

DESCRIPTION OF ADMINISTRATION
PROPOSALS REGARDING MANAGEMENT
OF TAX RECEIPTS

SCHEDULED FOR A HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS

ON FEBRUARY 26, 1980

PREPARED FOR THE USE OF THE

COMMITTEE ON WAYS AND MEANS

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION



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(III)

JOINT COMMITTEE ON

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INTRODUCTION

This pamphlet provides a description of the Administration proposals regarding the management of tax receipts that are contained in the President's proposed fiscal 1981 budget. The Committee on Ways and Means has scheduled a hearing on these proposals on February 26, 1980.

The first part of the pamphlet is a summary of the Administration proposals. This is followed by a more detailed description of the proposals, including an indication of present law (or regulations), an explanation of the proposals, the proposed effective dates, and the Administration's estimates of the budget effect of each proposal.

Other bills

H.R. 5303, introduced by Mr. Conable, would provide that employers may not be required to make deposits of certain withheld income and social security taxes more rapidly than is required currently.

The Senate added an amendment to H.R. 3236 (the Social Security Disability Amendments bill that is awaiting conference) that would override the pending regulation regarding deposits of social security taxes by the States. The Senate amendment provides that the States would have to make their deposits of social security contributions within 30 days after the end of each month.

MEMORANDUM

The following information was obtained from the records of the Department of the Interior, Bureau of Land Management, on the subject of the land owned by the United States in the State of California, and is being furnished to you for your information.

The total area of land owned by the United States in the State of California is approximately 100,000,000 acres. This land is divided into several classes, as follows:

1. Public Domain Land - 60,000,000 acres

2. Land Reserved for the Indians - 10,000,000 acres

3. Land Reserved for the Reclamation - 10,000,000 acres

4. Land Reserved for the National Forests - 10,000,000 acres

5. Land Reserved for the National Parks - 10,000,000 acres

6. Land Reserved for the National Monuments - 10,000,000 acres

7. Land Reserved for the National Seashores - 10,000,000 acres

8. Land Reserved for the National Historic Sites - 10,000,000 acres

9. Land Reserved for the National War Relocation Authority - 10,000,000 acres

10. Land Reserved for the National Housing Administration - 10,000,000 acres

11. Land Reserved for the National Youth Administration - 10,000,000 acres

12. Land Reserved for the National Labor Relations Board - 10,000,000 acres

13. Land Reserved for the National Labor Relations Board - 10,000,000 acres

14. Land Reserved for the National Labor Relations Board - 10,000,000 acres

15. Land Reserved for the National Labor Relations Board - 10,000,000 acres

16. Land Reserved for the National Labor Relations Board - 10,000,000 acres

17. Land Reserved for the National Labor Relations Board - 10,000,000 acres

18. Land Reserved for the National Labor Relations Board - 10,000,000 acres

19. Land Reserved for the National Labor Relations Board - 10,000,000 acres

20. Land Reserved for the National Labor Relations Board - 10,000,000 acres

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I. SUMMARY

A. Legislative Proposals

1. Estimated individual income tax payments

Present law

Under present law, individuals generally are required to make quarterly estimated tax payments, if their tax liability is expected to exceed withheld taxes by \$100 or more. However, no underpayment penalty is imposed, if estimated tax payments and withheld taxes are at least 80 percent of the tax liability shown on the individual's tax return.

In addition, there are four exceptions to the underpayment penalty. No penalty is imposed upon a taxpayer if: (1) total tax payments (withholding plus estimated tax payments) exceed the preceding year's tax liabilities; (2) total tax payments exceed the tax on prior year's income under the current year's tax rates and exemptions; (3) total tax payments exceed 80 percent (66 $\frac{2}{3}$ percent for farmers or fishermen) of the taxes which would be due if the income already received during the current year were placed on an annual basis; or (4) total tax payments exceed 90 percent of the tax which would be due on the income actually received from the beginning of the year to the computation date.

Administration proposal

Under the Administration proposal, the amount by which tax liabilities must exceed withheld taxes before estimated tax payments are required would be increased from \$100 to \$300, and the minimum percentage of annual tax liability which must be accounted for by withheld and estimated taxes would be increased from 80 percent to 85 percent. These changes would be phased in during calendar years 1981 and 1982.

2. Estimated corporate income tax payments

Present law

Under present law, corporations generally are required to make quarterly estimated tax payments, if their tax liabilities can reasonably be expected to be \$40 or more. However, there is no penalty for underpayment of corporate taxes as long as estimated tax payments are made proportionately each quarter, and the sum of the payments are at least 80 percent of the tax liability that is shown on the tax return when it is filed after the close of the taxable year.

In addition, there are three other circumstances under which no penalty for underpayment is imposed. No penalty is imposed with respect to any payment of less than 80 percent of the liability, if payments were made on or before the due date of the installment and the total payments up to the particular due date in question equal

or exceed the amount which would have been due had the estimated tax been based on any of the following: the prior year's tax liability; the tax liability on prior year's income using the current year's tax rates; or 80 percent of the taxes which would have been due if the income which the corporation had already received during the current year had been placed on an annualized basis.

The due date for a corporation's income tax return is 2½ months after the close of the taxable year. One-half of any tax liability which has not been satisfied by estimated tax payments is due on the date the corporation's income tax return is due. The remaining tax liability is due three months later.

Administration proposal

Under the Administration proposal, estimated tax payments would not be required from a corporation which can reasonably expect its income tax liability to be less than \$500. The proportion of taxes which a corporation must pay currently through installment payments of estimated tax in order to avoid penalty would be increased from 80 percent of tax liability as shown on the return to 85 percent of such liability. Moreover, in order for large corporations to avoid penalties through use of either the prior year's tax liability exception or prior year's income exception, estimated tax payments would have to be at least 60 percent of the current year's liability (if that amount exceeds the prior year liability).

In addition, the first two installment payment dates would be delayed by one-half month and the last two accelerated by one-half month.

These changes would be phased in during calendar years 1981 and 1982.

B. Proposed Administrative Changes

1. Deposits of withheld income and social security (FICA) taxes

Present law

Under present regulations, the rules for the deposit of withheld income and social security taxes require large employers, those with \$2,000 or more of undeposited taxes at the end of a week, to deposit these taxes within 3 banking days. Those with between \$200 and \$2,000 of taxes by the end of the first or second month of a calendar quarter must deposit them by the 15th of the following month. If the taxes are between \$200 and \$2,000 by the end of the 3rd month of the quarter, the deposit is due the last day of the following month. If the taxes are less than \$200 at the end of the quarter, a deposit is required by the last day of the following month, or payment may be made with the return. (See Part II.B.1., below, for a more detailed tabular presentation of both present and proposed regulations.)

Administration proposal

Under proposed regulations, employer deposits of withheld income and social security taxes would be accelerated to twice a week for large employers whose aggregate taxes with respect to wages paid during any one or more of the preceding four calendar quarters were \$13,000 or more. Employers with quarterly withheld taxes of \$1,000

to \$13,000 would make monthly deposits, and quarterly deposits would be required for small employers with less than \$1,000 of quarterly withheld taxes. These changes would be phased in during calendar years 1981 and 1982.

2. Deposits of social security contributions by the States

Present law

Under present regulations, States must deposit social security taxes no later than 45 days after the end of the calendar quarter in which the associated wages were paid. States deposit social security taxes on behalf of their local jurisdictions.

Administration proposal

Under final regulations issued by the Department of Health and Human Services, State and local government deposits of social security taxes would be accelerated, beginning July 1980, to require deposits 15 days after the end of each of the first two months of a quarter and 45 days after the end of the last month.

3. Payment of tobacco excise taxes

Present law

Under present regulations, payment of excise taxes imposed on the manufacture or import of tobacco is made by semi-monthly return. Manufacturers have 15 days after the close of each semi-monthly period to pay these taxes.

Administration proposal

Under the Administration proposal, large manufacturers would be required to report tobacco excise taxes on a weekly basis. In addition, the time between the close of the reporting period and the payment of such taxes would be decreased from 15 days to 3 days. The Administration anticipates implementation of the accelerated payment of tobacco excise taxes on January 1, 1981.

4. Payment of customs duties

Present law

Under present regulations, customs duties must be paid by importers and brokers ten days after collection.

Administration proposal

The Administration is reviewing several options to accelerate receipt of customs duties. The Administration anticipates modifications in customs duty payment procedures to be implemented on January 1, 1981.

C. Estimated Budget Impact of Administration Cash Management Proposals

(In millions of dollars)

	Fiscal years				
	1981	1982	1983	1984	1985
Combined effects of all proposals:					
Increase in receipts.....	4,817	5,703	2,284	1,537	1,723
Decrease in interest cost.....	300	891	1,218	1,211	1,164
Total.....	5,117	6,594	3,502	2,748	2,887
Estimated individual income taxes:					
Increase in receipts.....	91	324	102	129	134
Decrease in interest cost.....	7	29	34	36	36
Total.....	98	353	136	165	170
Estimated corporate income taxes:					
Increase in receipts.....	1,432	3,363	1,416	649	635
Decrease in interest cost.....	-5	324	551	533	498
Total.....	1,427	3,687	1,967	1,182	1,133
Withheld income and FICA taxes:					
Increase in receipts.....	2,580	1,844	644	643	835
Decrease in interest cost.....	137	329	415	418	399
Total.....	2,717	2,173	1,059	1,061	1,234
Deposits of Social Security contributions by States:					
Increase in receipts.....	342	150	102	98	103
Decrease in interest cost.....	141	188	199	207	215
Total.....	483	338	301	305	318
Tobacco excise taxes:					
Increase in receipts.....	189	4	4	3	2
Decrease in interest cost.....	8	10	10	9	8
Total.....	197	14	14	12	10
Customs duties:					
Increase in receipts.....	183	18	16	15	14
Decrease in interest cost.....	12	11	9	8	8
Total.....	195	29	25	23	22

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

II. DESCRIPTION OF ADMINISTRATION PROPOSALS

A. Legislative Proposals

1. Estimated individual income tax payments (secs. 6015, 6153, and 6654 of the Code)

Present law

Declaration and payment of estimated tax is required by single persons, or married couples with one earner entitled to file a joint return, whose gross income is expected to exceed \$20,000 for the taxable year; by a married individual entitled to file a joint return, whose gross income is expected to exceed \$10,000 for the year if both spouses receive wages; and by a married individual, not entitled to file a joint return, whose gross income is expected to exceed \$5,000. In addition, an individual taxpayer who expects to receive more than \$500 from sources other than wages during the year is required to file a declaration of estimated tax. No declaration is required, however, if an individual's tax liability for the year, including self-employment tax liability, can reasonably be expected to be no more than \$100 over the amounts withheld during the year.

For calendar year taxpayers, estimated tax payments are due on April 15, June 15, and September 15 of the current tax year and on January 15 of the following tax year. Fiscal year taxpayers are subject to similar rules as to time of payment, except that the declaration and first payment for the current fiscal year are due on or before the 15th day of the fourth month of the fiscal year. Subsequent payments are due on the 15th day of the sixth and ninth months, and the 15th day of the first month of the next fiscal year. Farmers or fishermen who expect to receive at least two-thirds of their gross income for the calendar year from farming or fishing may elect to wait until January 15 of the following calendar year to file their declaration.

Individuals who fail to pay in full an installment of estimated tax on or before the due date may be subject to a penalty which cannot be waived for reasonable cause (Code sec. 6654). The penalty, which is applied to the period of the underpayment of any installment at a rate of 12 percent¹ applies to the difference between the payments (including any withholding), if any, made on or before the due date of each installment and 80 percent (66 $\frac{2}{3}$ percent for farmers or fishermen) of the total tax shown on the return for the year, divided by the number of installments that should have been made. Thus, there is no penalty if the sum of a taxpayer's estimated tax payments, plus taxes withheld, is at least 80 percent (66 $\frac{2}{3}$ percent for farmers or fishermen) of the tax liabilities as shown on the tax return. In addition, present law contains four exceptions to the general underpayment penalty.

¹ Prior to February 1, 1980, the rate was 6 percent.

No penalty is imposed upon a taxpayer if: (1) total tax payments (withholding plus estimated tax payments) exceed the preceding year's tax liability; (2) total tax payments exceed the tax on prior year's income under the current year's tax rates and exemptions; (3) total tax payments exceed 80 percent (66 $\frac{2}{3}$ percent for farmers or fishermen) of the taxes which would be due if the income already received during the current year were placed on an annual basis; or (4) total tax payments exceed 90 percent of the tax which would be due on the income actually received from the beginning of the year to the computation date.

Under present law, a taxpayer who estimates that the tax liability not satisfied by withholding will be less than \$100 is not required to file a declaration of estimated tax or to make estimated tax payments. However, at the end of the year, it is possible for such a taxpayer to find that the less than \$100 difference between the tax liability and the amount paid through withholding has made the taxpayer subject to a penalty for underpayment of estimated tax. Although, under present procedures, the Internal Revenue Service does not assert or collect such penalties, these shortfalls are potentially subject to penalty.

Background

The basic structure of the estimated tax system generally has remained unchanged for over 25 years. However, a significant change was made in 1966 when the proportion of taxes which had to be paid currently, either through withholding or estimated tax payments, was raised from 70 percent to the 80 of tax liability shown on the return. At the same time, self-employment taxes were included in the amount of taxes which had to be paid currently either through withholding or estimated tax payments. In addition, in 1972, the tax liability threshold for filing a declaration and paying estimated tax was raised from \$40 to \$100, and the income levels at which a declaration is required were increased.

Administration proposal

The Administration has proposed three changes with regard to the payment of estimated taxes by individuals.

First, the proportion of income taxes that an individual must pay currently, through withholding on wages and salaries or by estimated tax payments, would be increased from 80 percent of tax liability as shown on the return to 85 percent of such liability. In the case of farmers or fishermen, the tax liability threshold would be increased from 66 $\frac{2}{3}$ percent to 75 percent.

Second, the present law requirement that a declaration of estimated tax be filed, and that estimated tax payments be made, whenever liabilities not covered by withholding exceed \$100 would be liberalized to require declaration and payment only if such liabilities exceed \$300.

Third, the computation of the amount subject to a penalty for underpayment of estimated tax would be modified so that whether or not the taxpayer met the proposed 85 percent rule, or any of the four exceptions to that rule, the taxpayer would not be required to pay a penalty if the estimated tax could reasonably have been expected to be less than \$300, so that estimated tax payments were not required.

Effective date

The Administration proposals would be phased in during calendar years 1981 and 1982. In 1981, the required level of estimated tax payments would be increased to 82.5 percent of liabilities (70 percent for farmers or fisherman). In 1982, the required level of estimated tax payments would be increased to 85 percent of liabilities (75 percent for farmers or fishermen).

The \$300 estimated tax filing requirement, and elimination of the penalty for underpayment of estimated tax for any taxpayers not required to file a declaration of estimated tax, would become effective in 1981.

Revenue effect

The following is the Administration's estimate of the budget effect of the proposal:

(In millions of dollars)

	Fiscal years				
	1981	1982	1983	1984	1985
Increase the minimum level for estimated tax declarations from 80% to 82.5% in 1981 and to 85% thereafter:¹					
Change in receipts.....	177	346	129	160	172
Change in interest cost.....	13	37	43	45	46
Total.....	190	383	172	205	218
Increase the minimum requirement for estimated tax declarations to \$300:					
Change in receipts.....	-86	-22	-27	-31	-38
Change in interest cost.....	-6	-8	-9	-9	-10
Total.....	-92	-30	-36	-40	-48
Combined effects:					
Change in receipts.....	91	324	102	129	134
Change in interest cost.....	7	29	34	36	36
Total.....	98	353	136	165	170

¹ For farmers and fishermen: 70% in 1981 and 75% thereafter.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

2. Estimated corporate income tax payments (secs. 6154 and 6655 of the Code)

Present law

Under present law, a corporation must make estimated tax payments, if the estimated tax for the taxable year can reasonably be expected to be \$40 or more (Code sec. 6154). In general, a corporation's estimated tax is the estimated income tax less any estimated credits against the tax. Any corporation required to make estimated tax payments must make such payments in installments. The number of installments, and the amount of each installment, is determined in accordance with the following table:

<i>If the \$40 threshold is first met—</i>	<i>The following percentages of the estimated tax shall be paid on the 15th day of the—</i>			
	<i>4th mo.</i>	<i>6th mo.</i>	<i>9th mo.</i>	<i>12th mo.</i>
Before the 1st day of the 4th month of the taxable year.....	25	25	25	25
After the last day of the 3rd month and before the 1st day of the 6th month of the taxable year.....		33½	33½	33½
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year.....			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year.....				100

A corporation that fails to pay the proper estimated tax when due may be subject to an underpayment penalty (Code sec. 6655). The penalty is figured for the period of underpayment, determined under section 6655 of the Code, at a rate determined under section 6621. (The penalty rate currently is 12 percent.) The amount of underpayment is, for purposes of this penalty, the excess of the amount of the installment which would be required to be paid if the estimated tax were equal to 80 percent of the tax shown on the return for the taxable year (or, if no return was filed, 80 percent of the tax for such year) over the amount, if any, of the installment paid on or before the last date prescribed for payment.

No penalty is charged with respect to underpayment of a corporation's estimated tax liability if the corporation made payments on or before the due date of the installment and the total payments up to the

particular due date in question equal or exceed the amount which would have been due had the estimated tax been based on any of the following amounts: (1) the preceding year's liabilities, if a return showing a tax liability was filed by the corporation for the preceding taxable year and such preceding year was a taxable year of 12 months; (2) tax liabilities computed by using the current year's tax rates for the prior year's return and the law that applies to the prior year; or (3) 80 percent of the taxes which would have been due if the income which the corporation had already received during the current year had been placed on an annualized basis.

The due date for a corporation's income tax return is 2½ months after the close of the taxable year (March 15, for calendar year corporations). Half of any tax liability which has not been satisfied by estimated tax payments is due on the date the corporation's income tax return is due, whether or not the return is actually filed on that date, and the remaining half of any unpaid liability is due three months later.

Background

Over the last 25 years, the payment schedules for corporate income taxes have been accelerated several times. Originally, corporations were not subject to estimated tax payments, and corporate income taxes were paid in four installments over the one year period following the close of the corporation's taxable year: 45 percent of the liability was paid with each of the first two installments and 55 percent of the liability was paid with each of the last two installments.

The thrust of the changes over the last 25 years has been to move from a system in which corporations were not required to make estimated tax payments to a system in which corporate tax payments generally are 80-percent current (with the remainder due in equal installments 2½ months and 5½ months after the close of the taxable year).

Administration proposal

The Administration has proposed six changes with regard to the payment of estimated taxes by corporations:

First, the proportion of taxes which a corporation is required to pay currently through installment payments of estimated tax would be increased from 80 percent of liability as shown on the corporation's tax return to 85 percent of such liability.

Second, the first two estimated tax payment dates would be delayed by one-half month (for calendar year corporations to May 1 and July 1) and the last two estimated tax payment dates would be advanced by one-half month (for calendar year taxpayers, to September 1 and December 1).

Third, any corporate tax liability not paid through estimated tax payments would be payable, in full, 2½ months after the close of the taxable year (the normal due date for the corporation's income tax return).

Fourth, estimated tax payments would no longer be required from any corporation for which income tax liability can reasonably be expected to be less than \$500.

Fifth, any corporation which had taxable income of \$1 million or more in at least one of the three preceding taxable years would be re-

quired to satisfy an additional rule in order to avoid an underpayment penalty if it uses either the prior year's tax or prior year's income exceptions to the proposed 85 percent of tax liability rule. Notwithstanding the prior year's exceptions, estimated tax payments for a corporation in this category would be required to be at least equal to 60 percent of the current year's tax liabilities.

Finally, the Administration would make conforming changes to the third exception to the general estimated tax rule which bases estimated tax on the annualized year-to-date income. In conformity with the general 85 percent of tax liability rule proposed by the Administration, the minimum amount of taxes payable under this exception would be based upon 85 percent of annualized year-to-date income. Moreover, under the current payment schedule, annualization of income for the fourth installment payment is based on income actually received for 9 or 11 months (at the corporation's option). Because of the advancement of the fourth payment date to the first day of the 12th month, the 11-month option would be changed to 10 months.

Effective date

The Administration proposals regarding estimated tax payments by corporations would be phased in during calendar years 1981 and 1982.

The proposals with respect to installment payment dates would be effective for taxable years beginning after December 31, 1980, and before January 1, 1982.

Effective for calendar year 1981, the proportion of income taxes required to be paid through estimated tax would be increased from 80 percent to 82.5 percent. Beginning in calendar year 1982, 85 percent of taxes would be required to be paid on an estimated basis. The increase in the tax liability threshold to \$500 would be effective for taxable years beginning in 1981.

For taxable years beginning in 1981, 75 percent of any tax liability remaining on the due date of the return would be payable with the return, and the remainder would be due two months later. For taxable years beginning in 1982 or later, the entire amount of any unpaid tax liability would be payable on the due date of the return.

Effective for taxable years beginning in 1981 or later, any corporation which had taxable income of \$1 million or more in any of the three preceding taxable years would be limited in the extent to which it could use either of the underpayment penalty exceptions based on prior year's income or prior year's tax. For taxable years beginning in 1981, such a corporation would be required to pay at least 40 percent of its current year tax liability currently. For taxable years beginning in 1982 or later, such a corporation would be required to pay at least 60 percent of tax liability currently.

Revenue effect

The following is the Administration's estimate of the budget impact of the proposed changes in the payment schedules for corporate income taxes.

(In millions of dollars)

	Fiscal years				
	1981	1982	1983	1984	1985
Increase proportion of taxes to be covered by estimated tax payments from 80% to 82.5% in 1981 and 85% thereafter:					
Increase in receipts.....	450	590	135	116	119
Interest saving.....	11	51	83	79	74
Total.....	461	641	218	195	193
Require large corporations to be at least 40% current in 1981 and 60% current thereafter:					
Increase in receipts.....	1,410	2,128	457	394	402
Interest saving.....	34	164	282	272	251
Total.....	1,444	2,292	739	666	653
Increase the minimum requirement for estimated tax payments to \$500:					
Increase in receipts.....	-35	-5	-5	-5	-5
Interest saving.....	(¹)				
Total.....	-35	-5	-5	-5	-5
Advance the 3rd and 4th estimated tax payment to the first of the month; delay the 1st and 2nd payments to the first of the next month:					
Increase in receipts.....	-393	60	-39	-36	-37
Interest saving.....	-50	-11	-7	-5	(¹)
Total.....	-443	49	-46	-41	-37
Require 75% of the unpaid liability to be paid on the tax return due date in 1981 and 100% thereafter:					
Increase in receipts.....		590	868	180	156
Interest saving.....		120	193	187	173
Total.....		710	1,061	367	329
All proposals combined:					
Increase in receipts.....	1,432	3,363	1,416	649	635
Interest saving.....	-5	324	551	533	498
Total.....	1,427	3,687	1,967	1,182	1,133

¹ Less than -\$0.5 million.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

B. Proposed Administrative Changes :

1. Payments of withheld income and social security (FICA) taxes (sec. 6302 of the Code)

Present law

Under present law, the Secretary has regulatory authority to establish the time for the collection of taxes. Pursuant to present regulations, the times at which withheld income taxes, withheld FICA taxes, and the employer's share of FICA taxes must be paid to the Federal government depend upon the amount of such taxes accumulated by the employer (Treas. Reg. sec. 1.6302-2).

Each month, an employer must compute the amount of income tax and social security tax withheld from each employee's wages for that month. The total liability (undeposited taxes) determines whether deposits are necessary and, if so, how often they must be made. The larger the amount of the liability, the sooner it must be paid as shown in the table below.

<i>Amount of undeposited taxes</i>	<i>Deposit due by—</i>
(1) \$2,000 or more undeposited taxes by end of any quarter-monthly period (a period ending on the 7th, 15th, 22d, or last day of any month).	3d banking day after the end of quarter monthly period in which undeposited taxes reach \$2,000. For those with \$2,000 or more undeposited taxes, the deposit need be only 90 percent of the liability.
(2) \$200 or more but less than \$2,000 undeposited taxes by last day of first or second month of calendar quarter.	15th day of following month.
(3) \$200 or more but less than \$2,000 undeposited taxes by last day of third month of calendar quarter.	Last day of following month.
(4) Less than \$200 undeposited taxes by last day of third month of calendar quarter.	Deposit by last day of following month or pay with the quarterly return.

Background

The current deposit regulations generally have applied with respect to deposits for 1973 and subsequent years. Prior to 1967, deposits generally were required to be made on a monthly basis, if at the end of the month undeposited taxes were \$100 or more.

Between February 1967, and January 1973, the general rule was that if undeposited taxes at the end of any month were \$100 or more, deposits were required to be made by the 15th of the following month. However, if during any of the months of the preceding quarter an employer had more than \$2,500 of undeposited taxes, semi-monthly deposits were required to be made within three banking days of the close of each semi-monthly period.

Administration proposal

The Administration proposes to change the regulations regarding the deposit requirements for social security and withheld income taxes to allow some employers to deposit employment taxes less frequently and to accelerate the deposit requirements for other employers,¹ as shown below.

Amount of undeposited taxes

Deposits due by—

- | | |
|--|--|
| (1) If the largest liability for any of the preceding four quarters was at least \$13,000: | Deposits accelerated to twice a week. Specifically, deposits are required within 3 banking days after the following dates each month on which there are accumulated, undeposited liabilities of \$1,000 or more: 3, 7, 11, 15, 19, 22, 25, and end of month. The deposit may be 95 percent of tax liability after 1981. ¹ |
| (2) If the largest liability for any of the preceding four quarters was at least \$1,000 but less than \$13,000: | Employer must deposit 95 (rather than the present 90) percent of accumulated liability within 7 days after the end of any month in which the accumulated, undeposited liability is \$1,000 or more. ² |

If the largest liability for each of the four preceding quarters was less than \$1,000 and—

- | | |
|---|--|
| (3) If liability at the end of any month is \$1,000 or more: | Same rules as in (2). |
| (4) If liability at the end of the current quarter is at least \$500 but less than \$1,000: | Deposit 100 percent of liability on or before due date of the quarterly return. |
| (5) If liability at the end of the current quarter is less than \$500: | No deposit is required. Pay 100 percent of liability with the quarterly return (due 1 month after the end of the quarter). |

¹ For the first two months of the quarter, the additional 5 percent must be paid or deposited with the first deposit that is otherwise due after the 15th of the following month. For the last month of the quarter, the remaining 5 percent must be paid or deposited by the due date of the return. Any end of quarter liability is due on the due date of the quarterly return, with amounts of less than \$500 payable with the return and amounts of \$500 or more payable by deposit.

² The remaining 5 percent must be paid or deposited by the 7th day of the following month or on the due date of the return if the liability applies to the last month in the quarter. Any end-of-quarter liability is payable on the due date of the quarterly return with amounts less than \$500 payable with the return and amounts of \$500 or more payable by deposit.

¹ The proposed regulations have been published in the *Federal Register*, Vol. 45, No. 28, Friday, February 8, 1980.

FEDERAL COMMITTEE ON

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Effective date

The proposed regulations would be phased-in during calendar years 1981 and 1982. All of the proposed changes, except for the increase in the percentage of tax liability required for large employers, would be effective for taxes withheld after January 1, 1981. Effective January 1, 1982, the safe haven for deposits by large employers would be increased from 90 to 95 percent of liability.

Revenue effect

The following is the Administration's estimate of the budget impact of changes in employer deposits of withheld taxes.

(In millions of dollars)

	Fiscal years				
	1981	1982	1983	1984	1985
Increase in receipts.....	2,580	1,844	644	643	835
Decrease in interest cost.....	137	329	415	418	399
Total.....	2,717	2,173	1,059	1,061	1,234

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

2. Deposits of social security taxes by the States (sec. 218 of the Social Security Act)

Present law

Under present law, States may enter into voluntary agreements with the Federal Government in order to provide social security coverage for State and local employees. A State which enters into such an agreement bears the responsibility for collection of the social security taxes withheld from employees by the various local jurisdictions and their matching taxes. Payments of social security taxes are made first by the various local jurisdictions to the State which, in turn, is responsible for verifying the payments and depositing them with the Federal Government, with the taxes which have been paid with respect to the State's own employees. Present regulations require the States to deposit social security taxes, both the amount withheld from the employees and the employers' matching taxes, one month and 15 days after the end of the calendar quarter in which the wages were paid. Thus, social security taxes collected during January, February, and March must be deposited by May 15.

Background

Prior to 1950, employees of State and local government entities were neither required nor permitted to participate in the social security system. In 1950, the Social Security Act was amended to extend social security coverage, on an elective basis, to State and local government employees not covered by a retirement system. Subsequently, elective coverage was extended to all State and local government employees.

The present regulations governing deposits of social security taxes by the States have been in effect since 1959. These regulations, established by the Department of Health and Human Services, are required by statute to be "the same so far as practical, as those imposed on [private] employers."¹ In fact, however, the prior deposit requirements were more liberal than for even the smallest private employer.

In March 1978, the Department of Health and Human Services issued a notice of proposed rulemaking which would have required monthly deposits by the States, 15 days after the close of each calendar month. On November 20, 1978, the Department of Health and Human Services published final regulations which will require more frequent deposits by the States, beginning July 1, 1980.

Other Congressional action

The Senate added an amendment to H.R. 3236 (the Social Security Disability Amendments bill that is awaiting Conference) that would override the pending regulation. It provides that the States would have to make their deposits of social security contributions within 30 days after the end of each month.

¹ 42 USC 418i.

Administration proposal

Final regulations issued by the Department of Health and Human Services will require that, for each of the first two months of a calendar quarter, the States must deposit social security contributions within 15 days after the end of the month. The deposit for the final month of the calendar quarter will be due (as under present regulations) one month and 15 days after the close of the quarter (the same time that the quarterly employment tax return is filed).

Effective date

The new regulations are scheduled to become effective on July 1, 1980. Thus, the first deposits which will be required under the new regulations must be made by August 15, 1980, for social security contributions attributable to July 1980 payrolls.

Revenue effect

The following is the Administration's estimate of the budget impact of the change in the deposit requirements for State social security contributions..

(In millions of dollars)

	Fiscal years				
	1981	1982	1983	1984	1985
Increase in receipts	342	150	102	98	103
Additional interest earned by trust funds..	141	188	199	207	215
Total	483	338	301	305	318

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

3. Payment of tobacco excise taxes (secs. 5701-5763 of the Code)

Present law

Under present law, Federal excise taxes are imposed on the manufacture or import of tobacco. Payment of these taxes is made by semi-monthly return. The semi-monthly periods run from the 9th to the 23rd of one month and from the 24th of one month to the 8th of the following month. Manufacturers have fifteen days after the close of each filing period to pay the taxes. These taxes may be paid by check.

Background

Prior to 1959, tobacco manufacturers were required to prepay their excise taxes by purchasing tax stamps. The current system for paying tobacco excise taxes was established in 1959 when tobacco manufacturers were allowed to begin paying tax under the delayed payment system applicable for other types of manufacturers excise taxes (for example, excise taxes on automobiles and gasoline).

In 1965, the time between the close of the reporting period and the payment of taxes was extended from three days to ten days. In 1966, this time period was extended from ten days to fifteen days.

Administration proposal

The Administration has proposed three basic changes to the payment schedule for tobacco excise taxes. These changes may be made by amending present Treasury regulations and do not require any legislative action.

First, large manufacturers would be required to file excise tax returns on a weekly basis. A large manufacturer would be a plant or firm which has an annual excise tax liability in excess of \$5 million.

Second, the time between the close of the reporting period and the payment of taxes would be decreased from fifteen days to three days. That is, excise tax payments would be required to be made within three days following the close of the reporting period.

Third, payments of tobacco excise taxes would be required to be made by wire transfer rather than by check.

Effective date

The proposed regulations accelerating the payment of tobacco excise taxes would become effective on January 1, 1981.

Revenue effect

The following is the Administration's estimate of the budget impact of accelerated tobacco excise tax receipts.

(In millions of dollars)

	Fiscal years				
	1981	1982	1983	1984	1985
Increase in receipts.....	189	4	4	3	2
Decrease in interest cost.....	8	10	10	9	8
Total.....	197	14	14	12	12

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

4. Payment of customs duties

Present law

Unless merchandise is entered for warehouse or transportation, or under bond, an importer or broker must deposit with the appropriate customs officer at the time of making entry, or at such later time as the Secretary may prescribe by regulation (but not to exceed 30 days after the date of entry), the amount of duties estimated by such customs officer to be payable (19 U.S.C. 1505(a)). Present regulations generally require that estimated customs duties must be deposited by brokers or importers within 10 days after release of the merchandise.¹

Background

Public Law 95-410 (92 Stat. 888), the *Customs Procedural Reform and Simplification Act of 1978*, made significant changes in the Customs laws relating to the entry of imported merchandise, the liquidation of entries, warehousing periods, and the marking of bulk containers of alcoholic beverages.

Prior to enactment of P.L. 95-410, most merchandise was released under the immediate delivery procedure before entry was made. However, the immediate delivery procedure was an exception to the general requirement that entry shall be made and estimated duties deposited before release of merchandise. P.L. 95-410 eliminated the general requirement and provided that the filing of documents necessary to obtain the release of merchandise is the entry. The entry of merchandise is a two-part process consisting of (1) filing the documents necessary to determine whether merchandise may be released from Customs custody and (2) filing the documents which contain information for duty assessment and statistical purposes.

Administration proposal

The Administration is reviewing several options to reduce the delay in the receipt of customs duties by the Federal Government. One option is to accelerate the payment of duties by reducing the current ten-day payment deferral period. Other options being considered by the Administration include either the imposition of an entry fee upon importation or the assessment of interest if duties are not paid within a prescribed period of time.

Most of the options being considered by the Administration could be accomplished through regulatory change, without any new legislative authority. However, imposition of an import entry fee probably would require new legislation.

Effective date

It is anticipated that modifications in the customs duty payment procedures would become effective on January 1, 1981.

¹ T.D. 79-221. 44 Federal Register No. 155, August 9, 1979.

Revenue effect

The following is the Administration's estimate of the budget impact of accelerated customs payments.

(In millions of dollars)

	Fiscal years				
	1981	1982	1983	1984	1985
Increase in receipts.....	183	18	16	15	14
Decrease in interest cost.....	12	11	9	8	8
Total.....	195	29	25	23	22

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.



