

TAX ADJUSTMENT BILL OF 1945

JULY 12 (legislative day, JULY 9), 1945.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 3633]

The Committee on Finance, to whom was referred the bill (H. R. 3633), to facilitate reconversion, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill, as amended, do pass.

STATEMENT

For many months the Joint Committee on Internal Revenue Taxation for Postwar Taxation has been considering tax problems dealing with the interim period between the end of hostilities in Europe and the end of major hostilities with Japan as well as tax problems relating to the transition and postwar periods. Its report No. 1 contained recommendations for legislative action immediately following the end of hostilities in Europe. The bill carries out all of the recommendations contained in that report. The major purpose of the bill is to facilitate reconversion by improving the cash position of business enterprises and by relieving smaller businesses of some or all of the burdens of the excess-profits tax.

The following summary states the recommendations of the Joint Committee on Internal Revenue Taxation for Postwar Taxation and the particular provisions of the bill designed to carry them into effect:

Recommendation No. 1

Increase the excess-profits tax specific exemption from \$10,000 to \$25,000, effective beginning with the tax year 1946.

Section 2 of the bill carries out this recommendation. It increases the specific exemption for excess-profits tax purposes from \$10,000 to \$25,000, for taxable years beginning after December 31, 1945. A pro rata portion of the increase in exemption is provided for corporations with fiscal years beginning in 1945 and ending in 1946. Existing law provides that no excess-profits tax return is required if the excess-profits net income is not more than \$10,000; the bill increases the limitation to accord with the increase in the specific exemption.

Recommendation No. 2

Provide that the postwar credit of 10 percent of the excess-profits tax be taken currently with respect to tax liabilities of 1944 and subsequent years.

Subsection (h) of section 3 of the bill (p. 5, beginning with line 4) carries out this recommendation. It provides that for taxable years beginning after December 31, 1943, a credit of 10 percent shall be deducted in computing the tax currently payable. In the case of corporations which have fully paid their 1944 taxes cash refunds of the amount of the credit will be made. Other corporations will reduce unpaid 1944 tax installments to reflect the allowance of the credit.

Recommendation No. 3

Advance to January 1, 1946, the maturity date of outstanding postwar refund bonds.

Subsection (c) of section 3 of the bill beginning on page 3, line 13, carries out this recommendation. It provides that bonds already issued for taxable years beginning prior to January 1, 1944, shall be payable at the option of the owner on or after January 1, 1946.

Recommendation No. 4

Provide for speed-up of refunds resulting from carry-backs of net operating losses and of unused excess-profits credits.

This recommendation is carried out in subsection (a) of section 4. That portion beginning with line 1, page 6, and ending with line 5, page 12, provides for the deferment of current tax payments on the basis of anticipated losses and unused credits; and that portion beginning with line 6, page 12, and ending with line 12, page 16, provides for the prompt payment of refunds after the loss or unused credit has occurred. The provisions relate to losses or unused credits anticipated or arising in taxable years ending on or after September 30, 1945.

Recommendation No. 5

Provide for speed-up of refunds resulting from the recomputation of deductions for amortization of emergency facilities.

This recommendation is carried out in section 7 of the bill, beginning on page 25, at line 2. The section provides for prompt tax adjustments with respect to taxes of prior years recomputed to reflect an accelerated amortization period in the case of emergency facilities which cease to be necessary for war purposes in less than the original 5-year period.

All five of the proposed changes would improve the cash position of business during the period of reconversion and readjustment to peacetime production. The increase of the specific exemption to \$25,000 would, in addition, reduce the repressive effect of the excess-profits tax upon smaller corporations. With this change, a large number of smaller corporations would be freed from liability under the excess-profits tax and the burden for the smaller corporations still subject to this tax would be substantially reduced.

For the taxable year 1943, when the specific exemption was \$5,000, approximately 68,000 corporations filed returns showing excess-profits tax liability. For the year 1944, when the specific exemption was increased to \$10,000, it has been estimated that the number of corporations liable for the excess-profits tax was reduced by about 17,000 to a total of 51,000.

It has been estimated that, for the taxable year 1946, with the present exemption of \$10,000, approximately 31,000 corporations would be liable for excess-profits tax. By increasing the specific exemption to \$25,000, this number is reduced by an estimated 12,000 to a total of about 19,000. Thus, the proposed increase in the specific exemption is expected to free from liability under the excess-profits tax about one-third to one-half of all corporations otherwise subject to the tax. It has been estimated that for the taxable year 1946 an increase in the specific exemption from \$10,000 to \$25,000 would result in a reduction in excess-profits-tax liabilities of about \$300,-

000,000. Since the income thus released from excess-profits-tax liability would become subject to the normal tax and surtax, the net loss of revenue would be about \$160,000,000, or less than 2 percent of the total revenue from the corporate income and excess-profits taxes.

The bill as reported by your committee contains provisions (which are the same as in the bill as passed by the House) designed to facilitate the administrative operation of the recommendations discussed above. Section 5 makes certain changes in the period of limitations with respect to carry-backs and section 6 contains special interest provisions. A detailed discussion of the technical provisions of the bill will be found in the report of the House Committee on Ways and Means (Rept. No. 849, 79th Cong., 1st sess.) which describes with some particularity the operation and effect of all of the provisions of the bill.

The committee recommends that the bill as passed by the House be amended by striking out subsections (d), (e), (f), and (g) of section 4. The provisions eliminated would have granted to certain reorganized railroads special relief in relation to the carry-overs and carry-backs. In effect such provisions would have treated an acquiring railroad as the same corporation as the old railroad for the purposes of the operating loss and unused excess-profits credit carry-overs and carry-backs.

This new treatment would have been retroactively applied to extend the benefit to railroads which have already completed their reorganization and would have involved an immediate loss of revenue of approximately \$8,500,000. It would have applied to all taxable years beginning after December 31, 1938, in the case of the net loss and to taxable years beginning after December 31, 1939, in the case of the unused excess-profits credit. The provisions stricken out are outside the scope of the purposes of the bill. They would materially affect the tax liabilities of many railroads and would present problems that should receive more careful study than is possible if this bill is to be promptly enacted. Your committee is therefore of the opinion that the provisions should not be included as part of this bill, but should be the subject of further consideration and a public hearing. Accordingly, your committee has eliminated the provisions without prejudice to their future consideration.

THE DESIRABILITY OF EARLY ENACTMENT

With the steadily increasing tempo of cut-backs and war-contract cancellations, many businesses will need cash immediately. Prompt enactment of this bill is necessary if business is to be allowed to take full advantage this year of the provisions for speed-up of refunds and credits.

1. With immediate enactment, it would be possible for corporations anticipating losses or unused credits for 1945 to defer payment of the September 15 installment of their 1944 tax liabilities. For example, the September 15 installment of corporation A will amount to \$100,000. Due to cancellation of contracts on July 1, the corporation expects an unused credit for 1945 which will result in a refund of \$200,000 with respect to prior years' taxes. This corporation will be able to defer the September 15 installment and utilize the \$100,000 for purposes of reconversion when it is needed.

On the other hand, if the passage of the legislation were postponed, the corporation would be required to pay out the \$100,000 installment, and recovery of this sum would be accomplished only after delay of several months.

2. With immediate enactment, it would be possible for excess-profits taxpayers to reduce the amount of the September 15 installment of their 1944 tax liabilities by taking the postwar credit currently. For example, corporation B reported an excess-profits tax liability of \$1,000,000 for 1944 and paid installments of \$250,000 each on March 15 and June 15, 1945. If this bill is promptly enacted, corporation B's September 15 installment will be reduced by one-half of its postwar credit of \$100,000. It will, therefore, have immediately available at that time \$50,000 of additional cash.

3. With immediate enactment, refunds arising from the recomputation of amortization deductions on emergency facilities certified to be no longer necessary for national defense will become available in 1945 and early 1946. For example, corporation C, owning emergency facilities for which a certificate of nonnecessity has been granted, filed a claim on June 15, 1945, for recomputation of taxes for 1943 and 1944 which will result in refunds of \$50,000. Upon the enactment of this bill, this company can file a claim for quick refund, payment of which must be made within 90 days. The company would thus be able to anticipate the receipt of \$50,000 of cash refunds, during the fall.

Businessmen are now planning for reconversion and readjustment to peacetime operations. The immediate enactment of this bill would facilitate this planning. Delay in the enactment of this bill would continue the present uncertainty and would therefore render planning more difficult.

Speedy enactment of the bill would be favorable to business confidence. It would be interpreted as an indication of the desire of Congress to encourage timely reconversion and vigorous business expansion.

Inevitably, there must be some lapse of time between the date of enactment and the time when the Bureau of Internal Revenue can have its administrative machinery set up to handle claims for tax deferments and current credits. With immediate enactment of the bill, the Bureau should be in a position to handle these matters by September 15.

