

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 revised subsection (b) of section 6016 would be define the term "exclusion percentage" 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 of the transition rule, 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.

Subsection (d) of section 4 of the bill amends section 6655 (e) to reflect the repeal of the \$100,000 exemption in the provisions for determining whether, and if so, to what extent, an addition to the tax should be imposed for underpayment of estimated tax. The same transitional rules apply. Thus, for example, assume a corporation's tax return for the taxable year ending December 31, 1968, indicates an income tax liability of \$150,000. To utilize the exception provided in section 6655 (d) (1) permitting estimated tax payments to be based on the prior year's tax, such corporation would be required to pay for 1969 an estimated tax of \$90,000, computed as follows:

1968 Income Tax Liability -----	\$150,000
Less: \$60,000; 60 percent (the exclusion percentage for 1969) times \$100,000 -----	60,000
Total -----	90,000

Subsection (3) of section 4 of the bill amends section 243(b) (3) (C) (relating to estimated tax exemption for members of an affiliated group) to reflect the repeal of the \$100,000 exemption.

Subsection (f) of section 4 of the bill provides that the amendments made by this section shall apply to estimated tax payments for taxable years beginning after December 31, 1967.

Section 5. *Postponement of Certain Excise Tax Rate Reductions.*

(a) *Passenger Automobiles.*—Under present law an excise tax of 7 percent of the selling price is imposed on the sale by the manufacturer, producer, or importer of passenger automobiles. This rate is scheduled to be reduced to 2 percent on April 1, 1968, then to 1 percent after December 31, 1968.

Subsection (a) of Section 5 of the bill suspends this schedule of reductions for the period during which the temporary surcharge will be in effect. Thus, the present 7 percent rate will remain in effect until July 1, 1969. A rate of 2 percent will apply to sales between July 1, 1969, and December 31, 1969, with a 1 percent rate applying to all sales after December 31, 1969. Conforming amendments are made so that floor stocks refunds will apply on the corresponding date of each reduction.

(b) *Communication Services.*—Under present law, an excise tax of 10 percent is imposed on amounts paid for local and long distance telephone service (including teletypewriter service). A reduction of the rate to 1 percent is scheduled to apply to amounts paid pursuant to bills rendered on or after April 1, 1968, with the tax scheduled to terminate entirely as to bills rendered on or after January 1, 1969.

Subsection (b) of Section 5 of the bill suspends this schedule of reductions for the period during which the temporary surcharge will be in effect. Thus, the present 10 percent rate will continue to apply until July 1, 1969, at which time the scheduled reduction to 1 percent will take effect. The tax will terminate on January 1, 1970. A conforming amendment makes corresponding changes in the dates applicable under the special rules established under present law to adjust for billing practices.