

What I have given you is the essence of the dozens of memoranda I wrote or reviewed in 2 years.

QUESTION: I wonder if you could explain the rationale of applying the 1965 withholding rate to your 1964 income which creates a problem for the people at the time that they have to pay their taxes when they find their withholding is \$300 or more short of what they expected?

DR. BRAZER: There are very few people for whom withholding will be short as much as \$300; that is, \$300 more than it would have been in the absence of the tax cut. There are some. Let us keep some facts in mind.

First of all, in a normal year, of 60 million people who file tax returns, 35 million people get tax refunds which amount in the aggregate to \$5 billion. And that is just the way the Internal Revenue Service likes it. The reason the Internal Revenue Service likes it this way is that it is a heck of a lot easier to overwithhold in little bits at a time and then make people happy by sending them a refund check which is very easy to process with high-speed machinery, than to go out trying to dun a lot of little people for \$8, \$20, \$50, et cetera. So that, we had, under the 18 percent rate a great deal of overwithholding.

Most people are not bothered by this. The tax rate reduction for 1964 was  $2/3$  of the total reduction. So, if the act had become effective January 1, 1964, which is when the rate reductions take effect, we should have reduced the withholding from the 18 percent rate down to  $2/3$  of the difference between 18 and 14 percent. We should have reduced the rate to about  $15-2/3$  to keep the bottom rate in line with the withholding rate that has prevailed.

The fact is that the law was not passed until February and the new withholding rates did not go into effect until March. If the new withholding rates had not gone into effect until sometime around the end of April, then the 14 percent rate prevailing from May through December where the 18 percent rate had prevailed from January through April, would just about have done the job. Well, why did we go from 18 to 14 percent instead of 18 to 15 percent and then 14 percent? For two reasons. One, going to 14 provided the biggest, quickest, possible impact on take-home pay and presumably spending, and we needed it.