most of the reductions on telephone service and automobiles for 2 years but would not reinstitute the taxes on luxury items. We do not believe this is sound tax policy.

We are certain that the committee will agree that it is not in the best interest of American agriculture, business, or consumers for excise taxes to be manipulated in the fashion proposed by the administration's recommendations. For example, in 1965 the excise tax on telephone service was 10 percent; on January 1, 1966, it was reduced to 3 percent; under the President's proposal, the tax would be increased to 10 percent approximately a month after the enactment of the new legislation. This tax would be reduced back to 3 percent January 1, 1968, and decline by 1 percent for the succeeding 3 years. We do not believe that the committee wishes to build such complexities into the application of Federal taxes.

We have recommended that the Congress take the necessary action to reduce the deficit and make substantial progress toward the objective of a balanced budget by limiting Federal expenditures. We believe that reduced Federal expenditures are preferable to the manipulation of Federal excise tax rates in the manner proposed by the administration.

We are not opposed to the remaining three recommendations made by the President in regard to (1) corporate income tax payments; (b) a graduated withholding system for individuals; and (c) quarterly social security tax payments.

We respectfully request that this letter be made a part of the hearing record in regard to this matter.

Very truly yours,

CHARLES B. SHUMAN, *President.*

STATEMENT BY INVESTORS LEAGUE, INC.

Mr. Chairman and members of the committee, my name is William Jackman. I am president of Investors League, Inc., New York. The Investors League is a nonprofit, nonpartisan, voluntary membership organization of thousands of investors, small and large, residing in the 50 States of the Union.

H.R. 12752 provides for rescinding the telephone and automobile Federal excise taxes scheduled to be effective on January 1, 1966. It is estimated that if such tax reductions are rescinded, the Government would receive \$750 million in excise taxes from telephone users and \$420 million from the excise taxes on automobiles.

The rescinding of these excise taxes would hit people who could least afford it. Telephones and automobiles are no longer luxuries and an excise tax on them amounts to making the workingman, the poor, and elderly carry the heaviest burden of the proposed tax program. In equity, it seems most unfair to single out but two industries for onerous excise taxes while others go free. Certainly mink coats, expensive jewelry, and nightclubs are not necessities.

Assuming that the Government needs the revenue, we feel that there are better and less painful ways to obtain it.

We especially wish to suggest to this committee that they incorporate as an amendment to H.R. 12752 the proposals set forth in H.R. 12301 introduced in the House on January 26, 1966, designed to encourage equity investment in new and small businesses, to relieve unemployment, and provide substantial additional revenue to the Federal Government which it now so sorely needs.

In essence, H.R. 12301 provides that the maximum tax rate on long-term capital gains be cut from the present 25 to 12½ percent.

Such a tax cut would benefit elderly homeowners tremendously. These taxes on long-term capital gains are largely no tax on income at all, but a tax on capital and thoroughly punitive in character.

People who have had substantial stockholdings for a long period of time will not sell and reinvest because of the high tax rate involved. A recent survey conducted by the highly respected firm of Louis Harris & Associates, Inc., concludes that if the maximum capital tax rate were reduced to 12½ percent, the market value of sales by all individual investors would soar from \$10.3 to \$67.3 billion. Total capital appreciation of \$29.2 billion would become subject to the lower capital gains tax rate.

Thus, nearly seven times as much stock would be sold. Nearly 10 times as much capital appreciation would be unlocked and thus become subject to the lower capital gains tax rate. In terms of dollars, \$57 billion more of capital would be freed for reinvestment than under the present rates, and the Treasury would receive \$2.5 billion in revenue—over \$2 billion more than under the present rates.

Gentlemen, here is a tax rate reduction that will give the Government a substantial new source of revenues which will be contributed willingly by the rich and enable the poor to have their excise tax reductions which they so thoroughly deserve.

Gentlemen, I thank you.

WILLIAM JACKMAN, *President.*

