

Over a full year, such surtax rates on corporate tax liabilities would raise the following approximate amounts:

Surtax rate on corporations and approximate additional revenue:

- 12 percent, \$4 billion.
- 15 percent, \$5 billion.
- 16 percent, \$5.3 billion.
- 20 percent, \$6.6 billion.

THE SURTAX ON INDIVIDUAL INCOME SHOULD BE FULLY BASED ON ABILITY
TO PAY

The administration has proposed a flat 10-percent surcharge on the total tax liabilities of all personal income taxpayers with taxable incomes above \$2,000 for joint returns and \$1,000 for single individual returns.

In effect, this means no surcharge on a family of four with a gross income of \$5,000 or less, but the application of the same 10 percent surtax rate on the total tax liabilities of all such families whose incomes are \$5,001 and more.

This proposal recognizes ability to pay to a degree—by exempting lower-income taxpayers from the surtax. However, this proposal is unfair and inequitable to middle- and moderate-income taxpayers.

For example, under the administration's proposal, a family of four with a taxable income of \$1,999—gross income of about \$4,990—would pay its regular tax of \$290. It would pay no surcharge. Another family of four with a taxable income of \$2,001—gross income of slightly over \$5,000—would be required to pay its regular tax of slightly over \$290 plus the 10 percent surtax, or \$29. For the extra \$2 of taxable income, it would be required to pay \$29 in additional taxes. This is clearly unfair.

Moreover, this proposal also fails to give sufficient recognition to the ability to pay principle as one moves up the income scale. Families with incomes of \$6,000 or \$10,000 would pay the same 10-percent surcharge on their total tax liabilities as families with incomes of over \$1 million.

In addition, the proposal also fails to recognize that the after-tax weekly take-home pay of most groups of wage and salary earners has increased only slightly in the past 2 years. The weekly take-home pay of the average factory worker, with three dependents, was \$100.39 in June—only 62 cents per week greater than in June 1966 and \$3.40 per week above June 1965.

Simple application of the 10-percent surtax rate to the total tax liabilities of all four-person families with gross incomes above \$5,000 would wash out this average factory worker's gain in weekly take-home pay during the past year and one-quarter of his take-home pay improvement over the past 2 years. A somewhat similar situation would apply to most large groups of wage and salary earners.

So, Mr. Chairman, we reiterate our belief that the surtax on individuals must be based fully on ability to pay.

Therefore we recommend the following proposal, which we urge you to adopt:

Each family filing a joint return would subtract \$300 from its tax liability and apply the surtax rate to the remainder. Therefore, lower-