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APPENDIX E

*Provisions for Current Payments of Taxes,
1943 to Present, and Method of Estimating
Interest Cost of Temporary Overpayment*

TABLE E-1
Withholding Rates and Exemptions, 1943-65

Year	Amount of Weekly Exemp- tion Per Person (dollars)	Rate on Wages and Salaries in Excess on Allowable Exemptions (per cent)	Source
January-June 1943 ^a	12	5	<i>Statistics of Income, Part 1, 1943, p. 29</i>
July-Dec. 1943	12		
1944	12	20	Current Tax Payment Act 1943
1945	11	20	Same Individual Income Tax Act of 1944
1946-Apr. 30, 1948	12	Continuously graduated rates from 18% for those with no exemptions and 20.7% for all others to 22.5% on income in excess of \$200 per week	
May 1, 1948-Apr. 30, 1950	13	17% on that below \$44 per week; 19% on all wages and salaries above	Revenue Act of 1945
May 1, 1950-Oct. 31, 1951	13	15	Revenue Act of 1948
Nov. 1, 1951-July 1953	13	18	Revenue Act of 1950
July 1953-1963	13	20% instead of 18% at the option of employer	Revenue Act of 1951
Mar. 1964-Apr. 1966	13	18	Revenue Act of 1953
May 1966-	13.50	14	Revenue Act of 1964
		Fix rates graduated from 14% to 30%	Tax Adjustment Act of 1966

^a On victory tax.

TABLE E-2
Provisions for Payment of Estimated Tax, 1943-65

Year	Requirements for Filing	Definition of Underpayment	Penalty
1943	<p>For persons not subject to withholding</p> <p>a. If required to file a return the previous year.</p> <p>b. For single persons if expected gross income exceeds \$500.</p> <p>For persons subject to withholding</p> <p>a. If income from other sources exceeds \$100.</p> <p>b. For single persons if wages exceed \$2,700, for married persons if wages exceed \$3,500.</p>	<p>80% (two-thirds for farmers) if total tax without regard to credits exceeds payments on estimated tax raised by credits.</p>	<p>6% of underpayment as defined. On failure to file 10% of the tax. On failure to pay an instalment, 2.5% of the tax.</p>
1944	<p>For persons subject to withholding, if gross income from wages can reasonably be expected to exceed the sum of \$5,000 and \$500 for each exemption (other than self). For persons not subject to withholding, if gross income from sources other than wages can reasonably be expected to exceed \$100 and total gross income to exceed \$500.</p>	<p>Same</p>	<p>Penalties remained the same. Provisions made for delayed filing and amendment procedures were defined. For farmers the date to file the declaration was extended to January 15 of the succeeding year.</p>

1948	Persons subject to withholding if wages exceed the sum of \$4,500 and \$600 for each exemption or if gross income from other sources exceeds \$100. For persons not subject to withholding if gross income exceeds \$600.	Same	Same
1954	<p>For persons subject to withholding, if</p> <p>a. Gross income from other sources exceeds \$100.</p> <p>b. Single (other than head of household and surviving spouse) and gross income exceeds \$5,000.</p> <p>c. Filing joint returns, heads of households and surviving spouse, and gross income exceeds \$10,000. Persons whose gross income includes more than \$100 from sources other than wages and exceeds \$400 and \$600 for each exemption.</p>	70% (two-thirds for farmers) of the total tax exceeds the amount of estimated taxes paid.	6% of the underpayment from the time of underpayment. Provisions remained the same.
1960	<p>All persons whose total expected tax exceeds their withholding, if any, by \$40 or more and</p> <p>a. Gross income from sources other than wages subject to withholding exceeds \$200; or</p> <p>b. Gross income exceeds \$10,000 if filing joint returns, head of household, or surviving spouse; \$5,000 if single or if married and not filing joint returns.</p>	Same	Same

TABLE E-3

*Computation of Interest Forgone on Tax Overpayment, by
Wage Earners and All Others, 1961*
(millions of dollars)

Month	Refunds of Internal Revenue Receipts, 1961 (all sources)		Estimated Distribution of Individual Income Tax Refunds					
	Amount (1)	Percentage of Total (2)	Wage Earners			All Others		
			Cash (3)	Credits (4)	Total (5)	Cash (6)	Credits (7)	Total (8)
January	62	1.1	55		55	1		1
February	528	9.2	469		469	12		12
March	1,790	31.2	1,588		1,588	40		40
April	1,292	22.5	1,147	349	1,496	29	418	447
May and later	2,062	36.0	1,829		1,829	46		46
Totals	5,734	100.0	5,088		5,437	128		546
Interest forgone						254		22

Month	Receipts from Individuals of Internal Revenue, Excluding Withholding and Declaration Payments, 1962		Estimated Distribution of Receipts of Tax Due	
	Amount (9)	Percentage of Total (10)	From Wage Earners (11)	From All Others (12)
January	90	1.9	53	58
February	786	17.1	462	507
March	832	18.1	489	536
April and later	2,893	62.9	1,699	1,864
Totals	4,601	100.0	2,703	2,965
Interest forgone:				
From declaration date			-100	-111
From receipt of income ^a			-144	-169

^a Includes interest imputation on all declaration payments for time interval between receipt of income and payment on estimated declaration.

Amounts of tax overpayment (credits and refunds) and tax due for 1961 were attributed to wage earners and others by utilizing the 1959 distribution of returns with overpayments and tax due, using the following four groupings of returns: only tax withheld, tax withheld and declaration payments, only declaration payments, and neither withholding nor declaration payments. The year 1959 was the most recent to show this detailed breakdown (see *Statistics of Income*, 1959, Table 12). The first two categories were attributed to wage earners; the latter, to all others.

Monthly refunds of internal revenue receipts for January–May (*Annual Report of the Secretary of the Treasury*, 1961 and 1962) were used to estimate the number of months overpayments were at the disposal of the government at no interest cost to it. Refunds later than May were treated computationally the same as May refunds, since the government pays interest on all refunds made more than forty-five days after the last day of filing, i.e., beginning June 1. A 1961 rather than a 1962 distribution of refunds was used because figures for 1962 were not available in suitable form. The monthly distribution of Internal Revenue receipts excluding withholding was used to estimate the length of time that tax due at time of filing had been owed to the government. April and later were grouped because interest must be paid to the government on amounts paid after April 15. Estimated declaration payments, due January 31, April 15, June 15, and September 15 were subtracted from the monthly distribution of Internal Revenue receipts. It was assumed that the January amount equaled one-fourth of the 1961 declaration payments tabulated in *Statistics of Income*. Amounts for the other months were grouped and assumed to equal three-fourths of the estimated 1962 payments; they were subtracted from total receipts later than April 15.

Amounts of refunds attributed to wage earners in 1961 were distributed by the month of refund. Amounts of credit were attributed to April (under the assumption that these were used to offset the first declaration payment). Each month's refunds were then distributed over the number of months held by the government, assuming that earnings were stable over the tax year. For example, refunds made in January were distributed equally among one to twelve months of interest-free holding by the government. Then 6 per cent simple interest prorated on the basis of the number of months held was attributed to the total amounts of refunds and credits. A similar computation was made for nonwage earners. Since in this case amounts were not withheld by the government at the time earned but were paid in quarterly instalments on the fifteenth of April, June, September, and January, refunds were divided equally between the four months, and the number of months held was calculated on the basis of these dates.

To impute interest on tax due at the time of filing, two alternative calculations were made. By the first, interest was estimated from the time of the quarterly instalments, the amount of time owed the government being determined by the month of tax payment. By the second (used in Table 21, above), interest was imputed from the time income was realized, under the assumption that earnings were at a constant monthly rate over the tax year. In addition to calculating interest on tax due at time of filing from the time income was earned, one and a half months' interest was attributed to all declaration payments under this method.

The final estimates derived from Table E-3 may now be summed up as follows (in millions of dollars):

	Wage Earners	All Others
Interest forgone:		
From declaration date	154	–89
From time income received	110	–147