

RECEIPTS

This section of the budget describes the major sources of budget receipts, sets forth the economic assumptions on which the receipts estimates are based, and discusses the legislative proposals which affect Government revenues.

The unified budget concept adopted last year, and continued in the 1970 budget, makes two major changes affecting budget receipts:

First, the total of budget receipts is comprehensive, including trust funds as well as general revenues.

Second, proprietary receipts from the public, which are derived from various market-oriented activities—such as rents, royalties, and sales of Government products or property—are excluded from total budget receipts and treated as offsets to related budget authority and outlays.

Budget receipts by source are shown in table 11 in part 5. Proprietary receipts are identified in table 12 in part 5, as are transactions between Federal agencies (interfund and intragovernmental receipts). These latter transactions are omitted from receipts and deducted from budget authority and outlays to avoid double counting. Thus, they do not affect the budget surplus or deficit.

SUMMARY

Total budget receipts in fiscal year 1970 are estimated at \$198.7 billion, compared with \$186.1 billion in 1969, an increase of \$12.6 billion.

Continued expansion in economic activity and the growth in individual incomes and business profits will provide increasing budget revenues in fiscal year 1970. Total receipts will also rise as a result of legislation proposed in this budget, and reflected in the revenue estimates, to:

- Extend to June 30, 1970, the current 10% income tax surcharge;
- Delay until January 1, 1971, the reduction to 5% in the current

- 7% excise tax rate on automobiles and the 10% rate on telephone services;
- Raise the taxable income base for the old-age, survivors, disability and health insurance programs from \$7,800 to \$9,000 and the combined tax rate on employers and employees from 9.6% to 10.4%, effective January 1, 1970;
 - Adopt additional user charges for special services which benefit specific individuals or groups; and
 - Provide for quarterly rather than annual collection of the Federal unemployment insurance tax.

Composition of Federal revenues.—The Federal tax system relies predominantly on income taxes:

- Income taxes paid by individuals are estimated at \$90.4 billion in fiscal year 1970 and at \$37.9 billion for corporations. Combined receipts from these income taxes will amount to \$128.3 billion in 1970, accounting for nearly two-thirds of total budget receipts.
- Social insurance taxes and contributions will produce an estimated \$45.9 billion, 23% of the total.
- Excise taxes imposed on various commodities and services are expected to provide \$15.7 billion in receipts, 8% of total budget revenues.
- Other taxes and miscellaneous receipts will amount to an estimated \$8.8 billion in fiscal year 1970, 4% of the total.

BUDGET RECEIPTS BY SOURCE

[In millions of dollars]

Source	1968 actual	1969 estimate	1970 estimate
Individual income taxes.....	68,726	84,400	90,400
Corporation income taxes.....	28,665	38,100	37,900
Social insurance taxes and contributions (trust funds).....	34,620	40,508	45,869
Excise taxes ¹	14,079	14,800	15,700
Estate and gift taxes.....	3,051	3,200	3,400
Customs duties.....	2,038	2,300	2,300
Miscellaneous receipts ¹	2,498	2,784	3,117
Total budget receipts.....	153,676	186,092	198,686

¹ Includes both Federal funds and trust funds.

ECONOMIC ASSUMPTIONS FOR RECEIPTS ESTIMATES

The course of the Nation's economy exerts a significant influence on the level of Federal receipts. Rising personal incomes and larger business profits not only are reflected in higher standards of living and higher levels of production but also yield increasing amounts of tax revenues.

Over the past 8 years, the unparalleled growth in the Nation's economy has greatly expanded employment opportunities and opened up new markets for investment. Between 1960 and 1968 the annual total of personal income and corporation profits rose by more than \$300 billion. During this period, annual collections of individual and corporation income taxes rose by more than \$35 billion, despite lower income tax rates and liberalization of numerous tax provisions. Thus, continued economic expansion not only benefits consumers and producers, but also provides the revenues needed for public programs.

In recent years, the record of steady economic progress has been marred by rising prices and interest rates. The tax increases passed by the Congress last June and the limitations imposed on Federal outlays were designed to ameliorate these pressures. Because inflationary pressures continue and because the settlement of the Vietnam war remains uncertain, the budget program for fiscal year 1970 calls for extending the tax measures enacted last June.

The basic economic assumptions underlying the revenue estimates are summarized in the following table:

ECONOMIC ASSUMPTIONS
[Calendar years. In billions of dollars]

Description	1960 actual	1967 actual	1968 pre- liminary	1969 estimate
Gross national product.....	503.7	789.7	860.7	921
Personal income.....	401.0	628.8	685.8	736
Corporation profits before tax.....	49.7	81.6	92.3	96

Changes in Budget receipts.—The estimated changes in revenue resulting from the projected levels of income and from currently legislated or proposed changes in tax rates are shown in the following table:

CHANGES IN BUDGET RECEIPTS

[In billions of dollars]

Description	1969 estimate	1970 estimate	Change, 1969 to 1970
Revenue effect of the Revenue and Expenditure Control Act of 1968 (Public Law 90-364):			
Tax surcharge on income (expiring June 30, 1969):			
Individual.....	7.4	0.8	-6.6
Corporate.....	2.8	1.5	-1.3
Excise tax rates (declining on Jan. 1, 1970).....	2.6	2.1	-0.5
Effect of delay in enactment:			
Income tax surcharge:			
Individual.....	1.0	-----	-1.0
Corporate.....	1.0	-----	-1.0
Acceleration of corporation income tax payments.....	0.7	-----	-0.7
Excise taxes.....	0.2	-----	-0.2
Acceleration of corporation income tax payments.....	0.3	0.3	-----
Total.....	16.0	4.7	-11.3
Increase in receipts under existing social security legislation (effective Jan. 1, 1969).....	1.2	3.0	+1.8
Receipts from tax rate changes under existing legislation.....	17.2	7.7	-9.5
Increase in receipts under proposed legislation:			
Extension of income tax surcharge:			
Individual.....	-----	7.2	+7.2
Corporate.....	0.5	1.8	+1.3
Extension of excise tax rates.....	-----	0.5	+0.5
Increase in social security tax rate and wage base.....	-----	1.7	+1.7
Quarterly collections of Federal unemployment insurance tax.....	-----	0.3	+0.3
User charges ²	-----	0.4	+0.4
Receipts from proposed legislation.....	0.5	11.9	+11.4
Other changes in fiscal year 1970 receipts under present law ¹.....	-----	10.7	+10.7
Total change in receipts under existing and proposed legislation.....	17.7	30.3	+12.6

¹ Primarily from higher individual and corporate taxable income attributable to economic growth.² For details, see table on p. 66.

The Revenue and Expenditure Control Act of 1968, enacted last June, added a 10% tax surcharge until June 30, 1969, to individual income taxes, effective April 1, 1968, and to corporation income taxes, effective January 1, 1968, and deferred a scheduled reduction in automobile and telephone excise taxes until January 1, 1970. The revenue effects of the Act will produce an estimated \$16.0 billion of receipts in fiscal year 1969, including \$2.9 billion of 1968 tax liabilities collected in 1969 due to the delay in enactment and \$0.3 billion from provisions accelerating corporation income tax payments. In fiscal year 1970, \$4.7 billion in receipts will result from the tax provisions

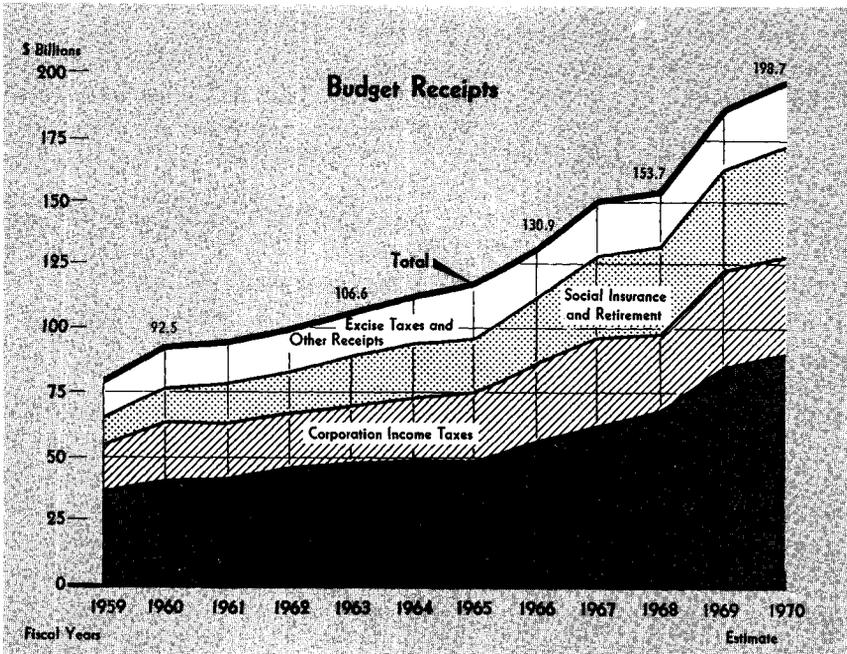
of the Revenue and Expenditure Control Act of 1968 and \$9.5 billion from proposed legislation to extend these provisions for another year.

Proposed increases in social security payroll taxes and in the taxable wage base will add \$1.7 billion to receipts in fiscal year 1970. These increases will finance recommended improvements in social security benefits. In addition, social security receipts in 1970 will rise by \$1.8 billion as a result of a full year's collection from the higher payroll taxes which went into effect on January 1, 1969.

Legislative proposals for additional user charges, almost entirely for transportation services and aids, are estimated to yield \$0.4 billion in 1970. The proposed acceleration of Federal unemployment insurance tax collections will produce an estimated \$0.3 billion in 1970 receipts. The remaining \$10.7 billion increase in budget receipts in 1970 results primarily from expected higher levels of income and production.

RECEIPTS BY SOURCE

Individual income taxes.—Under the Revenue and Expenditure Control Act of 1968, the 10% tax surcharge, scheduled to expire on June 30, 1969, adds 7.5% to calendar year 1968 individual income tax liabilities and 5% to liabilities in calendar year 1969. Taxpayers whose taxable income is wholly within the two lowest tax brackets are exempt from the surcharge entirely. Under the proposed extension, the surcharge would amount to 10% of calendar year 1969 tax liabilities and 5% of calendar year 1970 liabilities.



Individual income tax receipts are estimated at \$90.4 billion in fiscal year 1970, \$6.0 billion higher than in 1969. Receipts from the tax surcharge, scheduled to expire on June 30, 1969, amount to \$8.4 billion in fiscal year 1969, including \$1.0 billion of nonrecurring tax payments collected in 1969, due to the delay in enactment. There would be little change in total income tax receipts in 1970 were it not for the \$7.2 billion from the proposed surcharge extension. Higher tax receipts with the expected growth in personal income would roughly offset the loss of receipts from the surcharge.

Corporation income taxes.—Assuming extension of the tax surcharge, corporation income tax receipts are estimated to be \$37.9 billion in fiscal year 1970, down slightly from \$38.1 billion in 1969.

The 10% surcharge on corporation income taxes enacted in June 1968 was made effective as of January 1, 1968. Certain provisions also were adopted accelerating tax payments by corporations on their estimated tax liabilities, applicable to taxable years beginning January 1, 1968. These amendments provided for: (1) an increase from 70% to 80% in the percentage which a corporation's estimated tax payments must bear to its final tax liability; and (2) the gradual elimination of the present exemption from estimated tax payment of the first \$100,000 of corporate tax liability.

These provisions of the 1968 Act result in a nonrecurring concentration in fiscal year 1969 of \$1.7 billion from accelerated tax payments on corporation income tax liabilities and from the delay in enacting this legislation. Therefore, although corporate profits, and hence corporation tax liabilities, are expected to rise, the gain in receipts in fiscal year 1970 will be more than offset by the absence of the unusually large nonrecurring collections that occur in fiscal year 1969.

Social insurance taxes and contributions.—Receipts from this source are expected to increase by \$5.4 billion to a total of \$45.9 billion in fiscal year 1970. Included in this total are social security and other payroll taxes, unemployment insurance taxes and deposits, and such items as payments by the elderly for supplementary medical insurance and Federal employee retirement contributions. The rise in collections reflects:

- An anticipated increase in the number of people and in the dollar volume of payrolls covered by the social security system and other retirement and insurance programs;
- The full year effect of the combined social security payroll tax rate on employers and employees which was increased from 8.8% to 9.6%, effective January 1, 1969;

- Proposed legislation to increase the taxable wage base from \$7,800 to \$9,000, and the combined employer-employee payroll tax from 9.6% to 10.4% on January 1, 1970; and
- Proposed legislation to put the collection of Federal unemployment tax receipts on a quarterly basis.

Under existing legislation, the current social security and hospital insurance payroll tax is scheduled to rise from a combined employer-employee rate of 9.6% to 10.4% on January 1, 1971. The proposed change in rates would advance by one year the date on which the higher tax rate becomes effective. The proposal raising the taxable wage base from \$7,800 to \$9,000 would increase the total amount of income which would be subject to the tax and thereby achieve a broadening of the taxable income base.

The Federal and State administrative costs of the employment security programs are financed by a Federal tax of 0.4% on the first \$3,000 of taxable wages. This tax, assessed on employers, is received as a lump sum each February, following the calendar year in which the tax liability is incurred. This payment schedule requires that temporary advances be made from the Treasury to the Unemployment Trust Fund during the early months of each fiscal year. Under the legislation being proposed, tax payments will be collected quarterly beginning with the first quarter of calendar year 1970. This change would put Federal unemployment tax collections on a schedule comparable to the corporation income tax and would add \$278 million to 1970 receipts.

Excise taxes.—Excise taxes are levied on a variety of manufactured products, activities, and services. Receipts from these taxes in 1970 are estimated to rise by \$0.9 billion over 1969, to a total of \$15.7 billion. Excise taxes on automobiles and on telephone services are currently scheduled to drop on January 1, 1970, from 7% and 10%, respectively, to 5%. Extending the current rates through calendar year 1970, as is recommended in this budget, would provide \$500 million in excise tax collections in 1970 which would otherwise not be forthcoming if the scheduled rate reductions take place. Proposed transportation user charges, described below, account for \$0.4 billion, or about 45% of the increase in excise taxes in 1970. The

remaining increase in excise taxes is largely attributable to the anticipated growth in sales of taxable products and services.

User charges.—In many areas of Government activity, where special benefits accrue to certain individuals and groups, charges are imposed on users or specific beneficiaries to provide a more equitable sharing of the cost of these Government services. Fees are collected in connection with the processing and awarding of patent and copyright privileges and for providing specific immigration, passport and consular services. Transportation user charges help to finance some of the costs of providing adequate transportation services. For example, the Federal gasoline tax provides financial assistance for the Interstate Highway System, as well as other primary and secondary highways.

Where legislative authority exists, the user charges program is being advanced by administrative action. All present charges are reexamined regularly to assure that they adequately reflect the costs incurred and benefits derived. In addition, legislation is being proposed which will extend this principle to other areas where such authority does not now exist.

The budget proposes additional user charges which will add \$410 million to 1970 budget receipts, mainly in the field of transportation. For highway users, a 2-cent-per-gallon increase is recommended in the present 4-cent-per-gallon diesel fuel tax. A change is also proposed in the present fixed-use tax on heavy vehicles to a graduated tax scale based on weight.

For users of aviation services, charges are proposed effective July 1, 1969, to defray the costs of the planned major expansion of the national airways system and the proposed airport development program. Recommendations include:

- An increase in the passenger ticket tax from 5% to 7%;
- An increase from 2 to 8 cents per gallon in the tax on gasoline used in general aviation, rising to 10 cents on July 1, 1971;
- An 8-cent-per-gallon tax on the now untaxed jet fuel used in general aviation, rising to 10 cents on July 1, 1971; and
- A 3% waybill tax on air freight.

In addition, the budget recommends a charge of 2 cents per gallon, increasing to 10 cents over the next 5 years, on the now untaxed fuel used by vessels on inland waterways.

The following table shows the revenue effect of proposed user charges:

REVENUE EFFECT OF USER CHARGE PROPOSALS¹

[In millions of dollars]

Proposal	1970 estimate
Transportation:	
Aviation services.....	154
Waterways.....	7
Highways.....	241
Other.....	8
Total.....	410

¹ Excludes charges which are offset against expenditures of the programs to which they apply.

Estate and gift taxes, customs, and miscellaneous receipts are estimated to total \$8.8 billion in 1970, \$0.5 billion more than in 1969. Miscellaneous receipts, largely from the earnings of the Federal Reserve System, are expected to rise by \$0.3 billion in 1970, while estate and gift taxes are estimated to rise by \$0.2 billion, mainly because of the rising dollar volume of inheritances and gifts subject to the tax.