

REPEALING CERTAIN PROVISIONS OF THE INCOME TAX ACT

JUNE 15, 1937.—Ordered to be printed

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

REPORT

[To accompany H. R. 6215]

The Committee on Finance, to whom was referred the bill (H. R. 6215) to repeal provisions of the income tax requiring lists of compensation paid to officers and employees of corporations, having considered the same, report it favorably without amendment and recommend that the bill do pass.

The bill repeals subsection (d) of section 148 of the Revenue Act of 1936, which requires corporations to file with their income-tax returns lists of officers and employees who receive compensation in excess of \$15,000 per year. The provision was first enacted in the Revenue Act of 1934. It has not worked well in practice. The lists which had been made public under the section have been used for objectionable purposes. In some cases, the information contained therein has been compiled by private persons and sold for the benefit of salesmen and other persons to be used for private business purposes. It is felt that sufficient information respecting such compensation can be obtained in the manner provided under the Securities and Exchange Act, and other provisions of the revenue laws. These provisions, and the reasons for the repeal of this section, are set out more fully in the report which accompanied the bill in the House of Representatives and is incorporated herein as a part of this report.

[H. Rept. No. 615, 75th Cong., 1st sess.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 6215) to repeal provisions of the income tax requiring lists of compensation paid to officers and employees of corporations, having considered the same, report it back to the House without amendment and recommend that it do pass.

GENERAL STATEMENT

Under the provisions of section 148 (d) of the Revenue Act of 1936, every corporation is required to submit in its income-tax return a list of the names of all officers and employees to whom more than \$15,000 was paid by the corpora-

2 REPEALING CERTAIN PROVISIONS OF THE INCOME TAX ACT

tion during the taxable year by way of salary, commission, bonus, or other compensation for personal services rendered. This section also requires that the amounts paid to such individuals shall be reported, and that the Secretary of the Treasury shall submit an annual report to the Congress, showing the names of the individuals, the amounts paid to each, and the name of the paying corporation. This provision was first inserted in the Revenue Act of 1934.

Experience has demonstrated that it has not worked well in practice. In many cases, the examination of this list has been made solely out of curiosity and for the purpose of annoying and harassing the person whose salary is included on the list. In some cases, the data contained in the report has been compiled by private persons and sold for the benefit of salesmen, brokers, and other persons who desire to use this information for private business purposes.

In this respect, the provision has the same objection as the "pink slip" section of the Revenue Act of 1934, which Congress repealed on April 19, 1935. It was pointed out in our report relating to the repeal of the "pink slip" provision that the information contained therein was being used to benefit the racketeers, gangsters, kidnapers, and the criminal element of the country.

Not only has section 148 (d) failed to result in any revenue gain to the Treasury, but its administration has actually cost the Treasury about \$50,000 annually.

The main argument for the provision has been that it has a tendency to protect the minority shareholders of a corporation by acquainting them with the amounts paid out by their corporation in the form of salaries. But to a large extent this information is already available to the public under the provisions of the Securities and Exchange Acts. In the case of the Securities Act, corporations issuing securities subject to the act are required to submit information available to the public, disclosing the compensation paid to their officers and directors and the compensation paid to all other persons whose remuneration exceeds \$25,000 per year. In the case of the Exchange Act, which applies to corporations trading on a national exchange, this information is required not only with respect to the directors and officers of the corporation, but also with respect to all other persons whose remuneration exceeds \$20,000 per annum (schedule A, subsec. 14, of the Securities Act of 1933, and sec. 12 (b) (1) (D) (E) of the Securities Exchange Act of 1934). Practically all the large corporations of the country are subject to the provisions of one or both of these acts. In addition, all bona-fide stockholders of record owning 1 percent or more of the outstanding stock of any corporation are permitted under the income-tax law to examine the return of such corporation and its subsidiaries (sec. 257 (d) of the Revenue Act of 1926).

The Committee on Ways and Means, the Committee on Finance, and the Joint Committee on Internal Revenue Taxation are given authority under the income-tax laws, directly or by agents, to inspect all income returns, and such committees are empowered to submit any relevant or useful information obtained from such inspection to the Congress (secs. 257 (b) and 1203 (d) of the Revenue Act of 1926). Thus, this information is, therefore, still available to the committees for use in connection with revenue legislation.

It is believed that the minority interests are properly protected in the securing of this information and that the duplication of this information through the requirements of section 148 (d) is no longer necessary with its resulting annoyance and administrative cost to the Treasury.

CHANGES IN EXISTING LAW

In compliance with paragraph 2 of rule XIII of the rules of the House of Representatives, existing law proposed to be repealed is as follows:

SECTION 148, REVENUE ACT OF 1934

"[(d) Compensation of Officers and Employees: Under regulations prescribed by the Commissioner with the approval of the Secretary, every corporation subject to taxation under this title shall in its return, submit a list of the names of all officers and employees of such corporation and the respective amounts paid to them during the taxable year of the corporation by the corporation as salary, commission, bonus, or other compensation for personal services rendered, if the aggregate amount so paid to the individual is in excess of \$15,000. The Secretary of the Treasury shall submit an annual report to Congress compiled from the returns made containing the names of, and amounts paid to, each such officer and employee and the name of the paying corporation.]"