

payments is less significant from an economic impact point of view. The difficulties are smaller (and the Commission believes manageable) for the corporation income tax, for which it is particularly important to have taxes measured on an accrual basis.

Corporation income taxes

The Commission's recommendation, therefore, is that the budget include corporation income tax receipts on an accrual basis by fiscal 1971, at the same time that accrued expenditures are included in the budget.

It is widely accepted that tax liabilities are a much more important determinant of corporate spending and financial behavior (and hence economic impact) than the cash payment of taxes. Since corporate profits (and tax liabilities) are exceptionally volatile, a time lag between accrual and payment of taxes of only a few months during an expansion or slump in the economy can produce sharp differences between the actual and apparent economic impact of corporation income taxes.

Legislation requiring more current reporting and payment of estimated taxes has substantially reduced time lags between accrual of corporation tax liabilities and the payment of corporation income taxes. Nevertheless, these time lags can still be quite significant. Furthermore, the same legislative and administrative changes which have brought corporation tax payments to a more nearly current payments basis actually operate to produce, during the period of speed-up, a sizable excess of cash payments over what otherwise would have been collected. Reporting corporation income taxes on an accrual basis during such periods will put the true yield of the corporation income tax in better perspective.

The Commission recommends that the Treasury undertake a study of possible ways to improve the basis for estimating corporation income tax accruals, with the expectation that the new system will produce data for internal review and testing beginning July 1, 1968. The Commission also recognizes that some further study by the Treasury Department is essential to work out the details of monthly reporting.

Individual income taxes and other receipts

In general, the Commission recommends reporting all receipts on an accrual basis as soon as possible. For instance, it should not be difficult to ascertain the amount of business liability for excise taxes (although there is only very slight economic significance to the minor lags between liabilities and collections for such taxes). As another example, reporting miscellaneous receipts on an accrual basis should pose no problem, since the required information should flow normally from each agency's accrual accounting system once it is in operation.

Individual income (and employment) taxes, on the other hand, cannot easily be placed fully on an accrual basis. There is, of course, no question of