HOW THE PROPOSALS WORK

Payment of First $100,000 of Estimated Tax

The proposed change would require a corporation to file a declaration of estimated tax for a taxable year if it can reasonably be expected that its tax liability for the year (after taking into account credits) will exceed $40, the figure presently applicable to individuals. As indicated above, the present exemption for all corporations is $100,000.

The proposal would involve a new definition of "estimated tax" (which is the basic amount subject to payment by installment) reflecting the removal of the existing $100,000 exemption over a five year period. During the transition period, a corporation, in determining the amount of its estimated tax liability, would be permitted to exclude an amount equal to the applicable "exclusion percentage" multiplied by the lesser of (1) $100,000, or (2) the amount which the corporation estimates as its income tax for the year less the estimated amount of its credits.

The "exclusion percentage" would be defined as follows:

If the declaration is for a year beginning in—	The "exclusion percentage" is—
1968	80
1969	60
1970	40
1971	20

In the case of taxable years beginning after 1971, there would be no special exemption.

As an example, a corporation which estimates its income tax less credits for 1968 to be $80,000 would be entitled to an estimated tax exclusion of $64,000 for 1968—80 percent (its exclusion percentage) times $80,000. Its estimated tax liability would, therefore, be $16,000. If the corporation estimates its income tax less credits for 1968 to be $120,000, its estimated tax exclusion would be $80,000 (80 percent times $100,000) and its estimated tax liability would be $40,000.

Increase from 70 to 80 Percent Respecting Amount of Estimated Tax which Corporations Must Pay in Installments

Under present law, a corporation is not subject to penalty for an under-payment of estimated tax if its payments equal or exceed those which would be required on the basis of estimated tax liability of 70 percent of actual tax liability. The proposal amends the current law to raise the 70 percent figure to 80 percent. This conforms the percentage for corporations to that now applicable to individuals.

HISTORIC BACKGROUND

Prior to 1950, corporations were permitted to pay income taxes, in four quarterly installments, in the year following the taxable year. Thus, for a calendar year corporation, the tax for 1948 was payable in four equal installments during 1949.

The *first* legislation designed to accelerate corporate tax payments (the Mills plan) gradually advanced payments, beginning in 1950, to two 50 percent payments in the third and sixth months following the taxable year (i.e., March 15 and June 15 for calendar year corporations).

In 1954, a five-year transition plan spread over the years 1955–1959 was adopted to effect a partially current payment of the estimated tax. When fully effective, a calendar year corporation paid 25 percent of its estimated tax in excess of $100,000 on September 15 and 25 percent on December 15 of the current taxable year. The balance was payable in two installments the following March 15 and June 15.

The Revenue Act of 1964 provided for a further gradual acceleration of estimated corporate tax payments which, by 1970, would have required corporations to be on a totally current payment basis as to tax liabilities in excess of $100,000; that is, payments equal to 25 percent of the estimated tax (over $100,000) would have been due on April 15, June 15, September 15, and December 15 of the taxable year. (Fiscal year corporations must make estimated payments by the fifteenth day of the fourth, sixth, ninth and twelfth month of their fiscal years.)

The Tax Adjustment Act of 1966 accelerated the 1964 plan by requiring that the transition to current status (for tax liability in excess of $100,000) be achieved with taxable years beginning in 1967. Thus, for taxable years beginning in 1966, the April 15 and June 15 installments were increased to 12 percent of the esti-