

LBJ round: President Johnson has refined JFK's tactic of increasing the tax take without increasing the tax rate. Instead of getting to a pay-as-you-go basis by 1971, corporations now must be paid up by July 1, 1967. The impact was greater in fiscal 1967 (federal) than in 1966.

The government estimated the new speedup would increase corporate tax payments in fiscal 1966 by an additional \$1 billion and in fiscal 1967 by \$3.2 billion (since changed to \$4 billion). This is on top of the JFK round of acceleration, which added about \$2 billion in fiscal 1966 and \$2 billion-plus in fiscal 1967. These increases also were concentrated in the latter half of the fiscal year, i.e., the first half of the calendar year.

Exhibit I indicates that the cash tax rate increased in 1966 and again in 1967 under the JFK round of acceleration. So the LBJ round came at a time when the cash tax rate was already scheduled to rise an average three fourths of one percentage point.

The Johnson Administration has requested two further rounds of speedups. Heretofore the first \$100,000 of corporate tax liability was due the following year and was not included in the estimates subject to quarterly payment. The President proposes to place these payments on a pay-as-you-go basis by 1972. The cost, primarily to smaller corporations, will be \$800 million a year for five years, starting in 1968.

Corporations currently filing estimated tax returns are required to pay 70% of their actual tax liability. LBJ proposes to increase the 70% minimum to 80%. Assuming that corporations include the same 5% safety margin, they will pay 85% of their estimated taxes starting June 15, 1968. The Administration estimates this as worth \$1.6 billion, but a more accurate figure would be \$2.4 billion, with \$1.8 billion falling due in 1968 and the remainder in 1969.

OTHER PAYMENTS SPED UP

President Johnson accelerated the remittance of Social Security and individual income taxes withheld by employers by having them remit such taxes faster and more frequently.

Prior to June 20, 1966 employers remitted in the middle of each month the accrued liability for the previous month. Since that date employers whose withholding of employees' income and Social Security payments plus the employer's share of the Social Security tax, totaled \$4,000 per month or more have been required to remit these taxes twice a month. Furthermore, the grace period was reduced from 15 days after the close of the accounting period to only 3.

Instead of having use of these funds for an average of 3½ weeks, employers now have them only half a week. The acceleration brought the federal government an additional \$1.5 billion to \$2 billion, as affected employers remitted 12½ months of withholding and Social Security taxes in a 12-month period.

On February 1, 1967 the \$4,000 minimum was dropped to \$2,500, forcing even smaller employers to accelerate these payments. As a rough rule of thumb, companies with 30 to 50 employees have been affected by the 1967 acceleration. Federal receipts probably increased by \$200 million to \$250 million.

The Treasury has announced plans to extend the semimonthly remittance system to much smaller employers. This is expected to be effective by the end of 1967 and will cover companies whose withholding and Social Security tax liabilities total as little as \$100 per month.

FUNDING THE LIABILITY

Some corporations, it appears, continued to view each of the various tax accelerations as merely payment of a debt—rather than as a one-time increase—until the Johnson rounds made their impact felt.

At any rate, many companies have now begun to fund tax accelerations with capital (debt, convertible issues, and common stock), and will continue to do so. Some, of course, have had plenty of cash and cash items on hand and merely dipped into these.

But cash has been in shorter supply. The buildup in inventories during 1966, the money squeeze on the banks, a slowdown in corporate profits, and the considerably higher Social Security tax rates since January 1, 1966 have accelerated the shrinkage of corporate liquidity. Capital expenditure programs have eaten into cash reserves as well, and many corporations now raising money did not think they would have to do so until 1968, 1969, or 1970.