

Corporation Income Tax returns for 1962 published by the Internal Revenue Service shows that almost 600,000 corporation income tax returns reflecting tax liabilities were filed for that year. Of this number, slightly more than 487,000, or 81%, showed a combined normal tax and surtax under \$25,000. Undoubtedly, these figures and percentages have changed since 1962, but I'm sure that it is still a fair statement that a very large number of corporations have annual corporate income tax liabilities of less than \$25,000 and that an even larger number have annual corporate income tax liabilities of less than \$100,000.

INCONSISTENT WITH PRIOR POLICY

The \$100,000 dividing line appeared first in the Internal Revenue Code of 1954, along with the introduction of the system of prepayments for corporations. The report of the Senate Finance Committee issued in connection with the adoption of the new Code (S. Rep. No. 1622, beginning at page 137) contains the following language on page 139: "... with the \$50,000 exemption in the House bill, the declaration system would leave unaffected 390,000 corporations. It would affect, however, 35,000 corporations, accounting for about ninety percent of the corporate tax liabilities. Your Committee's action will exempt an additional 15,000 corporations from the declaration and advance payment requirements. The remaining 20,000 corporations, however, account for about 85% of corporate income tax liabilities ..."

This language was written to explain the action of the Senate Finance Committee in increasing the proposed level for exemption from corporate declarations and prepayments from the \$50,000 originally proposed by the House of Representatives to \$100,000. Thus, at that time, 405,000 corporations out of 425,000 were deliberately exempted from the requirement of filing Declarations of Estimated Tax and making prepayments. The exemption made good sense, of course, because of the picture on the other side of the coin. The 20,000 corporations who were left subject to the declaration and prepayment requirement accounted for more than 85% of the total corporate income tax.

Assuming that these figures and statistics have remained approximately correct, the proposal under consideration takes this shape. You are being asked to approve legislation which would compel over 400,000 corporations to file annual Declarations of Estimated Tax, many undoubtedly requiring also periodic quarterly revisions, solely to *accelerate* the payment of corporate income tax that probably represents less than ten percent of the total corporate income taxes. This will not produce payment of taxes otherwise uncollectible. It calls only for prepayment. The prescription cannot be renewed. This will increase Government revenues only once, with the effect spread over the five years following enactment. The only statement on this subject in the President's message combines the revenue effect of this proposal with the proposal that the penalty level for estimated taxes be raised from 70% to 80% and estimated \$800 million in additional revenues for Fiscal 1968, somewhat more in subsequent years. In any case, once the change is fully effective, assuming no violent fluctuations in overall corporate income or tax rates, collections should revert to normal, but hundreds of thousands of corporations would be left with the recurring annual problem of filing Declarations of Estimated Tax. The cure hardly seems worth the damage to the patient resulting from side effects.

The adoption in 1954 of the \$100,000 exemption figure was not accidental. It represented the result of a deliberate policy of relieving thousands of corporations from a burdensome obligation that produced only a single non-recurring collection benefit to the Government. The Senate Finance Committee Report referred to previously contains some further language explaining the purposes of the provision:

"The House bill exempts from the required Declaration of Estimated Tax and the new tax-payment schedule corporations whose yearly tax liability cannot reasonably be expected to exceed \$50,000. Moreover, it limits the current payment requirements to that portion of the tax liability in excess of \$50,000. This exemption, which is designed to restrict the application of the new system to a comparatively large group of corporations, has been increased by your Committee ..."

BURDEN ON SMALLER CORPORATIONS

Gentlemen, it would be extremely difficult and expensive for smaller corporations, those with income tax liabilities of \$100,000 all the way down to \$40, to comply with the provisions requiring Declarations of Estimated Tax and cur-