

TAX ADJUSTMENT ACT OF 1966

MARCH 2, 1966.—Ordered to be printed

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

R E P O R T

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 12752]

The Committee on Finance, to which was referred the bill (H.R. 12752) 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, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

I. SUMMARY

Your committee has reported H.R. 12752, the tax adjustment bill of 1966, with four substantive amendments in addition to other technical amendments. Your committee's amendments will increase slightly the revenue to be obtained under this bill.

H.R. 12752 is designed to contribute revenues to aid in financing the increased cost of Government associated with operations in Vietnam. It is designed to help finance these costs in a manner which will avoid the creation of serious inflationary pressures.

Two of the amendments made by your committee relate to matters in the House version of the bill and two deal with separate measures not included in the House bill. One of the provisions relating to material in the House bill concerns the withholding allowances provided in connection with graduated withholding and is discussed below with the discussion of that provision. The second amendment relates to a House measure which deals with the floor stocks tax of 1 percent on dealers' inventories of passenger cars (provided in connec-

tion with the 1 percentage point restored to the manufacturer's excise tax rate on passenger automobiles). Your committee's amendment deletes this floor stocks tax.

One of the two provisions added to the bill by your committee requires the Department of Agriculture to send to farmers copies of information returns they send to the Internal Revenue Service with respect to payments of over \$600 a year. The second new provision added by an amendment made by your committee denies any deduction for amounts paid for advertising in a convention program of a political party, or in any other publication if any part of the proceeds inures to a political party or candidate. Deduction is also denied for payments for admission to dinners or programs if any part of the proceeds inures to a political party or candidate. In addition, deduction is denied for payments for admission to an inaugural ball or a similar event.

The provisions of the bill, which are based upon recommendations made by the President with certain important modifications, are grouped under two headings. Most important from a revenue standpoint are the provisions which affect the procedures for collecting tax, but which do not affect tax liabilities. They include graduated withholding on wage income, strengthening the payment requirements for declarations, the acceleration of corporate estimated tax payments, and quarterly payments of estimated self-employment social security tax. The remaining provisions superimpose a 2-year moratorium on rate reductions scheduled under existing law for the excise taxes on passenger automobiles and telephone service. When this moratorium ends, these tax rates will immediately fall to the levels which would otherwise have been applicable under present law at that time, and will thereafter continue to be reduced as scheduled under existing law.

Revenue effect.—It is anticipated that these provisions will increase administrative budget revenues in the fiscal year 1966 by \$1.1 billion and the revenues in the fiscal year 1967 by \$4.8 billion relative to the levels that would be achieved under existing law. The temporary effects of the change in the timing of tax payments will be responsible for almost all of the \$1.1 billion of the added administrative budget revenues in the fiscal year 1966 and \$3.4 billion of the increase in revenues in the fiscal year 1967. The quarterly payment of estimated self-employment tax will increase trust fund receipts, which are reflected in the consolidated cash budget but not in the administrative budget, by \$200 million in the fiscal year 1967. The moratorium on excise tax reduction will retain \$35 million in revenue which would otherwise be foregone in the fiscal year 1966 and \$1.2 billion in revenue which would otherwise be foregone in the fiscal year 1967.

The provisions.—(1) *Graduated withholding.*—For wages paid after April 30, 1966, the bill replaces the present withholding tax rate with a series of six graduated rates ranging from 14 to 30 percent which are grouped in a system that takes account of the minimum standard deduction or deductions of 10 percent of wages and of the taxpayer's marital status as well as the statutory tax rates which apply to the first \$12,000 of taxable income for single persons and \$24,000 of taxable income for married persons. The 30-percent rate also will apply to all higher levels of taxable income.

Included in the bill is a provision, not a part of the President's recommendations, which is designed to reduce overwithholding. This provision, beginning in 1967, will permit taxpayers whose itemized deductions as a percentage of their wages are in excess of certain limits to claim withholding allowances. These allowances will have the effect of additional withholding exemptions. Withholding allowances will be based on the excess of estimated itemized deductions (which cannot exceed the deductions itemized in the previous year) over a prescribed amount of estimated wage income (which cannot be less than the wage income received in the previous year). The prescribed amount under the House bill would be a composite of 12 percent of the first \$7,500 of estimated wages plus 17 percent of estimated wages in excess of \$7,500. Under your committee's bill the prescribed amount is to be a composite of 10 percent of the first \$7,500 of estimated wages plus 17 percent of estimated wages in excess of \$7,500. Under the House bill, beginning in 1967, withholding allowances could be claimed with respect to each full \$700 of itemized deductions above the prescribed percentage amounts, except that the first allowance could be claimed if this excess amount equaled \$350 or more. Under your committee's amendments withholding allowances may be claimed only with respect to full units of \$700 of itemized deductions above the prescribed percentage limitation, whether it is the first or a subsequent withholding allowance which is involved. Under both versions of the bill the Internal Revenue Service is authorized, and expected, to compile a table which will help taxpayers to determine the number of withholding allowances they may claim.

(2) *Quarterly payments of estimated self-employment tax.*—Effective for taxable years beginning after December 31, 1966, self-employed persons will 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. The rules which now apply with regard to the requirement for filing a declaration of estimated income tax and the rules which govern the assessment of penalties for the underpayment of estimated tax will henceforth apply to the combined amount of estimated income tax and estimated self-employment tax.

(3) *Underpayment of estimated tax by individuals.*—Under existing law, a penalty may 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 equal to less than 70 percent of the tax shown on his return. Effective for taxable years beginning after December 31, 1966, the present 70 percent provision is raised to 80 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 will be accelerated so that the current payments basis will be reached in 1967 instead of 1970 as scheduled under present law. Calendar year corporations will pay 12 percent of their estimated tax liabilities in April and June 1966, instead of the presently scheduled 9 percent. In 1967 and in following years, they will pay 25 percent of estimated tax liabilities on each payment date.

(5) *Excise tax on passenger automobiles.*—The excise tax rate on passenger automobiles effective on the day after enactment of the

bill will revert to 7 percent (the rate before January 1, 1966) from 6 percent, and there will be a moratorium through March 31, 1968, on further tax rate reductions scheduled under present law. At the expiration of the moratorium, the excise tax on passenger automobiles will fall to 2 percent, as presently scheduled for 1968, and then to 1 percent as presently scheduled for 1969. Under your committee's amendments no floor stocks tax is to be imposed on the inventories of dealers and distributors.

(6) *Excise tax on telephone service.*—The excise tax rate on telephone service will revert to 10 percent (the rate before January 1, 1966), from 3 percent, on general and toll telephone and teletypewriter exchange services. It will be in effect through March 31, 1968, when it will decline to 1 percent and will be repealed on January 1, 1969, as scheduled under present law. Nonprofit hospitals will be exempt from the tax on telephone services. These provisions will be 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 bill.

(7) *Indirect political contributions.*—No deduction from income is to be allowed to an individual or a business for advertising, admissions to dinners, programs, or any similar events, if any part of the net proceeds inures to the benefit of a political party or political candidate. In addition, no deduction is to be allowed for payments for admissions to inaugural balls, etc., identified with a political party or a political candidate. The provision is to be applicable to taxable years beginning after December 31, 1965, but only with respect to amounts paid after the date of enactment of the bill.

(8) *Information returns supplied to farmers.*—The Department of Agriculture will be required to supply farmers with copies of information returns which now are sent to the Internal Revenue Service with respect to all payments of \$600 or more made in any 1 year to an individual. The statements may be made through the national office of the Department of Agriculture, any of its State or local offices, or any of its agencies. The provision will be effective for reports sent out after the date of enactment of the bill.

II. REVENUE EFFECTS

As indicated in table 1, the bill is expected to increase fiscal year 1966 administrative budget receipts by \$1,130 million and fiscal year 1967 receipts by \$4,800 million. This latter figure is about the same as 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. 12762 as reported by the Senate Committee on Finance, for the fiscal years 1966 and 1967*

(In millions of dollars)

	Fiscal year 1966	Fiscal year 1967
Excises:		
Communications.....		785
Automobiles.....	35	420
Total excises.....	35	1,205
Corporate speed-up.....	1,000	3,200
Graduated withholding.....	95	245
Increase in declaration requirement under individual income tax from 70 to 80 percent.....		150
Total, administrative budget.....	1,130	4,800
Self-employment tax, social security, quarterly payments (goes into a trust fund).....		200
Total, cash budget.....	1,130	5,000

The largest single source of additional revenue provided by the bill is attributable to advancing the payment dates for 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 reduction moratorium with respect to the taxes on automobiles and communications represents the second major revenue source under the bill. It is estimated that this will raise revenues by \$35 million in the fiscal year 1966 and by \$1,205 million in the fiscal year 1967. The provisions with respect to 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 \$395 million in the fiscal year 1967. The provision with respect to graduated withholding is expected to increase revenues in the fiscal year 1966 by \$95 million.

Table 2 shows the revenue impact of the graduated withholding system and the declaration requirement change approved by your committee. Only the six-rate graduated withholding system has an impact in the fiscal year 1966. As previously indicated, this is expected to increase revenues in that year by \$95 million. In the fiscal year 1967 a six-rate graduated withholding system with no allowances for excess itemized deductions would increase revenues by \$400 million. If two-thirds of those eligible decrease overwithholding due to itemized deductions under the version of the provision approved by your committee, this gain will be reduced by \$155 million in the fiscal year 1967, resulting in a net gain from graduated withholding of \$245 million in the fiscal year 1967. However, the provision in raising the declaration requirement from 70 to 80 percent effective for the fiscal year 1967 is expected to increase revenues by \$150 million. As a result these actions, taken together, give rise to an estimated revenue gain of \$395 million for the fiscal year 1967, or about the same as that recommended by the President. In the fiscal year 1968 the decrease in overwithholding attributable to allowances for itemized deductions will result in a loss of \$230 million. This fiscal year 1968 loss of \$230 million is a loss over and above any which

would be incurred under the President's recommendations. However, there is a net gain of \$65 million in that year arising from extending the excise tax rates for passenger cars and communication services until April 1, 1968, which also would not be realized under the President's recommendations.

TABLE 2.—Revenue effect of provisions of H.R. 12752 as reported by the Senate Committee on Finance, relating to graduated withholding and declarations of estimated tax

(In millions of dollars)

Provisions	Effective date	Full year effect	Change in receipts		
			Fiscal year 1966	Fiscal year 1967	Fiscal year 1968
6-rate graduated withholding.....	May 1, 1966	+1,240	+95	+400
Extra withholding allowance for excess deductions ¹	Jan. 1, 1967	-935	-155	-230
Increase requirement for estimated tax from 70 to 80 percent.....	Jan. 1, 1967	+300	+150
Total for individuals.....		+605	+95	+395	-230

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

III. REASONS FOR THE BILL

1. Fiscal and economic impact

The tax adjustment bill of 1966 will help provide the additional revenues which your committee is advised will be required by the conflict in Vietnam. This bill is designed to help finance the additional expenditures required for this purpose without generating serious inflationary pressures in the domestic economy. The additional revenues will be derived from two general types of provisions. The first consists of improvements in tax collection procedures which, without affecting tax liabilities, involve a temporary increase in the amount of revenues by making payments more current. The remaining provisions restore excise rates in effect on December 31, 1965, and impose a 2-year moratorium on presently scheduled reductions in the excise taxes on passenger automobiles and telephone service.

Were it not for special Vietnam costs, your committee has been informed the increase in Federal revenue attributable to the growth of the economy—growth largely in response to the tax reductions enacted in recent years—would be sufficient not only to meet the regular requirements of Federal operations but also to provide a surplus. The President's budget message indicates that special Vietnam expenses will account for an estimated \$10.5 billion of administrative budget expenditures for the fiscal year 1967. These expenses account for \$5.8 billion of the \$6.4 billion increase in expenditures in the fiscal year 1967 over those for the fiscal year 1966. It is estimated that revenues would increase by \$7.3 billion between the 2 fiscal years if no change were made in existing tax laws, an amount that would be sufficient to produce a substantial budget surplus were it not for the extraordinary defense requirements. It will be recalled that when the Senate was considering the Revenue Act of 1964—which provided a reduction of \$11.5 billion, the largest reduction ever provided—the then Secretary of the Treasury Douglas Dillon indicated that despite this reduction, it might be possible to balance the budget in the fiscal

year 1967. It should be noted that this objective of a balanced budget in the fiscal year 1967 would be obtained were it not for the extraordinary defense expenditures arising from the conflict in Vietnam. Thus, were it not for the special Vietnam expenses of \$10.5 billion, there would be no need at this time for the 2-year excise tax reduction moratorium or for an advancement of the corporate tax payments at a more rapid rate than originally planned.

As a result of these extraordinary defense requirements, this bill provides additional temporary revenues designed to improve the budgetary outlook for both the fiscal years 1966 and 1967 as indicated in table 3.

Its provisions will increase revenues over present law yields in the current fiscal year by an estimated \$1.1 billion on an administrative budget basis and by \$4.8 billion in the following fiscal year. As a result, the deficit in the administration's budget expected for fiscal 1966 without the bill will be reduced from \$7.6 to \$6.5 billion, and will fall sharply to \$1.7 billion in fiscal 1967. Viewed from the basis of the consolidated cash budget, the results of the bill will be even more significant. The anticipated consolidated cash budget deficit for the fiscal year 1966 is expected to be \$7.0 billion. In the fiscal year 1967, this deficit will be eliminated and a small surplus achieved as a consequence of the \$5.0 billion that will be added to cash receipts by this bill in that year. Moreover, the bill will increase fiscal 1966 cash receipts by \$1.1 billion.

The modifications in collection procedures enacted in this bill—that is, graduated withholding, tighter declaration requirements, quarterly self-employment tax payments, and faster corporate income tax payments—will have a significant effect on revenues even though they will not increase tax liabilities. These changes in timing will result in the collection of some revenues in fiscal 1966 and fiscal 1967 which would otherwise not be collected until the following years. Once the transition to the new collection procedures is completed, however, tax payments by individuals and corporations during each fiscal year will (apart from the effect of growth in the economy) be no greater than under present law.

TABLE 3.—Comparison of administrative budget receipts and expenditures with and without H.R. 12752 as reported by the Senate Committee on Finance, fiscal years 1966 and 1967

(In billions of dollars)

	Fiscal year 1966	Fiscal year 1967	Change fiscal year 1967 over fiscal year 1966
Expenditures.....	108.4	112.8	+6.4
Receipts without bill.....	98.8	106.2	+7.3
Deficit without bill.....	7.6	6.7	-.9
Increase in receipts under bill.....	+1.1	+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..	6.5	1.9	-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.

It is expected that the increased tax collections that result from this bill will have a moderating influence on the expenditures of individuals and business firms. This influence will tend to offset the expansionary effects of increased defense expenditures. Such a policy is appropriate in view of the near capacity levels of output and employment at which the economy is now operating. In the absence of the moderating influence of increased tax collections, the total of private demand and Government requirements would threaten to exceed the present capacity of the Nation's productive resources, and in that manner constitute a threat to price stability.

The Nation has enjoyed 5 years of uninterrupted economic expansion, the longest period of peacetime expansion in U.S. business cycle annals.—In 1961, at the start of the expansion, civilian labor force unemployment reached 7 percent and 22 percent of manufacturing capacity remained idle. The Revenue Acts of 1962 and 1964 and the Excise Tax Reduction Act of 1965 were in large part directed at the removal of restraints to growth in the private sector of the economy arising from tax rates that were too high. Largely as a result of these measures, the rate of unemployment fell to 4 percent of the labor force in January 1966, and the capacity utilization index in manufacturing rose to 91 percent in the fourth quarter of 1965.

Today the gap between potential and actual output has thus been greatly narrowed. This is suggested by the recent behavior of the consumer and wholesale prices indexes. After 4 years of virtual stability, the index of wholesale prices increased 2 percent from 1964 to 1965. The percentage increases in the Consumer Price Index from 1960 to 1964 averaged 1.2 percent a year. In 1965 the percentage increase was 1.7 percent and would have been 1.9 or 2 percent but for the effect of excise tax reductions enacted in the Excise Tax Reduction Act of 1965.

Evidence of the approach to the full use of our capacity is also indicated in statistics on capacity utilization rates in various industries. In December 1965, several important industries were operating at or above their preferred operating rates and the overall utilization index was only 1 point below the average preferred operating rate.

As pointed out to your committee by the Secretary of the Treasury, the various provisions of the bill will have a restraining influence on demands on available capacity. Following the enactment of this bill, the amounts withheld from individual wages will increase by \$1.24 billion at annual rates under the six-rate graduated withholding system. While these increased collections of \$1.24 billion will be reflected in reduced amounts of tax due when final returns are filed in the spring of 1967 and, to a limited extent, in increased tax refunds, they will tend to reduce consumer purchases during the remaining portion of 1966 and during the early months of 1967.

The fiscal effect of more accurate withholding will be reinforced by the requirement that taxpayers pay at least 80 percent of their liability for the year through withholding, payments of estimated tax, or both, to avoid penalties for underpayments of estimated tax. This, too, will tend to lessen consumer spending during this period of extraordinary military expenditures. Presently only 70 percent of the final liability need be paid to avoid the application of penalties. (As under

present law, however, penalties will not be imposed where payments equal the prior year's tax or are based on the prior year's income, or certain other conditions are met.)

The postponement of some corporate investment expenditures, as will occur as a result of the acceleration of corporate tax payments for the larger corporations, will be favorable to continued economic stability. Current levels of corporate investment in new plant and equipment are high. Outlays for business fixed investment rose by 11.5 percent in 1964 and by 15.4 percent in 1965 as compared with an average annual rate of increase of 7.5 percent in 1962 and 1963. Present announced plans indicate that investment will again increase at a rapid rate in the first half of 1966. Mild restraint, therefore, may well promote better balance between the rate of growth of output and investment in expanded capacity. It will also support our effort to reduce the deficit in our balance of payments to manageable levels. A source of strength in the balance-of-payments outlook in recent years has been the comparative stability in the prices of U.S. goods as compared to rising prices of the goods of other nations.

2. Correlating withholding with tax liabilities

Apart from their beneficial budgetary and economic effects, improved collection techniques will mean important benefits to taxpayers. Under graduated withholding, amounts withheld will more nearly approximate final liabilities. In particular, fewer taxpayers will have substantial amounts of tax to pay when they file their final return for the year. Last year for many taxpayers the fact that such bills remained to be paid in the spring of 1965 caused a measure of financial hardship and considerable resentment which tended to blunt the very substantial benefits provided by the Revenue Act of 1964. Unless graduated withholding is enacted, this experience is likely to be repeated in future years. Another result of the graduated withholding is that fewer employees will have overwithholding. Thus, this is a desirable improvement in collection procedures wholly apart from the temporary revenue increase.

The bill incorporates a special withholding allowance which provides relief for those taxpayers who itemize deductions and would otherwise find that withholding resulted in substantial unwanted overpayment of tax. This feature will also promote more accurate withholding as is shown subsequently in table 4 in this report.

3. Change in corporate payments merely an advance in timing

The proposal regarding corporate tax payments accomplishes by 1967 what would otherwise be accomplished by 1970. The Revenue Act of 1964 provided that corporations were to estimate and pay currently that portion of their tax liability expected to exceed \$100,000, but the transition to current payment was scheduled over a period which was to end in 1970. This bill simply achieves that transition by 1967. Instead of paying 9 percent of their estimated liabilities in excess of \$100,000 in April and June of 1966, calendar-year corporations will be required to pay 12 percent. In the final two quarters of 1966, these corporations will pay the same percentage, 25 percent, of these estimated liabilities as they are required to pay under present law. In 1967, these corporations will be required to pay in each quarter amounts equal to 25 percent of their estimated liabilities in

excess of \$100,000. Under existing law, they would pay installments of 14 percent of this estimated liability in April and June 1967 and installments of 25 percent in September and December 1967. Tables 9 and 10, presented subsequently in this report, show the schedules of payments under present law and under the bill.

4. Self-employment social security tax placed on current basis

This bill makes provision, for the first time, for the declaration and quarterly payment of estimated social security tax liabilities with respect to self-employment income. This bill places self-employed persons on the same current payment basis for social security tax purposes as they are on now for income tax purposes, and does so with a minimum degree of added complication. The declaration and estimated tax payment system now in effect is simply broadened to include estimated self-employment social security tax.

5. Two-year moratorium for auto and telephone excise reductions

The excise tax rate reductions scheduled under present law for 1966 and later years in the case of telephone service and passenger automobiles are not rescinded by this bill. They are merely postponed for 2 years. This bill makes explicit provision for reduction on April 1, 1968, of these rates to the levels which would prevail under existing law, emphasizing the fact that the moratorium on rate reduction, while necessary in view of current budgetary and economic conditions, is not intended to cancel the eventual reductions of the 1965 act. Thus, the bill in this respect differs to a significant degree from the proposals of the administration: the administration would have postponed the auto and telephone excise tax reductions for 2 years—not only the reductions occurring in the next 2 years, but also the reductions occurring after that time. The bill, on the other hand, merely provides a moratorium for the reductions which would under present law occur in the next 2 years. Under the bill, the rates will fall at the end of the 2-year period to the rates scheduled to be in effect at that time under present law, and subsequent reductions under present law are not further postponed.

The excises on telephone service and passenger automobiles are selected for a number of reasons in addition to the fact that they yield substantial revenues. They are currently in effect, so that a moratorium on rate reduction is a much simpler matter administratively for business firms and the Government (since the payment and collection machinery is still in effect) than the reinstatement of excises previously repealed. The fact that these excises were not repealed outright by the Excise Tax Reduction Act of 1965 but were scheduled for gradual reduction also is indicative of the order of priorities in excise tax reduction established by the Congress in 1965. Moreover, the burden of these taxes is widely dispersed over the population, and, therefore, a disproportionate burden will not be imposed on a narrow segment of the population as a result of the moratorium.

IV. 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 equiv-

alent 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. The number of exemptions claimed may be less than, but cannot exceed, the number of allowable exemptions. If the employer agrees, the employee may arrange to have extra amounts withheld from his wages.

The present 14-percent withholding rate went into effect on March 5, 1964, implementing the rate reductions enacted in the Revenue Act of 1964. It superseded the withholding rate of 18 percent which had been in effect since 1954. The latter was equivalent to the 20-percent tax rate on the first \$2,000 of taxable income (\$4,000 for married couples) reduced to reflect the 10-percent standard deduction.

General explanation of provision.—Under the present withholding system, taxpayers, including those who derive all their income from wages subject to withholding, often find that the amount of tax withheld from their wages differs substantially from their income tax liability for the year. As a result, if the present system were continued, an estimated 12.5 million tax returns would show a tax liability for the year 1966 significantly in excess of the amount of tax withheld. At the same time, an estimated 39.8 million taxpayers, 20 million of them with incomes of \$5,000 or less, would have tax liabilities significantly less than the amounts withheld from them. Those taxpayers who are underwithheld, in the sense that withholding falls short of their tax liability, must make payments when they file their final return for the year. When such payments are unexpected, as they were for many taxpayers in 1965, they can cause resentment and, at times, financial hardship. While taxpayers who are overwithheld receive a tax refund when they file their final returns, for some, particularly those whose refund is large relative to their income, it can be a hardship to wait for such a refund.

In the past the single-rate withholding structure resulted both in substantial underwithholding and overwithholding. However, the problem has become worse. With respect to underwithholding, the steady rise in individual and family incomes has lifted many taxpayers into income brackets where the present withholding rate falls substantially short of their effective rate of tax. Moreover, important structural provisions enacted in the Revenue Act of 1964 are not reflected in the present system.

Formerly, the first taxable income bracket covered the initial \$2,000 of taxable income for single persons and the initial \$4,000 of taxable income for married couples. In 1964 this range of taxable income was divided into four smaller brackets. To preserve the relationship between the withholding rate and taxable income that existed in the past, Congress adopted a withholding rate that reflected the average of the first four statutory rates rather than the lowest such tax rate. The Revenue Act of 1964 also introduced the minimum standard deduction. This provision permits taxpayers with incomes which are low in relation to the size of their family to deduct an amount

which exceeds 10 percent of their adjusted gross income even though they do not itemize deductions. The present withholding system, however, still takes into account only the 10-percent standard deduction.

As a result of the structural changes enacted in 1964, the present 14-percent withholding rate overwithholds on persons whose taxable income is less than \$2,000 if single or \$4,000 if married. This is true even though such persons claim only the standard or minimum standard deduction, derive all their income from wages subject to withholding, are steadily employed during the year, and experience no increase in exemptions during the year.

At the same time, persons with incomes above these limits are likely to experience underwithholding, since they are subject to income tax rates well in excess of 14 percent. Thus, of the 63.1 million tax returns expected to be filed in 1966 upon which wages and salaries will be listed and with respect to which no declaration payments will be made, only 10.8 million returns would tax withholding which comes within \$10 of the actual liability under the present withholding system. Of the remaining 52.3 million returns, 39.8 million would show overwithholding and 12.5 million, underwithholding.

The withholding system proposed in the bill will insure that for most wage earners amounts withheld will more closely approximate the final tax liability. The proposed system reflects fully the graduated rates in the income tax rate scale for taxable incomes up to \$12,000 for single persons and \$24,000 for married couples. Even for returns with higher taxable incomes which show wage income, graduated withholding will be far more accurate than the existing system. Moreover, these returns number only an estimated 600,000.

The proposed system also reflects the minimum standard deduction. This fact, taken in conjunction with the graduated rates and the withholding allowances, will reduce the amount of overwithholding from those with low and middle incomes, as is shown in table 4. It is estimated, for example, that on returns listing income of \$5,000 or less, the total amount of overwithholding will decline by \$605 million. This will be sufficient to reduce the number of returns in this group on which overwithholding exceeds \$10 from 20.0 to 12.9 million and to increase the number of returns on which withheld tax comes to within \$10 of the final liability from 8.4 to 15.4 million. On returns with incomes of \$5,000 but less than \$10,000, overwithholding will be reduced by \$455 million, largely as a result of the provision for withholding allowances described below.

The bill includes a special relief provision which persons with substantial itemized deductions may elect and which further improves the accuracy of the withholding system. This feature, which was not included in the President's recommendations, permits taxpayers to claim withholding allowances with their employer, which will have the same effect as withholding exemptions, when their estimated itemized deductions exceed a specified amount of their estimated wage and salary income.

The special relief provision is included in recognition of the fact that taxpayers with substantial itemized deductions are likely to be overwithheld under both the existing withholding rate and the proposed rates. Overwithholding occurs because most of those who itemize have deductions which, in total, exceed the allowance for deductions which is built into both the existing withholding system

and the system provided in this bill. In both cases, the allowance for deductions built into the withholding rates, apart from the allowance for the minimum standard deduction, is equal to 10 percent of wage and salary income. In 1962, for example, itemized deductions were equal on the average to 19.6 percent of the adjusted gross incomes listed on the 26.5 million returns upon which the standard deduction was not employed. Under the 14 percent withholding system, the resulting overwithholding arising from the use of these itemized deductions is estimated to account for 44 percent of the overwithholding at 1966 income levels.

Under the graduated withholding rates, the importance of itemized deductions as a cause of overwithholding would increase substantially in the absence of the special relief provision. It is estimated that under the graduated withholding under the bill but without any withholding allowances overwithholding due to itemized deductions would increase to \$3.7 billion at 1966 income levels and would comprise 59 percent of the expected amount of overwithholding. Moreover, if voluntary adjustments are disregarded as a source of overwithholding, the percentage of involuntary overwithholding attributable to itemized deductions in this case would approximate 70 percent.

The special provision is not intended for the use of all taxpayers with wage income who itemize their deductions, but is designed for the relief of those persons for whom overwithholding might otherwise become a burden. Therefore, when estimated wages are \$7,500 or less, the withholding allowances provided by your committee's amendments are based on the amount of itemized deductions estimated to exceed 10 percent of wage and salary income and, when estimated wage income exceeds \$7,500, they are based on the sum of \$750 (10 percent of \$7,500) and 17 percent of wage and salary income in excess of \$7,500. For wage income above \$7,500 withholding allowances are not based on the excess of estimated itemized deductions over 10 percent of estimated wage and salary income in recognition of the fact that many taxpayers receive some income that is not subject to withholding and that the average amount of such income is greater at high-income levels than at low-income levels. The method of computing withholding allowances minimizes the possibility that a taxpayer who receives dividends, interest or other nonwage sources of income will inadvertently overcompensate for his itemized deductions and have a bill due at the end of the year which he would not otherwise have incurred. It also reduces the effect of overestimates of deductions, or underestimates of income, leading to underwithholding.

Table 4 indicates the effect of the graduated withholding provision of the bill and contrasts that effect with the present system and the 6-rate system recommended by the President.

TABLE 4.—Effect of graduated withholding provisions of H.R. 12752¹ as reported by the Senate Committee on Finance

	Present 14 percent with- holding	Change resulting from—			Gradu- ated with- holding
		6-rate system	Extra \$700 al- lowance ²	Com- bined total	
All returns:					
A. Number of returns (millions):					
1. Overwithholding.....	39.8	-0.3	-0.8	-7.1	32.7
2. Underwithholding.....	12.6	-3.5	+0.7	-2.8	9.7
3. Breakeven ³	10.8	+9.8	+0.1	+9.9	20.7
4. Total.....	63.1				63.1
B. Amount (millions of dollars):					
1. Overwithholding.....	6,130	+50	-850	-800	5,330
2. Underwithholding.....	2,700	-1,190	+85	-1,105	1,595
3. Total withholding.....	36,440	+1,240	-935	+305	36,745
Under \$5,000 adjusted gross income:					
A. Number of returns (millions):					
1. Overwithholding.....	20.0	-7.0	-0.1	-7.1	12.9
2. Underwithholding.....	3.0	(⁴)	+0.1	+0.1	3.1
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	-105	-605	1,525
2. Underwithholding.....	340	(⁴)	+5	+5	345
3. Total withholding.....	5,720	-500	-110	-610	5,110
\$5,000 to \$10,000 adjusted gross income:					
A. Number of returns (millions):					
1. Overwithholding.....	15.0	-1.4	-0.5	-1.9	13.1
2. Underwithholding.....	5.7	-1.2	+0.4	-0.8	4.9
3. Breakeven ³	2.0	+2.6	+0.1	+2.7	4.7
4. Total.....	22.7				22.7
B. Amount (millions of dollars):					
1. Overwithholding.....	3,000	-20	-435	-455	2,545
2. Underwithholding.....	760	-250	+30	-220	540
3. Total withholding.....	17,140	+230	-465	-235	16,905
\$10,000 and over adjusted gross income:					
A. Number of returns (millions):					
1. Overwithholding.....	4.8	+2.1	-0.2	+1.9	6.7
2. Underwithholding.....	3.8	-2.3	+0.2	-2.1	1.7
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	-310	+260	1,260
2. Underwithholding.....	1,000	-940	+50	-890	710
3. Total withholding.....	13,580	+1,510	-360	+1,150	14,730

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

² Assumes 35 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 means 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 rates.—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, which provide a deduction equal to a basic \$200 amount for a single person, a head-of-household, or a married couple, and an additional \$100 amount for each exemption claimed. The rate schedule 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.

With regard to any irregular supplemental wage payment, such as a bonus, employers will be permitted either to compute withholding by treating the payment as if it were part of the current or preceding regular wage payment or by applying a flat percentage rate to the supplemental wage payment without making any allowance for exemptions. It is expected that the regulations will provide for a flat rate of around 20 percent.

For the purpose of graduated withholding, married persons will be required to file new withholding exemption certificates with their employers if they wish to have the tax withheld from them based on the rates applicable to married couples. A person who is married to a nonresident alien, or a person legally separated from his spouse under a decree of divorce or separate maintenance, will be considered single for withholding purposes. A "surviving spouse"—i.e., a person

whose spouse died during one of the two immediately preceding taxable years—and also a person whose spouse died during the taxable year, will be considered married for withholding purposes unless the deceased spouse was either a nonresident alien or was legally separated from the taxpayer under a decree of divorce or separate maintenance at the time of his death.

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.

Withholding allowances for persons with substantial itemized deductions.—The House bill establishes a procedure whereby taxpayers with relatively large itemized deductions may claim withholding allowances in addition to the regular withholding exemptions. Each of these allowances 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 who wish to utilize this procedure 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. Where a standard deduction was used in the prior year the deduction for that year is taken as 10 percent of his wages for that year, or \$1,000, whichever is the lower.

Under the House bill for those with estimated wage or salary incomes of \$7,500 or less, the number of withholding allowances would be based on the amount by which estimated itemized deductions exceed 12 percent of estimated wage and salary income. For those with higher estimated wages, the allowances would be based on the excess over the total of \$900 (12 percent of \$7,500) plus 17 percent of estimated wage and salary income in excess of \$7,500. One allowance could be claimed under the House-passed bill with respect to each full \$700 of such excess, except that the first withholding allowance could be claimed when the excess reached \$350 or more. This would mean, for example, that a taxpayer with an estimated wage income of \$7,000 for the year would under the House-passed bill be permitted to claim one withholding allowance if his itemized deductions exceed 12 percent of his estimated wages (\$840) plus \$350 or, in other words, if his itemized deductions equal \$1,190.

Your committee has modified this House-passed provision slightly. It has reduced the percentage by which an individual's itemized deductions must exceed his estimated wage income from 12 percent of the first \$7,500 to 10 percent of the first \$7,500 (but made no change in the 17 percent requirement with respect to estimated wage and salary income in excess of \$7,500). It has also removed the provision in the House bill which permitted an individual to obtain his first withholding allowance where the itemized deductions in excess of the percentage requirements equal or exceed \$350, but not \$700. Thus, your committee's action provides that in order to obtain any withholding allowance—either the first or a subsequent allowance—the taxpayer must have itemized deductions of a full \$700 in excess of the percentage minimum requirement for each such allowance claimed.

Your committee removed this provision because its attention was directed to the fact that the allowance in numerous cases led to underwithholding of income tax. This is illustrated in a number of examples shown in table 6. This table, shown subsequently in this report, indicates in specific cases the tax liability and withholding under present law and House bill and your committee's action for persons with itemized deductions of various sizes. Your committee believed that underwithholding in such cases was especially unfortunate because the individuals involved in such cases would not expect to be underwithheld. Your committee recognized nevertheless that the House action was taken in order to minimize overwithholding particularly for those with wage incomes below \$10,000 and was in accord with the desire to reduce overwithholding in this area. For that reason, although your committee removed the privilege of an individual to claim a withholding allowance for his itemized deductions where those over the percentage requirement do not equal a full \$700, it nevertheless provided relief from overwithholding for individuals in these income brackets by reducing the minimum percentage requirement from 12 to 10 percent with respect to the first \$7,500 of wage or salary income. This reduction minimizes overwithholding for these income levels to the full extent possible without resulting in underwithholding in an appreciable number of cases. It will also have the effect of reducing some overwithholding in other income levels as well.

The House bill provided that the Secretary of the Treasury or his delegate could, by regulations, provide in certain cases that some or all of the withholding allowances were not to be available. The authority to disallow the withholding allowances was designed to provide for those cases where the employee's income was sufficiently high that the 30 percent top withholding rate would not result in withholding of the full tax liability. In such cases, the withholding allowances might merely increase the underwithholding. Your committee has accepted the House provision but made a technical change designed to make it clear that the wage levels where the withholding rate does not generally collect the full tax liabilities could be determined on an approximate basis. This recognizes the fact that due to the different deduction and exemption status of individuals and also due to variations in the extent of underwithholding which will result from the 30-percent rate for varying sizes of incomes, it is not possible to compensate precisely for this underwithholding by disallowance of withholding allowances. Therefore, at these income levels an approximation must be used. This is made clear in your committee's amendment.

Claims for withholding allowances under both the House bill and your committee's amendments 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. For a calendar year taxpayer, claims for withholding allowances will remain in effect during the period in the calendar year which remains after the claim is filed and, unless a claim for the next year is filed, for the first 4 months of that year. Withholding allowances must be claimed anew each year. After May 1 of each year, employers will be required to

disregard withholding allowances claimed on withholding exemption certificates filed in a prior calendar year. The fact that withholding allowances must be disregarded when a new claim is not filed will not affect the number of exemptions for dependents, etc., to be taken into account. The employer will continue to compute withholding on the basis of the number of these exemptions shown on the last withholding exemption certificate filed by the employee.

The Secretary of the Treasury or his delegate is authorized to design ready reference tables, to be supplied employers for the guidance of their employees, which will simplify the determination of the number of withholding allowances to which an employee is entitled and it is the committee's understanding that this will be done. When these tables are provided, they are to be the exclusive method for determining the number of withholding allowances. These tables are to be based on reasonable wage and itemized deduction brackets and may increase or decrease the number of withholding allowances computed under the 10 and 17 percent otherwise allowable to the extent such departure results in withholding which more closely equals the tax liability with respect to the wage or salary income (not taking into account other income).

To facilitate the above procedure, the bill increases the number of dates on which employers will be required to recognize changes in the number of exemptions and withholding allowances claimed by employees. In addition to the existing January 1 and July 1 status determination dates upon which such changes must now be recognized, the bill adds the further dates of May 1 and October 1. As under existing law, employers will be permitted to give effect to amended withholding exemption certificates prior to the given dates if they wish to do so.

The bill also provides that for married couples the computation as to whether they are entitled to withholding allowances must be made on a joint basis unless they filed separate returns for the prior year and expect to file separate returns for the current year. Married couples may divide the exemptions and withholding allowances to which they are jointly entitled if both receive wages subject to withholding. Furthermore, the bill requires that employees who work simultaneously for two or more employers may claim withholding allowances with only one of these employers.

The bill also provides a civil penalty of \$50 to be imposed 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.

Present law (sec. 7205) already provides that where an individual who is required to supply information to his employer under the withholding tax provision willfully supplies false or fraudulent information or willfully fails to supply information he is to be fined not more than \$500 or imprisoned for not more than 1 year, or both. This presently applies to withholding tax exemptions and, under the bill, is extended to withholding allowances since for purposes of the internal revenue laws these allowances are treated as withholding exemptions. It should be noted, however, that this criminal penalty applies only in the case of "willful violations," and in practice it is applied only

where the omission or failure results in a substantial amount of underwithholding.

Effective date.—Withholding under the new graduated rates is to apply with respect 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. It was thought that this latter provision should not apply before 1967 because time was needed to acquaint taxpayers with the basic 6-rate graduated withholding system. Moreover, since the 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.

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, if two-thirds of those eligible avail themselves of the procedure, to \$305 million. As a result of the increase in amounts withheld, there will be a temporary increase in Federal tax collections of \$95 million in budget receipts in the fiscal year 1966 and an increase of \$245 million in budget receipts for the fiscal year 1967. A decrease in present revenues of \$230 million is expected in the fiscal year 1968, the year in which the withholding allowance system becomes fully effective.

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 \$79. 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. It should be noted that in the average case overwithholding is decreased in all three of the major income categories as well as on an overall basis.

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 various wage income levels. This tax liability is shown for varying assumed levels of standard (or minimum standard) or itemized deductions. The assumptions shown are for 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, the graduated withholding passed by the House of Representatives and the amendment provided by your committee's bill. The special withholding allowance for those with substantial itemized deductions begins to decrease overwithholding above the 15-percent level.¹ Thus the impact of this allowance is shown only

¹ Although itemized deductions are taken into account on the first \$7,500 of income where they exceed 10 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 10 percent.

on tables 6-C through 6-G. - For these tables the effect of the withholding allowance is taken into account in the amount of withholding under the graduated withholding system. These tables show both the change in withholding from present law and the overwithholding or underwithholding under present law, under the graduated withholding system passed by the House of Representatives and as amended by your committee.

TABLE 5.—Comparison of average amounts of underwithholding and overwithholding under present law and as approved by the Senate Finance Committee

	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	\$0,130	\$136	43.0	\$5,330	\$124
Underwithholding.....	17.9	2,700	151	20.1	1,595	79
Under \$5,000 adjusted gross income:						
Overwithholding.....	24.2	2,130	88	20.6	1,525	74
Underwithholding.....	7.2	340	47	10.8	345	32
\$5,000 to \$10,000 adjusted gross income:						
Overwithholding.....	16.0	3,000	188	15.4	2,545	165
Underwithholding.....	6.7	760	113	7.3	540	74
\$10,000 and over adjusted gross income:						
Overwithholding.....	5.0	1,000	200	7.0	1,260	180
Underwithholding.....	4.0	1,600	400	2.0	710	355

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

TABLE 6-A.—Underwithholding and overwithholding under present law, under H.R. 12752 as passed by the House of Representatives, and under the Finance Committee amendment; selected taxpayers with deductions the greater of the minimum standard deduction or 10 percent of wage income

Wage income	Tax liability	Amount of withholding		Overwithholding (+) or underwithholding (-)	
		Present 14 percent	House bill and committee amendment	Present 14 percent	House bill and committee amendment
SINGLE INDIVIDUAL					
\$1,000.....	\$10	\$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.....	6,982	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	\$50	+\$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	320	\$290	+36	0
\$7,500.....	686	676	671	-10	+5
\$10,000.....	1,114	1,028	1,090	-88	-18
\$12,500.....	1,567	1,376	1,548	-191	-19
\$15,000.....	2,062	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	-129
\$35,000.....	7,529	4,526	7,283	-3,003	-246

TABLE 6-B.—Underwithholding and overwithholding under present law, under H.R. 12752 as passed by the House of Representatives, and under the Finance Committee amendment; selected taxpayers with deductions the greater of the minimum standard deduction or 15 percent of wage income

Wage income	Tax liability	Amount of withholding		Overwithholding (+) or underwithholding (-)	
		Present 14 percent	House bill and committee amendment	Present 14 percent	House bill and committee amendment
SINGLE INDIVIDUAL					
\$1,000.....	\$16	\$47	\$14	+\$31	-\$2
\$2,000.....	161	187	162	+20	+1
\$3,000.....	302	327	332	+25	+30
\$5,000.....	624	607	672	-17	+48
\$7,500.....	1,080	957	1,169	-123	+89
\$10,000.....	1,605	1,307	1,694	-296	+89
\$12,500.....	2,198	1,657	2,359	-541	+161
\$15,000.....	2,884	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	-6,893	-1,591
MARRIED COUPLES, 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	803	909	+20	+66
\$10,000.....	1,247	1,213	1,334	-34	+87
\$12,500.....	1,694	1,663	1,828	-131	+134
\$15,000.....	2,161	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	-2,061	+389
MARRIED COUPLE, 2 DEPENDENTS					
\$3,000.....	\$4	\$46	0	+\$42	-\$4
\$5,000.....	268	326	\$290	+58	+22
\$7,500.....	618	670	671	+60	+55
\$10,000.....	1,019	1,026	1,096	+7	+77
\$12,500.....	1,430	1,376	1,548	-54	+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 passed by the House of Representatives, and under the Finance Committee 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	
			House bill ¹	Com- mittee amend- ment ²		House bill ¹	Com- mittee amend- ment ³
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	553	672	+31	-23	-96
\$7,500.....	998	957	1,029	1,029	-41	+31	+31
\$10,000.....	1,480	1,307	1,529	1,529	-173	+49	-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	-1,389	+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	395	500	+95	-23	+82
\$7,500.....	772	863	790	790	+91	+18	+18
\$10,000.....	1,152	1,213	1,215	1,215	+61	+63	+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	3,196	3,196	-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	\$185	\$290	+96	-\$45	+\$60
\$7,500.....	552	676	560	560	+124	+8	+8
\$10,000.....	924	1,020	977	977	+102	+53	+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	2,420	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 is exceeded by estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor equal or exceed \$350 rather than \$700.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 10 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages is exceeded by estimated itemized deductions.

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

TAX ADJUSTMENT ACT OF 1966

TABLE 6-D.—Underwithholding and overwithholding under present law, under H.R. 12752 as passed by the House of Representatives, and under the Finance Committee 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	
			House bill ¹	Committee amendment ²		House bill ¹	Committee amendment ²
SINGLE INDIVIDUAL							
\$1,000.....	\$16	\$47	\$14	\$14	+\$31	-\$2	-\$2
\$2,000.....	138	187	167	162	+49	+24	+24
\$3,000.....	263	327	332	332	+64	+69	+69
\$5,000.....	552	607	553	672	+55	+1	+120
\$7,500.....	957	957	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	2,140	-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.....	159	233	200	200	+74	+41	+41
\$5,000.....	308	513	395	500	+115	-3	+102
\$7,500.....	736	803	790	790	+127	+64	+54
\$10,000.....	1,104	1,213	1,215	1,215	+169	+111	+111
\$12,500.....	1,487	1,563	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.....	3,869	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	326	\$185	\$290	+115	-\$26	+\$79
\$7,500.....	520	676	560	560	+156	+40	+40
\$10,000.....	876	1,028	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.....	2,535	2,426	2,768	2,768	-109	+233	+233
\$25,000.....	3,533	3,126	3,923	3,923	-407	+390	+390
\$35,000.....	5,921	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 is exceeded by estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor equal or exceed \$350 rather than \$700.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 10 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages is exceeded by estimated itemized deductions.

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 passed by the House of Representatives, and under the Finance Committee 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	
			House bill ¹	Com- mittee amend- ment ²		House bill ¹	Com- mittee amend- ment 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	213	332	+77	-37	+82
\$5,000.....	523	607	553	553	+79	+25	+25
\$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	2,149	1,969	-190	+302	+122
\$15,000.....	2,398	2,007	2,689	2,689	-391	+291	+291
\$20,000.....	3,706	2,707	4,189	3,979	-999	+483	+273
\$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	³ +44	³ +44
MARRIED COUPLE, NO DEPENDENTS							
\$2,000.....	\$42	\$93	\$56	\$56	+\$51	+\$14	+\$14
\$3,000.....	148	233	98	200	+85	-50	+52
\$5,000.....	378	513	395	395	+135	+17	+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	1,548	+145	+270	+130
\$15,000.....	1,831	1,913	2,048	2,048	+82	+217	+217
\$20,000.....	2,710	2,613	3,048	2,908	-97	+338	+198
\$25,000.....	3,694	3,313	4,098	4,098	-381	+404	+404
\$35,000.....	6,038	4,713	6,863	6,863	-1,325	+825	+825
MARRIED COUPLE, 2 DEPENDENTS							
\$3,000.....		\$46	0	0	-\$46	0	0
\$5,000.....	\$192	326	\$185	\$185	+134	-\$7	-\$7
\$7,500.....	488	676	560	560	+188	+72	+72
\$10,000.....	829	1,026	977	977	+197	+148	+148
\$12,500.....	1,185	1,376	1,408	1,283	+191	+223	+98
\$15,000.....	1,567	1,726	1,768	1,768	+169	+201	+201
\$20,000.....	2,410	2,426	2,768	2,628	+16	+358	+218
\$25,000.....	3,358	3,126	3,748	3,748	-232	+390	+390
\$35,000.....	5,612	4,526	6,443	6,443	-1,086	+831	+831

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 is exceeded by estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor equal or exceed \$350 rather than \$700.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 10 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages is exceeded by estimated itemized deductions.

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 passed by the House of Representatives, and under the Finance Committee 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	
			House bill ¹	Committee amendment ²		House bill ¹	Committee 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	213	332	+89	-25	+94
\$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	1,700	1,657	1,969	1,969	-103	+209	+209
\$15,000	2,278	2,007	2,689	2,479	-271	+411	+201
\$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	233	98	200	+97	-38	+64
\$5,000	358	513	395	395	+155	+37	+37
\$7,500	665	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	1,908	+165	+300	+160
\$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	6,443	-1,010	+930	+720
MARRIED COUPLE, 2 DEPENDENTS							
\$3,000	0	\$48	0	0	+\$48	0	0
\$5,000	\$174	326	\$185	\$185	+152	+\$11	+\$11
\$7,500	456	676	560	560	+220	+104	+104
\$10,000	782	1,026	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	1,628	+242	+284	+144
\$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	6,023	-806	+901	+691

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 is exceeded by estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor equal or exceed \$350 rather than \$700.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 10 percent of the first \$7,500 of estimated wages plus 17 percent of the remainder of estimated wages is exceeded by estimated itemized deductions.

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 passed by the House of Representatives, and under the Finance Committee 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	
			House bill ¹	Committee amendment ²		House bill ¹	Committee amendment ²

SINGLE INDIVIDUAL

\$1,000	\$14	\$47	\$14	\$14	+\$33	0	0
\$2,000	115	187	66	162	+72	-\$59	+\$47
\$3,000	225	327	213	332	+102	-12	+107
\$5,000	481	607	553	553	+126	+72	+72
\$7,500	833	957	1,029	889	+124	+196	+56
\$10,000	1,230	1,307	1,389	1,389	+77	+159	+159
\$12,500	1,672	1,657	1,969	1,794	-15	+297	+122
\$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	³ +79	³ +79

MARRIED COUPLE, NO DEPENDENTS

\$2,000	\$28	\$93	0	\$56	+\$65	-\$28	+\$28
\$3,000	126	233	\$98	200	+107	-28	+74
\$5,000	338	513	395	395	+175	+57	+57
\$7,500	630	863	790	671	+233	+160	+41
\$10,000	962	1,213	1,096	1,096	+251	+134	+134
\$12,500	1,294	1,563	1,548	1,408	+269	+254	+114
\$15,000	1,666	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	455	+250	+134	+29
\$10,000	734	1,026	858	658	+292	+124	+124
\$12,500	1,068	1,376	1,283	1,164	+310	+217	+96
\$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	3,396	3,396	+91	+363	+363
\$35,000	5,052	4,626	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 \$7,600 of estimated wages plus 17 percent of the remainder of estimated wages is exceeded by estimated itemized deductions, except that a single additional allowance is allowed where the itemized deductions above the floor equal or exceed \$350 rather than \$700.

² With an extra \$700 exemption for withholding purposes for each \$700 by which 10 percent of the first \$7,600 of estimated wages plus 17 percent of the remainder of estimated wages is exceeded by estimated itemized deductions.

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.

General explanation.—The bill places self-employed persons on the same current payment basis with respect to the payment of their self-employment tax that they are now on for income tax purposes. It does so by requiring quarterly payments of estimated self-employment tax. It will place self-employed persons on more nearly the same payments basis for social security purposes as that of employed persons, whose social security tax is withheld from their wages by employers.

The adoption of current payment for self-employment tax is accomplished with a minimum of difficulty for the self-employed taxpayers who currently file declarations of estimated income tax, since the payment of estimated self-employment tax will be integrated with the payment of estimated income tax. For the estimated 1 million self-employed persons who do not now file declarations of estimated income tax but who will be required to file such declarations as a result of this bill, the advantages of current payment will outweigh the added compliance requirements.

The payments of the self-employment tax will, as a result of this bill, be received on a quarterly basis instead of generally on an annual basis as under present law. It is understood that the amounts received on a quarterly basis will be estimated and paid over from the general fund to the OASI, DI, and HI trust funds on a current basis.

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	581.2	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.....	6.6	1,002.2	154.60
1964 (preliminary).....	6.3	1,009.0	160.00
1965 (estimated) 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.

Explanation of provision.—Under the bill, a self-employed person generally 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, for calendar-year taxpayers the declaration will have to be filed 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.

Persons whose gross income derived from farming and fishing activities will be at least two-thirds of their estimated gross income from all sources 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. Further in conformity with present law regarding estimated income tax, 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 for underpayment of estimated tax will be imposed when amounts paid by the quarterly payment dates are less than the amounts that would be due on those dates if the estimated tax for the year equaled 80 percent of the combined liability for income and self-employment taxes. The penalty is computed with respect to each installment separately. However, even if the above 80-percent rule is not met, no penalty is imposed with respect to an installment if the estimated tax paid to date equals the amount that would be required to be paid if the estimated tax were the least of the following:

- (1) The sum of the income tax and the self-employment tax shown on the return for the prior year;

(2) The sum of the income tax and the self-employment tax that would be due on the prior year's income under current rates and current exemptions;

(3) An amount equal to 80 percent (66⅔ percent for farmers and fishermen) of the combined income and self-employment taxes due computed by annualizing the taxable income received in the months in the year prior to the month a particular installment is due. Self-employment income for this purpose is only the amount received to date with the maximum of \$6,600 reduced by employee social security wage income placed on an annualized basis; or

(4) An amount equal to 90 percent or more of the combined tax payable on the income actually received from the beginning of the year up to the month in which the installment is due.

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. Even if this rule is not met, however, no penalty is imposed if one of four exceptions apply. One of those exceptions provides that the penalty will not be imposed if a quarterly payment equals the amount which would be due if the estimated tax were 70 percent of the tax due on the annualized amount of taxable income received in the months prior to the month the quarterly estimated tax payment is due.

The penalty imposed is a charge equal to 6 percent per year on the amount of underpayment. The penalty is not a deductible expense for tax purposes.

Explanation of provisions.—The bill increases the proportion of the final liability which is to be paid currently to avoid a penalty from 70 to 80 percent. This amendment restores the pre-1954 requirement. It is consistent with the other provisions of the bill since it more nearly requires current payment of tax. It insures that taxpayers who receive most of their income from sources not subject to withholding will be required to pay a larger share of their tax liability currently just as wage earners will be required to do through graduated withholding.

The bill also modifies the one alternative exception to the penalty which contains a 70 percent test. This is the annualized income test described above where the 70 percent requirement is raised to 80 percent to conform to the principal amendment.

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 taxpayments 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, corporations are in the midst of a transition from a system of two partial payments of currently estimated tax to a system of four payments made by calendar year corporations on April 15, June 15, September 15, and December 15.

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

In 1967, the April and June estimated tax payments are each scheduled to be 14 percent of the estimated tax liability above \$100,000. The payment schedule under present law 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.

General explanation.—This bill accelerates the transition to full current payment of corporate tax liabilities in excess of \$100,000. The transition is completed in 1967 under this bill, instead of 1970 as provided under existing law.

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

The bill completes a process which began in 1950. Prior to 1950, corporations were permitted to pay their tax liability for the current year in four quarterly installments in the succeeding year. The Revenue Acts of 1950, 1954, and 1964 contained provisions which gradually required corporations to accelerate the payment of their liabilities to the year in which they accrued, just as individuals have done since 1943. The Revenue Act of 1964 required corporations to pay that portion of their tax liability which exceeds \$100,000 in four equal installments, which for calendar-year corporations are April 15, June 15, September 15, and December 15 of the year in which the liability occurs. It also provided a 7-year period during which the transition to this collection procedure would be completed.

Your committee's bill, in effect, merely reduces the length of the transition period to 4 years.

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 is to 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.

The bill does not impose a hardship on corporations. The majority of corporations, those with small- and medium-sized incomes, are excluded from the provision because their tax liability is less than \$100,000. It is estimated that only 16,000 corporations will be affected by this acceleration. These corporations are generally the largest and possess considerable financial resources.

Corporations affected by this provision will not be put on a fully current basis with respect to their total taxpayments, since only the estimated taxes in excess of \$100,000 are affected. Furthermore, 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 taxpayments 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 taxpayments in 1968, 1969, and 1970 will be lower than those scheduled under present law. These effects of the bill on taxpayments are desirable in view of current fiscal policy considerations.

Increased corporate taxpayments in 1966 and 1967 will introduce fiscal restraint into the economy during the critical months when the buildup of defense expenditures for Vietnam is greatest. The tax receipts will reduce the budgetary deficit and will reduce the cash flow available to corporations.

The reduction in corporate taxpayments in the years 1968 through 1970 below the levels under present law will come when it is hoped the pressures of Federal Government requirements upon the economy's productive capacity will have eased off. The corporations affected by this provision then will be in a position to increase their investment expenditures and thereby offset the leveling of Federal Government defense expenditures.

At the present time, investment in industrial plant and equipment is proceeding at record levels. A slowdown in the expected increase in investment spending, therefore, will moderate the demand for productive resources that no longer are in excess supply. Some re-

straint on increased investment spending under these circumstances appears appropriate. A similar moderation in dividend payments would be reflected in expenditures on consumer goods and would have the same salutary economic effect.

Acceleration of tax payments is preferable to an increase in the corporation income tax rate. Without any further acceleration of tax payments, an increase of 4 or 5 percentage points in the corporation income tax rate probably would be needed to yield the same revenue increase in fiscal year 1967 as the acceleration schedule in this bill.

The acceleration of corporate tax payments will moderate the increase in private investment expenditures and restrain inflationary pressures while permitting employment to continue to expand. The large tax increases necessary to yield as much increased tax receipts as the acceleration of payments might cause sizable reductions of investment expenditures thereby impairing the expansion in economic activity and productive capacity vital to continued stable economic growth.

Effective date.—The revised schedule for corporation tax payments is to 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. The rate was reduced to 7 percent for the period June 22, 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 will 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 is to become 2 percent, as scheduled under present law for 1968 and 1 percent on January 1, 1969. Thus there is a moratorium on these tax reductions scheduled under present law for a 2-year period. At the end of that time, however, the rate will revert to the level which would have been in effect in the absence of the moratorium.

The House bill would have imposed a tax of 1 percent of the manufacturers (or importers) price upon all new automobiles held in stock by dealers or distributors on the day the 7-percent tax rate becomes effective. Your committee has not retained this provision and, therefore, the bill as amended by it will not provide for a floor stock tax payable by the dealers.

The decision not to impose the floor stock tax was taken by your committee because dealers pointed out to the committee the many problems which they would have with respect to this tax. They would have difficulty, for example, in gaining customers' acceptance

to the inclusion of this tax in the retail price of cars since this amount would not be included in the sticker attached to the new cars reflecting the intended retail price. They also would have difficulty in determining the exact amount of this tax at the time they sold the cars out of their inventory in the case of sales occurring either on the date of the tax increase, or shortly thereafter. For these reasons your committee concluded that it was appropriate to delete the floor stock tax from the House bill. This will decrease revenues otherwise obtained from the House bill by \$25 million in the fiscal year 1966.

With regard to the reductions scheduled for 1968 and 1969, tax refunds will be made for inventory on hand. These refunds will be paid to dealers and distributors by manufacturers, and the latter will receive reimbursement from the Government.

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

Revenue effect.—This provision will increase revenues by \$35 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 will 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.

The taxes on communications service which were repealed as of January 1, 1966, are not affected by this bill. Thus, private communications systems, telegraph service, and wire and equipment service will remain exempt from the excise tax.

Exemption 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.

7. *Disallowance of deduction for certain indirect contributions to political parties*—A provision added by your committee (sec. 301 of the bill and sec. 276 of the code)

In some cases it has been held that advertising in a convention program of a political party or in other political publications is

deductible where the intent of the advertising was to sell the product advertised rather than being designed primarily as a political contribution. In the case of payments for admissions to dinners or programs held for the purpose of raising funds for a political party or candidate, it appears unlikely that a deduction is available under present law even though the expense is incurred by a business (although deductions in some cases may be available for the fair market value of the dinner or the program). In addition, it is probable that under present law amounts paid for admission to an inaugural ball, gala, or similar event are in most cases not deductible.

Your committee believes that the tax treatment of advertising in a political publication, payments for admission to a political fund raising dinner or program, and admissions to inaugural balls, etc., should be clarified. Moreover, since direct political contributions are not deductible under present law to individuals not engaged in business, your committee believes that it is undesirable to permit a business to take a trade or business expense deduction with respect to any of these amounts which usually in practice represent ways of making indirect political contributions or costs of participating in political activities.

For the reasons indicated above, your committee has added a section to the Internal Revenue Code to insure that no deduction is to be allowed for advertising in a convention program of a political party or in any other publication if any part of the net proceeds of the publication directly or indirectly inures (or is intended to inure) to the use of a political party or to a political candidate. Similarly no deduction is to be allowed for payments made for admissions to any dinner or program if any part of the net proceeds of the dinner or program directly or indirectly inures (or is intended to inure) to the use of a political party or political candidate. In addition, no deduction is to be allowed for payments for admissions to inaugural balls, inaugural galas, inaugural parades, inaugural concerts, or similar events identified with a political party or political candidate.

A political party for purposes of this provision is defined in the same manner as elsewhere in the code with respect to debts owed to political parties (sec. 271). A political party for this purpose includes not only a political party itself, but also any committee of a political party, as well as any committee, association, or organization which accepts contributions or makes expenditures to influence elections of individuals seeking election to public office, whether or not they are elected. In addition, your committee has added language specifically to cover contributions to organizations set up to influence the selection of candidates through primaries, conventions, or otherwise, for election to public office. A political candidate for this purpose includes not only candidates for elective public office but also those who are seeking a nomination through a primary, local convention, or meeting of a political party. Amounts paid to an individual may be treated as inuring to the benefit of a political candidate only if such amounts may be used for the purpose of furthering his candidacy for elective public office. Thus, no proceeds received by a political candidate are treated as inuring to his benefit for these purposes if they are received in the ordinary course of a trade or business other than that of holding elective public office.

This provision is to apply for taxable years beginning after December 31, 1965, but only with respect to amounts paid after the date of enactment of this bill.

8. *Information returns to be supplied by Department of Agriculture*—A provision added by your committee (sec. 302 of the bill and sec. 6041(e) of the code)

Under present law persons engaged in a trade or business and making payments in the course of that trade or business to another person of certain specified types of income are required to supply information returns to the Internal Revenue Service with respect to all payments made in any year to an individual of \$600 or more. These information returns must also be supplied the Internal Revenue Service in the case of such payments made by the United States (or officers or employees of the United States). This includes payments by the Department of Agriculture with respect to Commodity Credit Corporation transactions, soil bank payments, etc.

Although these statements with respect to payments of more than \$600 a year must be supplied by the Department of Agriculture to the Internal Revenue Service, there is no requirement that copies of such statements must be furnished to the farmers receiving the payments. Such statements under present law are required to be furnished to the recipients of the payments in the case of interest and dividend payments of \$10 or more a year.

Your committee believes that farmers should have the same information with respect to the payments which are reported to the Government in their case as is true under present law in the case of the recipients of dividend and interest payments.

Your committee's bill for the reasons indicated above requires the Department of Agriculture, in the case of payments made under programs it administers, to supply the farmers with copies of any statements which under present law the Department of Agriculture must send to the Internal Revenue Service. These statements must be sent to the farmers by January 31, of the next year. The provision added by your committee also provides that these statements may be sent out as the Secretary of Agriculture may designate through the national office of the Department of Agriculture, any State office, or through local offices of the Department of Agriculture or any of its agencies.

This provision is to be effective with respect to reports sent to the Internal Revenue Service after the date of enactment of this bill.

V. TECHNICAL EXPLANATION OF THE BILL

TITLE I—ADJUSTMENT OF CERTIAN COLLECTION PROCEDURES

SECTION 101. INCOME TAX COLLECTED AT SOURCE

In general, section 101 of the bill amends section 3402 of the code (relating to income tax collected at source) to provide for new wage withholding rates which are graduated and take into account the minimum standard deduction and to provide new wage bracket withholding tables based upon the new rates. In addition, such section provides for withholding allowances, under certain circumstances, in the case of an employee who has a large amount of itemized deduc-

tions. Subsections (a), (b), (c), (d), (f), and (g) of section 101 of the bill as passed by the House have been approved by your committee without change.

Your committee has made changes in subsection (e) of section 101 of the bill which affect the procedures whereby taxpayers with relatively large itemized deductions in relation to their wages may claim withholding allowances in addition to the regular withholding exemptions. The changes made by your committee in respect of these withholding allowances are described below.

For the technical explanation of section 101 of the bill (other than the amendments made by your committee), see page 33 of the report of the Committee on Ways and Means on the bill.

Withholding allowances for itemized deductions.—Section 101(e) of the bill (as passed by the House) amends section 3402 of the code to provide that an employee shall be entitled to claim a withholding exemption for each withholding allowance to which he is entitled under section 3402(m) (added by the bill) and which is not claimed on a withholding exemption certificate in effect for his spouse. Under section 3402(m) as added by the bill as passed by the House, the number of withholding allowances to which an employee is entitled with respect to a payment of wages is equal to the number obtained by dividing by \$700 the excess of—

- (1) the employee's estimated itemized deductions, over,
- (2) an amount equal to the sum of 12 percent of the first \$7,500 of his estimated wages and 17 percent of the remainder of his estimated wages.

Such subsection also provided that fractional numbers are disregarded for purposes of determining the number of withholding allowances to which an employee is entitled under this new subsection; except that if the number obtained by applying the above formula is equal to one-half or more but less than one, the employee is entitled to one withholding allowance. Your committee has changed the formula for determining the number of withholding allowances to which an employee is entitled to provide that fractional numbers shall be disregarded in all cases; but that the percentage to be applied to the first \$7,500 of estimated wages is 10 (rather than 12) percent.

New section 3402(m)(2)(A) provides a definition of the term "estimated itemized deductions." Under the definition included in the bill as passed by the House, an employee's estimated itemized deductions could not be greater than the amount of the deductions (other than the deductions referred to in secs. 141 and 151 and other than the deductions required to be taken into account in determining adjusted gross income under sec. 62) shown on his Federal income tax return for the taxable year preceding the estimation year. Your committee has changed this provision to provide that if the employee did not show such deductions on his return for the such preceding taxable year (that is, if he took the standard deduction), the amount of his estimated itemized deductions shall not exceed an amount equal to the lesser of \$1,000 or 10 percent of the wages shown on such return.

New section 3402(m)(2)(C) defines the term "estimation year." Under this definition, as included in the bill as passed by the House, in the case of payments of wages on or after January 1 and before May 1 of any calendar year the term "estimation year" means the

preceding calendar year (or, if the employee has filed a Federal income tax return for the preceding calendar year and has in effect a withholding allowance under the new sec. 3402(m) based on using the current calendar year as the estimation year, such current calendar year is the estimation year). Your committee has made a technical change in this part of the definition to provide that the current calendar year shall be the "estimation year" with respect to any withholding allowances claimed on a withholding exemption certificate filed after the employee has filed his Federal income tax return for the preceding calendar year.

New section 3402(m)(3)(D), as included in the bill as passed by the House, provided that the Secretary of the Treasury or his delegate may by regulations provide that one or more of the withholding allowances to which an employee would, but for this provision, be entitled shall be denied because such employee's estimated wages are above the level at which the amounts deducted and withheld are generally sufficient to offset the liability for Federal income tax with respect to the wages from which such amounts are deducted and withheld. Your committee has made a technical amendment to this provision to make clear that the relationship between withholding and tax liability may be determined by taking into account a reasonable allowance for deductions and exemptions.

Section 3402(m)(3), as included in the bill as passed by the House, provided in subparagraph (E) that the Secretary of the Treasury or his delegate may prescribe tables pursuant to which employees shall determine the number of allowances to which they are entitled under the new section 3402(m). This provision further provided that the tables could be based on reasonable wage and itemized deduction brackets. Your committee has revised this provision (and included it in a new par. (4) of sec. 3402(m)) to make clear that such tables shall be consistent with the provisions of new section 3402(m)(1) and (3) and to provide that such tables may, at the discretion of the Secretary of the Treasury or his delegate, increase or decrease the number of withholding allowances to which employees in the various wage and itemized deduction brackets would, but for this provision, be entitled, to the end that, to the extent practicable, amounts deducted and withheld (1) generally do not exceed the liability for Federal income tax with respect to the wages from which such amounts are deducted and withheld, and (2) generally are sufficient to offset such liability for tax. The new paragraph (4) also makes it clear that, if such tables are prescribed, the number of withholding allowances to which an employee is entitled under section 3402(m) will be determined under such tables in lieu of the computation prescribed by section 3402(m)(1) (relating to the general rule).

Section 101(e)(4) of the bill, as passed by the House, provides for a new civil penalty in new section 6682 of the code (relating to false information with respect to withholding allowances based on itemized deductions). The penalty applied if any individual in claiming a withholding allowance under new section 3402(f)(1)(F) of the code stated (1) that the wages on his income tax return for any taxable year were less than the wages actually shown, or (2) that the itemized deductions on his income tax return for any taxable year were greater than the deductions actually shown. Your committee has clarified this provision to provide that the penalty will apply if any individual

in claiming such a withholding allowance states (1) as the amount of the wages shown on his income tax return for any taxable year, an amount less than the wages actually shown, or (2) as the amount of the itemized deductions shown on his income tax return for any taxable year, an amount greater than the itemized deductions actually shown. In addition your committee has made a technical amendment to make it clear that an employee will be subject to only one \$50 penalty even though he misstates both the amount of his itemized deductions and wages.

SECTION 102. ESTIMATED TAX IN CASE OF INDIVIDUALS

This section has been approved by your committee except for a technical change which amends subsection (b)(1) of section 6211 (relating to definition of a deficiency) to take account, in the computation of a deficiency, of the inclusion of self-employment tax in the estimated tax. For the technical explanation of this section of the bill see page 40 of the report of the Committee on Ways and Means on the bill.

SECTION 103. UNDERPAYMENT OF INSTALLMENTS OF ESTIMATED INCOME TAX IN CASE OF INDIVIDUALS

This section has been approved by your committee without change. For the technical explanation of this section of the bill see page 45 of the report of the Committee on Ways and Means on the bill.

SECTION 104. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS

This section has been approved by your committee without change. For the technical explanation of this section of the bill see page 45 of the report of the Committee on Ways and Means on the bill.

TITLE II—POSTPONEMENT OF CERTAIN EXCISE TAX RATE REDUCTIONS

SECTION 201. PASSENGER AUTOMOBILES

Section 201 of the bill, as passed by the House, has been approved by your committee with two modifications. For the technical explanation of this section of the bill (other than the amendments made by your committee), see the report of the Committee on Ways and Means starting at page 46.

Your committee has deleted subsections (b) and (c)(2) of section 201 of the bill, as passed by the House, which related to the amendment of section 4226 of the code (relating to floor stocks taxes) to impose a floor stocks tax of 1 percent on each passenger automobile¹ which was subject to tax under section 4061(a)(2) and which was held by a dealer, has not been used, and is intended for sale on the day after the bill is enacted.

¹ Includes trailers (other than house trailers) suitable for use with passenger automobiles.

SECTION 202. COMMUNICATION SERVICES

This section has been approved by your committee without change. For the technical explanation of this section of the bill, see page 47 of the report of the Committee on Ways and Means on the bill.

TITLE III—MISCELLANEOUS PROVISIONS

SECTION 301. DISALLOWANCE OF DEDUCTION FOR CERTAIN INDIRECT CONTRIBUTIONS TO POLITICAL PARTIES

Section 301 of the bill, which is a new section added to the bill as passed by the House, relates to the disallowance of deductions for certain indirect contributions to political parties.

(a) *Disallowance of deduction.*—Subsection (a) of section 301 of the bill amends part IX of subchapter B of chapter 1 (relating to items not deductible) of the Internal Revenue Code of 1954 by inserting a new section 276.

SECTION 276. CERTAIN INDIRECT CONTRIBUTIONS TO POLITICAL PARTIES

Subsection (a) (1) of section 276 provides, in part, that no deduction will be allowed for any amount paid or incurred for advertising in a convention program of a political party (as defined in subsec. (b) (1) of sec. 276). This rule applies whether the convention program is published by a political party or by any other person, entity, or organization and whether the advertising revenues therefrom are received by or payable to a political party or any other person, entity, or organization. Thus, for example, no deduction is allowed for advertising in the program of a convention of a political party even if the program is published by a corporation engaged in the business of publishing such programs for profit and that corporation retains all the proceeds of such program and even if there is no showing that the corporation paid for such right.

Subsection (a)(1) of section 276 also provides that no deduction will be allowed for amounts paid or incurred for advertising in any other publication, if any part of the proceeds thereof directly or indirectly inures (or are intended to inure) to or for the use of a political party or political candidate. (Subsec. (b)(2) describes the circumstances under which proceeds shall be treated as inuring to or for the use of a political candidate.) Thus, no deduction is allowed for such advertising expense even if the publication is published at a loss (that is, the proceeds derived from the publication are insufficient to meet the expenses attributable thereto) if, had there been a profit, any part of the proceeds would have inured to or for the use of a political party or a political candidate. A deduction will not be allowed where the proceeds, or any part thereof, indirectly inure to or for the use of a political party or a political candidate. For example, if a local host committee agrees to make a payment to a political party or a political candidate for the purpose of bringing a political convention to a certain locale, and in consideration therefor secures the right to publish a book or pamphlet in connection with such convention and to retain the advertising revenues derived therefrom, amounts paid or incurred for advertising in such publication are not deductible. However, this is not intended

to change the rule of present law as to the treatment of direct contributions of persons engaged in a trade or business in a locality to a committee organized for the purpose of bringing a political convention to such locality, if such contributions are made with a reasonable expectation of a financial return commensurate with the amount of the contribution. (See Rev. Rul. 55-265, C. B. 1955-1, 22.)

If any part of the proceeds of a publication (whether or not published in connection with a political convention) inures to a political party or a political candidate, deductions for advertising in such publication will not be allowed regardless of the purposes for which such proceeds are utilized or expended by such party or candidate. Thus, for example, no deduction will be allowed for advertising in a publication, the proceeds of which are used by a political party for purposes other than those directly related to the election of a candidate to a public office (such as permanent office rent, salaries of permanent employees, and voter registration or education programs).

Subsection (a)(2) of section 276 provides that no deduction will be allowed for any amount paid or incurred for admission to any dinner or program, if any part of the proceeds of such dinner or program directly or indirectly inures (or is intended to inure) to or for the use of a political party or a political candidate. Amounts paid for admission to a dinner or program include all charges, whether direct or indirect, for attendance and participation at such dinner or program. (A similar rule applies for admissions to which subsec. (a)(3) is applicable.) Thus, for example, any separate charge for food or drink at such dinner or program is an amount paid for admission. The term "dinner or program" includes, but is not limited to, such events as galas, dances, theatrical or film presentations, cocktail parties, picnics, and sporting events. As in the case of advertising expenses described in subsection (a)(1), the provisions of subsection (a)(2) apply regardless of whether the dinner or program operated at a profit or a loss, and without regard to the purposes for which such proceeds are utilized or expended by such a party or candidate.

Subsection (a)(3) of section 276 provides that no deduction will be allowed for any amount paid or incurred for admission to an inaugural ball, gala, parade, or concert, or to any similar event if such event is identified with a political party or political candidate. No deduction is allowed for admission to such inaugural events regardless of the sponsorship thereof or the disposition of the proceeds and regardless of whether the inaugural celebrated is of a Federal, State, or local official. Thus, for example, the cost of attending an inaugural ball sponsored by a nonpartisan or bipartisan committee or organization is not deductible even if the proceeds are used only to defray the expenses of such ball or similar event. The term "similar event" as used in subsection (a)(3) includes, but is not limited to, such events as dances, theatrical or film presentations, cocktail parties, and sporting events.

Subsection (b)(1) of section 276 defines the term "political party" as used in section 276, to mean a political party as commonly understood; a National, State, or local committee of a political party; or a committee, association, or organization, whether incorporated or not, which directly or indirectly accepts contributions or makes expenditures for the purpose of influencing or attempting to influence the selection, nomination, or election of any individual to any elective

public office, or the election of presidential and vice presidential electors, whether or not such individual or electors are selected, nominated, or elected. Thus, for purposes of section 276, a political party includes a committee or other group which seeks to promote the nomination of an individual for an elective public office in a primary election, or in any convention, meeting, or caucus of a political party. A committee, or other group, is considered to be a political party, if, although it does not itself expend any funds, it turns funds over to another person or organization, which does expend funds for such purpose.

Subsection (b)(2) describes the circumstances under which proceeds derived from advertising in publications, or from a dinner or program, are considered as inuring to or for the use of a political candidate. Such proceeds are deemed to inure to or for the use of such a candidate only if they may be used directly or indirectly for the purpose of furthering his candidacy for selection, nomination, or election to any elective public office, and if such proceeds are not received by the candidate in the ordinary course of his trade or business, other than the trade or business of holding a public office. Thus, for example, if a newspaper publisher is a candidate for public office, advertising in his regularly-published commercial newspaper is not affected by this section merely because such publisher uses the profits from his newspaper to further his campaign.

(a) Subsection (c) of section 276 provides a cross-reference to section 274 (relating to disallowance of certain entertainment, etc., expenses). The provisions of section 276 are in addition to, and not in substitution for, the rules provided in section 274.

(b) *Clerical amendment.*—Subsection (b) of section 301 of the bill makes a clerical amendment to add to the table of sections of part IX of subchapter B of chapter 1, a reference to section 276.

(c) *Effective date.*—Under subsection (c) of section 301 of the bill, the amendments made by subsections (a) and (b) of section 301 of the bill will apply to taxable years beginning after December 31, 1965, but only with respect to amounts paid or incurred after the date of enactment of the bill.

SECTION 302. INFORMATION RETURNS MADE BY DEPARTMENT OF AGRICULTURE

Section 302 of the bill, which is a new section added to the bill as passed by the House relates to information returns furnished by the Department of Agriculture with respect to payments under programs administered by that Department.

(a) *Filing by Secretary of Agriculture or designees.*—Subsection (a) of section 302 of the bill amends section 6041 of the code (relating to information at source) by adding a new subsection (e). Paragraph (1) of the new subsection (e) provides that information returns which are required under section 6041(a) with respect to payments under programs administered by the Department of Agriculture are to be rendered by the Secretary of Agriculture or by one or more officers or employees of the Department of Agriculture designated by the Secretary of Agriculture to make such returns on his behalf. Under existing section 6041, such returns are required to be rendered by the officers or employees having information as to the payments and required to do so under regulations.

Paragraph (2) of the new subsection (e) provides that the Secretary of Agriculture, or the officer or employee of the Department of Agriculture designated by him to render any information return to which the new subsection (e)(1) applies, shall furnish to each person whose name is set forth in such return a written statement showing the aggregate amount of payments to the person as shown on such return. This statement is to be furnished to the person on or before January 31 of the year following the calendar year for which the return was made.

(b) *Effective date.*—Subsection (b) of section 302 of the bill provides that the provisions of the new subsection (e) of the section 6041 shall apply with respect to information returns made after the date of the enactment of the bill.

VI. CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

VII. SUPPLEMENTAL VIEWS OF SENATOR ALBERT GORE

This bill, H.R. 12752, is designed to help finance the increasing costs of Government during the next 2 years. By raising additional revenue it will decrease the budget deficit and lessen the amount by which the public debt would otherwise be increased. Some assistance in controlling a nascent inflation should be provided.

Although several provisions of the bill are meritorious, it is poorly designed in certain respects and in all likelihood will prove quite inadequate. Some reenforcement of fiscal policy ought to be provided now, by raising more revenue than this bill will provide, and by placing the increased revenue burden where it will do the most to dampen demand in areas where such demand most clearly threatens price stability.

Oddly, the two most important provisions of the bill, from a revenue standpoint, represent in one instance a speedup of a schedule already adopted by the Congress—for getting corporation tax payments more nearly current—and in the other a complete reversal of a previously adopted congressional schedule for ridding the consumer of two onerous excises. I support the previously established congressional policy in both instances, to place corporation taxes on a current basis, and to eliminate excise taxes. I oppose the proposed reversal of congressional policy with respect to excises.

Since more revenue is needed, and since an increase in excise taxes is regressive in nature, Congress should raise more revenue and do so in a more equitable manner. Suspension of the investment tax credit as a substitute for the proposed excise tax increases would serve both purposes. This would have the additional advantage of selectively dampening demand in an area which seriously threatens to create inflationary pressures.

Suspension of the investment credit, together with a modification of the use of existing carryovers, will produce as much revenue as would the reimposition of the excise taxes on automobiles and on

telephone service. Suspension of the credit would add \$80 million to revenues in the current fiscal year, while raising excises to their pre-January level would produce only an additional \$65 million. In fiscal 1967, it is estimated that \$1.2 billion would be raised by either procedure, while in fiscal 1968 the investment credit suspension would add \$1.9 billion and the excises only \$1.5 billion.

So long as the revenues are this close, then, the choice would hinge on the overall economic effects, as well as on equity considerations.

The present outlook for expenditures on fixed investment clearly raises the threat of inflationary pressures in that sector of the economy. Fixed investment in 1965 was 10.3 percent of gross national product, about the same as it was during the investment boom of 1956 and 1957. The rate of investment at that time could not be sustained and neither can the current rate.

In 1965, investment in plant and equipment increased 15.4 percent over 1964. Recent surveys show an expected increase in 1966 of 15 percent or more over 1965, and surveys taken at this time of year generally underestimate final expenditures. Extending these projections into 1966, we will have by the end of this calendar year a fixed investment expenditure amounting to some 11 percent of gross national product. This is well above the noninflationary level of 10 percent for a full employment economy.

Obviously, in the interest of orderly growth and to avoid inflationary pressures in an important sector of the economy, expenditures for fixed investment should be slowed. Expenditures should not be halted, but marginal projects should be postponed. Suspension of the credit will not halt projects clearly warranted by demand. It would remove this element of artificial stimulation in our economy.

The Finance Committee report on the 1962 Revenue Act, when the investment credit was instituted, gave three specific reasons for the credit:

1. The investment credit would "stimulate investment * * * by reducing the net cost of acquiring depreciable assets, which in turn increases the rate of return after taxes arising from their acquisition."

2. The investment credit "by increasing the flow of cash available for investment, will stimulate investment."

3. The investment credit "can be expected to stimulate investments through a reduction in the "payoff" period for investment in a particular asset."

The same arguments—in reverse—could now be used to justify suspending the investment credit.

Given current conditions, the artificial stimulation to expenditures for fixed investment should be cut off. The investment credit should be suspended until such time as conditions warrant a return to stimulation.

Another fact which is particularly pertinent today is that production of equipment for fixed investment competes with production of hard goods for defense purposes. This is particularly true with respect to highly skilled manpower, in which there is already a shortage. Continued artificial stimulation of plant and equipment expenditures can only result in bidding up the price of scarce materials, facilities, and manpower needed for defense production, thus setting off a ripple of inflation which might well become a powerful wave carrying all before it.

Looking at restraints already at work through Government action, one is struck by the tight money policy enforced by the Federal Reserve Board. However one may view this monetary policy, fiscal policy must work with and not against it. In this instance, the suspension of the investment credit will reenforce the tight money policy of the Federal Reserve Board. On the other hand, a tax policy which works counter to it, will but give an excuse to the money managers to tighten the screws even harder, thus giving rise to further undesirable distortions which we have witnessed in the past when monetary policy was misguided.

Little need be said here to support the substitution of this credit suspension for the increase in excises on automobiles and telephone service from the standpoint of equity. The excises bear directly on the consumer and is recognized as a regressive tax. Furthermore, the excise tax increases in this bill affect only one commodity and one service. It is difficult to justify singling them out, particularly when they are virtual necessities. Suspension of the investment credit will work no hardship on any particular group and its effects will be spread broadly, particularly across the corporate sector.

Responsible economists are now expressing concern about the possibility of inflation. It is felt by many that substantial tax increases are needed, and now. In the absence of a general tax increase now, selective tax changes in areas where both economic and equity objectives can be furthered would certainly be in order. Suspension of the investment credit is surely one of the most obvious places to begin.

VIII. SUPPLEMENTAL VIEWS OF SENATOR VANCE HARTKE ON H.R. 12752

Only a few months ago the Treasury Department told us that cuts in excise taxes were desirable for a vibrant economy. Administration spokesmen assured us at that time that the war in Vietnam could best be financed by an expanding and virile economy.

A scant few weeks ago the Treasury Department informed us that certain excise tax cuts, which had already gone into effect, had to be reinstated to finance an escalated war in southeast Asia. Yet, when questioned by the Finance Committee members, the Secretary of the Treasury was unable to tell us what the total needs were for financing the war in the coming months, even though there are strong indications that this will be a long and costly war.

If excise tax cuts were a good idea last summer, they are a good idea now.

It is not fiscally responsible to ask the Congress to reinstate excise taxes providing only \$1.2 billion when the war, at present, is costing \$10 billion a year. We should not attempt piecemeal, one-shot, stop-gap solutions designed only to raise revenue in a hurry, when what we need is a sound, logical plan to finance this war. Because of this rushed approach, the reimposition of excise taxes, which are admittedly regressive, ask needless selective sacrifices of the American people.

Therefore, I am opposed to the reimposition of excise taxes on telephone service and automobiles.

