The difference in these estimates arises principally because of the marginal rate. Now, the marginal rate, as you are familiar with, is the year-to-year change in the individual income tax liability as a percent of the change in individual income. It appears to have been about 14.1 percent for calendar 1966 rather than the 19.2 percent marginal rate that we used in making that calculation last January.

Now, since the calendar 1966 tax liabilities are a principal benchmark for computing the calendar 1967 tax liabilities and the consequent fiscal 1968 individual income tax receipts, this $2.2 billion reduction lowers the fiscal 1968 receipts by the same amount. Then there is the fact that it becomes necessary in the light of the analysis of the returns that finally came in in April, May, and June to revise the marginal rate used in the estimate for the calendar year 1967. We are now assuming a marginal rate for calendar year 1967 of 15.5 percent, which gives a decrease in the marginal rate below that used in January for calendar 1967 (as well as for calendar 1966) of 3.7 percentage points.

Now, with the change in the personal income adjusted to a tax basis from calendar 1966 to 1967 we have estimated this decrease of 3.7 percentage points in the marginal rate would reduce the added yield in 1967 from the rise in personal income under the individual income tax by $1.3 billion. This $1.3 billion due to the reduction in the marginal rate for 1967 added to the $2.2 billion reduction in the calendar year 1966 liability, which is the base for our 1967 estimate, means a total reduction in the level of fiscal year receipts of $3½ billion.

The current stock market performance gives some reason, however, to increase the yield of the tax on capital gains by $500 million, so the net effect of these various adjustments gives you the decrease of receipts of $3 billion for the fiscal year 1968. We think this is the proper estimate to use now in the light of the experience we have had with the 1966 calendar receipts, and with the derivation of a more accurate marginal rate on the basis of those proved figures.

What has happened is that since 1963 this marginal rate had been moving upward. It is the crucial factor in our estimating process on individual income, and after being stable at around 10 to 11 percent for a period of years it commenced to rise, from 10.8 percent in 1963, to 14.3 percent in 1964, and to 17.2 percent in 1965.

So last December in arriving at our January estimates for the fiscal year 1967 we used a projection of what had been that very steady trend of an increase in the marginal rate and used 19.2 percent for the calendar year in question.

The committee will recall, I think, that in the estimates of individual income tax yield for 1964, 1965, and 1966 we had been regularly underestimating by very substantial amounts, and one of the factors in the underestimates for these previous years was that we were using a marginal yield which was always lagging behind what in fact proved to be the case. So having seen this trend moving upward from the 10.8 percent figure in 1963 to the 14.3 percent in 1964 and the 17.2 percent in 1965 we followed that trend line conservatively and used a 19.2-percent rate.

Now, with the 1966 calendar year figures coming in and our ability to derive an accurate determination of what the actual marginal rate was in 1966, which was well below the estimate of it, we have now