
TEMPORARY EXTENSION OF SUSPENSION OF DUTY ON
HEPTANOIC ACID; 1-MONTH EXTENSION OF EXISTING
WITHHOLDING TAX RATES

JUNE 25, 1969.—Ordered to be printed

Mr. LONG, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 4229]

The Committee on Finance, to which was referred the bill (H.R. 4229), to continue for a temporary period the existing suspension of duty on heptanoic acid, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

SUMMARY

H.R. 4229, as passed by the House, continues the existing suspension of the duty on imports of heptanoic acid for an additional period, until the close of December 31, 1970. The committee made no change in this provision.

An amendment requested by the Secretary of the Treasury has been added by the committee. The amendment extends the "surcharge" withholding rates for 1 month, or from June 30, 1969, to July 31, 1969. This is withholding at a rate approximately 10 percent above that which otherwise would be applicable. This does not represent a change in any taxpayer's tax liability for 1969, but instead is intended to make it possible to postpone until July 31, 1969, any decision with respect to the administration's proposal to extend the surcharge. Should Congress not act to extend the surcharge, this will increase refunds or decrease tax payments otherwise due at the time of the filing of tax returns for 1969. This action should increase receipts with respect to the quarter immediately ahead by \$600 million. Nothing in this change is intended to either endorse, or not to endorse, the administration proposal with respect to the extension of the surcharge.

The committee also indicated that it was its view that the 7 percent investment credit should be repealed as of April 18 and expected to take this position when a bill repealing the credit is before it.

DUTY ON HEPTANOIC ACID

The duty on heptanoic acid was suspended by Public Law 86-795, approved September 16, 1960, for a period of 3 years, and for two additional 3-year periods by Public Law 88-93, approved August 8, 1963, and Public Law 89-432, approved May 31, 1966. Under the latter law, the duty suspension is scheduled to terminate at the close of August 8, 1969.

Heptanoic acid is used principally in the making of special synthetic lubricants and brake fluids, partially for the military and the aerospace industry. At the time of the original suspension of duty and its subsequent extensions, there was no domestic commercial production of heptanoic acid, and rising domestic demand was entirely dependent upon imports.

The Department of Commerce has indicated that there is still no domestic commercial production of heptanoic acid, but that one domestic chemical producer is planning to further increase its plant capacity for producing an acid considered by some to be suitable for uses similar to those for heptanoic acid.

The House-passed bill extends the suspension of the duty to December 31, 1970. The committee accepted the House provisions without change.

ONE MONTH EXTENSION OF "SURCHARGE" WITHHOLDING RATES

Present law

The Revenue and Expenditure Control Act of 1968 provided a 5 percent surcharge applicable to both individual and corporate income tax rates for the calendar year 1969. This has generally been considered the equivalent, however, of a 10 percent surcharge for the first 6 months of the calendar year 1969. The withholding rates applicable in the calendar year 1969 reflect a full 10 percent surcharge for the first 6 months of the calendar year 1969 and after that time no surcharge is included in the withholding rates presently applicable.

Action taken by the committee

The administration has requested that a 10-percent surcharge be applied for the entire calendar year 1969 and that the withholding rates reflecting the 10-percent surcharge be made applicable for the remainder of the calendar year 1969. The request of the administration also in effect included the continuation of the surcharge at a 5-percent rate for the first half of 1970 (or more accurately at a 2.5-percent rate for the entire year). Other recommendations included in the administration proposals would repeal the 7-percent investment credit and would continue the excise taxes on automobiles and communications services at present rates of 7 percent and 10 percent, respectively for 1 more year (along with the postponement for 1 more year of later scheduled reductions).

The committee understands that the House will not be able to complete its consideration of these proposals prior to the June 30, 1969, date when, under present law the surcharge withholding rate on individual income taxes terminates (the surcharge adds approximately 10 percent to withholding rates otherwise applicable). In view of the

fact that the House will not be able to complete its consideration of the administration proposals, the committee believed that it was desirable to provide more time both for the House and the Senate to consider the administration proposals without being confronted with the immediate termination of the "surcharge" withholding rates as of June 30.

Not only is more time needed by both Houses to consider the administration proposals, but also in the absence of any action at this time employers might be faced with the difficult problem of changing over from one set of withholding rates as of July 1 and then, should the Congress subsequently decide to accept part or all of the administration proposals, be faced with the necessity of shifting back to higher withholding tables after such action was completed by the Congress. This represents a considerable administrative burden for employers and also presents employees with changing take-home pay checks to which they would not be accustomed. It might also present the employees with a problem of underwithholding—that is, owing tax—at the end of the year should the full 10-percent surcharge be continued by the Congress for the remainder of the year.

In view of the considerations outlined above, the committee concluded that it was desirable to extend the "surcharge" withholding (that is, withholding rates 10 percent above those which would otherwise be applicable) until July 31, 1969. This will give the Congress time to adequately consider the administration proposals and will give assurance that employers will not be faced with two changes in withholding tables in a relatively short period of time.

It should be clearly understood, however, that this action does not prejudice congressional consideration of the issue of the extension of the surcharge since this action does not represent a change in tax liability but only in the amount withheld. Therefore, should Congress subsequently decide not to enact an extension of the surcharge for the remainder of the calendar year 1969, this change in withholding would not affect any taxpayer's tax liability for the year. Instead it would either increase the size of the income tax refund for which he would be eligible after the beginning of next year or, alternatively, would decrease tax payments he would be required to make at the time of filing his tax return for the calendar year 1969.

It should also be noted that tax reform proposals are being actively considered in the House Committee on Ways and Means at the present time. Should the Congress deem it desirable to consider the administration proposals with respect to the surcharge, excise taxes, and investment credit along with, or at approximately the same time as its consideration of comprehensive tax reform proposals, this postponement of the date when Congress will need to decide what position to take with respect to the surcharge would help make this possible.

It is estimated that extension of the surcharge withholding rates until July 31, 1969, will increase receipts coming into the Treasury during 1969 by \$600 million. Whether this represents an increase in receipts for the entire fiscal year or merely represents refunds (or decreased tax payments) with respect to the latter half of the fiscal year 1970 will depend on the action hereafter taken by the Congress with respect to the administration's proposal to extend the surcharge.

General explanation of amendment

The committee amendment changes three dates in present law. First, it amends section 3402(a)(1) to provide that the percentage withholding tables which were applicable before the surcharge, and which under present law again become applicable after June 30, 1969, instead are to become applicable after July 31, 1969. These withholding rates are approximately 10 percent lower than the withholding rates applicable during the period when the surcharge applies.

The second change made by the committee amendment amends section 3402(a)(2) relating to the percentage withholding tables applicable during the period when the surcharge applies. Under present law, the use of these tables terminates as of July 1, 1969. Under the committee amendment, these tables continue in effect until August 1, 1969.

As an alternative to the percentage withholding tables, wage bracket withholding tables may under present law be used by the employer to determine the appropriate amount of withholding. The third change made by the committee amendment relates to section 3402(c)(6) which presently suspends the use of the regular wage bracket withholding tables for the period of the surcharge. Under present law, the use of the regular wage bracket withholding tables is suspended until July 1, 1969. The committee amendment suspends the use of the regular wage bracket withholding tables until August 1, 1969. In the interval special wage bracket withholding tables apply, which in general provide rates that are 10 percent higher than the rates under the regular wage bracket withholding tables.

The changes made by the committee amendment apply with respect to wages paid after June 30, 1969.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TARIFF SCHEDULES OF THE UNITED STATES

APPENDIX TO THE TARIFF SCHEDULES

Item	Articles	Rates of Duty		Effective Period
		1	2	
PART 1.—TEMPORARY LEGISLATION				
* * * * *				
SUBPART B.—TEMPORARY PROVISIONS AMENDING THE TARIFF SCHEDULES				
* * * * *				
907.30	Heptanoic acid (provided for in item 425.08, part 2D, schedule 4).	Free	Free [8/8/69]	On or before 12/31/70
* * * * *				

INTERNAL REVENUE CODE OF 1954

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SEC. 3402. INCOME TAX COLLECTED AT SOURCE.

(a) **REQUIREMENT OF WITHHOLDING.**—Every employer making payment of wages shall deduct and withhold upon such wages (except as otherwise provided in this section) a tax determined in accordance with the following tables. For purposes of applying such tables, the term “the amount of wages” means the amount by which the wages exceed the number of withholding exemptions claimed, multiplied by the amount of one such exemption as shown in the table in subsection (b)(1):

(1) In the case of wages paid on or before the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 or after **[June 30, 1969]** *July 31, 1969*:

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(2) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 and before **[July 1, 1969]** *August 1, 1969*:

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(c) **WAGE BRACKET WITHHOLDING.**—

(1) At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a).

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(6) In case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968, and before **[July 1, 1969]** *August 1, 1969*, the amount deducted and withheld under paragraph (1) shall be determined in accordance with tables prescribed by the Secretary or his delegate in lieu of the tables contained in paragraph (1). The tables so prescribed shall be the same as the tables contained in paragraph (1), except that amounts and rates set forth as amounts and rates of tax to be deducted and withheld shall be computed on the basis of table 7 contained in subsection (a) (2).

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