

# Calendar No. 65

73D CONGRESS }  
1st Session }

SENATE

{ REPORT  
{ No. 58

## AMENDMENTS TO THE REVENUE ACT OF 1932

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MAY 1 (calendar day, MAY 10), 1933.—Ordered to be printed

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

### REPORT

[To accompany H.R. 5040]

The Committee on Finance, to whom was referred the bill (H.R. 5040) to extend the gasoline tax for 1 year, to modify postage rates on mail matter, and for other purposes, having considered the same, report favorably thereon with a recommendation that it do pass with certain amendments.

The first section of the bill strikes out that part of section 629 of the Revenue Act of 1932 which limits the application of the gasoline tax to the period ending June 30, 1933. The effect of the section is thus to make the gasoline tax effective for the period ending June 30, 1934, or for 1 additional year. It is estimated that this extension will increase the revenue by approximately \$135,000,000. Your committee is of the opinion that the gasoline tax should be reserved for the States after June 30, 1934.

The second section gives the President authority to change the rate of postage on any mail matter, except the rate fixed by law on first-class matter mailed for local delivery, postal cards, and private mailing or post cards. The authority granted to the President by section 2 is of a temporary character, expiring on June 30, 1934, and any change in rates made by him will not be effective after that date. The modifications in rates shall be such as the President may deem advisable after a survey, by reason of increase in business, the interests of the public, or the needs of the Postal Service. In no case may the rate be reduced below 2 cents per ounce or fraction thereof on first-class matter. The increase in rates made by the Revenue Act of 1932 from 2 to 3 cents on nonlocal first-class mail matter has been disappointing from a revenue standpoint, due to the decrease in this volume of mail. A survey by the President may ultimately show that a lower rate will restore much of this matter to the mails, and thus have a beneficial effect upon the revenue.

Section 3 (a) amends section 1001 (a) of the Revenue Act of 1932. The effect is to reduce, after June 30, 1933, the postage rate from 3 cents to 2 cents per ounce or fraction thereof on first-class mail matter for local delivery at post offices having city or village letter carrier service, or at any post office for local delivery on a rural route therefrom, or on a rural route for local delivery at the post office or on another rural route therefrom. Experience has shown that the 3-cent rate has resulted in the withdrawal from the mails of a considerable quantity of first-class matter for local delivery, with a resulting loss in revenue. It is believed that the reduced rate will result in restoring much of this matter to the mails and, on account of the increased volume, will eventually add materially to the revenue. It is expected that the effect of this reduction in rate will serve as a guide to the President in determining any action he may take under section 2. The only amendment to this section of the House bill recommended by your committee is of a minor character consisting of striking out the words "for experimental purposes,".

Section 3 (b) amends section 1001 (c) of the Revenue Act of 1932. This is made necessary by the change made by section 3 (a). Since the class of post offices, as well as the compensation and allowances of postmasters and postal employees of such post offices as have city or village letter-carrier service, is based upon the percentage of the gross postal receipts from such post offices, this percentage has been increased to conform with the reduction in the postal rate. The purpose is to prevent as far as possible the reclassification of post offices or changes in the compensation and allowances of postmasters and postal employees.

Section 4 (a) amends section 620 of the Revenue Act of 1932. Under existing law a manufacturer may sell tax free to a State or political subdivision, but sales to a dealer are subject to tax, even though the dealer purchases the articles for resale to a State or political subdivision. This discrimination results in a loss of business to the dealers, who are unable to compete with manufacturers for State business, and does not add any substantial gain in revenue to the Federal Government. The bill gives a tax exemption in the case of sales to a dealer when it is known that the articles are to be resold to a State or political subdivision. To safeguard the revenue the exemption is conditioned upon subsequent proof that the articles are actually so resold.

Dealers in articles for further manufacture are placed at a similar disadvantage. Under existing law, manufacturers may sell articles for further manufacture tax free when the sale is direct to another manufacturer and not when the articles pass through the hands of a dealer. The bill rectifies this situation in the same manner as in the case of articles to be resold to a State or political subdivision.

Section 4 (b) amends section 601 (c) (1) of the Revenue Act of 1932. Under existing law, a lubricating-oil manufacturer who sells oil to another manufacturer must pay the tax unless the oil is intended for further manufacture, in which case the vendee assumes responsibility for the tax. Under the bill, one manufacturer may sell tax free to another for resale and the vendee will pay the tax on his resale. Thus lubricating-oil manufacturers are placed upon the same basis as producers of gasoline, who have this privilege under existing

law. Since mere blenders are not regarded as manufacturers or producers of lubricating oil, the tax-free sales are confined to responsible concerns, without any apparent danger to the revenue.

Section 4 (c) amends section 621 (a) of the Revenue Act of 1932. The effect is to provide relief (by way of credit or refund) for dealers who sell to State or political subdivisions thereof taxable articles which they have not purchased tax free under section 620 as amended by section 4 (a) of the bill.

Your committee has inserted a new section 5 providing for exemption from the manufacturers' excise taxes under the Revenue Act of 1932 of articles sold for use as supplies or equipment on vessels of war, vessels employed in the fisheries or whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions. It is believed that this amendment will enable American manufacturers to compete more favorably with their foreign competitors for this business without any substantial loss of revenue since the effect of the present law is to force purchases abroad. The bill also provides for allowance of drawback on articles manufactured or produced with the use of merchandise on the importation of which tax has been paid under the Revenue Act of 1932, when such articles are laden for use as supplies on vessels of the classes enumerated. This also relieves American manufacturers from a competitive disadvantage.

The House bill transfers the tax on electrical energy furnished for domestic or commercial consumption from the consumer to the vendor. Your committee has rewritten this part of the bill. It is agreed that this tax should be transferred to the vendor, but that the rate should be reduced from 3 percent to 2 percent on account of the hardship which the higher rate might impose on nonprofitable companies. In order to give the companies an opportunity to obtain rate adjustments, where justifiable, the transfer of the tax from the consumer to the vendor is not made effective until September 1, 1933. In order to offset the loss in revenue caused by this rate reduction, a 1-percent tax is imposed upon consumers of electrical energy for purposes other than domestic or commercial. This tax applies only to electrical energy furnished on or after September 1, 1933, and before July 1, 1934. The electrical energy taxes recommended broaden the tax base and, it is believed, will produce almost as much revenue as the tax under existing law.

