

would be the result, not of their being on a pay-as-you-go basis, but of the transitional problem of getting on a pay-as-you-go basis.

There would have to be a period during which the small corporations would pay more than 1 year's tax in each year. There was a similar transitional problem for small proprietors when individual taxpayers were first placed on a pay-as-you-go basis in 1944. You will recall that Congress resolved the difficulty by a broad stroke—three-quarters of the 1943 tax liabilities of individuals were simply wiped off the books. But no one has proposed a similar tax forgiveness for small corporations if and when their payments are made current.

For 1964 through 1967 the overall speedup of corporate tax payments, exclusive of social security, will amount to at least \$12 billion under existing legislation. As many authorities have noted, the resulting squeeze on corporate cash resources has contributed to upward pressures on interest rates and tightness in the credit markets. An additional speedup would only aggravate these conditions.

CORPORATE TAX LIABILITY

The administration has recommended applying the surcharge to corporate tax liabilities before allowance of the investment credit and foreign tax credit. The only fair method would be to apply any surcharge to net tax liabilities after allowance of credits.

After all, the various credits and adjustments that are made in the calculation of final tax liability were all adopted by Congress for good and sufficient reason. If a tax surcharge must be enacted, we see no justification for the dilution of any such benefits to the taxpayer by applying the surcharge to the liability calculated before taking them into account.

The procedure provided in the administration's tax bill would result in a surcharge of more than 10 percent—in some cases much more—on tax liability as presently calculated. For instance, a corporation with an investment tax credit of the 50 percent maximum on its gross tax liability would have its tax increased by 20 percent instead of 10 percent. Failure to allow deduction of the foreign tax credit would result in many cases in even greater distortion. If it is your intention to collect increased revenue by a surcharge applied evenly to everybody, we do not see why such a provision should be included.

It is our belief that the most appropriate form of tax increase for meeting temporary needs would be a "bottom line" surcharge. By this we mean an additional tax calculated on the last line of the return, by applying a fixed percentage to tax liability as calculated according to existing law. Any other procedure distorts the pattern of relationships among taxpayers.

RELATIONSHIP OF THE CORPORATE AND INDIVIDUAL SURCHARGE RATES

During discussions both before and after the President's message, the suggestion has frequently been made that the surcharge rate to be applied to individuals should be somewhat less than the surcharge rate to be applied to corporations. I do not know the extent to which this will be given serious consideration by your committee, but in any case, I would like to make some comments.