Calendar No. 223

78th Congress, 1st Session | SENATE | Report No. 221

CURRENT TAX PAYMENT ACT OF 1943

May 10 (legislative day, May 3), 1943.—Ordered to be printed

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

REPORT

[To accompany H. R. 2570]

The Committee on Finance, to whom was referred the bill (H. R. 2570) to provide for the current payment of the individual income tax, and for other purposes, having had the same under consideration, report favorably thereon, with certain amendments, and, as amended, recommend that the bill do pass.

General Statement

Your committee recognizes the necessity of adopting a system of current payment of individual income taxes. Under the present system, the taxpayer does not pay his tax until the year following the earning of his income. This lag in tax payments, which has been a part of our internal-revenue system, beginning with the Revenue Act of 1913, did not result in any inequities when the rates were low and the taxpayer could meet his taxes out of one pay check. However, with the increasing rates, particularly those necessitated by the war, it has become more and more difficult for the taxpayer to meet his tax obligations on the due date. Unless some practical method is adopted to permit the tax to be paid in the year in which the income is earned, considerable hardship will result to the taxpayer as well as a loss of revenue to the Government.

Your committee bill enables us to avoid the 1-year lag in our present tax payment. By permitting the taxpayer to pay his income tax in the year in which the income is earned, many of the inequities of the present system will be eliminated. It will afford substantial relief in cases where incomes cease or decline severely because the taxpayers enter the armed forces, lose their jobs, retire, or die. And, it will permit the Government to secure revenue on income as it is earned, and thereby make more certain the collection of the revenue. It will also make it unnecessary to pass retroactive increased tax legislation which has resulted in so much uncertainty and inequity in the past.

There was no disagreement in the committee as to the method of placing taxpayers on a current basis. In general, this method is the same as that prescribed in both the Ways and Means Committee bill and the Ruml-Carlson substitute, which was pending before the House. However, our committee has made several amendments to the House bill which simplified the withholding provisions, in order to lessen the burden upon the employees.

In order to make the change as to a complete pay-as-you-go system, it is necessary to make some adjustments of the tax on 1942 income. The only differences which developed in the committee were as to the treatment of the tax on 1942 income. A majority of the committee was of the opinion that the entire 1942 liability should be abated or canceled, except such part of the liability as could be recouped through certain windfall provisions. There were others on the committee who believed that less of the 1942 tax should be canceled than is provided in your committee bill.

GENERAL DISCUSSION OF BILL

For the purpose of this discussion, the bill may be divided into the following parts:

Part I. Current Payment of Individual Income Taxes for 1943 and Subsequent Years.
Part II. Treatment of 1942 Taxes.
Part III. Soldiers' and Sailors' Relief.
Part IV. Miscellaneous Provisions.
Part V. Revenue Estimates.

PART I. CURRENT PAYMENT OF INDIVIDUAL INCOME TAXES

In our committee there was no disagreement as to the methods for placing taxpayers upon a current basis.

The subject may be discussed under two headings:

(*a*) Withholding as to wages and salaries.
(*b*) Current payment of tax not collected at the source.

The withholding provisions will be first discussed and then the methods of collecting currently taxes not withheld at the source.

(A) WITHHOLDING AS TO WAGES AND SALARIES

Under the bill, a new withholding system will be inaugurated as of July 1, 1943, with respect to wages and salaries only. For the purpose of this discussion, the system will be explained with reference to the following taxpayers:

(1) *Taxpayers subject both to the income tax and the Victory tax.*

In the case of taxpayers subject both to the income tax and the Victory tax, withholding will be at a rate of 20 percent. Of this 20 percent, 3 percent will cover the Victory tax and 17 percent will cover the general income tax.

This 20 percent rate will apply to the wages and salaries above the following withholding exemption:

$624 in the case of a single person.
$1,248 in the case of a married person.
$312 in the case of each dependent.

The following table shows the amount of the withholding exemption according to the payroll period:

Family status withholding exemptions

Payroll period	Single person	Married person claiming whole of personal exemption for withholding or head of family	Married person claiming half of personal exemption for withholding	Married person claiming none of personal exemption for withholding	Each dependent other than the first dependent in the case of the head of a family
Weekly	$12.00	$24.00	$12.00	0	$6.00
Biweekly	24.00	48.00	24.00	0	12.00
Semimonthly	26.00	52.00	26.00	0	13.00
Monthly	52.00	104.00	52.00	0	26.00
Quarterly	156.00	312.00	156.00	0	78.00
Semiannual	312.00	624.00	312.00	0	156.00
Annual	624.00	1,248.00	624.00	0	312.00
Daily or miscellaneous (per day of such period)	1.70	3.40	1.70	0	.85

Thus the employer will subtract the withholding exemption from the wage payment and compute the 20-percent rate on the remainder.

(2) *Taxpayers subject only to the Victory tax.*

While the rate of withholding to be applied is 20 percent, a provision is inserted in the law to the effect that the tax to be withheld shall in no event be less than 3 percent of the amount in excess of $624. This 3 percent is necessary to insure withholding of the Victory tax in the case of married persons with incomes between $624 and the withholding exemption for married persons. The 3-percent rate (the net Victory tax rate) was adopted to eliminate many of the refunds which might have to be made in the next year when the taxpayer files his final return and takes credit against his Victory tax for the amount of the tax withheld. Since under the present law the taxpayer is entitled to certain current credits against his 5-percent Victory tax for debt repayment, insurance premiums, and purchase of Government bonds, if he takes advantage of this credit there would be additional refunds required under withholding at a 5-percent rate. By withholding on a net basis of 3 percent, many of the refunds and adjustments will be eliminated.

The schedule of Victory tax withholding exemptions for the withholding rate of 3 percent is as follows:

Payroll period:	Victory tax withholding exemption
Weekly	$12.00
Biweekly	24.00
Semimonthly	26.00
Monthly	52.00
Quarterly	156.00
Semiannual	312.00
Daily or miscellaneous (per day of such period)	1.70

(3) *Taxpayers subject only to the income tax.*

There will be some single taxpayers whose wages and salaries are subject to the regular income tax but below the Victory tax exemption of $624. In such cases withholding will not apply but the tax will be payable at the end of the year when the annual return is filed.

(4) *Special provisions.*

Under the bill, the wages for the purpose of the withholding computation method may be computed to the nearest dollar. For example, if the taxpayer's wage was $20.30, the employer may treat such wage as $20 for this purpose. The Commissioner may authorize employers to withhold at an estimated average wage level for a quarter, subject to adjustments at the end of the quarter for the actual payments received.

It is believed that these improvements will greatly simplify the burden upon the employer, and permit more elasticity in adapting withholding to his particular accounting system.

Under the bill, the employer instead of making an actual computation of the amount withheld, may elect to determine the tax to be withheld through the use of tables, incorporated in the law. These tables are explained under the heading "Withholding Tables."

COMPENSATION EXEMPT FROM WITHHOLDING

The following compensation is not subject to withholding at the source:

(1) Services performed as a member of the military or naval forces of the United States, other than pensions and retired pay includible in gross income.

(2) Agricultural labor (as defined in the Social Security Act).

(3) Domestic service in a private home, local college club, or local chapter of a college fraternity or sorority.

(4) Casual labor not in the course of the employer's trade or business.

(5) Services by a citizen or resident of the United States for a foreign government or for the government of the Commonwealth of the Philippines.

(6) Services performed by a nonresident alien individual, other than a resident of a contiguous country who enters and leaves the United States at frequent intervals, or for such services, performed by a nonresident alien individual who is a resident of a contiguous country and who enters and leaves the United States at frequent intervals, as may be designated by regulations prescribed by the Commissioner with the approval of the Secretary.

(7) Services for an employer performed by a citizen or resident of the United States while outside the United States (as defined in sec. 3797 (a) (9) if the major part of the services for such employer during the calendar year is to be performed outside the United States. Services performed on or in connection with an American vessel under a contract of service which is entered into within the United States or during the performance of which the vessel touches at a port in the United States, or on or in connection with any vessel as an employee of the United States employed through the War Shipping Administration, shall not constitute services performed outside the United States.

(8) Services performed as a minister of the gospel.

Your committee was of the opinion that compensation received for services performed by a minister of the gospel should be exempt from the withholding tax. This will relieve a great many churches from

the requirement of withholding, as the minister in many instances is the only person who receives compensation subject to withholding. In the case of other persons employed by the church, if they receive sufficient compensation to come within the withholding provisions, it is believed that the church in retaining the proper portion of the employee's wages and turning it over to the Government will be performing a real service to the employee, not only in making it easier for him to pay his tax to the Government but also in assisting him by providing a check on the rising cost of living.

PERSONS REQUIRED TO WITHHOLD

Every employer from whom an individual receives wages as the employee of such person is required to withhold and deduct the amount required to be withheld. However, in certain special cases the person who pays the wages or the person who has control of the payment of the wages is treated as the employer. For example, pensions paid by the fiduciaries of certain pension trusts to retired employees under a pension plan.

METHOD OF WITHHOLDING

The employer will start deducting from salaries and wages under the bill as of July 1, 1943. Since the deduction is based upon the employee's current rate of pay, taking into account the personal exemption and credit for dependents, it is necessary for the employee to inform the employer of his personal status and the number of his dependents, so the employer can determine the amount of tax to be withheld. The bill requires that this information be furnished by the employee to the employer through a signed withholding exemption certificate. The certificate is to be in such a form as may be prescribed by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury.

In order to give employers ample time to adjust their pay rolls, the employer is not required to give effect to a new certificate showing a change in status immediately but changes in status are recognized on either January 1 or July 1, as the case may be.

WITHHOLDING TABLES

At the election of the employer, the amounts to be withheld may be determined by the use of tables which are incorporated in the law. Under these tables, the income tax and Victory tax are combined in a single amount to be deducted from each wage payment. The employer who uses these tables can determine the amount to be deducted from his employee's wage check without being required to make precise computations. There are 5 tables set out in the law covering daily or miscellaneous, weekly, biweekly, semimonthly, and monthly payroll periods. The tax is computed according to the status of the taxpayer, that is, whether he is single, married, the head of a family, or has dependents. For the purpose of illustration, the following table taken from the bill is set forth below:

If the payroll period with respect to an employee is weekly

And the wages are		And such person is a married person claiming all of personal exemption for withholding and has—					
At least	But less than	No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
		The amount of tax to be withheld shall be—					
$0	$10						
$10	$15						
$15	$20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
$20	$25	.30	.30	.30	.30	.30	.30
$25	$30	.70	.50	.50	.50	.50	.50
$30	$40	2.20	1.00	.70	.70	.70	.70
$40	$50	4.20	3.00	1.80	1.00	1.00	1.00
$50	$60	6.20	5.00	3.80	2.60	1.40	1.30
$60	$70	8.20	7.00	5.80	4.60	3.40	2.20
$70	$80	10.20	9.00	7.80	6.60	5.40	4.20
$80	$90	12.20	11.00	9.80	8.60	7.40	6.20
$90	$100	14.20	13.00	11.80	10.60	9.40	8.20
$100	$110	16.20	15.00	13.80	12.60	11.40	10.20
$110	$120	18.20	17.00	15.80	14.60	13.40	12.20
$120	$130	20.20	19.00	17.80	16.60	15.40	14.20
$130	$140	22.20	21.00	19.80	18.60	17.40	16.20
$140	$150	24.20	23.00	21.80	20.60	19.40	18.20
$150	$160	26.20	25.00	23.80	22.60	21.40	20.20
$160	$170	28.20	27.00	25.80	24.60	23.40	22.20
$170	$180	30.20	29.00	27.80	26.60	25.40	24.20
$180	$190	32.20	31.00	29.80	28.60	27.40	26.20
$190	$200	34.20	33.00	31.80	30.60	29.40	28.20
$200 or over		20% of the excess over $200 plus					
		$35.20	$34.00	$32.80	$31.60	$30.40	$29.20

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by $1.20 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 3 per centum of the excess of the median wage in the bracket in which the wages fall (or if the wages paid are $200 or over of the excess of the wages) over $12, computed, in case such amount is not a multiple of $0.10, to the nearest multiple of $0.10.

The operation of the table is shown by the following example:

Assume that John Smith earned a wage of $75 per week and that he has filed with his employer a certificate claiming the full personal exemption allowed a married man without dependents. By looking at the first two columns of the table, we find that his wage falls in the columns where the wages are at least $70 but less than $80. Under the third column, opposite the "$70 but less than $80" group, we find the figure $10.20. This is the amount the employer must deduct each week from his employee's pay check and turn over to the Government. If such employee had one dependent and proper certificate of exemption were filed, the employer would deduct $9 from his pay check. This is the amount in the fourth column opposite the "$70 but less than $80" group.

The formula in the note is explained by the following:

If John Smith has seven dependents and proper certificate of exemption is filed, the employer will compute the amount to be withheld in accordance with the formula supplied at the bottom of the table. According to such formula, the employer determines that, subject to the minimum withholding, the amount to be withheld is

the amount applicable in the case of five dependents (namely, $4.20), minus $1.20 for each dependent over five. Since there are two dependents over five, the subtraction will be $2.40 (two times $1.20), leaving $1.80 cents as the tentative amount to be withheld. Under the formula, however, the employer is told that in no event shall he withhold less than 3 percent of the excess of the median wage in the bracket in which the wages paid fall over $12, computed to the nearest multiple of 10 cents. The median wage in the bracket in question is $75 (being the wage half-way between $70 and $80) and the excess of this median wage over $12 is $63. Three percent of $63 is $1.89, and the multiple of 10 cents nearest this amount to be withheld will be $1.90. Hence the amount to be withheld will be $1.90.

The application of the formula appearing at the bottom of the table has been worked out in detail in the example above. Thus, the formula is merely a formula for extending the table in the case of dependents more than the number of five shown in the table.

EMPLOYERS' RETURNS

The employer is required to return and pay over the tax withheld from his employee in accordance with the provisions of chapter 9 of the Internal Revenue Code relating to social-security taxes.

RECEIPTS

The employer is required to furnish to each employee with respect to his employment during the calendar year a written statement showing the wages paid during such calendar year and the amount of tax withheld with respect to such wages. If the employee's services are terminated before the close of the calendar year, the receipt is required to be furnished on the day on which the last payment of wages is made. The employer is required to attach copies of these receipts to the final quarterly return so that they may be checked against the returns filed by the individual wage earners.

The Commissioner of Internal Revenue, under regulations approved by the Secretary, is authorized to grant a reasonable extension of time (not in excess of 30 days) with respect to the receipts required to be furnished to employees.

DEPOSIT OF WITHHOLDING FUNDS

In order to enable employers to deposit the amounts withheld from employees with the Government at an early date, the Secretary of the Treasury may authorize incorporated banks or trust companies which are depositaries or financial agents of the United States to receive the amounts withheld at such times and under such conditions as he may prescribe. If the Secretary provides proper depositaries for these funds, the employers will not have to hold the funds in their possession until their returns are filed with the collector.

QUICK REFUNDS

The Commissioner is authorized to delegate, with the approval of the Secretary, to the collectors authority to make refunds where the amount involved does not exceed $1,000. This provision is for the purpose of facilitating the making of refunds.

(B) CURRENT PAYMENT OF TAX NOT COLLECTED AT SOURCE

Your committee found it impracticable to apply the withholding provisions to income other than wages as defined in the bill. Therefore, taxpayers receiving income from business, farming, rents and royalties, interest and dividends, wages received for domestic service in a private home, and wages received from agricultural labor are not included in the withholding provisions of the bill.

There are also some taxpayers who, although subject to withholding, receive salaries above the Victory tax, normal tax, and first surtax bracket rate. It is necessary, therefore, that some system other than withholding be devised to make such taxpayers current.

Your committee has, therefore, placed these taxpayers upon a pay-as-you-go basis by requiring them to estimate their tax for the current year and pay such estimated tax within the year. Accordingly, a taxpayer is required to prepare and file a declaration estimating his tax for the current year if his gross income is above the following amounts:

Under the conditions set forth in section 58 (a), every individual who, at the time prescribed for the making of the declaration, is single or is married but not living with husband or wife shall make and file a declaration of his estimated tax for the taxable year if—

(1) His gross income from wages (as defined in sec. 1621) can reasonably be expected to exceed $2,700 for the taxable year; or

(2) His gross income from wages (as defined in sec. 1621) did exceed $2,700 for the preceding taxable year; or

(3) It can reasonably be expected that for the taxable year his gross income from sources other than wages (as defined in sec. 1621) will exceed $100 and his gross income from all sources will amount to $500 or more; or

(4) His gross income for the preceding taxable year from sources other than wages (as defined in sec. 1621) did exceed $100 and his gross income from all sources for the preceding taxable year was $500 or more.

Every individual who, at the time prescribed for the making of the declaration, is married and living with husband or wife shall make a declaration of his estimated tax for the taxable year if—

(1) It can reasonably be expected that for the taxable year, such individual will receive gross income from wages (as defined in sec. 1621) and the aggregate gross income of such individual and such spouse from wages will exceed $3,500; or

(2) In the preceding taxable year, such individual received gross income from wages (as defined in sec. 1621) and the aggregate gross income of such individual and such spouse from wages exceeded $3,500; or

(3) It can reasonably be expected that for the taxable year such individual will receive gross income from sources other than wages (as defined in sec. 1621), the aggregate gross income of such individual and such spouse from sources other than wages will exceed $100, and (a) the gross income from all sources of such individual will exceed $624, or (b) the aggregate gross income of such individual and such spouse from all sources will amount to $1,200; or

(4) In the preceding taxable year such individual received gross income from sources other than wages (as defined in sec. 1621), the aggregate gross income of such individual and such spouse from sources other than wages exceeded $100, and (a) the gross income from such sources of such individual for the preceding taxable year exceeded $624, or (b) the aggregate gross income from all sources of such individual and such spouse for the preceding taxable year was $1,200 or more.

Since persons receiving wages of not more than $2,700, if single, and $3,500, if married, will have substantially the full tax liability discharged by collection at the source, the requirements for filing a declaration have been so fixed as to make it unnecessary for such taxpayers to make declaration of estimated tax except in those cases where their income from sources other than wages is more than a nominal amount ($100). This will make it unnecessary for about 70 percent of the taxpayers to file declarations, thus leaving only 30 percent, or 14,000,000 out of 44,000,000 taxpayers who will have to make a declaration of estimated tax.

If husband and wife make a joint declaration, but do not make a joint return for the taxable year, the amounts paid on account of the estimated tax for such year may be treated as payments on account of the tax liability of either husband or wife for the taxable year, or may be divided between them in any manner they see fit. In the case of a joint declaration the liability with respect to the estimated tax shall be joint and several.

In determining whether a person is single or married, it is necessary to consider his status at the time the declaration is required to be made.

TIME FOR FILING DECLARATION AND PAYMENT OF THE ESTIMATED TAX

Every individual whose income exceeds the amounts specified above will be required to file his estimate (except in the case of farmers and individuals on a fiscal-year basis) on or before March 15 of the current taxable year. Therefore an individual declaring his estimated tax for the calendar year 1944 will be required to file his declaration of his estimated tax on or before March 15, 1944. This estimate may be revised at the election of the taxpayer and, if so revised, an amended declaration must be filed on or before June 15, September 15, or December 15, respectively.

The declaration must be filed with the collector of internal revenue for the taxpayer's district. The Commissioner is authorized to grant a reasonable extension of time for filing declarations and paying the estimated tax not to exceed 6 months, except in the case of taxpayers abroad.

The tax must be paid in four equal installments. The first installment will be paid in the case of a calendar year taxpayer on March 15, the second installment on June 15, the third installment on September 15, and the fourth installment on December 15 of the current taxable year. However, the taxpayer may elect to pay his estimated tax in advance if he desires to do so. If he files an amended declaration, the remaining installments will be increased or decreased, as the case may be, to reflect the change in the estimate. For example, suppose a taxpayer filed a declaration of the estimated tax for the calendar year

1944 in the amount of $600. An installment of $150 is paid at the time of filing the return. On June 15, 1944, he filed an amended declaration disclosing an estimated tax for the taxable year of $300 instead of $600 as originally estimated. As a result of the revised estimate, his next three installment payments will each be $50.

CONTENTS OF THE DECLARATION

The declaration shall state the following:

(1) An estimate of the individual's income tax and Victory tax after current insurance, debt, and bond credits for the taxable year, without any deduction for amounts withheld at the source.

(2) An estimate of the amounts withheld at the source.

(3) The difference remaining, which is called the estimated tax.

FINAL RETURN

The final return will be filed as at present on or before the 15th day of the third month following the close of the taxable year. On this return, adjustments will be made for differences between the estimated or withheld tax, and the correct tax reported by the taxpayer. In the case of the calendar year 1944, the final return will be filed on March 15, 1945.

RULE AS TO FARMERS

A special rule applies to farmers. If the gross income of an individual from farming for the taxable year is at least 80 percent of the total estimated gross income from all sources, such an individual may file a declaration of the estimated tax at any time on or before December 15 of the taxable year if the taxpayer is on a calendar-year basis.

ADDITIONS TO THE TAX AND PENALTIES

If 80 percent of the tax determined without regard to the credits for tax withheld at source (66⅔ percent in the case of farmers) exceeds the estimated tax, increased by such credits, there is added to the tax an amount equal to such excess, or equal to 6 percent of the amount by which the tax so determined exceeds the estimated tax so increased, whichever is the lesser. For failure to file a declaration of the estimated tax within the time prescribed by law, there is added to the tax an amount equal to 10 percent of the tax. If any installment of the estimated tax is not paid when due, there is added to the tax $2.50, or 2½ percent of the tax, whichever is greater, for each installment with respect to which such failure occurs. Other penalties are imposed for willful failure to file a declaration, or pay the estimated tax.

FISCAL YEARS

Fiscal-year taxpayers are required to file declarations of their estimated income on or before the 15th day of the third month of the current taxable year. Thus, if a taxpayer had a fiscal year beginning April 1, 1944, and ending March 31, 1945, he would file a declaration of his estimated tax for such fiscal year on June 15, 1944. His estimated tax would be paid in four equal intallments, that is, on June

15, 1944, September 15, 1944, December 15, 1944, and March 15, 1945, respectively. Fiscal-year taxpayers are also permitted to amend their estimate and make adjustments in their estimated tax, if they desire to do so.

SPECIAL RULE FOR 1943

With respect to the year 1943, the withholding provisions will go into operation as of July 1. Since most taxpayers have already filed their 1942 returns on March 15, their payments on March 15 and June 15, 1943, will be treated as payments in respect of their 1943 tax liability. Taxpayers on the calendar year basis who are required to file declarations of their estimated tax, will file their first declaration for 1943 on September 15, and their payments made in March and June will be treated as payments of their estimated 1943 tax. An amended declaration may be filed on December 15, if the taxpayer desires to amend his estimate. A farmer on the calendar-year basis, meeting the definition of the law, may make his declaration of his estimated tax for 1943 on or before December 15 and pay the estimated tax due.

PART II. TREATMENT OF 1942 LIABILITY

Your committee bill, in order to prevent double payments resulting from a change to a completely pay-as-you-go system, has provided for complete cancelation of the 1942 liability as of September 1, 1943. In case a taxpayer dies in 1942, no part of his 1942 tax is canceled. The payments in respect of the 1942 liability which were made in March and June of 1943 will be treated as payments on account of the estimated tax for 1943. In order to avoid windfalls, a part of the 1942 liability is recouped in certain cases.

(1) WHERE 1942 TAX IS GREATER THAN 1943 TAX

The first windfall rule is applied where the 1942 tax is greater than the 1943 tax. In such cases, the tax for 1943 is increased by the amount by which the 1942 tax exceeds the 1943 tax. The effect of such a rule is that the tax for 1943 is canceled instead of the tax for 1942. It insures that, while there will be no doubling up of tax payments, the taxpayer must pay at least the tax he would pay under existing law. This special windfall provision is not applied to a taxpayer who entered the armed service during the taxable years 1942 or 1943, with respect to that portion of his 1942 tax which is attributable to earned net income. Earned income is defined as income from wages, salaries, professional fees and other amounts received as compensation for personal services. Earned net income is the earned income less deductions properly chargeable against earned income.

If the taxpayer's net income is not more than $3,000, his entire net income shall be considered to be earned net income, and if his net income is more than $3,000, his earned income shall not be considered to be less than $3,000. In no case shall the earned net income be considered to be more than $14,000. The effect of this last provision is to abate the higher year 1942 instead of the year 1943, with respect to the tax on the earned net income of servicemen. This will afford relief to persons in the armed forces whose earned

net income in 1942 was considerably higher than their service pay for 1943.

The following examples will show the effect of this rule:

Example I. (*Civilian taxpayer.*)

If an individual's tax for 1942 is $405 and his tax for 1943 is $188, he will be required to pay $405 as his tax for 1943. Thus, he is not forgiven the tax for the higher year.

Example II. (*Soldier or sailor entering active service during 1942 or 1943.*)

Assume a married man with a salary of $10,000 was liable to a tax of $2,152 for the year 1942, and he entered the service as a private in 1943. He had no tax to pay for the year 1943. The effect of this relief provision is to cancel his entire $2,152 tax.

Assume a married man had a net income arising solely from compensation for services of $100,000 for 1942 and that his tax for that year amounted to $64,000, that he entered the service in 1943, and his net income for that year amounted to $5,000, and his tax amounted to $746. The effect of the bill would be to cancel only that part of the 1942 tax in excess of the 1943 tax which is attributable to earned net income.

(2) SPECIAL RULE WHERE INCOME FOR 1942 OR 1943 IS GREATER THAN INCOME FOR BASE YEAR PLUS $10,000

A special tax is imposed where the surtax net income of the taxable year 1942 or 1943, whichever year has the lowest tax liability, exceeds the highest surtax net income for 1938, 1939, or 1940, plus $10,000. This provision is designed so as not to forgive the tax on substantial increases of income in the current year over the income of pre-war years.

To determine the tax in such cases, the following steps must be taken:

(*a*) Compare the tax for 1942 with the tax for 1943.

(*b*) If the tax for 1942 is less than the tax for 1943, the 1942 liability to be discharged shall in effect be limited to a tentative tax computed as if the surtax net income for 1942 were not greater than the sum of the surtax net income for the base year, plus $10,000. For this purpose, such sum is deemed to constitute the surtax net income for 1942, and the net income for 1942 after allowance of all credits against net income. The taxpayer is given the option of selecting either the year 1938, 1939, or 1940 as the base year.

The effect of this rule is to limit the amount of the 1942 tax to be discharged to the 1942 tax on an amount equivalent to the surtax net income for the normal period, plus $10,000. The amount of the 1942 liability in excess of this special tax is added as a part of the tax for the year 1943. The example below will show how this provision is applied:

If the tax for 1942 is not less than the tax for 1943, the tentative tax is computed at the 1943 rates as if the portion of the surtax net income for 1943 were not greater than an amount equal to the sum of the surtax net income for the base period year, plus $10,000. For this

purpose, such amount shall constitute both the surtax net income for 1943 and the net income for 1943, after allowance of all credits against net income. This tentative tax will represent that part of the liability which is discharged. The balance of the 1942 liability which is in excess of the amount added to the 1943 tax by the first windfall provision is also added as a part of the 1943 tax. The following examples will show the tax effect under these provisions:

Examples of effects of antiwindfall provisions for cases where 1942 and 1943 surtax net incomes both exceed the highest surtax net income for the years 1938–40—Married person, no dependents

Surtax net income			Tentative tax on normal income plus $10,000	Additional amount to be added to 1943 tax		Tax on 1943 income	Total tax
Highest 1938, 1939, or 1940	1942	1943		Difference between 1942 and 1943 if 1942 tax exceeds 1943 tax	Additional amount added by reason of comparison with base year		
$5,000	$25,000	$20,000	$5,128	$2,152	$2,636	$7,764	$12,552
$2,000	25,000	50,000	3,380	....	6,536	27,844	34,380

As pointed out, the amount of the 1942 liability which is not discharged is added to the 1943 tax. The payment of this excess amount at the time of the payment of the 1943 tax of the taxpayer may cause undue hardship. To relieve the taxpayer of this hardship, the Commissioner is required, upon the request of the taxpayer, to extend the time for the payment of such excess portion of the 1943 tax. Under the terms of such an extension, the tax shall be paid in four installments, the first to be paid on the 15th day of the third month following the close of the taxable year (March 15, 1945, if on a calendar-year basis) and the one of remaining installments on the last day of each succeeding 12-month period. Any installment may be paid prior to the date prescribed for its payment, and the Commissioner may require sufficient security to protect the interest of the Government.

EXTENSION OF TIME FOR PAYMENT OF INCREASE IN 1493 TAX

If the time for the payment of such excessive portion is extended, interest will be collected on each installment at the rate of 4 percent per annum for the period beginning with the date prescribed for the payment of the 1943 tax and ending with the date on which such installment is paid or the date on which it is payable, whichever is earlier. If any installment is not paid on the date on which it is payable, interest will be collected at the rate of 6 percent per annum from such date until paid. If any installment is not paid on its due date, such installment and the remaining installments will be paid upon notice and demand from the collector.

PART III. SOLDIERS' AND SAILORS' RELIEF

Under existing law, so much of the pay received from the United States before the termination of the present war by personnel below the grade of commissioned officer in the military or naval forces of the United States for active service in such forces during such war,

as does not exceed $250 in the case of a single person or $300 in the case of a married person is excluded from gross income. This amounts, in effect, to an exemption of $1,500 in the case of a married man and to $750 in the case of a single man. Your committee has extended this relief as follows:

(1) In lieu of the exclusions of existing law, your committee has excluded from gross income so much of the compensation as does not exceed $1,500. Unlike the exclusion in existing law, this exclusion is allowed to all members of the military or naval forces for active service in such forces during the war, even though the recipient is not below the grade of a commissioned officer.

(2) Your committee has adopted a special provision granting relief from income taxes in the case of members of the armed forces dying after December 7, 1941. The provision is limited to taxes attributable to earned net income and contains other limitations which are set forth in the technical part of the report.

Part IV. Miscellaneous Provisions

POWERS OF APPOINTMENT

Your committee has extended the time in connection with the release of powers of appointment for estate and gift tax purposes from July 1, 1943, to March 1, 1944.

ASSISTANT COMMISSIONERS

Your committee has provided for two Assistant Commissioners, in the Bureau of Internal Revenue, who shall be appointed by the President, by and with the advice of the Senate, in place of the present Assistant to the Commissioner.

Part V. Revenue Estimates

Under the Finance Committee bill the tax liabilities for the calendar years 1942 and 1943, considered together, will be reduced by approximately $9,275,000,000, as compared with the liabilities under present law. The House bill would have reduced the total liability for these 2 calendar years by about $8,404,000,000. Details and comparisons with other bills considered are shown in the following table:

Comparison of calendar year 1942 and calendar year 1943 income and net Victory-tax liabilities under various alternatives

[In millions of dollars]

	Calendar year 1942 liability		Calendar year 1943 liability		Increase (+) or decrease (−) calendar year 1942 and 1943 over present law
	Amount	Increase (+) or decrease (−) over present law	Amount	Increase (+) or decrease (−) over present law	
Present law	9,815		14,716		
Finance Committee bill	0	−9,815	15,256	540	−9,275
House bill	2,213	−7,602	13,914	−802	−8,404
Ways and Means Committee bill:					
Maximum discount taken	4,493	−5,322	13,914	−802	−7,728
Minimum discount taken	4,780	−5,035	13,914	−802	−7,441
Carlson bill	0	−9,815	15,047	+331	−9,484

As a result of windfall provisions, and the fact that liabilities on higher incomes will be collected sooner than under present law, by reason of withholding at the source and current payment, income tax liabilities due under this bill in the fiscal year 1944 are expected to be approximately $2,012,000,000 greater than the amount due under present law. So long as incomes continue to rise, as no doubt they shall during the war years, your committee bill will yield more revenue to the Treasury than would the House bill. Inasmuch as additional revenue is sorely needed at this crucial time, the fact that enactment of the House bill would have resulted in practically no increase in liabilities due in the fiscal year 1944 was an important factor influencing your committee's decision. The table below affords another comparison with the other bills considered:

Estimated income-tax liabilities due in the fiscal year 1944 under various alternatives

[In millions of dollars]

Present law	13,000
Finance Committee bill	15,012
House bill	13,023
Ways and Means Committee bill:	
Maximum discount taken	18,623
Minimum discount taken	15,724
Carlson bill	15,263

The Treasury Department has furnished the following detailed estimates of liabilities under the bill:

Estimated income tax liabilities of the calendar years 1942, 1943, 1944, and 1945, under present law and under certain pay-as-you-go bills; and estimates of the portions of the income-tax liabilities of the calendar years 1942, 1943, 1944, and 1945 which are due and payable into the Treasury in the fiscal years 1943, 1944, and 1945 [1]

[In millions of dollars]

	Income tax liabilities				Income tax liabilities due and payable into the Treasury		
	Calendar years—				Fiscal years—		
	1942	1943	1944	1945	1943	1944	1945
1. Under existing law	9,815.3	14,715.7	14,715.7	14,715.7	5,459.6	12,999.5	14,715.8
2. Under existing law but with special treatment for members of the armed forces as in the Senate Finance Committee bill	9,815.3	13,956.4	13,956.4	13,956.4	5,459.6	12,619.8	13,956.5
3. Same as 2, but with pay-as-you-go in operation by Jan. 1, 1942	9,815.3	13,956.4	13,956.4	13,956.4	[2] 11,328.3	13,956.4	13,956.4
4. Under the Senate Finance Committee bill		15,256.4	13,956.4	13 956.4	5,459.6	15,012.2	14,056.2
5. Under the House bill	2,213.5	13,913.8	13,913.8	13,913.8	5,277.7	13,022.8	13,913.8
6. Under the Ways and Means Committee bill	4,780.2	13,913.8	13,913.8	13,913.8	5,277.7	15,723.6	15,506.9

[1] Total taxable income for a calendar year is assumed to be distributed equally among the 4 quarters of the year. Calendar years 1944 and 1945 income has not been forecast, but has been assumed to be the same as forecast for calendar year 1943.

[2] Note that this is the only estimate for which the effective date of pay-as-you-go provisions is Jan. 1, 1942. The Senate Finance Committee bill, the House bill, and the Ways and Means Committee bill, are all effective July 1, 1943, except that special treatment of the armed forces with respect to 1942 income tax liabilities is reflected in June 15, 1943, payments.

Treasury Department, Division of Research and Statistics. May 11, 1943

Estimated income-tax liabilities due under H. R. 2570 as reported by the Senate Finance Committee on May 10, 1943 [1]

[In millions of dollars]

Estimated income-tax liabilities payable into the Treasury during [2]—	
Last 6 months of fiscal year 1943	5, 459. 6
First 6 months of fiscal year 1944	8, 011. 1
Last 6 months of fiscal year 1944	7, 001. 1
Total, 18 months, Jan. 1, 1943–June 30, 1944	20, 471. 8
Calendar year 1943	13, 470. 7
Fiscal year 1944	15, 012. 2
Reconciliation of total proposed income-tax liabilities, 18 months, Jan. 1, 1943–June 30, 1944, with total tax liabilities under present law on incomes of the calendar years 1942, 1943, and 1944:	
Total income-tax liabilities payable into the Treasury during 18 months, Jan. 1, 1943–June 30, 1944	20, 471. 8
Amount withheld but not received until after June 30, 1944 (3 months' withholding)	1, 462. 6
Proposed income-tax liabilities through Dec. 31, 1944, not withheld or paid through June 30, 1944	7, 278. 3
Reduction proposed in tax liabilities of the armed forces on incomes for the calendar years 1943 and 1944 [3]	1, 518. 6
Net income-tax liabilities remitted on calendar year 1942 income	9, 815. 3
Elimination of additions to 1943 net income-tax liabilities:	
Windfall provision	−900. 0
Excess profits provision	−400. 0
Total tax liabilities under present law on income of the calendar years 1942, 1943, and 1944	39, 246. 6
Total tax liabilities under H. R. 2570 on income of the calendar years 1942, 1943, and 1944	29, 212. 7

Source: Treasury Department, Division of Research and Statistics.

[1] The estimates assume that:

(1) There is remitted to all taxpayers the present law net income-tax liabilities on calendar year 1942 income.

(2) There is allowed to any member of the armed forces in active service an exclusion from base pay received after Dec. 31, 1942, equal to $1,500.

(3) Payment is required by June 15, 1943, of at least one-half of present law net income-tax liabilities on income of the calendar year 1942, to be treated as payments toward income-tax liabilities on calendar year 1943 income.

(4) Taxes withheld after June 30, 1943, from salaries and wages in excess of the withholding exemption of $624 for single persons, $1,248 for married persons, and $312 for each dependent, at the single rate of 20 percent, with the tax withheld in no case to be less than 3 percent of the amount of salaries and wages in excess of $624.

(5) For those taxpayers whose calendar year 1942 and calendar year 1943 surtax net incomes both exceed the largest of the surtax net incomes of the calendar years 1938, 1939, and 1940, by more than $10,000, an additional calendar year 1943 tax liability is computed as follows: From the smaller of the surtax net incomes of the calendar years 1942 and 1943, deduct the sum of $10,000 plus the surtax net income of the base year (calendar year 1938, 1939, or 1940). The additional tax is equal to the smaller of the income taxes on incomes of the calendar year 1942 or 1943 minus a tentative tax computed on the sum of $10,000 plus the surtax net income of the base year at present law rates. This additional tax is payable in equal installments over a period of 4 years, the first being due by Mar. 15, 1944.

(6) For those taxpayers who do not become members of the armed forces by the end of the calendar year 1943, and whose calendar year 1942 income-tax liabilities are greater than the calendar year 1943 income-tax liabilities under present law, there is added to their calendar year 1943 income-tax liabilities the excess of calendar year 1942 income-tax liabilities over calendar year 1943 income-tax liabilities. This additional tax is due in calendar year 1943.

(7) For those taxpayers who do become members of the armed forces by the end of the calendar year 1943, and whose present law calendar year 1942 income-tax liabilities are greater than (a) their calendar year 1943 income-tax liabilities (as modified by provision (2) but not as modified by provision (5)) and greater than (b) a tentative tax computed on their calendar year 1942 earned income, there is added to calendar year 1943 income-tax liabilities the smaller of the excesses of present law calendar year 1942 income-tax liabilities over (a) or (b). For this purpose, earned income is defined as in sec. 25 (a) (4) (A), except that it cannot exceed $14,000 or be less than $3,000. This additional tax is due in calendar year 1943.

(8) Total proposed tax liabilities (comprising the proposed net Victory tax and the proposed net income tax but excluding the additional taxes described in provisions (5), (6), and (7)) on incomes of the calendar year 1943 and subsequent years are required to be paid currently. Quarterly payments are required on Sept. 15 and Dec. 15, 1943, to discharge such part of the proposed tax liabilities on income of the calendar year 1943 required to be paid currently as is not withheld during the calendar year 1943 or discharged by payments prior to June 15, 1943. Quarterly payments are required in subsequent years in such amounts that, together with the amounts withheld, tax liabilities will be paid currently.

[2] Total taxable income for calendar year is assumed to be distributed equally among the 4 quarters of the year. Calendar year 1944 income has not been forecast, but has been assumed to be the same as forecast for calendar year 1943.

[3] The loss with respect to tax liabilities on income of the calendar year 1944 should be somewhat greater but has been assumed to be the same as on income of the calendar year 1943. Calendar year 1943 net income tax liabilities are reduced by $634.9 millions and calendar year 1943 net Victory tax liabilities are reduced by $121.4 millions.

NOTE.—Figures are rounded and will not necessarily add to totals.

DETAILED DISCUSSION OF THE TECHNICAL PROVISIONS OF THE BILL

COLLECTION OF INCOME TAX AT SOURCE ON WAGES

Part II of subchapter D of chapter 1 of the Internal Revenue Code provides for collection at the source of a tax of 5 percent on the excess of all wages paid on or after January 1, 1943, over a specific exemption of $624. The amount of tax collected at source under this provision is allowed as a credit against Victory tax and any excess thereof over the Victory tax imposed under part I of subchapter D is allowed as a credit against other income taxes imposed under chapter 1. Section 2 of the House bill would amend part II of subchapter D to provide for collection of a tax at source on wages paid on or after July 1, 1943, at a rate of 3 percent upon the excess of the wages paid over a specific exemption of $624 and a rate of 17 percent (which was designed to approximate the yield of the normal tax and the first-bracket surtax on such wages) upon the excess over a withholding exemption, the amount of which depended on the employee's family status. Thus, the combined rates approximated the net Victory tax, the normal tax, and the first-bracket surtax on such wages. In lieu of withholding at the flat percentage rates on the excess of the wages over the exemptions, employers were granted an option to withhold a tax determined under tables provided in the bill under which the two portions of the tax were combined into a single amount to be withheld from each wage payment.

Your committee bill adopts the basic system of collection at source as provided in the House bill but makes a number of technical changes which are explained below. Under the bill as reported by your committee, the methods of collection, payment, and administration of the withholding tax have been coordinated generally with those applicable to the Social Security tax imposed on employees under section 1400 of the code. This proposal has been made in order to facilitate the work of both the Government and the employer in administering the withholding system. Accordingly, section 2 of the bill places the 20 percent withholding provisions in a new subchapter D of chapter 9 of the code. The new subchapter is entitled "Collection of Income Tax at Source on Wages." This amendment requires a change in the numbering of the various sections discussed below. This system of collection of income tax at source, like other income-tax laws, will apply in the Virgin Islands.

Subchapter D under the bill as reported by your committee consists of sections 1621 to 1627, inclusive. Section 1621 provides definitions of the more important terms used in subchapter D. The general definition of the term "wages" contained in section 1621 (a) is the same as that contained in the House bill and in section 465 (a) of the code. The term is generally defined to include all remuneration whether designated as salary, wages, fees, commissions, etc., and whether paid in cash or property, if paid for services performed by an employee for his employer. Certain of the exceptions provided in existing law with respect to remuneration paid for given types of services are continued in identical language. These exceptions, numbered to conform to the bill, include remuneration paid (2) for agricultural labor as defined in section 1426 (h); (3) for domestic service

in a private home, local college club, or local chapter of a college fraternity or sorority; and (4) for casual labor not in the course of the employer's trade or business.

Exception (1) relates to remuneration paid for services performed as a member of the military or naval forces of the United States, other than pensions and retired pay includible in gross income. The addition of the expression "includible in gross income" is a clerical change required by a further clerical change in section 1622 (a) from the provisions of the corresponding section 466 (a) of the code.

The exception provided with respect to remuneration for services performed for a foreign government or instrumentality thereof has been amended (exception (5)) to make clear that the exception extends to remuneration paid to employees by the Commonwealth of the Philippines. The exception has also been so amended as to make certain that the services must be performed for the particular government, or branch of such government.

The exception provided in existing law for services as an employee of a nonresident alien individual, foreign partnership, or foreign corporation, if such alien or foreign entity is not engaged in trade or business within the United States, has been eliminated. In many cases, although not engaged in trade or business in the United States, such employers do have an office or place of business therein or agents by whom wages are paid to citizen or resident employees in the United States. It is the opinion of your committee that the tax should be withheld upon the wages paid in such cases.

Section 1621 (a) (6) provides an exception for remuneration paid for services performed by a nonresident alien individual other than a resident of a contiguous country who enters and leaves the United States at frequent intervals. This is the same clerical change as that made in the House bill from a similar exception relating to the requirement of withholding contained in section 466 (a) of the code. The effect of this exception is generally to exclude from withholding all nonresident alien individuals who are subject to withholding under the provisions of section 143 of the code. By express provision, the exception does not extend to residents of a contiguous country who enter and leave the United States at frequent intervals. Thus residents of Canada and Mexico falling in such category who are employed within and receive remuneration for services performed within the United States will be subject to withholding under the provisions of the bill. Such persons are subject to the tax imposed by sections 11, 12, and 450 of the code, the same as in the case of citizens of the United States, upon the wages received for services performed within the United States and are not presently subject to withholding with respect to compensation for personal services under section 143.

Many persons falling within the category of residents of a contiguous country who enter and leave the United States at frequent intervals are employed by American railroads and steamship companies in transportation service which involves crossing and recrossing the border at frequent intervals. These and similar cases have many complicating factors and are not susceptible of appropriate treatment by rigid statutory rules. In addition, the exception of this general category of nonresident aliens from withholding under section 143 with respect to compensation rests within the discretion of the

Commissioner. Accordingly, exception (7) authorizes the Commissioner to provide exceptions from withholding for such individuals under regulations prescribed with the approval of the Secretary.

Exception (8), relating to services performed while outside the United States, is a clarification of existing law designed to facilitate the use of certain presumptions in determining whether the major part of the services for an employer during the calendar year is to be performed outside the United States.

Exception (9) is a new provision excepting from the definition of "wages" remuneration paid for services performed as a minister of the gospel.

Section 1621 (a), relating to the definition of "wages," makes clear that the exception provided in paragraph (8) thereof with respect to services performed outside the United States does not extend to wages paid for services performed on an American vessel or upon any vessel as an employee of the United States employed through the War Shipping Administration. Hence, under the terms of the bill, withholding is required upon the wages paid to (1) employees performing services on or in connection with an American vessel (as defined in section 1426 (g) of the code) under a contract of service which is entered into within the United States or during the performance of which the vessel touches at a port in the United States and (2) employees serving on or in connection with any vessel as an employee of the United States employed through the War Shipping Administration. This is in accordance with present administrative practice under existing law.

All of the foregoing exceptions to the general definition of "wages" are identical with those contained in the House bill.

The term "payroll period" is defined in section 1621 (b) and is identical with that contained in the House bill and in section 465 (a) of the code. Your committee, however, has added a definition of the term "miscellaneous payroll period." This term embraces any period for which a payment of wages is ordinarily made to the employee by his employer other than a weekly, biweekly, semimonthly, monthly, quarterly, semiannual, or annual payroll period. Thus, if an employer's ordinary practice is to pay his employees for periods of 10 days, such 10-day periods are miscellaneous payroll periods.

Section 1621 (c) defines the term "employee" in the same terms as the House bill and section 465 (d) of the code.

Section 465 (c) and (e) of the code contains definitions of the terms "withholding agent" and "employer," respectively. Under the House bill and under the bill as reported by your committee, the definition of withholding agent has been eliminated. Both bills generally define the term "employer" to mean the person for whom an individual performs or performed any service, of whatever nature, as the employee of such person. This general definition is not adequate, however, to cover certain special cases, such as the case where the local agent of a nonresident alien individual, foreign partnership, or foreign corporation pays wages to a citizen or resident of the United States, and the case of the person making payment of wages in situations where the wage payments are not under the control of the person for whom the services are or were performed, as, for instance, in the case of certain types of pension payments. The House bill provided for these cases by an exception to the general definition of the term

"employer" which provided that if the wages are paid by a person other than the person for whom the services are or were performed, the term "employer" means the person paying such wages. The committee bill has restated the exception in order to make clear that it is designed solely to meet unusual situations and not intended as a departure from the basic purpose to centralize responsibility for withholding, returning, and paying the tax and furnishing receipts.

Accordingly, the bill provides in section 1621 (d) (1) that if the person for whom the services are or were performed does not have control of the payment of the wages for such services, the term "employer" means the person having control of the payment of such wages. Section 1621 (d) (2) provides that in the case of a person who pays wages on behalf of a nonresident alien individual, foreign partnership, or foreign corporation, which is not engaged in trade or business within the United States, the term "employer" means the person who pays the wages.

As stated, section 1621 (d) makes it clear that the responsibility for withholding, paying, and returning the tax and furnishing receipts rests with the employer, except as otherwise specifically provided in section 1624. In the case of a corporate employer having branch offices, the branch manager or other representative may actually, as a matter of internal administration, withhold the tax or prepare the receipts required under section 1625, but the responsibility and legal duty for withholding, paying, and returning the tax and furnishing the receipts, rests with the corporate employer.

Under the bill as reported by your committee, the tax required to be collected at the source is based upon the excess of the wage payment over the amount of the withholding exemption provided in section 1622 (b). The amount of the withholding exemption in a specific case is in general dependent upon the status of the individual employee as single, married, etc.; upon the number of his dependents; and, in the case of an employed married person whose spouse is also employed, the amount of the withholding exemption claimed by each spouse. In all cases the withholding exemption will be determined by the employer upon the basis of the information relative to status set forth in a withholding exemption certificate required to be furnished by the employee. Accordingly, definitions have been provided in sections 1621 (e) to (k), inclusive, for the purpose of enabling the employer to determine the status of wage earners with respect to the withholding exemption. Under these definitions, which are identical in all but one respect with those contained in the House bill, the terms "single person," "married person," "head of a family," and "dependent," have the meanings assigned to such terms for the purpose of the personal exemption and credit for dependents in section 25 and the regulations prescribed thereunder, but the application of the appropriate amount of withholding exemption in each case depends upon the furnishing of a withholding exemption certificate stating that the individual occupies the described status or is entitled to the withholding exemption with respect to dependents. If no certificate setting forth the status of the employee is furnished, no withholding exemption is allowed; and tax will be withheld upon the gross amount of the wage payment. If husband and wife are both employed, each may claim one-half of the withholding exemption allowed a married person or they may agree to allow one spouse to

claim all of the withholding exemption, and the other spouse to claim none of the withholding exemption. The option in such case extends only to the withholding exemption allowed a married person which under the definition is termed the "personal exemption for withholding."

The withholding exemption provided with respect to dependents must be claimed by the spouse who furnishes the chief support for such dependent whether or not such spouse claims any part of the personal exemption for withholding. In the case of the head of a family having one or more dependents, one of such dependents is to be omitted in determining the number of dependents for the purpose of the withholding exemption with respect to dependents. The only respect in which your committee bill differs from these provisions in the House bill is that the former proposes to qualify the definition of the term "married person claiming half of the personal exemption for withholding" contained in subsection (h) so that such amount of the personal exemption for withholding shall apply only where the withholding exemption certificate expressly states that for the purposes of the tax collected at the source on wages the employee's spouse is claiming not more than one-half of the personal exemption for withholding. This change is designed to bring this definition in line with the definition of "married person claiming all of personal exemption for withholding."

The House bill expressed the withholding requirement in terms of two portions of the tax required to be collected at source. The portion required to be withheld at the rate of 17 percent was based upon the excess of the wage payment over the amount of a withholding exemption which approximated the personal exemption of the wage earner under the regular income tax plus credit for dependents plus 10 percent of such exemption and credit, the combined amounts being prorated in accordance with the length of the particular payroll period. The portion required to be withheld at the rate of 3 percent was based upon the excess of each wage payment over the prorated withholding exemption of $624 provided for Victory tax purposes. Thus, the employer would first apply one withholding exemption and rate to each payment of wages, then he would apply another withholding exemption and rate to such payment, and by adding the two results would arrive at the total amount of tax to be withheld. This amount would approximate the net Victory tax, the normal tax, and the first-bracket surtax on such wages.

Your committee bill is designed to achieve this same objective of withholding on wages an amount approximating the net Victory tax, the normal tax, and the first-bracket surtax on such wages, but it is so framed that the employer will not be required to make two separate computations and add the result of each in order to arrive at the amount of tax required to be withheld from any one employee.

To accomplish this objective of simplifying the work of employers, section 1622 of the bill changes the aggregate withholding exemption of $552 for single persons provided in the House bill to $624; the withholding exemption of $1,320 for married persons to $1,248; and the withholding exemption of $408 for each dependent to $312. These amounts are termed the family status withholding exemptions. Withholding would then be applied at the single rate of 20 percent on all amounts paid in excess of these exemptions, prorated in accord-

ance with the length of the payroll period. The bill provides, however, that in no case may the tax to be withheld be less than 3 percent of the amount of the wages for each payroll period in excess of the prorated $624 Victory tax exemption.

The reason for the provision in section 1622 (a) that the amount to be withheld shall in no event be less than 3 percent of the amount in excess of the Victory tax withholding exemption is that the family status withholding exemption of a wage earner might equal or exceed the amount of his wages so that no withholding for normal tax and first-bracket surtax should take place, while at the same time his Victory tax witholding exemption might be less than the amount of his wages so that withholding for Victory tax purposes should take place. In other words, the provision is necessary to insure withholding for Victory tax purposes in the case of single persons with dependents having incomes between $624 and the applicable exemption under the 20 percent withholding, which ranges upward from $624 depending on the number of dependents, and in the case of married persons or heads of family with incomes between $624 and the applicable exemption under the 20 percent withholding, which ranges upward from $1,248 depending on the number of dependents. To illustrate: John Smith is a married person claiming the whole of the personal exemption for withholding and has one dependent. His weekly wage is $30. His weekly family status withholding exemption is $30 ($24 because he is a married person claiming the whole of the personal exemption for withholding, plus $6 because of his one dependent). Since his weekly family status withholding exemption equals the amount of his weekly wage, there will be no withholding for normal tax and first-bracket surtax purposes. However, John Smith's weekly Victory tax withholding exemption is $12, and since his weekly wage is $30, he has a Victory tax liability, and his employer will withhold $0.54 (3 percent of $18).

The specific wage levels at which only the 3-percent rate is applicable are readily ascertainable, and the Commissioner's regulations can furnish a list of those levels so that employers will not need to make computations in order to determine whether the 3-percent or full 20-percent rate is applicable. For example, a married person with one dependent who claims all of the personal exemption for withholding and who receives less than $33.18 a week will be subject only to a withholding tax of 3 percent on the amount received in excess of the prorated $624 Victory tax exemption. For all such persons receiving a weekly wage of $33.18 or over the rate of withholding will be 20 percent on the amount in excess of the applicable family status withholding exemption.

Under the Victory tax withholding provisions the liability for withholding is placed upon the person having control of the payment of wages. Section 1622, like the House bill, specifically designates the "employer" as the person required to withhold and collect the tax. This is a clarifying change. A clerical amendment in the House bill eliminated the provision in section 466 (a) which restricts the withholding to wages includible in gross income. The same change is made in the present bill. This limitation, which was designed to exclude from withholding the amount of any wage payment exempted under the law from the tax imposed by chapter 1 of the code, is rendered unnecessary by the changes made in the definition of the term "wages."

The amount of the withholding exemption applicable with respect to any payment of wages is determined under the provisions of section 1622 (b). The House bill changed the term "withholding deduction" contained in the Victory tax provisions to "withholding exemption" in order to avoid confusion. The latter designation is also used in the committee bill. For convenience of reference, the withholding exemption allowable in computing tax at the 20-percent rate has been designated the "family status withholding exemption" and that allowable in computing tax at the 3-percent rate the "Victory tax withholding exemption." The amount of the withholding exemption applicable to all wage payments is determined under the schedules provided in section 1622 (b) and the rules relative to the application of such schedules in certain types of cases are provided in paragraphs (2), (3), and (4) of subsection (b). The schedule of family status withholding exemptions applicable for the purpose of the 20-percent rate provided in subsection (a) (1) is as follows:

Family status withholding exemption

Payroll period	Single person	Married person claiming whole of personal exemption for withholding or head of family	Married person claiming half of personal exemption for withholding	Married person claiming none of personal exemption for withholding	Each dependent other than the first dependent in the case of the head of a family
Weekly	$12.00	$24.00	$12.00	0	$6.00
Biweekly	24.00	48.00	24.00	0	12.00
Semimonthly	26.00	52.00	26.00	0	13.00
Monthly	52.00	104.00	52.00	0	26.00
Quarterly	156.00	312.00	156.00	0	78.00
Semiannual	312.00	624.00	312.00	0	156.00
Annual	624.00	1,248.00	624.00	0	312.00
Daily or miscellaneous (per day of such period)	1.70	3.40	1.70	0	.85

The schedule of Victory tax withholding exemptions for the withholding rate of 3 percent is as follows:

Payroll period:	*Victory tax withholding exemption*
Weekly	$12.00
Biweekly	24.00
Semimonthly	26.00
Monthly	52.00
Quarterly	156.00
Semiannual	312.00
Annual	624.00
Daily or miscellaneous (per day of such period)	1.70

The first schedule has been changed from that contained in the House bill, for the reasons stated above. The latter schedule is the same as that provided in section 466 (b) of the code with the exception of an additional line setting forth the amount of the withholding exemption applicable with respect to wages paid for a single day's service in the case of a daily or miscellaneous payroll period, and the designation, "Victory tax withholding exemption." Except for the designation, the schedule is the same as that in the House bill. Under the rules prescribed in paragraphs (2) and (3) of the subsection, the daily or miscellaneous payroll period exemption will be used for computing the amount of the withholding exemption in the case of

wages paid on a daily basis, for any period not otherwise provided for in the schedules, or for wages paid without regard to any period. For instance, in the case of wages paid for a 10-day payroll period, the amount of the withholding exemption applicable is $1.70 per day multiplied by the number of days in such period, or $17. The same rules apply to the withholding exemption schedule applicable for the purpose of computing the tax at the 20-percent rate.

The rules prescribed in paragraphs (2), (3), and (4) of section 1622 (b) are the same in substance as those provided in paragraphs (2), (3), and (4) of section 466 (b) of the code, and the same as those in the House bill. Your committee bill inserts "withholding" before "exemption". This is a clarifying change.

Paragraph (4) of section 1622 (b) is substantially the same as paragraph (2) of section 466 (b) of the code except that it is made clear that the rule there prescribed is applicable at the election of the employer. Under this provision, if wages are paid for a period of less than a week or, in the case of wages paid without regard to any period, if the time described in paragraph (3) is less than 1 week, the employer may at his election compute the amount of the tax on the basis of the excess of the wages paid during the calendar week over the withholding exemption allowable for a weekly payroll period. If the employer does not elect to use such method, the tax will be based upon the excess of the wages paid, prorated on a daily basis, over the amount of the daily withholding exemption of $1.70. The application of this provision is illustrated by the following example:

If a married person (having no dependents) claiming all of the personal exemption for withholding receives in a calendar week $8 per day for 4 days, his employer may elect to withhold upon the amount in excess of $24 (or $8) at 20 percent, so that the total amount withheld would be $1.60. Hence, under such election withholding would apply beginning with the payment made for the fourth day, since the employee would have received $24 for the first 3 days. On the other hand, the employer may use the amounts specified in the schedules for a daily or miscellaneous payroll period, in which case the amount withheld for each day would be 20 percent of the excess of $8 over $3.40 ($4.60), or $0.92, and the total amount withheld would be four times the latter amount, or $3.68.

Paragraph 5 of section 1622 (b) is a new provision which, in order to simplify the work of the employer who withholds under the schedule method, permits him to round out the wages to the nearest dollar in computing the amount of tax to be withheld.

Paragraph (5) of section 466 (b) of the code provides that the total withholding exemption allowed an employee with respect to wages received from any one employer during the calendar year shall not exceed the amount of the withholding exemption allowable for an annual payroll period. This limitation operates to prevent an excessive withholding exemption and consequent underwithholding of the tax in those cases in which the employee receives regular wages plus additional wages in the form of bonuses, commissions, etc. The committee bill, like the House bill, eliminates this paragraph as unnecessary. Under section 1622 (i) of the bill, the Commissioner is vested with authority to provide appropriate rules for the determination of the withholding exemption applicable in such cases under which the withholding exemption allowed to an employee in any

calendar year shall approximate the withholding exemption allowable with respect to an annual payroll period.

Under the provisions of section 1622 (c) of the bill, employers may at their option withhold a tax determined under tables provided in such section to be deducted from each wage payment. Such tax shall be in lieu of the tax computed under the percentage rates and required to be withheld under the provisions of subsection (a). The change made in subsection (b) with respect to the withholding exemption has made it possible to provide one table applicable to each payroll period for all employees, regardless of their marital and dependency status. The resulting redesigning and reduction in the number of tables should substantially simplify the employer's task and the amounts withheld will very closely approximate the amounts which would be withheld under the more numerous tables of the House bill. Under this section, tables are provided for weekly, biweekly, semimonthly, and monthly payroll periods. For the convenience of employers making payment of wages for payroll periods other than those comprehended by the above-mentioned tables, or for periods which do not constitute a payroll period, or making payment of wages without regard to any particular period of time, a further table described as the table applicable to a daily payroll period or a miscellaneous payroll period is provided. Under this table the amount of the tax required to be withheld is determined by multiplying the amount of tax shown opposite the particular daily wage bracket by the number of days in the period for which wages are paid or, in the case of wages paid without regard to a period of time, by the number of days which have elapsed between such wage payments since the date of commencement of employment during the calendar year, or January 1, of the calendar year, whichever is the later.

The rules relating to the application of the above-mentioned tables to specific types of cases are prescribed in paragraphs (2), (3), and (4) of section 1622 (c). These rules are in substance the same as those prescribed in paragraphs (2), (3), and (4) of section 466 (b) of the code, and are identical, apart from minor changes, with those prescribed in the House bill, for the purpose of determining the amount of the withholding exemption in cases where the tax is determined by application of the percentage rate to the wages paid. For example, if wages are paid for a period which does not constitute a payroll period, paragraph (2) of section 1622 (c) provides that the amount of tax to be withheld shall be computed by multiplying the tax shown opposite the appropriate wage bracket in the miscellaneous table by the number of days contained in the period for which such wages were paid. Paragraph (4) of that section provides that if wages are paid for a period of less than 1 week the employer may at his election compute the tax under the table applicable in the case of a weekly payroll period or under the miscellaneous table. If the employer elects to use the table applicable to the weekly payroll period, the aggregate of the wages paid to the employee during the calendar week shall be considered as the weekly wage.

Paragraph 5 of section 1622 (c) is a new provision which, in order to simplify the work of the employer who withholds under the table method with respect to employees whose wages exceed the highest wage bracket in any table, permits him to round out the wages to the nearest dollar in computing the amount of tax to be withheld.

Section 1622 (d) under the bill is substantially the same as section 466 (d) of the code and the corresponding provision of the House bill. However, the language has been changed in order to make clear that nothing contained in the subsection should be construed to relieve the employer of the duty imposed by law to withhold and pay the tax. Under this provision, payment by the recipient of the income of the tax required to be withheld by the employer relieves the employer from payment of the tax but does not relieve him from liability for additions to the tax or penalties for failure to withhold, collect, and pay the tax in accordance with the provisions of the subchapter.

Section 1622 (e) of the bill provides that the tax withheld and collected at the source on wages shall not be allowed as a deduction either to the employer or the recipient of the income in computing net income. However, provision is made by an amendment to section 35 of the code for credit for tax withheld at source in the case of the recipient of the income. This represents a clerical change from the House bill.

Subsection (f) provides that the refund or credit of any overpayment of the tax required to be withheld and collected shall be made to the employer only to the extent that the amount of the overpayment was actually withheld and collected from the employee. The provision differs from the House bill by reason of the fact that the provisions of law applying to the Social Security tax on employees under section 1400 have been made applicable. The subsection contains a cross-reference to the provision for credit or refund to recipients of income in the case of excessive withholding.

Subsection (g) is identical with the corresponding provision of the House bill. This subsection provides that if the remuneration paid for services performed during one-half or more of any payroll period constitutes wages, all the remuneration paid for such period shall be deemed to be wages; but if the remuneration paid for services performed during more than one-half of such payroll period does not constitute wages, then none of the remuneration paid for such period shall be deemed to be wages. The subsection has application only to remuneration paid for a period of not more than 31 consecutive days which constitutes an established payroll period within the meaning of the definition contained in section 1621 (b). It has no application to remuneration paid at irregular intervals or to remuneration paid without regard to any period. The 31-day limitation is intended to minimize changes in pay periods in order to avoid withholding.

Subsection (h) of section 1622 requires every employee receiving wages to furnish his employer a signed withholding exemption certificate in such form and containing such information as the Commissioner may, with the approval of the Secretary, by regulations prescribe. The purpose of the certificate is to enable the employer to determine the amount of the withholding exemption applicable to the wages of each employee or, if the employer elects under section 1622 (c) to adopt wage-bracket withholding, the amount to be withheld under that subsection. The status of the employee as single person, married person claiming all of personal exemption for withholding, married person claiming half of personal exemption for withholding, married person claiming none of personal exemption for withholding, head of family, and the dependents to be taken into

account by the employer for withholding purposes, are to be determined in accordance with the certificate furnished by the employee. Once in effect a certificate is to continue in effect until another certificate furnished by the employee takes effect. If no certificate is in effect with respect to an employee, the employer is to treat such employee as a married person claiming none of the personal exemption for withholding so that with respect to such employee there will be no withholding exemption in effect. Similarly, if the employer uses the wage-bracket tables, the amounts to be withheld from the wages of an employee with respect to whom there is no withholding certificate in effect are to be determined in accordance with the tables provided in the case of a married person claiming none of the personal exemption for withholding. In case of a change of status, the employee is required to furnish a new certificate not later than 10 days after such change occurs. This is a change from the House bill, designed to make clear that in the case of a change of status the employee must furnish a new certificate showing that change.

Under the House bill, changes in the employee's withholding exemption status are permitted at any time, but it is provided that the employer shall have at least 30 days from the date of notification of a change in status before being required to give effect to such change. Under subsection (h) of the present bill the employer is not required to give effect to a change in status more than twice during each calendar year. The modified rule is as follows:

(1) If the employee furnishes a withholding exemption certificate after the date of commencement of employment, the certificate is to take effect with respect to the first payment of wages made on or after the first status determination date which occurs at least 30 days from the date on which such certificate is furnished. For the purposes of this provision, the status determination dates are fixed as January 1 and July 1 of each year. These provisions are a modification of those under the House bill, designed to allow employers ample time in which to adjust payroll and other accounting records to conform to the withholding exemption certificates furnished by employees after the date of commencement of employment. Wherever feasible, however, employers may give earlier effect to such certificates. (2) If the employee furnishes a withholding exemption certificate on or before the date of commencement of employment, the certificate is to take effect as of the beginning of the first payroll period ending on or after the date on which the certificate is furnished or with respect to the first payment of wages made without regard to a payroll period on or after such date.

The rules set forth under (1) above are applicable to all wage earners who are employed on July 1, 1943, when the new withholding provisions take effect. The rules under (2) above apply in the case of new employment or reemployment, after an interruption in employment with the same employer, occurring after July 1, 1943. In applying these rules in the case of an employee intermittently hired and rehired by the same employer at frequent intervals, such employee shall be deemed to have commenced his employment at the time of the first hiring.

Section 1622 (i) authorizes the Commissioner, under regulations prescribed with the approval of the Secretary, to provide suitable rules for the determination of the withholding exemption and the

application of the wage-bracket tables with respect to various types of wage payments which do not fall readily within the statutory pattern which is necessarily designed to fit the customary type of periodic wage payments. The problems intended to be covered by these regulations are those arising generally in case of supplementary payments in the form of bonuses, commissions, dismissal wages ,and the like, made in addition to periodic wage payments, and payments made with respect to periods beginning in one calendar year and ending in a different calendar year. The committee bill has changed the language of the corresponding provision of the House bill in order to make clear that the purpose of this provision is to limit the withholding exemption allowed to an employee in any calendar year to an amount approximating the withholding exemption allowable with respect to an annual payroll period.

Payments supplementary to periodic wage payments are made in various ways. Such payments may consist of commissions or bonuses paid each payroll period and covering the same or different periods as the regular wage payment or they may be made without regard to any particular period. The actual payment of the supplementary remuneration may or may not coincide with an actual payment of periodic wages. Such payments of supplementary remuneration raise the problem as to the proper handling of the withholding exemption and the wage-bracket tables in order to provide for the allowance of the appropriate withholding exemption and the deduction of the appropriate amount of tax.

For example, an employee's remuneration may consist of wages paid at periodic intervals plus additional wages in the form of a bonus paid at the end of each 6 months' period. If the tax required to be withheld and collected at the source is computed independently with respect to each such payment of wages, after giving effect to the withholding exemption applicable to each such payment, it is apparent that such employee will have been allowed the entire amount of the withholding exemption to which he is entitled for a full calendar year. Hence, he should not be entitled to any withholding exemption with respect to wage payments made by the same employer during the balance of the calendar year. The same result would obtain if the tax on the periodic wage payments was withheld under the table applicable to such periods and the tax on the bonus was withheld on the percentage basis after allowance of the amount of the withholding exemption applicable to a 6 months' period. It is obviously more desirable to have the withholding exemption to which the employee is entitled spread over the wage payments for the entire calendar year. Moreover, it is considered undesirable to burden the employer with the necessity of keeping records in order to determine at a given time the aggregate amount of the withholding exemption previously allowed to the employee.

Under the committee bill, as in the House bill, the maximum amount allowable as a withholding exemption to an employee with respect to the wages paid by any one employer during the calendar year should approximate the amount of the withholding exemption allowed for an annual payroll period, whether such exemption is based on the schedules provided in subsection (b) of section 1622 or is reflected in the tables contained in subsection (c). For these reasons, it is expected that the Commissioner will provide reasonable regulations

for the appropriate treatment of all such supplementary or overlapping wage payments. Such regulations should insure, on the one hand, that the amount of tax withheld by the employer will approximate the amount that would be withheld and collected if all wages paid to the employee by such employer were paid at periodic intervals throughout the calendar year and, on the other hand, that the employee will receive the benefit of withholding exemptions approximating in the aggregate the amounts specified under the schedules for an annual payroll period.

Your committee has added a new provision, which is contained in subsection (j), to permit withholding to be based on average wages. Under this provision, the Commissioner may, under regulations, authorize employers to estimate the wages which will be paid to any employee in any quarter of a calendar year; determine the amount to be withheld and collected upon each payment of wages to such employee during such quarter as if the appropriate average of the wages so estimated constituted the actual wages paid; and to withhold and collect upon any payment of wages to such employee during such quarter such amount as may be necessary to adjust the amount actually withheld and collected upon the wages of such employee during such quarter to the amount otherwise required to be withheld during such quarter. This provision is designed to promote the efficient functioning of the withholding system in cases where there is steady employment and little fluctuation in wages between pay periods, so that a reasonably accurate average can be estimated, and it is expected that the Commissioner's regulations will prescribe rules appropriate to that end.

Section 467 of the code consists of subsections (a), (b), and (c). The House bill changed the headings and combined subsections (a) and (b) into new subsection (a). These were clerical amendments made because of the new definition of the term "employer" contained in section 465 (d) under the House bill and effected no substantive change in the law. Subsection 465 (b) under the House bill, relating to adjustments, was identical with section 467 (c) of the code. Under your committee bill the corresponding section (sec. 1623) omits the provision for adjustments, since the adjustment authorization provision of section 1401 (c) of the code is made applicable.

The House bill provides for quarterly returns by the employer of tax withheld at source. The present bill omits the House provisions with respect to return and payment of the tax by employers. These requirements, under your committee bill, are governed by the applicable provisions which apply to the tax imposed by section 1400. The provisions of the House bill relating to the determination of deficiencies have also been omitted in the present bill.

The change in your committee bill from a system of collection, payment, and administration based upon the principles applicable to the income tax to a system of collection, payment, and administration based upon the principles underlying the collection of the social security tax on wages has been made in order to promote efficiency and flexibility in the administration of the tax by the Government and the operations of the employer thereunder. In recommending this change, however, your committee does not intend to depart from the basic principle that the responsibility and legal duty for withholding and paying the tax, etc., rests with the employer. In view of this

basic principle, the committee bill, in section 1624, retains the provision of the House bill that if the United States, a State, Territory, or political subdivision, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing is the employer, the return of the tax may be made by the officer or employee having control of the payment of wages or other officer or employee appropriately designated for that purpose.

Section 469 of the code, relating to receipts, was amended by the House bill in two respects. Subsection (a) of section 469 was amended to eliminate the language which requires the employer to show on the receipt the period of employment covered by such receipt. As so amended, the section would specifically require only that the receipts show the amount of wages paid and the amount of tax withheld with respect thereto. The Commissioner is granted authority to prescribe by regulations the form and content of such receipts and, if he finds it necessary, he may require that the periods of employment be shown. Subsection (b) of section 469 of the House bill provided that the receipts should be in lieu of the information returns with respect to wages, but information returns would still be required with respect to remuneration not subject to withholding. This provision contemplates, of course, that a duplicate copy of each receipt will be furnished to the Government. Under your committee bill, these House provisions are retained as section 1625 (a) and (b), and a clerical amendment is made in the heading and in the reference to "subchapter" rather than "part."

Subsection (c) of section 1625 under your committee bill alters the provisions relating to extension of time for the furnishing of receipts to employees. By the terms of the amendment the Commissioner under regulations prescribed by him with the approval of the Secretary is empowered to grant to any employer a reasonable extension of time (not in excess of 30 days) with respect to the receipts required to be furnished to employees. Thus, the extension privilege will no longer be limited to the receipt to be furnished on the day on which the last payment of wages is made but may be applied in the case of receipts to be furnished at the close of the calendar year.

Under the House bill subsections (a) and (b) of section 470, relating to penalties for fraudulent receipts or failure to furnish receipts, are identical with existing law. Under your committee bill these penalty provisions remain substantially the same. The section has been renumbered as section 1626 and certain other clerical amendments have been made to adjust the provisions to the section of chapter 9 of the code.

Under the House bill subsection (c) of section 470 was amended to increase from $5 to $10 the minimum addition to the tax for failure by the employer to make and file a return required by this subchapter within the time prescribed by law or prescribed by the Commissioner in pursuance of law. Your committee bill retains this provision as section 1626 (c) with clerical changes required by the shift to chapter 9 of the code.

Section 470 (d) was a new provision added to the code by the House bill. This section provides appropriate penalties applicable to employees who willfully supply false or fraudulent withholding exemption certificates or who willfully fail to supply information which would decrease the withholding exemption. The penalty in

each instance is a fine of not more than $500 or imprisonment of not more than 1 year, or both, and such penalties are in lieu of those provided in section 145 (a) of the code. This provision with minor modifications is retained in your committee bill as section 1626 (d). As amended the statutory language makes clear that the penalties are applicable in the case of an employee who willfully supplies false and fraudulent information, or who willfully fails to supply information, which would require an increase in the tax to be withheld at source on his wages. Reference to section 145 (a) has been eliminated because of the change from chapter 1 to chapter 9 of the code.

Under the bill as amended by your committee, as has been previously noted, the withholding provisions have been shifted to chapter 9 of the code. To reflect this technical alteration an additional section has been added to the withholding provisions, namely section 1627, and a subchapter E, to follow subchapter D of chapter 9, has been added. These new provisions are discussed below.

Section 1627 provides that all provisions of law, including penalties, applicable with respect to the social-security tax on employees imposed by section 1400 shall, insofar as applicable and not inconsistent with the provisions of new subchapter D of chapter 9, be applicable with respect to the tax imposed under that subchapter.

Subchapter E of chapter 9 under the bill contains certain provisions which will apply to chapter 9 generally. There are two sections in subchapter E, namely, section 1630 and section 1631.

General provisions with respect to verification of returns, and related matters, are contained in section 1630. The Commissioner is empowered under subsection (a) to require that any return, statement, or other document required to be filed under chapter 9 shall contain or be verified by a written declaration that such return, statement, or other document is made under the penalties of perjury. To exercise this power the Commissioner is to prescribe appropriate regulations with the approval of the Secretary. The subsection makes clear that the declaration made under the penalties of perjury shall be in lieu of any oath otherwise required. Thus, the regulations may provide that the oath may be dispensed with in the case of employers making returns under chapter 9.

Subsection (b) of section 1630 provides for penalties in the case of a person who willfully makes and subscribes any return, statement, or other document, which contains or is verified by a written declaration that it is made under the penalties of perjury, and which he does not believe to be true and correct as to every material matter. The subsection states that such person shall be guilty of a felony, and, upon conviction, shall be subject to the penalties prescribed for perjury in section 125 of the Criminal Code.

Section 1631 relates to the use of incorporated banks or trust companies (which are depositaries or financial agents of the United States) in connection with the payment of taxes under chapter 9. Under this section the Secretary may authorize such incorporated banks and trust companies to receive any taxes under chapter 9 in such manner, at such times, and under such conditions as he may prescribe. If the Secretary should make such authorization, he shall prescribe the manner, times, and conditions under which the receipt of chapter 9 taxes by authorized incorporated banks and trust companies is to be treated as payment of such taxes by the collectors. Withholding

under the new system will involve very considerable amounts of tax moneys which will be withheld from the wages of employees. These funds will not belong to the employers. It may well prove desirable to provide a method by which these funds will be turned over by employers, and reach their way into the Treasury, more rapidly and more currently than, for example, on a quarterly basis. The purpose of section 1631 is to provide a flexible method by which this objective may be accomplished without placing an undue strain on the administrative tax collection machinery.

Section 2 (b) of the House bill was a technical amendment changing the heading of subchapter D of chapter 1 of the Internal Revenue Code. This amendment is unnecessary under the new structure provided in your committee bill; accordingly, section 2 (b) of the present bill contains other technical amendments in keeping with the rearrangement effected thereunder. Paragraph (1) amends section 34 of the code by omitting reference to section 466 (e), relating to credit for Victory tax withheld at source under the system in effect prior to July 1, 1943. Paragraph (2) amends section 322 (f) of the code, which is likewise a cross-reference provision, to provide a cross-reference to section 1622 (f), relating to refunds or credits to employers and to recipients of income, instead of to section 466 (f), the present credit provision relating to the Victory tax.

Section 476 of the code provides that the taxes imposed by subchapter D of chapter 1 shall not apply to any taxable year commencing after the date of cessation of hostilities in the present war. Section 2 (c) of the House bill amends section 476 to limit the application of this provision to the Victory tax imposed by part I of subchapter D of chapter 1. Section 2 (c) of the bill amends section 476 so that the tax imposed by part II of subchapter D of chapter 1 shall not apply with respect to any wages paid after June 30, 1943. Wages (as defined in section 1621 (a)) paid after that date will be subject to the provisions of subchapter D of chapter 9.

Section 2 (d) of the bill, relating to the effective date, provides that the amendments made by section 2 (a) and (b) shall take effect on July 1, 1943, and shall be applicable to all wages paid on or after such date.

MISCELLANEOUS AMENDMENTS

Credit for tax withheld at source on wages.

Section 3 of the bill amends section 35 of the code to provide that the amount of the tax withheld and collected under new subchapter D of chapter 9 shall be allowed as a credit to the recipient of the income against the income (including Victory) tax imposed by chapter 1. Aside from technical changes, this provision is identical with the corresponding provision in the House bill. The credit for the amount withheld during any calendar year upon the wages is to be allowed as a credit to the recipient of the income against the tax for taxable years beginning in such calendar year. If more than one taxable year begins within such calendar year, the amount of the credit is not allowable against each of such taxable years, but shall be allowed in the manner which clearly reflects the tax liability of the recipient of the income for such taxable years.

Section 4 (a), with the exception of the provision noted below, is the same in substance as section 3 (a) of the House bill, which made a clarifying amendment to section 322 (a) (2).

Authority to make credits against estimated tax.

Section 4 (a) also adds a new paragraph (3) to section 322 (a). This provision authorizes the Commissioner to prescribe with the approval of the Secretary regulations providing for a credit against estimated tax for any taxable year of the amount determined by the taxpayer or the Commissioner to be an overpayment of the tax for the preceding taxable year.

Under the new procedure in the declaration and payment of the estimated tax (the first installment of which will generally be payable at the same time as the making of the return and final payment of the tax for the preceding taxable year) a class of cases will arise in which it is apparent that the tax for the preceding taxable year has been overpaid. The Commissioner should have the same authority to credit an overpayment of the tax for a preceding taxable year against the estimated tax for the current taxable year as he has under existing law with respect to the tax for the current taxable year. Permitting the taxpayer on his return or on his declaration to compute the overpayment and credit it against his estimated tax in his declaration would obviate unnecessary remittances by the taxpayer of the estimated tax and unnecessary refunds by the Commissioner. The administration of the provisions of the bill may therefore require some crediting procedure as to the estimated tax in addition to that now provided in section 322 (a) (1).

In the absence of administrative experience in the field, it seemed to your committee wiser, in providing such additional credit, not to require the credit to be made or permitted, but to grant authority to the Commissioner to make or permit this type of credit, together with authority by regulation to specify the terms, conditions, extent, and effect of the credit to be made or permitted to be made. Among the matters to be covered by the regulations if the authority is exercised are—

(1) Whether and to what extent and under what conditions the taxpayer shall be allowed to take the credit on his declaration; and (2) whether the effect of the credit (whether taken by the taxpayer or made by the Commissioner) is to be like the credit allowed under section 35 of the code or like the credit specified by section 322 (a) (1). If, under your committee's amendment, the Commissioner authorizes a credit against the estimated tax of the character of that prescribed in section 322 (a) (1), such credit will constitute a payment of the estimated tax both generally and for the purposes of section 59 (b); and if the determination of the overpayment proves to have been erroneous, the year for which the overpayment was determined is adjusted.

Presumption as to date of payment.

Section 4 (b) amends section 322 (e) of the code, relating to presumption as to date of payment, to include tax actually withheld and collected at the source under subchapter D of chapter 9; to insure the application of the rule to the proper taxable year; and to provide for the application of the same rule with respect to payments of estimated tax.

Delegation of authority to collectors to make refunds.

Subsection (c) of section 4 of the bill amends section 3770 (a) of the code, relating to authority to make refunds. New paragraph (4) has been added which authorizes the Commissioner to delegate, with the approval of the Secretary, to the various collectors any authority, duty, or function which the Commissioner is required to exercise or perform with respect to the making of refunds, and the like, in respect of any individual, estate, or trust, where the amount involved does not exceed $1,000. This provision makes it possible for the Commissioner to delegate to the collectors the function of making refunds of such amounts, not in excess of $1,000, as the Commissioner may prescribe. This provision will permit the administrative authorities to handle refunds more expeditiously.

Rule where no tax liability.

Section 4 (d) of the bill adds new subsection (c) to section 3770 of the code. Under this provision an amount paid as tax shall not be considered not to constitute an overpayment solely because there was no tax liability in respect of which that amount was paid.

The income tax law requires the taxpayer to make a return of his tax and to pay the tax so returned. These requirements contemplate that in the discharge of these duties at the time, place, and manner prescribed honest mistakes will occur—mistakes both as to the amount of the tax and as to the existence of any tax liability; and that such honest mistakes made incident to the bona fide orderly compliance with the actual or reasonably apparent duties of the taxpayer are to be corrected under the provisions of law governing overpayments. In the opinion of your committee, existing law so provides. The language of certain court decisions (holding that certain payments, not made incident to a bona fide and orderly discharge of actual or reasonably apparent duties imposed by law, are not overpayments and accordingly that interest is not payable) has been read by some as meaning that no payment can result in an overpayment if no tax liability actually existed. Your committee does not believe that such reading is in any way a statement of existing law. The provisions of the bill, however, emphasize the need for clarity in this regard.

Under the bill as reported by your committee, two requirements become basic features of the income tax: (1) The declaration and payment of the estimated tax; and (2) the withholding and collection by the employer of tax from the wages of employees, and the return and payment as such of the amount by the employer to the Government. Honest mistakes incident to faithful and orderly compliance will, of course, occur, just as they have in the older procedures of the tax. The doubts expressed as to the existence of an overpayment in case it ultimately turns out that there is no tax, your committee believes, should be put to rest, and to this end submits the amendment to section 3770 of the code. In the view of your committee, the code does not contemplate that liability for interest can be cast on the Government by merely dumping money as taxes on the collector, by disorderly remittances to him of amounts not computed in pursuance of the actual or reasonably apparent requirements of the code, or not transmitted in accordance with the procedures set up by the code, or by other abuses of tax administration. As to these,

your committee believes that a proper application of existing law will enable the courts, in the future as generally in the past, to deny treatment as overpayments to these improper payments.

Cross reference.

Section 4 (d) of the bill also adds new subsection (d) to section 3770. This is a cross reference provision.

Review of allowance of interest.

Section 4 (e) of the present bill corresponds to section 3 (b) of the House bill and amends section 3790 of the code relating to prohibition of administrative review of the Commissioner's decision on the merits and claims presented under the internal revenue laws. Because of the difficulty of applying the rules provided in the House bill, the present bill has extended the scope of section 3790 to include interest on any credit or refund under the internal revenue laws.

Current Payment of Tax Not Withheld at Source

The House bill provided for a system of current payment of individual income tax only to the extent of a so-called estimated basic tax (net Victory tax plus normal tax plus first-bracket surtax) on income not constituting wages subject to withholding at source. The system proposed under the present bill provides for the current collection of all individual income (including Victory) tax on income to the extent that such taxes are not paid through withholding at source.

Section (5) of the bill strikes sections 58, 59, and 60 of the code, which are cross-reference provisions, and inserts in lieu thereof new sections 58, 59, and 60 to provide for the current payment of that portion of the individual's tax liability not required to be withheld at source. Withholding at source is at a rate designed to approximate the net Victory tax, the normal tax, and first bracket surtax and applies only with respect to wages (as defined in sec. 1621). The current payment system is designed to provide for collection during the taxable year of the remaining tax liability for such year. Accordingly, it provides for the current collection of the net Victory tax on income not subject to withholding at source, for the current collection of the surtax above the first bracket on wages, and for the current collection of the normal tax and surtax on income not subject to withholding at source. The amount of the current payment is to be determined upon the basis of a declaration by the taxpayer of his estimated tax liability for the current taxable year.

Subsection (a) of section 58 prescribes the rules for determining what persons are required to make a declaration of estimated tax. Nonresident aliens and estates and trusts are specifically excepted from the requirement to make such declaration and from the current payment system. Under the House bill, nonresident alien individuals who are residents of a contiguous country and who enter and leave the United States at frequent intervals were not excepted from the requirement for a declaration since with respect to wages received for services performed in the United States such nonresident aliens are subject to tax in the same manner and to the same extent as citizens of the United States. However, with respect to other classes of income from sources within the United States, such nonresidents are subject to the special provisions of law applicable to nonresident

aliens in general, including the withholding provisions of section 143. Hence, your committee deems it advisable at the present time to except such nonresident aliens, with other nonresident aliens, from the operation of the current payment system. The requirements as to who shall make and file a declaration are based generally upon the amount and kind of the estimated gross income for the current taxable year or the amount and kind of the actual gross income for the preceding taxable year, and the personal status of the individual as single or married at the time prescribed for the making of the declaration. Under the House bill, the amounts of gross income which determined the necessity for a declaration of estimated tax were based upon the amounts which determined the necessity for a return under section 51. Your committee amendments will require declarations of estimated tax in certain cases from persons required to make returns of Victory tax under the provisions of section 455, even though such persons would not be required to make returns under the provisions of section 51. These amendments are designed to collect the Victory tax currently in the case of individuals who are not subject to withholding at the source and to equalize the system of current collection as between such persons and persons subject both to the Victory tax and the regular income tax.

Under the conditions set forth in section 58 (a), every individual who, at the time prescribed for the making of the declaration, is single or is married but not living with husband or wife shall make and file a declaration of his estimated tax for the taxable year if—

(1) His gross income from wages (as defined in sec. 1621) can reasonably be expected to exceed $2,700 for the taxable year; or

(2) His gross income from wages (as defined in sec. 1621) did exceed $2,700 for the preceding taxable year; or

(3) It can reasonably be expected that for the taxable year his gross income from sources other than wages (as defined in sec. 1621) will exceed $100 and his gross income from all sources will amount to $500 or more; or

(4) His gross income for the preceding taxable year from sources other than wages (as defined in sec. 1621) did exceed $100 and his gross income from all sources for the preceding taxable year was $500 or more.

Every individual who, at the time prescribed for the making of the declaration, is married and living with husband or wife shall make a declaration of his estimated tax for the taxable year if—

(1) It can reasonably be expected that for the taxable year, such individual will receive gross income from wages (as defined in sec. 1621) and the aggregate gross income of such individual and such spouse from wages will exceed $3,500; or

(2) In the preceding taxable year, such individual received gross income from wages (as defined in sec. 1621) and the aggregate gross income of such individual and such spouse from wages exceeded $3,500; or

(3) It can reasonably be expected that for the taxable year such individual will receive gross income from sources other than wages (as defined in section 1621), the aggregate gross income of such individual and such spouse from sources other than wages will

exceed $100, and (*a*) the gross income from all sources of such individual will exceed $624 or (*b*) the aggregate gross income of such individual and such spouse from all sources will amount to $1,200; or

(4) In the preceding taxable year such individual received gross income from sources other than wages (as defined in section 1621), the aggregate gross income of such individual and such spouse from sources other than wages exceeded $100, and (*a*) the gross income from such sources of such individual for the preceding taxable year exceeded $624, or (*b*) the aggregate gross income from all sources of such individual and such spouse for the preceding taxable year was $1,200 or more.

For the purposes of section 58, the amount of the gross income which the taxpayer can reasonably be expected to receive or, in the case of a taxpayer upon the accrual basis, the amount which can reasonably be expected to accrue, shall be determined upon the basis of the facts and circumstances existing as of the time prescribed for the making of the declaration.

Subsection (b) of section 58 prescribes the rules relative to the form and content of the taxpayer's declaration of estimated tax. It is required generally that the declaration shall be in such form and contain such information as may be prescribed by the Commissioner under regulations approved by the Secretary. Subsection (b) specifically requires that the declaration shall state (1) the amount which the taxpayer estimates as the amount of his tax under sections 11 and 12, or section 400, as the case may be, and the Victory tax imposed by section 450 (adjusted for the credit provided in sec. 453), without regard to any credits for tax withheld at source; (2) the amount which he estimates as the amount of the credits allowable for the taxable year under sections 32, 35, and 466 (e) on account of tax withheld at source on tax-free covenant bonds and wages; and (3) the excess of the amount estimated under (1) over the amount estimated under (2). Under subsection (b) the "estimated tax for the taxable year" is the excess of the amount estimated by the taxpayer as the tax imposed by chapter 1 (without regard to the credit for taxes withheld at source) over the amount which the taxpayer estimates as the amount allowable as a credit for the taxable year for taxes withheld at the source. The subsection further provides that every declaration of estimated tax for the taxable year shall contain or be verified by a written statement that it is made under the penalties of perjury.

Under the provisions of subsection (c) a husband and wife living together at the time prescribed for making a declaration may elect to make a joint declaration in which case the liability with respect to the estimated tax shall be joint and several. A joint declaration by husband and wife shall be signed and verified by both spouses. If the declaration is signed by one spouse as agent for the other, authorization for such action must accompany the declaration. No joint declaration is permitted if either husband or wife is a nonresident alien. If the husband and wife make a joint declaration but do not make a joint return for the taxable year the amounts paid on account of the estimated tax for such year may be treated as payments on account of the tax liability of either the husband or wife for the taxable year or may be divided between them in any manner they see fit.

The time and place for filing declarations of estimated tax required under section 58 are prescribed in subsection (d) of such section. Such declarations must be filed on or before the 15th day of the third month of the taxable year by every person whose then anticipated income for the current taxable year or whose actual income for the preceding taxable year meets the requirements of subsection (a). In the more usual case of taxpayers on the calendar year basis, such declarations are to be filed on or before the 15th day of March. In the case of taxpayers on a fiscal year basis, such date will be the 15th day of the third month of the particular fiscal year. If, under the provisions of subsection (a) a declaration is not required on or before the 15th day of the third month of the taxable year but subsequent thereto the facts and circumstances are such that the gross income for the taxable year can reasonably be expected to meet the requirements of such subsection, a declaration of the estimated tax liability is required to be filed. In such event, the declaration must be filed on or before the 15th day of the last month of the quarter of the taxable year in which the requirements of subsection (a) are first met. For instance, a single person was hired on January 2, 1944, at a salary of $2,400 per annum. He had no other source of income, could not reasonably expect to receive any other income, and did not receive any income during the preceding taxable year. In the absence of any change of circumstances before March 15, 1944, such person is not required to make a declaration as of that date. On July 1 such person was advised that he was promoted to a higher position and that thereafter his salary would be increased to $3,200 per year. Hence, on that date the gross income of such person for the taxable year could reasonably be expected to exceed $2,700. Therefore, assuming that such taxpayer makes his income tax return on a calendar year basis, a declaration of his estimated tax liability for the taxable year should be filed on or before the 15th day of September of such year.

Under the provisions of subsection (d), an amended or revised declaration is permitted, subject to such regulations as may be prescribed by the Commissioner with the approval of the Secretary. Such amended or revised declaration may be filed in any quarter of the taxable year subsequent to the quarter in which the declaration or the last amended declaration was filed. The revised estimate shown in such amended declaration shall not take effect with respect to any quarter unless filed on or before the 15th day of the third month of such quarter. Declarations of estimated tax liability and all amended or revised declarations shall be filed with the collector of internal revenue for the district in which is located the legal residence or principal place of business of the person making such declaration or if the declarant has no legal residence or principal place of business in the United States, such declarations and amendments and revisions shall be filed with the collector of internal revenue at Baltimore, Md. Any such amended declaration shall be filed with the collector for the district in which the original declaration was filed.

Subsection (e) of section 58 authorizes the Commissioner to grant a reasonable extension of time for filing the declaration of the estimated tax under such rules and regulations as he shall prescribe with the approval of the Secretary. Except in the case of taxpayers who are abroad, no extension shall be granted for a period of more than 6

months. This provision is the same in substance as the comparable provision of the House bill, except that the present bill applies the same rules relative to extension to payment of the estimated tax.

Subsection (f), relating to persons under disability, provides that if the taxpayer is unable to make his own declaration a declaration shall be made by a duly authorized agent or by the guardian or other person charged with the care of the person or property of such taxpayer. In such case, the taxpayer and his agent shall be responsible for the declaration as made and incur liability for any penalties provided for erroneous, false, or fraudulent declaration.

Under subsection (g), it is provided that the fact that an individual's name is signed to a filed declaration shall be prima facie evidence for all purposes that the declaration was actually signed by him.

Subsection (h) makes applicable to declarations of estimated tax the provisions of section 55, relating to publicity of returns.

With the exception of the foregoing section 58 (h) and the differences due to the basic difference in the systems of current payment of tax in the House bill and in the present bill, section 58 of the present bill is substantially the same as the corresponding section 58 of the House bill.

Section 59 of the present bill is substantially the same as section 59 of the House bill except for technical amendments necessitated by the requirement for current payment of the entire tax instead of only the basic tax as under the House bill, and a clarifying amendment relating to installment payments of the estimated tax.

Under the provisions of new section 59, if the declaration of the estimated tax is made on or before the fifteenth day of the third month of the taxable year, such tax shall be paid in four equal installments. In such case the first installment shall be paid at the time of filing the declaration, the second installment on the fifteenth day of the sixth month, the third installment on the fifteenth day of the ninth month, and the fourth installment on the fifteenth day of the twelfth month of the taxable year.

If the declaration of estimated tax is filed after the fifteenth day of the third month of the taxable year, the estimated tax shall be paid in equal installments the number of which is equal to the number of quarters remaining in the taxable year. For example, if the declaration is filed on the fifteenth day of the sixth month of the taxable year, the estimated tax shall be paid in three equal installments.

If, pursuant to section 58 (e), the Commissioner grants an extension of time within which to make a declaration of estimated tax, installments of such tax shall be paid at such time and under such conditions as the Commissioner may prescribe.

If a taxpayer files an amended or revised declaration of estimated tax, the remaining installments of estimated tax shall be ratably increased or decreased, as the case may be, to reflect any change made in the previously estimated tax by such amendment or revision. For example, on March 15, 1944, the taxpayer filed a declaration of estimated tax for the calendar year 1944 in the amount of $600. An installment of $150 was paid at the time of making such declaration. However, on June 15, 1944, the taxpayer filed an amended declaration disclosing an estimated tax for the taxable year of $300 instead of the $600 originally estimated. As a result of such amended declaration,

the installments of estimated tax required to be paid on June 15, September 15, and December 15 will each be $50.

At the election of the taxpayer, any installment of estimated tax may be paid prior to the date prescribed for its payment.

As stated above, section 58 (e) authorizes the Commissioner, under certain conditions, to grant an extension of time for payment of the estimated tax.

The section further provides that payment of the estimated tax shall be considered payment on account of the income (including Victory) tax imposed by chapter 1 for the taxable year. The taxpayer will, of course, have to file his regular income-tax return as usual, and on such return the estimated tax paid will be taken into account. All such payments of estimated tax are, for the purpose of the provisions of law relating to refund or credit of the tax imposed by chapter 1, including the provisions relating to interest on overpayments of such tax, deemed to have been paid on the fifteenth day of the third month following the close of the taxable year.

Subsection (b) of section 59 provides that the estimated tax shall be assessed only to the extent paid. Thus, the collector may not distrain for any unpaid installment of estimated tax. Such provision, however, shall not be construed to prevent the application of section 146 relating to the closing by the Commissioner of the taxable year.

New section 60 provides special rules for the application of sections 58 and 59 relating to the declaration and payment of the estimated tax. Subsection (a) allows the individual whose estimated gross income from farming for the taxable year is at least 80 percent of his total estimated gross income from all sources for the taxable year the option of filing his declaration on or before the fifteenth day of the last month of the taxable year, in lieu of the time prescribed for other individuals under section 58 (d). This provision recognizes the difficulty of estimating in the early part of the taxable year the amount of income which will be derived from ordinary farm operations. Weather conditions, plant and animal diseases, ravages of insects and other pests, are among the factors which contribute to the uncertainty of such income. The estimated gross income from farming is the estimated income of the farm entrepreneur from the cultivation of the soil and the raising or harvesting of any agricultural or horticultural commodities, and the raising of livestock, bees, or poultry. In other words, the requisite gross income must be derived from the operations of a stock, dairy, poultry, fruit, or truck farm, or plantation, ranch, nursery, range, or orchard.

Subsection (b) of new section 60 authorizes the Commissioner, with the approval of the Secretary, to prescribe suitable regulations for the application with respect to short taxable years of section 58, 59, and 294 (a) (3), (4), and (5), added to the Internal Revenue Code by the bill. Thus, the rules applicable to short taxable years with respect to the declaration and payment of the estimated tax, and additions to the tax for failure to make a timely declaration of estimated tax, timely payment of installments of estimated tax or for substantial underestimates of tax, are to be established by regulations.

Subsection (c) prescribes the special rule governing the transition to the system of current payment of the income tax on income not

subject to withholding at source. The subsection provides the rule applicable with respect to the filing of the first declaration required under the bill. In the case of a taxable year which is the calendar year 1943, the declaration is to be filed on or before September 15, 1943. In the case of a taxable year which is a fiscal year beginning after January 1, 1943, the declaration shall be filed on such date as the Commissioner, with the approval of the Secretary, may by regulations prescribe. Apart from the date for filing the first declaration, all of the other rules prescribed in the bill with respect to declarations generally shall be applicable to such first declaration. The subsection makes it clear that the payments which taxpayers are required to make with respect to their 1942 tax shall be applied to decrease ratably the installments of estimated tax for taxable years beginning in 1943.

Section (5) (b) of the bill adds to section 294 (a) of the code three new paragraphs, numbered (3), (4), and (5). These paragraphs contain sanctions relating to the filing of declarations and payment of installments of estimated tax and to the proper estimate of tax.

Paragraph (3) provides for an addition to the tax in the case of failure to make and file a declaration of estimated tax within the time specifically prescribed by this bill or within the time prescribed by the Commissioner under the authority granted by the bill. Such addition to the tax shall be in an amount equal to 10 percent of the tax. The term "the tax" for the purpose of this provision means the tax imposed by chapter 1 of the code. The present bill eliminates from the comparable provision of the House bill the minimum penalty of $10.

Paragraph (4) provides for an addition to the tax imposed by chapter 1 of the code in the case of the failure to pay an installment of the estimated tax within the time specifically prescribed in the bill or within the time prescribed by the Commissioner pursuant to authority granted by the bill. Such addition to the tax shall be in the amount of 2½ percent of the tax imposed by chapter 1, but in no event shall such addition be less than $2.50. In the case of husband and wife who file a joint declaration of estimated tax for the taxable year, and subsequently file separate returns for such year, the addition to the tax in the case of a failure to pay an installment of the estimated tax within the time prescribed shall be 2½ percent of the tax imposed on each spouse under chapter 1, but not less than $2.50 in the case of each spouse.

Paragraph (5) provides for an addition to the tax in the case of a substantial underestimate of tax. In view of the fact that the taxpayer may revise his estimate of tax quarterly throughout the taxable year, and as late as the 15th day of the last month of the taxable year, the provision for an addition to the tax is a reasonable sanction to insure the payment during the taxable year of a total amount of estimated tax closely approximating the actual liability for the year. In the case of individuals other than farmers exercising the election under section 60 (a), an addition to the tax imposed by chapter 1 is provided in the event that the amount of the estimated tax (increased by the amounts of the credits for taxes withheld at source) is less than 80 percent of the amount of the tax imposed by that chapter (determined without regard to the credits for taxes withheld at source). The parenthetical expressions represent a change from the comparable provision of the House bill, designed to obviate hardship in certain

cases. In the event of a failure to file any declaration where one is due, the amount of the estimated tax for the purposes of this provision will be zero. In the case of farmers exercising the election under section 60 (a), the addition to the tax is applicable if the amount of the estimated tax, increased as stated above, is less than 66⅔ percent of the amount of the tax imposed by chapter 1, determined as stated above. The addition to the tax shall be an amount equal to 6 percent of the difference between the amount of the estimated tax so increased, and the tax imposed by chapter 1 so determined; or the difference in dollars, whichever is the lesser. To illustrate: (1) Taxpayer A files a declaration showing an estimated tax of $200, based upon the excess of an amount estimated as the amount of tax without regard to withholding credit, $800, over the amount which he estimates as the withholding credit for tax withheld at source on wages, $600. His tax for the year, determined without regard to the withholding credits, is $1,200. The actual amount of tax withheld on his wages is $700. Eighty percent of his tax for the year determined without regard to the withholding credits, is $960. The amount of the estimated tax, which is $200 ($800 minus $600), increased by the amount of the credit for tax withheld at source ($700) is $900. Accordingly, taxpayer A is subject to the penalty. Applying the 6-percent rate, the amount of the penalty is $18 (6 percent of $1,200 minus $900). The penalty of the dollar amount of the excess is not applicable because that excess is $300 ($1,200 minus $900). The 6-percent penalty is the lesser, and therefore applicable.

(2) Taxpayer B files a declaration showing an estimated tax of $200, based upon the excess of an amount estimated as the amount of tax without regard to withholding credit, $800, over the amount which he estimates as the withholding credit for tax withheld at source on wages, $600. His tax for the year, determined without regard to the withholding credits, is $950. The actual amount of tax withheld on his wages is $550. The amount of the estimated tax, which is $200 ($800 minus $600), increased by the amount of the credit for tax withheld at source ($550) is $750. Accordingly, since 80 percent of $950 is $760, taxpayer B is subject to the penalty. Applying the 6-percent rate, the amount of the penalty is $12 (6 percent of $950 minus $750). The penalty of the dollar amount of the excess is $10 ($760 minus $750). Since the dollar amount penalty is less than the penalty at the 6-percent rate, the former is applicable.

Subsection (c) of section (5) of the bill amends section 145 (a) of the code. Section 145 (a) prescribes criminal penalties for the willful failure to make and file returns, keep records, supply information, or pay tax. By the amendment contained in section 5 (c) the same penalties are made applicable to the failure to make and file declarations and pay the estimated tax.

Section (5) (d) of the bill terminates the privilege of installment payments of tax in the case of all individuals subject to the system of current collection of income taxes provided in the bill. The bill contemplates that since the payments made during the taxable year will be based upon the reasonably anticipated tax liability for that year (which should closely approximate the actual tax liability in view of the privilege granted to the taxpayer to revise his estimate), there is no occasion for retaining the installment privilege. The requirement, pursuant to section 56 (a), for payment on the 15th day

of the third month following the close of the taxable year of any excess of the actual liability over the amount of estimated tax paid during the taxable year should not create a hardship in any case where a reasonable and proper estimate is made during the taxable year. Despite the amendment made by subsection (d), any payment of tax or any payment of an installment of tax due and payable before September 1, 1943, shall be made in accordance with the requirements of the present law. In other words, a taxpayer on the calendar year basis, who pays his 1942 tax liability in installments, must pay his March 15, and June 15, 1943, installments of 1942 tax.

Subsection (e) of section 5 provides that the amendments made by section 5 of the bill shall be effective with respect to taxable years beginning after December 31, 1942. Thus, the recommended system for current payment of individual income tax not withheld at source applies only to taxable years beginning on or after January 1, 1943.

RELIEF FROM DOUBLE PAYMENTS IN 1943

Section 6 of the committee bill contains provisions relating to the problem of transition to the system of current collection of tax liabilities. This section differs materially from the corresponding section of the House bill. This difference is occasioned by the fact that under the House bill the system of current collection of tax liabilities is applied only to normal tax, surtax at the first bracket rate and the net Victory tax, the balance of tax liability for any taxable year being collected in the year following the receipt of the income as under existing law. Under the House bill, the transition problem was met by the discharge of the liability for tax for the taxable year beginning in 1942 only to the extent of the normal tax plus a percentage of the surtax net income at the first bracket rate. Thus, the amount discharged corresponded approximately to the amount to be collected currently in cases in which the income for the 2 years is approximately the same.

Your committee bill calls for the collection currently of the entire tax liability. Section 6 of the bill meets the problem of transition by discharging the entire liability for the taxable year commencing in 1942. Under subsection (a) of section 6 this discharge is made applicable as of September 1, 1943, to all persons to whom the system of current collection of tax liabilities applies, with the exception of any case in which the taxpayer is convicted of any criminal offense with respect to the tax for the taxable year 1942 or in which additions to the tax for such taxable year are applicable by reasons of fraud. It is also provided that interest and additions to the tax for the taxable year 1942 shall be collected as a part of the tax for the taxable year 1943.

In order, however, to prevent certain windfalls as a result of the discharge, subsections (b) and (c) of section 6 of your committee bill provide for an increase of the 1943 tax liability in certain situations. The net effect of these increases, which is more fully explained below, is to reduce the amount of the relief from 1942 tax liability but for administrative reasons the entire 1942 tax liability is discharged and the reduction is couched in terms of an increase in the 1943 liability which would otherwise be due. There are no comparable provisions in the House bill.

Subsection (b) of section 6 of your committee bill provides a special rule applicable in cases in which the 1942 tax would have been greater than the 1943 tax. In such a case an amount equal to the excess of the 1942 tax over the 1943 tax (in both instances determined without regard to interest, additions to the tax, and credits for amounts withheld at source) is added to the 1943 tax liability. For example, a taxpayer who is married but has no dependents and who had a net income for the taxable year 1942 of $10,000 and would, therefore, be liable for a tax in the amount of $2,152 for the year 1942 but for the provisions of subsection (a) of section 6, is nevertheless liable for that minimum amount of tax for the year 1943, even though his net income for 1943 were to drop to a figure which would produce a tax liability less than $2,152. If, for example, his net income for the year 1943 were only $2,000, producing a tax liability of approximately $180, he would have added to his liability for 1943 the difference between $2,152 and $180, or $1,972. A special exception to this rule makes such an increase of the 1943 tax liability inapplicable with respect to persons entering upon active service with the armed forces in 1942 or 1943, to the extent that the excess of the 1942 tax over the 1943 tax is attributable to earned net income as defined in section 25 (a) (4) of the Internal Revenue Code. The determination of the portion of the excess of 1942 tax over 1943 tax which is attributable to earned net income is to be determined under regulations prescribed by the Commissioner with the approval of the Secretary.

The increase in the tax liability for 1943 which is effected by subsection (b) of section 6 is considered to be a part of the 1943 tax which is to be paid currently during the taxable year. Therefore, on the occasion of the taxpayer's filing his declaration of estimated tax for 1943 on September 15, in the case of a taxpayer on a calendar year, the tax liability for the taxable year 1943 as estimated by the taxpayer will include any increase resulting from the operation of subsection (b) of this section. Thus, in the case of a calendar year taxpayer (other than a taxpayer who entered the armed forces in 1942 or 1943) who elected to pay his 1942 tax in installments, the September and December installments of estimated tax can never be less than one-fourth of the 1942 tax less whatever amount is estimated to be withheld at source.

Subsection (c) of section 6 contains two additional situations in which the 1943 tax liability is increased as a result of, in effect, reducing the amount of the 1942 tax liability discharged. In both of the situations covered under subsection (c), however, the resulting increase in the 1943 tax is considered not to be a part of the 1943 estimated tax which is to be paid currently during the taxable year. Such increase, therefore, is required to be paid at the time prescribed for the payment of the tax for the 1943 year. Subsection (d) of this section, which will be subsequently discussed, provides for a manner in which this increase may be paid over a period of 4 years. In effect, in each of the situations covered under subsection (c) the principle involved is the same, namely the reduction in the amount of relief from tax liability for 1942 or 1943, whichever year is the measure of relief, from a full year's relief to a lower amount in cases where the taxpayer's income has risen substantially when compared with the income of a previous period. This lower amount of tax relief is

obtained by computing a tentative tax for the year otherwise serving as the measure for relief, based on the amount of the surtax net income of the base year plus $10,000. As in subsection (b) the tax for the year 1942 is technically discharged and the excess of tax liability over the relief so computed is added as an increase of 1943 tax. The subsection provides that the increase in tax will be determined under regulations of the Commissioner. It is contemplated that such regulations will prescribe the details relating to the comparisons of the years involved, the computations of the tentative tax on which such increase is based, the method of determining the composition of the income on which the tentative tax is computed, and other matters involved.

The first situation covered by subsection (c) of section 6 is one in which the tax for the taxable year 1942 (determined without regard to interest and additions to the tax and credits for amounts withheld at source) is less than that for the taxable year 1943 (similarly determined) and where the surtax net income of the taxpayer for any one of the taxable years 1938, 1939, or 1940, whichever may be selected by him (hereafter referred to as the base year), plus $10,000 is less than the surtax net income of the taxpayer for the taxable year 1942. In such a case relief from the liability for the taxable year 1942 is limited to an amount equal to a tentative tax computed as if the portion of the surtax net income for the taxable year which is not greater than the sum of the surtax net income for the base year plus $10,000 constituted both the surtax net income for the taxable year 1942 and the net income for such taxable year after allowance of all credits against net income. The effect of this provision is to limit the discharge of the 1942 liability to an amount of tax computed on an amount of surtax net income and net income equivalent to that of the base year plus $10,000 computed at the 1942 rate rather than on the income for 1942. The amount of income on which the tentative tax is computed is composed of the same type of income as the income of the 1942 taxable year. Thus if the 1942 income consisted entirely of capital gains the tentative tax would be computed as a tax on capital gains. The excess of the 1942 tax over the tentative tax computed in this manner is discharged and the amount of such excess is added as part of the 1943 tax liability.

An example will illustrate the application of this provision. Taxpayer A had a surtax net income of $5,000 for his base year. In 1942 he had a tax liability of $13,002. For 1943 his tax without regard to this section amounted to $14,000. His surtax net income for 1942 was $30,000 and was composed entirely of dividends and interest. By taking the amount of his surtax net income for his base year of $5,000 and adding to it the sum of $10,000, a tentative tax for 1942 for income thus constituted would be $4,680. Thus, the amount by which the tax for 1943 is increased is the difference between $13,002 and $4,680 or $8,322.

The second situation covered in subsection (c) is one in which the tax for the taxable year 1942 (determined without regard to interest, additions to the tax and credits for amounts withheld at source), is equal to or greater than the tax for 1943 similarly determined and the surtax net income of the taxpayer for the base year plus $10,000 is less than the surtax net income for the taxable year 1943. Where the tax for 1942 exceeds the tax for 1943, subsection (b) initially operates to

increase the 1943 tax by the amount of the excess. In such a case the relief from liability for the taxable year 1942 is further limited by subsection (c) to an amount equal to a tentative tax computed as if the portion of the surtax net income for the 1943 taxable year which is not greater than the sum of the surtax net income for the base year plus $10,000, constituted both the surtax net income for the taxable year 1943 and the net income for such taxable year after allowance of all credits against net income. An additional factor is present when reference is had to 1943 as the year for measuring the relief owing to the fact that Victory tax is applicable to this year. It is necessary, therefore, in arriving at the tentative tax to compute a tentative victory tax based on an amount determined by a ratio based upon relationships with respect to the types of 1943 incomes. Thus, the computation in this situation is similar to the computation made in the first situation covered, but the comparison between the surtax net income of the taxable years and the excess amount of tax over the tentative tax is based on the surtax net income of the 1943 year and the computation takes its particular form from the manner in which the income for 1943 is constituted.

Subsection (d) of section 6 provides that at the election of the taxpayer made under regulations prescribed by the Commissioner with the approval of the Secretary, the time for the payment of the portion of the tax for 1943 equal to the increase occasioned by the application of subsection (c) shall be extended. If so extended such portion of the tax shall be paid in four equal installments, the first of which shall be paid on the fifteenth day of the fifteenth month following the close of the taxable year and one of the remaining three installments shall be paid on the last day of each succeeding 12-month period. It is provided that the Commissioner may condition this extension upon the furnishing of a bond not exceeding the amount of such increase with such surety or sureties as he may deem necessary. If the time is extended for payment of this portion of the tax, it is provided further in this subsection that there shall be collected as a part of the tax, interest in the amount of 4 percent per annum on each such installment from the date prescribed for the payment of the tax for the taxable year until the date on which such installment is paid or payable whichever is the earlier. If any installment is not paid on or before the date on which it is payable, it and the remaining installments shall be paid upon notice and demand from the collector and interest at the rate of 6 percent per annum is to be collected from the payable date until the date of payment.

Subsection (e) provides special rules for the application of subsections (b) and (c) and requires that in computing the tax for the taxable year 1943, the credit for foreign tax shall be determined without regard to any increase in the 1943 tax by reason of subsections (b) and (c). It further provides that in applying sections 105, 106, and 107 of the Internal Revenue Code (relating to limitations on tax) any increase in the tax occasioned by subsections (b) and (c) shall likewise be disregarded. This subsection also contains a provision for the computation of the increase in tax under either subsection (b) or (c) where a joint return is made by a taxpayer to whom either one of the subsections apply. The rule is stated that the taxes of the spouses of the taxable year for which a joint return is not made shall be aggregated for the purposes of subsections (b) and (c), and,

in addition, provides that if the taxable year for which a joint return is not made is the taxable year 1943, the liability for the increase in the tax under subsections (b) and (c) shall be joint and several.

Subsection (f) of section 6 provides that subsection (a) shall not apply to an individual who died during the taxable year 1942. Thus, no amount of the tax liability of such a person is discharged.

Subsection (g) of section 6 provides for the treatment of payments made on account of the 1942 tax. Any payment (other than interest and additions to the tax) made on account of the tax imposed by chapter I of the Internal Revenue Code for the taxable year 1942 upon a taxpayer whose liability is discharged under subsection (a) is considered as payment on account of the estimated tax for 1943. Where any payment of such tax is made pursuant to an extension of time granted by the Commissioner prior to September 1, 1943, such payment is likewise treated as a payment of estimated tax for 1943 and is required to be paid despite the fact that the provisions of your committee bill discharging the tax liability are effective as of September 1, 1943. If the taxpayer should become delinquent prior to September 1 in the payment of his tax or any installment, the fact that the liability for 1942 tax is discharged as of that date is specifically provided as not relieving the taxpayer of his liability for the tax. Such payment, however. is to be treated as a timely payment would be, namely, as a payment on account of estimated tax liability for 1943. The effect of this subsection is to require taxpayers who have elected to pay in installments to continue undiminished their payments on account of 1942 tax liability for all installments which would be due before September 1, 1943. In the event of an extension of time or of delinquency occurring before September, the legal consequences resulting are no different from what they would be under existing law and only after the payments for which time has been extended or which have become delinquent have been paid, do such payments take the character of payments on account of estimated tax for 1943. This subsection further contains the rule that if any payment on account of the tax for 1942 is made pursuant to a joint return, the payment may be treated as a payment on account of the estimated tax of either the husband or the wife or may be divided between them.

Subsection (h) of section 6 contains the definition of the term "taxable year" when used in reference to the years 1938, 1939, 1940, 1942, or 1943 in the section. It provides that the term means the taxable year beginning in such enumerated year. When used in conjunction with 1942 or 1943 it does not mean any taxable year of less than 12 months, unless such short year is occasioned by the death of the taxpayer or unless there is no taxable year of 12 months beginning in the calendar year. Thus there will be no relief from tax liability with respect to the short taxable year 1942 where a taxpayer effects a change from a calendar- to a fiscal-year basis but the 12-month fiscal year beginning in 1942 will be the year for which tax is discharged.

ADDITIONAL ALLOWANCE FOR MILITARY AND NAVAL PERSONNEL

Section 22 (b) (13) of the code makes provision for an exclusion from gross income in the case of personnel below the grade of commissioned officer in the military and naval forces of the United States. The amount to be excluded under this provision is not to exceed $250

in the case of a single person and $300 in the case of a married person or head of a family and applies only to salary or compensation received for active service in the armed forces during the present war.

The House bill would amend section 22 (b) (13) of the code to effect an exclusion from gross income in the case of military and naval personnel, without distinction as to rank, with respect to the compensation received during any taxable year and before the termination of the present war as proclaimed by the President for active service during such war. The amount to be so excluded would not exceed the excess of $3,500 over the personal exemption claimed under section 25 (b) of the code.

Your committee bill amends section 22 (b) (13) to provide for a flat exclusion of $1,500 from gross income in the case of all military and naval personnel, without distinction as to rank, with respect to such compensation. The amount of such exclusion is not to be reduced by the personal exemption claimed under section 25 (b) of the code.

The amendment would apply only with respect to taxable years beginning after December 31, 1942, and not, as under the House bill, with respect to all compensation received after December 31, 1941, by a member of the military or naval forces of the United States for active service in such forces.

Abatement of Tax for Members of Armed Forces Upon Death

Under the House bill supplement U is added to chapter 1 of the code to relieve a member of the military or naval forces of the United States who dies on or after December 7, 1941, in active service from the liability for the tax imposed by chapter 1 for the taxable year in which falls the date of his death. In addition thereto, the supplement provides that any tax imposed under chapter 1 or under the corresponding title of any prior revenue act (including interest and additions to the tax) which is unpaid as of the date of death shall not be assessed. If any such tax, interest, or additions to the tax have been assessed and are unpaid at the date of death, such assessment or assessments shall be abated. If the amount of any such liability which was unpaid as of the date of death is collected subsequent to such date, the amount so collected shall be credited or refunded as an overpayment.

Your committee has revised the House version of this new supplement to limit the relief granted therein to that portion of the income taxes which is attributable to earned net income as defined in section 25 (a) (4) of the code. In addition, the taxes in respect to which such relief is granted are limited, in general, to those which would have become due and payable after the date when such individual entered upon active service in such forces or the effective date of the Selective Service Act (September 16, 1940) whichever date is the later, assuming that such member paid, or would have paid, his taxes in quarterly installments to the extent provided for in the code. If the liability for the portion of such taxes which is attributable to earned net income is outstanding at the date of death, your committee provides that the liability shall be abated. If such portion of the taxes has been paid at any time, your committee provides that the amount paid shall be credited or refunded as an overpayment.

To effectuate this policy, your committee bill classifies such deceased members of the armed forces into three groups according to the year in which they entered upon active duty in such forces, and states with respect to each group those taxes (or the portions thereof) of which the members of the group are to be relieved. This classification was made necessary by reason of the transition in the year 1943 to a current tax basis.

The first category applies to those who entered upon such service before the commencement of the taxable year beginning in 1943. The taxes to be abated, credited, or refunded to members in this group are: (1) the tax attributable to earned net income for the taxable year in which falls the date on which he entered upon such service or September 16, 1940, whichever date is the later; (2) the tax attributable to earned net income for all subsequent taxable years while he was in such service; and (3) for the taxable year last preceding the date on which he entered upon such service or September 16, 1940, whichever date is the later, that portion of the tax for such preceding year attributable to earned net income which bears the same ratio to the entire tax so attributable as the number of quarters in the taxable year referred to in (1) subsequent to the date on which he entered upon such service or September 16, 1940, whichever date is the later, bears to four. Thus, for example, if the individual (on a calendar-year basis) enters the service on July 1, 1942, he would be exempt from the tax attributable to his earned net income for the year 1942, for all subsequent years in the service and for one-half of the tax so attributable for the calendar year 1941. If he entered the service on July 1, 1940, he would be exempt from such tax for 1940 and subsequent years in service and for one-fourth of such tax for 1939.

The second category consists of those members of the armed forces who entered upon such service in the taxable year beginning in 1943. The taxes to be abated, credited, or refunded in respect of this class are: (1) that portion of the tax for the taxable year beginning in 1943 (not including the increase in such tax prescribed by the "windfall" provision contained in section 6 (b) of your committee bill), which bears the same ratio to the total tax (not including such increase) as the number of quarters in such taxable year subsequent to the date on which he entered upon such service bears to four, to the extent such portion is attributable to earned net income; and (2) the tax attributable to earned net income for all subsequent taxable years during which he was in such service.

The third category is made up of those members who entered upon such service after the end of the taxable year beginning in 1943. The taxes to be abated, credited, or refunded in respect of this group are all the taxes which are attributable to earned net income for the taxable years during which they were in such service but not including the taxable year during which they entered upon such service.

In computing the tax to be abated, credited, or refunded under (3) of the first category and (1) of the second category, a fractional part of a quarter subsequent to the date on which he entered upon such service or September 16, 1940, whichever date is the later, shall be disregarded unless it exceeds 15 days, in which case it shall be considered a quarter.

ASSISTANT COMMISSIONERS

Section 9 of the bill amends the Internal Revenue Code to authorize the appointment of two Assistant Commissioners, who shall be appointed by the President, by and with the advice and consent of the Senate. The amendment provides that the Assistant Commissioners shall perform such duties as may be prescribed by the Commissioner or acquired by law.

POWERS OF APPOINTMENT

Section 10 of the bill extends the time in connection with the release of powers of appointment for estate and gift tax purposes from July 1, 1943, to March 1, 1944.

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Calendar No. 223

78th Congress } SENATE { Rept. 221
1st Session } { Part 2

CURRENT TAX PAYMENTS ACT OF 1943

May 11, 1943.—Ordered to be printed

Mr. La Follette, under authority of the order of the Senate of May 10, 1943, from the Committee on Finance, submitted the following.

INDIVIDUAL VIEWS

[To accompany H. R. 2570]

In his Budget message to Congress January 11 the President estimated that Federal expenditures for the prosecution of the war during the fiscal year 1944 would total $100,000,000,000.

Under present law the total anticipated receipts of the Federal Government for the next fiscal year will amount to $35,000,000,000. To finance the Nation's war effort, and at the same time absorb a critical part of the $50,000,000,000 worth of potentially inflationary national income over and above the value of civilian goods which will be available for purchase, the President recommended the collection of "not less than $16,000,000,000 of additional funds by taxation, savings, or both, during the fiscal year 1944."

No amount of legislative legerdemain in the cancelation of 1942 income-tax liabilities can alter the inescapable fact that war expenditures are increasing and will require increased payments from the great majority of taxpayers in the next 12 months. The increase can be effected by advancing collections on 1943 income taxes with adoption of a pay-as-you-go plan and doubling up payments on 1942 and 1943 tax liabilities, or by raising rates later in the year when Congress undertakes a general revenue bill.

Cancelation of any liability now can only mean, in the aggregate, a heavier liability later. It is my conviction that the average taxpayer would rather learn the bad news now while he still has time to plan for 1943 taxes, than be misled by the false sound of cancelation and then be presented with a drastic increase in 1943 rates when the calendar year is almost over and his income spent or earmarked for other purposes.

Under present law the Treasury Department estimates the revenue from individual income taxes in the fiscal year 1944 would amount to $12,999,500,000.

If the Federal Government commenced current collections against taxes on 1943 income July 1, without canceling the 1942 liability, allowing the individual taxpayer to pay in quarterly installments in the calendar year 1944 that part of his 1943 tax not met in 6 months of current collections from July to December 1943, it would increase the revenue for the fiscal year 1944 by approximately $8,000,000,000.

Cancelation of 1942 liabilities dissipates this revenue gain.

Although the expedient of canceling 1942 tax liabilities has no significance so far as reducing the ultimate tax burden of the war, it is significant as a means of redistributing that burden at the expense of the lower- and middle-income groups.

It is a foregone conclusion that the amounts forgiven each of the various income groups cannot, as a practical matter, be recovered from exactly the same groups through increased rates. The rates in the upper brackets cannot be raised substantially and, consequently, the taxpayers in the middle- and lower-income groups will have to pay later in one form or another not only the full amount now forgiven them but also a substantial part of the 1942 taxes of the taxpayers in the upper brackets.

The following table shows the effective tax-rate increases that would have to be imposed on each tax bracket to recover from each bracket over a 3-year period the same amount forgiven.

Net income before personal exemption	Effective rates of income and net Victory tax liability, present law	Effective tax rate increase necessary to recoup canceled 1942 taxes at same income levels over a 3-year period
	Percent	*Percent*
$2,000	9.4	2.3
$3,000	13.5	3.6
$5,000	17.9	5.0
$10,000	24.7	7.2
$100,000	68.6	21.4
$1,000,000	89.9	28.5

Source: Treasury Department.

From the following table, showing the effective tax rates on individual incomes, it is clear that the greatest increases in rates must necessarily fall upon taxpayers with net incomes between $1,500 and $25,000.

Married person—no dependents

Net income before personal exemption [1]	Effective rates of present law	Net income before personal exemption [1]	Effective rates of present law	Net income before personal exemption [1]	Effective rates of present law
	Percent		*Percent*		*Percent*
$1,200		$5,000	14.9	$25,000	36.9
$1,500	3.2	$6,000	16.5	$50,000	50.7
$1,800	5.7	$8,000	19.2	$100,000	64.1
$2,000	7.0	$10,000	21.5	$500,000	82.8
$2,500	9.3	$15,000	27.0	$1,000,000	85.4
$3,000	10.8	$20,000	32.3	$5,000,000	87.5
$4,000	13.3				

[1] Maximum earned net income assumed.

Source: Treasury Department, Division of Tax Research.

Whether the increased burden takes the form of increased income-tax rates, compulsory savings, or consumption taxes, the middle- and lower-income taxpayers are going to foot the bill. And the Treasury has indicated that practically all of the additional $16,000,000,000 increase in collections will have to come from individual taxpayers in the final analysis, whatever forms the levies may take.

In the case of consumption taxes the following table shows how the income groups under $10,000 per year and particularly those under $2,000 would be most seriously burdened because of the larger percentages of their incomes that go to consumption.

TABLE A.—*Families: Average outlay for personal taxes, consumption, gifts, and savings, by money income level, 1942* [1]

Income level	Percentage of income for—			
	Personal taxes [2]	Consumption [3]	Gifts to organizations [4]	Savings [5]
Under $500	0.6	133.4	1.5	−35.5
$500 to $1,000	.3	104.4	.8	−5.5
$1,000 to $1,500	.2	97.8	.6	1.4
$1,500 to $2,000	.2	88.2	.7	10.9
$2,000 to $2,500	.2	83.6	.9	15.3
$2,500 to $3,000	.4	79.7	.9	19.0
$3,000 to $4,000	.8	75.2	1.1	22.9
$4,000 to $5,000	1.8	70.7	1.2	26.3
$5,000 to $7,500	2.7	63.2	1.3	32.8
$7,500 to $10,000	3.4	55.0	1.5	40.1
$10,000 and over	18.3	33.4	.7	47.6
All levels	4.0	70.5	1.0	24.5

[1] Estimates cover all civilian consumers except those living in institutions. Families are defined as economic units of two or more persons sharing a common or pooled income and living under a common roof. Single consumers are defined as men or women maintaining independent living quarters or living as lodgers or servants in private homes, rooming houses, or hotels. The term "spending unit" is used to cover both groups. Estimates are on a calendar year basis. The form of average used is the arithmetic mean.

[2] Personal taxes shown here include only individual-income taxes, poll taxes, and certain minor personal-property taxes. It should be noted that sales taxes, excise taxes, and all indirect taxes on consumption are included under expenditures for goods and service.

[3] Consumption consists of money expenditures only.

[4] Gifts consist only of money contributions to the church, the Red Cross, and other institutions and funds.

[5] Savings are defined as the net change in assets and liabilities of the spending unit during the year, exclusive of gains or losses from revaluation of assets.

Source: Office of Price Administration, Division of Research, Mar. 1, 1943.

To enact legislation at this time, forgiving existing tax liabilities will compel Congress to raise tax rates later in the year. Those who vote now to cancel taxes already assessed and partly collected must take the responsibility of raising the tax levies on millions of people in the middle- and lower-income groups some time during 1943.

ROBERT M. LA FOLLETTE, Jr.