

a much earlier date because of the time required both by the Internal Revenue Service and employers to prepare and implement new withholding schedules. It is generally desirable to keep down the slippage of time between the effective date for a tax increase and the date on which increased withholding becomes effective, in order to avoid necessitating large payments by individuals when they file their final returns.

Concretely, the surcharge would apply to individuals as follows:

Since the surcharge would be effective October 1, 1967, and thus be in effect for only one-quarter of the year 1967, the rate of the surcharge for that year would be 2½ percent of the tax for the entire year 1967.¹ If the tax on an individual for 1967 would be \$1,000 under present law, the surcharge would raise this tax by \$25 to \$1,025. Increased withholding rates incorporating the surcharge would go into effect October 1, 1967, so that individuals with wages or salaries would remain on a current payment basis.

Since the surcharge would be in effect for all of the calendar year 1968, the surcharge due on calendar year 1968 tax liability would be the full 10 percent. On a tax of \$1,000 which an individual would otherwise incur, the surcharge would come to \$100 or 10 percent.²

Persons of restricted means should not be required, even in times of emergency, to sacrifice already minimal standards of living. Consequently, the proposal provides an exemption for such persons.

The exemption from the surcharge covers taxpayers whose taxable income falls entirely within the first two brackets of the individual income tax.³ Generally, this exemption would exclude from the surcharge:

All single persons with taxable incomes of \$1,000 or less after deductions and exemptions; all married persons with taxable incomes of \$2,000 or less after deductions and exemptions; and all heads of households with taxable incomes of \$1,500 or less after deductions and exemptions.

In terms of specific tax liabilities, single returns having \$145 or less tax, joint returns having \$290 or less tax, and head-of-household returns having \$220 or less tax would be exempt.

In terms of total earnings, married couples with two children with earnings of \$5,000 or less per year and single people with earnings of less than \$1,900 per year would not be subject to the surcharge, assuming the use of the minimum standard deduction.

The exemption will cover about 16 million taxpayers, or approximately one-sixth of the 98 million total of all taxpayers. Of the 16 million who will not be subject to the surcharge, approximately 5 million are single individuals and 11 million are married taxpayers.

The effects of the proposal may be illustrated by applying the proposed surcharge to a married couple with two dependents using typical (10 percent of income or minimum standard deduction) deductions:

With \$5,000 earnings, their tax will be unchanged (and still \$130 lower than they would have paid in 1963).

With \$10,000 earnings, their tax will rise \$28 in 1967 and \$111—or \$9.25 a month—in 1968 (their 1968 tax will still be \$147 less than they would have paid in 1963).

With \$20,000 earnings, their tax will rise \$79 in 1967 and \$316—\$26.34 a month—in 1968 (their 1968 tax will still be \$324 less than they would have paid in 1963).

Since the bulk of American families—three out of every four—have an income below \$10,000, they will be paying less than \$9.25 a month, down to only about \$2.50 a month.

3. Effects of the surcharge on corporations

The 10 percent surcharge would apply to corporations, effective July 1, 1967. Thus, for calendar 1967 the surcharge would be higher than for individuals because of the earlier starting date. For corporations whose taxable year coincides with the calendar year, the surcharge for calendar year 1967 would

¹ The surcharge applies to the present law tax including the tax on capital gains.

² A special provision will also insure that persons receiving retirement income qualifying for the retirement income credit will maintain their present parity for income tax purposes with recipients of social security benefits.