

In the interest of equity there is no justification for imposing a heavier percentage surcharge on corporations than on individuals. Both the tax history since 1964, and the impact on profits of the recent economic slowdown, suggest that, if anything, there should be greater reluctance to raise corporate taxes than individuals' taxes.

At the time of the 1964 tax cut, the reduction was proportionately much less for corporations than for individuals. The great bulk of corporate profits had previously been taxed at 52 percent and this was reduced in two steps to 48 percent—somewhat less than an 8-percent reduction. By comparison, the tax reduction provided for individuals averaged close to 20 percent.

I am not suggesting that you reconsider a decision made in 1964. But you should give thought to what will happen if every time there is opportunity for a tax cut, corporations are given less than a proportionate share and, every time there is need for a tax increase, corporations are burdened with more than a proportionate share.

This would mean that any kind of tax change would lead to a greater share of the burden being assigned to corporations. This is one reason we believe you should reject proposals for imposing a higher surcharge rate on corporations than on individuals.

Furthermore, since 1964, the nominal reduction in corporate tax rates has effectively been wiped out by the acceleration of corporate tax collections. This point is sometimes misunderstood, since it is regarded solely as a matter of the timing of taxpayments, rather than of the magnitude of the tax burden.

However, the additional amounts which had to be paid because of the speedup have been a real drain on corporations in just the same sense that they have been real revenue to the Treasury. In fact, in calendar 1967 without a surcharge, large corporations are paying a considerably higher cash tax rate, including the impact of the speedup, than they did in 1963.

While most business has yet to receive any actual cash benefits from the nominal reduction in the corporate tax rate enacted in 1964, individuals, by contrast, obtained their benefits promptly on schedule. Now, if the tax cut must partially be reversed, it would hardly seem appropriate to apply a heavier tax surcharge to corporations than to individuals.

A final reason for this conclusion lies in the statistical record of what has happened to various kinds of income during the economic slowdown of 1967. In the first half of this year, corporate profits were 6 percent below their level of a year earlier, whereas, personal incomes were 7 percent higher.

Corporate profit margins have been declining since the first quarter of 1966. It would not make much sense to apply a higher tax surcharge to this element of income than to others. As our taxation committee, in its statement of July 11 stressed:

Any tax increase should be of such character as to do minimum damage to business profitability and business confidence, since these factors are so vital in determining the general level of employment and economic activity.

Of course, one argument we have heard for making corporations pay a higher surcharge rate than individuals is the claim that corporations received a tax break earlier this year when the suspension of the investment credit was terminated. This is surely a specious argument.