

source of revenue could reduce the pressure for regaining control over spending trends.

Second, the surcharge should apply to all income tax brackets. We may grant that it is undesirable to ask persons of comparatively modest income to pay additional taxes but it is equally undesirable to ask anyone to pay additional taxes. If, at present, taxpayers pay a proper share of the present tax total, it would seem that they should pay their proportionate share of any surcharge.

The most important question is whether it will be necessary to impose a surcharge at a rate as high as the proposed 10 percent. In fiscal 1968, each reduction in expenditures of approximately \$600 million would have the same effect on the deficit as 1 percentage point of the surcharge. The terms of this tradeoff seem sufficiently attractive to compel a maximum effort to cut Federal spending.

A rough calculation reveals that a cut of somewhat less than \$1 billion in expenditures, together with an expansion of the surcharge base by including all taxpayers, would make it possible to reduce the proposed surcharge by 2 percentage points and as mentioned above, each additional expenditure reduction of \$600 million would make it possible to reduce the rate by another percentage point.

It should be emphasized that a 10-percent surcharge on corporate tax liabilities would mean that the effective rate on all but the smallest corporations would be higher than it had been prior to the 1964 tax reduction.

SPEEDUP OF CORPORATE TAX COLLECTIONS

Particularly in the last 2 years, American corporations have been subjected to an acceleration of tax payments which has much the same practical effect on them as a surcharge on their current tax liabilities. The President has proposed two measures which would further speed up corporate tax collections in 1968. He would raise from 70 percent to 80 percent the basis on which corporations make current payments on their estimated tax liabilities. He would also eliminate, over a 5-year period, the exemption of the first \$100,000 of tax liability from the requirement for current payment. This form of tax acceleration would hit small enterprises especially hard.

We recommend that you do not take such action. As already mentioned, it is the equivalent of a surcharge during the transition period. Consider the case of a corporation which paid 70 percent of its tax liability for calendar 1967 in that year—leaving 30 percent to be paid in 1968—and then also had to pay 80 percent of its 1968 tax liability in 1968. In effect, it would have to pay an extra 10 percent of a year's tax in calendar 1968. This would be a serious burden to be placed on top of the surcharge you are considering.

The burden would be even more serious for many small corporations. A corporation whose tax liability remains consistently below the \$100,000 margin would, over the next 5 years, have to pay almost 6 years' taxes. Thus, in effect, you would be subjecting them to a surcharge of 16 percent on top of any surcharge Congress may legislate.

The argument has been made that since proprietors of unincorporated enterprises already pay their taxes on a current basis it is only fair to subject small corporations to the same treatment. But this argument misses the point. The extra burden on the small corporations