

new subsection (e) provide that, in the case of the option under which individuals and corporations may pay their estimated tax on the basis of their prior year's tax liability, this prior year's liability shall be adjusted to reflect the surcharge tax.

Under the provisions of the new subsection (e), corporations would be required to reflect the surcharge in their first estimated tax payment due more than 15 days after the bill is enacted. For individuals, the surcharge would have to be reflected in the first estimated tax payment due more than 45 days after the enactment of the bill.

Western Hemisphere Trade Corporations and dividends on certain Preferred stock.—The following two provisions of the Internal Revenue Code provide a special deduction with respect to certain income which has the effect of reducing the corporate tax rate applicable to that income by 14 percentage points. These provisions are:

- (1) Section 922, relating to the taxable income of Western Hemisphere Trade Corporations; and
- (2) Section 247, relating to dividends paid by a public utility on its preferred stock.

Section 244 provides a reciprocal deduction with respect to amounts received as dividends on certain preferred stock of a public utility. In order to maintain the 14 percentage point differential under these sections, subsection (f) of the new section 51 provides that the computation shall be adjusted, under regulations prescribed by the Secretary of the Treasury or his delegate, to reflect in the regular corporate tax rate the surcharge imposed under the new section 51.

New withholding tables.—Subsection (g) of the new section 51 sets forth new tables for computing the amount of income taxes to be withheld from wages paid on or after October 1, 1967, and before July 1, 1969. These tables reflect an increase in the withholding rates of 10 percent.

(b) *Minimum distributions by foreign subsidiaries.*—Subsection (b) of section 2 of the bill amends section 963 (b) (relating to receipt of minimum distributions by domestic corporations from their foreign subsidiaries) to provide for the use of a minimum distribution table reflecting the surcharge. The new table is to be used for taxable years beginning 1967 and 1968. It is the same table that was applicable for taxable years beginning in 1963 when the corporate tax rate was 52 percent (the present corporate tax rate including the additional surcharge is 52.8 percent).

(c) *Clerical amendment.*—Subsection (c) of the new section 51 makes a clerical amendment to reflect the addition of the new Part V imposing the surcharge.

(d) *Effective date.*—Subsection (d) of the new section 51 provides the effective dates for the surcharge. These dates are explained in the discussion under subsection (a) of the bill.

Section 3. Increase From 70–80 Percent the Amount of Estimated Tax Which Corporations Must Pay in Installments.

Under present law, a corporation is not penalized for an underpayment 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 (less \$100,000). Section 3 of the bill amends section 6655 to raise the 70-percent figure to 80 percent. This conforms the percentage for corporations to that made applicable to individuals beginning in 1967. This change would be effective for taxable years beginning after December 31, 1967.

Section 4. Payment of First \$100,000 of Estimated Tax.

Under present law, corporations are required to make estimated tax payments only with respect to their estimated tax liability in excess of \$100,000. They are not required to make any estimated tax payments on their first \$100,000 of estimated tax liability and, if their annual estimated tax liability is \$100,000 or less, they are not required to file a declaration. Under section 4 of the bill, the \$100,000 exclusion would be repealed over a five-year period.

More specifically, subsection (a) of section 4 of the bill would amend section 6016(a) to 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. As indicated above, the present exemption level is \$100,000.

Subsection (b) of section 4 of the bill amends section 6016 (b) to provide 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