

*Everett McKinley Dirksen*  
*Illinois*

*United States Senate*  
*Minority Leader*

Withholding

April 9, 1962

Dear :

I do expect to resist the proposal for a withholding tax at the source on dividend and interest income because it offers great administrative difficulties and, secondly, the real burden falls upon the holders of small deposit accounts, many of whom are in the senior citizens bracket.

One difficulty, however, which I had anticipated and which we have encountered is that it has been incorporated in an omnibus tax bill dealing with many matters. The omnibus bill, H.R. 10650, passed the House of Representatives on March 29, 1962, and is now before the Senate Finance Committee where additional and extensive hearings will be held.

Our problem now will be to have it stricken from H.R. 10650 and that might offer us some difficulty. Nevertheless, I have given it a good deal of attention and what I say here is the course I expect to pursue and do so with vigor.

Sincerely,

Everett McKinley Dirksen

Everett McKinley Dirksen  
Illinois

United States Senate  
Minority Leader

Withholding and Mutuals

April 10, 1962

Dear :

I am opposed to the imposition of a withholding tax on dividend and interest income at the source and assure you that this item will have my most careful attention. It has been included in H.R. 10650, the omnibus tax bill which passed the House on March 29, 1962, and is now before the Senate Finance Committee where additional and extensive hearings will be held.

Our problem now will be to have the withholding provision stricken from the bill and that might offer us some difficulty. Nevertheless, we will do the best we can and what I say here is the course I expect to pursue and do so with vigor.

Probably nothing in this enormous tax bill has had more attention than the item relating to savings and loan associations and I feel sure that before work is completed a reasonably satisfactory provision will be worked out.

Be assured your comments are appreciated.

Sincerely,

Everett McKinley Dirksen

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## United States Senate

COMMITTEE ON BANKING AND CURRENCY

May, 1962

Dear Friend:

I appreciate having your letter in which you oppose the proposal to withhold on dividends and interest at the source as is now done for wages and salaries. I have received thousands of letters on this subject and I hope you will understand that I must reply by a form letter. However, I shall try to cover the points which are made in greater detail than I could do if each were to be answered personally.

### Why I Support this Provision

Let me say to you directly that I favor the withholding provisions for interest and dividends at the source. Of the approximately \$18.8 billion in interest and dividends paid out in this country each year, almost \$4 billion is not reported on income tax returns. The tax on this amount would be \$800 million a year, which is owed to the Government but which is not now paid.

Those who actually pay their taxes are required to pay more than their share because of the failure of others who owe taxes to pay their fair share.

Wages and salaries are now withheld at the source and there is no reason why the same system should not be applied to dividends and interest. In fact, we are giving the recipients of dividends and interest a much better break in terms of refunds and exemptions under this bill than is given now to a person who receives income from wages and salaries.

Some people have been led to believe that 20 percent of their savings will be withheld. This is not true. It is 20 percent of the interest on their savings. Thus, if a person has a savings account of \$100 and earns 4 percent interest, the total interest would be \$4.00. Of this amount, 20 percent or 80¢ would be withheld.

Thus, the Treasury would not withhold 20 percent of \$100 or \$20, as many think, but 20 percent of the \$4 interest or only 80¢ on the \$104 in the account.

The withholding is needed; the method proposed is simple; almost every reasonable objection has been met by the provisions of the bill; and I intend to support it.

### Objections Raised

Now let me deal with the objections which are raised against it.

The main arguments made against this proposal are: (1) that it would cause hardship to widows and retired persons who live on dividend and interest income; (2) that refunds would be hard to process; and (3) that it would involve extra cost to the government and to companies.

Quite frankly, I do not think these arguments have very much merit as the new proposals are designed, specifically, to make certain that the hardships which are said to be involved will not happen. Let me give you just a few facts.....

Taxes Already Owed

1) In the first place, this proposal in no way raises taxes, for they are already owed to the government, under present law. The fact that a great many people who write in to oppose the provision believe it is a "new" tax shows that thousands are not now paying the taxes already owed on dividends and interest and proves how much we need this bill. But if a person can reasonably say that he owes no tax, the Treasury bill provides he can file a certificate and be exempt from the provisions. If too much is withheld, he can receive a rebate on his tax once a quarter merely by filling out a simple form. In the 2nd, 3rd, and 4th quarters, the Treasury would send him the form directly. Those on wages and salaries get only a yearly refund. So the recipient of interest and dividends is getting a much better break than do those with income from these other sources.

Old People Exempt

With respect to exemptions, if a person is under 18, he can notify the bank or savings institution, and the amounts will not be withheld at all. If he is over 18-- including all of those over 65--and if he can reasonably say that he will not have any tax liability, he can also file an exemption certificate and withholding will not apply. CONSEQUENTLY, NO WIDOWS, ORPHANS, AGED, OR LOW INCOME GROUPS WOULD SUFFER FROM THIS BILL.

The Treasury has provided information which shows that the dividend income received by individuals who do not file tax returns because of their low income, amounts to only one percent of all the dividends which are paid. But 89 percent of the dividends which are not reported on income tax returns are received by those with incomes of over \$5,000 a year. And 71 percent of the interest which is not reported is received by those with incomes of over \$5,000 a year. Thus, it is not the people on very small incomes who, in the main, do not report their tax, but those people with incomes large enough to owe a tax, a situation which could be remedied by the passage of the withholding provisions.

But under the present system, of the \$10.6 billion paid out in dividends each year, some \$940 million, or 8.8 percent of the total is not reported on income tax returns.

Under the present system, of the \$8.2 billion paid out each year on interest, only \$5.4 billion is reported on income tax returns, even though taxes on these amounts are owed to the government. This gap of \$2.8 billion represents 35 percent of all interest payments made in the country.

Compliance Would Be Simple

2) The second argument which is used is that the compliance would be too difficult. But a very simple means of complying with this proposal has been worked out by the Treasury. If a corporation paid a million dollars in dividends, it would merely withhold 20 percent at the source, transmit \$200,000 to the Treasury, and send a check for 80 percent of the amount due to each individual. The law would not require companies to report these by name.

When banks pay interest on savings accounts they would credit the individual's account with 80 percent of the interest due and transmit 20 percent to the Treasury. The bank or savings institution would not have to transmit the names, addresses, and

amounts for each individual but merely 20 percent of the total amount of interest withheld.

You may ask, how is the individual going to know what to report on his income tax form? Again this is very simple. In the first place he is now required by law to report his income from dividends and interest. Of course, many do not comply. But under the bill there would be no change at all in the requirement that he must report what he receives.

A new space would be provided on the form for him to "gross up" the amounts so that he could get credit for the amount of tax withheld. Let me use a simple example:

If a bank owed a person \$100 in interest, the bank would credit the account of the person with \$80 and send \$20 to the Treasury. At the end of the year, the individual would merely report on the proper space on his income tax form that he had received \$80. On the next line he would be told to take 25 percent or one-quarter of this amount. This would be \$20, or the amount which had been withheld. He would thus know the amount received (\$80) and the amount withheld (\$20). He would enter the total of \$100 under his income. He would enter the \$20 in the space already provided on the income tax form for the amounts withheld from his wages or income. In this way he would get credit for the amount withheld without the paying institution having to send him this information or sending his name, his address, etc. , to the Treasury.

#### Cost Would Be Small -- Revenues Large

3) The third argument is that it would cost more to do this than it would be worth. The Treasury estimates that by withholding at the source it would receive at least \$613 million in additional revenues a year. Remember, these taxes are already owed and are now evaded or avoided. The cost to the Treasury of collecting this amount by withholding would be \$18 million, or only three percent of the \$613 million which the Treasury would receive. It does not seem to me that the argument about cost is supported by the facts.

The Senate Finance Committee has also received testimony from a commercial bank that their cost of withholding would be about 30¢ per \$100 withheld. This is not an excessive amount. Frankly, the money which is now being spent in the campaign to oppose this legislation, in my judgment, would pay the costs of withholding for most savings institutions for three or four years.

Some say that the new automatic data processing system of the Treasury would make withholding unnecessary. However, this will not be in full effect until 1966. In addition, while it would provide to the Treasury the names and addresses of individuals and the amounts of interest and dividends paid, it would not automatically collect all the funds.


The estimate is that this method would collect only about \$200 million of the \$800 million of the taxes on dividends and interest owed but which are now evaded or avoided even when it is fully operative. In the meantime, as much as \$2.1 billion of taxes owed would be lost even before it could be put into operation, and about \$600 million a year would be lost after it was in effect. That is why it is no substitute for withholding, even though it will be very effective in helping to collect other forms of taxes owed.

Conclusion

Since taxes are already owed on these huge amounts, since only a very, very small amount of dividend and interest income goes to those who otherwise would have no taxes, since the proposal provides that where over-withholding results the person can either get a quarterly rebate or an exemption from the provision of the law, and since the cost of compliance would only be 3 percent of the additional revenue, I can see no reason why this proposal should not become law. I hope this explanation will reassure you.

With best wishes,

Faithfully,

A handwritten signature in cursive script that reads "Paul H. Douglas". The signature is written in dark ink and is positioned to the right of the typed name.

Paul H. Douglas

PHD:HSh

*Everett McKinley Dirksen*  
*Illinois*

*United States Senate*  
*Minority Leader*

May 2 , 1962

Dear :

I share your opposition to the adoption of a compulsory medical care program under social security and assure you that this will have good attention if it should pass the House and come to the Senate.

We do have a program of medical care for the elderly in the Kerr-Mills Act. I do not believe it is perfect and have already introduced one amendment to it. Other refinements will come as we develop further experience in its administration. I do not believe its defects warrant abandonment of the sound principles on which it is based.

Older people who have supported the administration's proposal have usually done so on the erroneous assumption that it would take care of almost all of their medical needs. That it will not, is shown by the enclosed analysis which appeared in the Congressional Record. I intend to oppose adoption of a withholding tax on interest and dividends because of obvious administrative difficulties and the fact that the real burden will fall on holders of small deposit accounts, many of whom are our senior citizens living on small fixed incomes.

Be assured your comments are appreciated.

Sincerely,

Everett McKinley Dirksen